



Digital Moon

A 1ST STEP GUIDE TO NFTS & CRYPTOCURRENCY BACKED FAN | AUDIENCE ENGAGEMENT IN SPORT - THE MOVE INTO WEB3

PROLOGUE

All over the world amongst lifestyle, entertainment, and sports brands, we are experiencing a deeper focus on 'Digital' as the prominent dedicated marketing and communication channel.

External and internal investment coupled with a quest for further commercial value away from traditional media and IP rights agreements requires deeper and more intelligent fan engagement aimed at the changing set of demographics across a vast rapidly changing digital landscape.

Web3 elements (we're operating at Web 2.0 in the main at this point), such as Blockchain, Cryptocurrency, Tokenisation including NFTs alongside UGC (user-generated content), and of course targeted interactive Social Media, are all in the limelight for their focus on Decentralisation and the ability to give audiences, fans and consumers a more controlled yet influential standpoint.

Soon, 5G will allow for our digital interactions to be faster and more seamless with connections to a truly global audience becoming easier to establish, retain and scale. 'Virtual' and 'Augmented' reality is already being utilised in sectors such as EdTech and MedTech and will soon be applied alongside live and subscription-based platforms in sport. These will accompany in-person and in-stadia experiences heightened through enhanced haptic, sonic, and personalised DX activation (digital experience) through a whole host of third-party services and solutions.

Web3 is not a specific set of tools with a fence; rather a learnt mentality in the way content, data, experiences, and products are presented, controlled and utilised by brands and consumers alike all powered by considered, open and exponential technology.

There is a lot to consider; importantly all of this digital shift must sit within or upon existing digital tools and platforms already utilised via Web, Apps, and content platforms; needless to say, being best in class and wanting to provide leading experience to drive fan and revenue growth is a journey, not unlike the building of a title-winning season. Dividends are great for the whole ecosystem involved on more levels than just financial.



LET'S FOCUS ON AN OVERVIEW OF THE HOTTEST TOPIC RIGHT NOW -

WHAT ARE NFTS AND TOKENISATION AND WHAT'S HAPPENING IN THIS SPACE?

The world of Digital Asset Value is upon us. Digital assets are created and added to an immutable Blockchain, and through this process form a unique digital collectable holding value for fans and wider audience, ultimately releasing revenue for the IP owner, creator, and those who figure in the content itself. In theory, at least, this is value creation free from manipulation with a pay-out for many. We'll come back to that.

This is all part of 'Tokenisation' or the Token Economy - in its simplest form and concerning sport and entertainment, a Token is a way of giving access and engagement to fans/ consumers; ultimately a digital asset offered to fans or consumers representing fractional ownership or in some cases, offering limited rights for governed participation in the organisation that is offering the Token. This pertains to the rights and IP they own and can legally offer active participation within.

There are indeed multiple advantages to highlight; Blockchain security, the associated data, 1st, and secondary market value as well as the non-governed framework that allows for the issuance of 'Tokens'. Ultimately, however, any Token is a form of engaging brand consumers and in this case fans, by offering something for status and a form of social currency, value and ownership underpinned and valued by Blockchain technology including Cryptocurrency. Tokenisation works based on scarcity, uniqueness of the actual asset, and the ability for IP-owned digital assets to be fractionalised. Opportunities for application are far and wide.

There are two main types of 'Token' - Fungible Tokens and Non Fungible Tokens (**NFTs**). Most recently there has been a large increase in the number of NFT projects across Sports and many industries. NFTs normally represent unique digital content assets, allowing IP owners to create and offer digital collectibles or experiences to their audiences and fans. NFTs are not divisible, however, can be purchased, traded/swapped, or even gifted. NFTs have their core value attributed to the actual content they represent e.g. The video or images of a try, a goal, a team trophy lift, the awarding of the 100th cap for a player, or even a fan-based event within a game. We'll go deeper in a little bit.

It's important to outline here that **Fungible Tokens** are different and offer a value set by the rights holder relating directly to an underpinning Cryptocurrency, with no real focus on the unique digital ownership of an asset but rather a marketplace that rises and falls in value related to the player or team performance as well as other much more typical investment type factors - this relates directly to some of the bad press seen in recent months.

Back to NFTs. When an NFT is created, **the process of it becoming an indelible data block on the Blockchain is called 'Minting'**. Once minted, that unique digital asset becomes part of the public ledger and cannot be altered unless the president to alter was agreed and embedded in the attached 'Smart contract'.

Smart contracts are auto-generated contracts that essentially govern the NFT and ownership. They are coded onto the Blockchain and can be automated for triggers relating to the asset at hand. E.g. when a fan buys, sells, or 'gift' an NFT.

The IP owner will decide how 'rare' to make each NFT asset by restricting the number of times it is minted - determining the scarcity level. A relative example of this in the non-digital world is signed prints of an original painting; the fewer the number of signed prints in circulation, the higher the value of each print. The most valuable NFTs will be 1 of 1, whereas, on NBA Top Shots, for instance the most common NFTs are minted 60,000 times. What continues to make each digital asset 'unique' is the presentation of a specific match highlight/clip plus the unique serial number of that clip e.g. 33,000/60,000.

Generally, NFTs **once minted become part of the Ethereum blockchain**. This is likely to be the most suitable blockchain for many sporting and entertainment brands due to it being the most established with the widest platform relating to the (ETH) coin thereby offering connection to multiple marketplaces for secondary re-sale/ trading. However, it is worth noting that other Blockchains such as Flow from Dapper are in-play with NBA TopShots being a very key example.

NFTs can have data attached to them as well as the digital asset and this can be associated with such areas as club voting rights, access to one-off digital (or non-digital) events, community-level actions/ information, gaming opportunities and beyond. It is also possible to combine **Digital and Physical** products. For instance a player jersey with a corresponding NFT proving its authenticity including data such as how many times it was worn, major games/ results associated and other fan-led data.

UTILITY IS KEY FOR FANS AND ALL CONSUMERS - NOT ALL NFTS ARE EQUAL -

Most have read about NFT projects such as Bored Yacht Ape Club (BAYC) and in sports, the NBA topshot ruled the headlines for some time. It doesn't take too much research to find out that in sports, earlier NFT and Crypto token initiatives were not positioned correctly prioritising fan's engagement, rather more aligned to revenue generation. NFTs have multiple applications and in the case of BAYC its all about access and exclusivity, being part of a club and the benefits this provides as well as other brands utilising the exclusive community and access. These NFTs are about value in terms of pounds and dollars; yes they have a unique digital asset of an autogenerated Ape with accessories, but mostly its about the ownership and resale value on secondary markets such as OpenSea and brand association; you could liken this to a group of influencers promoting brands. The floor price for a BAYC NFT is over 200k euros currently and owners including multiple celebrities and high net worth individuals as you would expect. Ownership brings access to a club and its benefits which include a slice any associated brands; it can loosely be termed, an 'access NFT'.

Sports NFTs in general, although having long-tail and sustainable revenue opportunities, require a very high level of utility for fans and audiences. They need to give a great digital product i.e. the asset itself of video or image and potentially physical piece also, however the 'being part of something' whether a wider set of collection challenges, unlocking other exclusive NFTs, discounts to retail, ticketing, competitions and the heightened gamification that must accompany these elements, is super important for the success of NFT collections.



HOW CAN THIS RELATE TO COMMERCIAL & PARTNER VALUE

Multi-level NFT initiatives driven by scarcity enables specific sets of 'access based' fan engagement which in turn can be associated with many areas of commercial initiatives such as retail, travel tourism, sponsorship and ticketing. Most sports fans are aware of the Panini collector cards example; collecting a whole set opens up new levels, albums and chances to win real-life experiences - the digital versions are similar with just deeper levels of connection and gamification. In its purest form NFTs allow fans to own something bringing them closer to their sporting passion and heroes; combine this with gamification, challenges, experiences and status/ hierarchy initiatives and linking to wider digital marketplaces, opens up a new host of 1st party data initiatives to build brand affinity and naturally has sponsors very keen to utilise.

Owning an NFT means a fan/consumer **will own the original digital asset on the Blockchain only**, this does not stop anyone else viewing or sharing the asset as openly available elsewhere for instance on YouTube or specific sites with most video content. The actual analogue content is not sold, just the digital version of it. The rights to the original IP will remain with the original rights holder. Many are still unsure of why fans will then buy these assets and in much the same way a one of 100 copy of one of the masters famous paintings would be bought and possess value, digital assets of recognisable and specific sporting moment will also be desired, hold value and offer links to wider possibilities.

Take for instance Jonny Wilkinson's drop goal that won England the Rugby World Cup in 1995. An outstanding moment. Consider that moment as a digital still image and video clip; how many people would want to hold these, or something related to that moment? The answer is a very many. Now consider that moment with the pass from Matt Dawson included and the celebration afterward, maybe the commentary, fans faces, the image of the score-board. Imagine this as an illustration, imagine a version of that signed by Jonny himself - maybe with the jersey or the boot, or the sock he wore - or maybe with an image of him holding the world cup. Also imagine the data that could be attached - Jonny Wilkinson, minute 79, seconds 33, standing 33 mtrs away..

Now imagine that clip being explained by Martin Johnson, or from a different angle with the Australian fans faces in view..

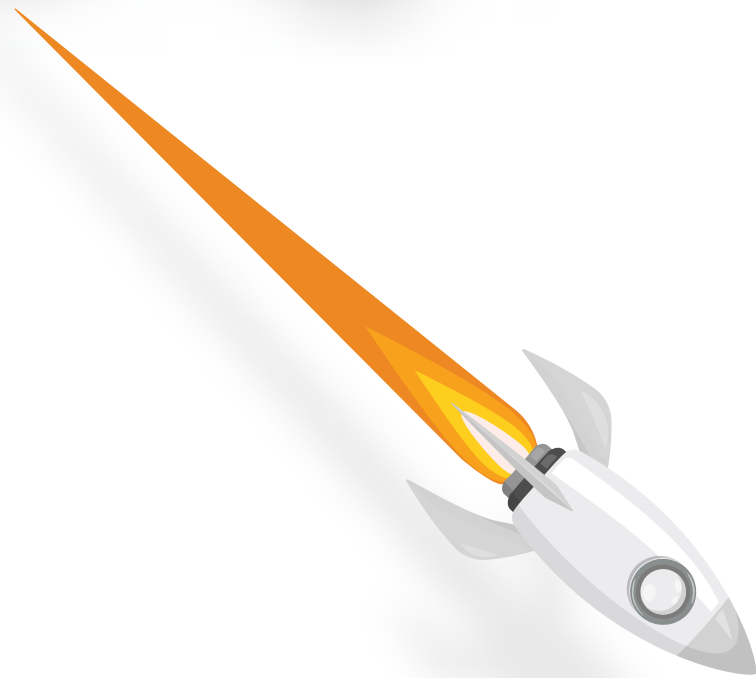
The point here being that the opportunities are immense. The chance to give fans ownership of moments providing engagement and closeness to their sports and stars. In the same vein as the example above, imagine a hole in one on round one of the Open tournament at St.Andrews, Scotland by an outsider, not even a top ten golfer. Second shot on a par 4, lands 15 foot away, spins back and finally makes it's way to the hole... cut back to the golfer who has picked his caddy up above his head..! A moment for fans, absolutely. Someone who loves golf who saw that, didnt see it, was there, wanted to be there, heard about it... someone wants to own a version of that.

Not every moment will be a 1 of 1. Not every moment will be massively valuable on the secondary market. Engaging fans, making NFTs available for everyone from pocket money budgets to high net worth, is key. This means in turn product roadmaps and vendor partners charged with creating these initiatives, and set to earn shared revenues becomes paramount in the success of any NFT programme.

NFTs are a way of engaging fans in the wider 'token economy' for sports and entertainment entities. By offering key elements for engagement such as undisputed ownership (bragging rights/ social currency), tradeability, attached data sets, digital platform experiences and voting input - with control held solely by the IP holders, we can create a scaling ecosystem with multiple entry and exit points for audiences. Digital assets can hold deep financial value for IP holders, however modeling potential financial outcomes with any certainty is difficult and fans need to engage for success.

One thing we know for sure is that primarily, NFTs and indeed any type of Token project must have fan engagement as the primary concept for its design and launch. Commercial value will of course be a driver and can be achieved, however, this is a large ecosystem that must fit in with existing digital products and strategy to unlock long-lasting value and growth for both fan/ audiences and the issuing rights holders.





RISK ASSESSMENT - HIGH LEVEL

Clearly there has been information and stories in the press relating to the negative aspect of fan based Tokens. In the main, this has been aimed more at Fungible tokens as opposed to NFTs. Although both hold a value and can indeed in many instances be purchased using Cryptocurrency and therefore have a value relating to an ungoverned set of currencies, NFTs have much greater utility with value attributed to an actual digital asset such as video, moment, image and or physical item or experience that is owned.

There is a fine balance for clubs, teams, organisations and players to find based on fans owning sporting memorabilia and the value that comes as part of that ownership including the mechanics of transfer of ownership. Anywhere there are assets there are those focused on monetary value alone. The greatest value to an NFT or Tokenisation programme is affinity and engagement with the associated value being released over time.

Clearly, Tokens related to the value or performance of a property such as team or player, have a higher risk than those assets with an attached asset. NFTs are also in the main purchased and will be related to a currency such as ETH on the Ethereum blockchain with the ability to be purchased through cryptocurrency and not just Fiat based currency, although this invariably an entry point for fans given the newness of the asset class and associated marketplace. This means ultimately that the value of a fans NFT can go down; given however that product roadmaps and digital integration should be as a part of a longer-tail fan engagement strategy, initial purchase and involvement in NFTs onto other areas of Tokenisation, will be driven by motivations outside of financial.



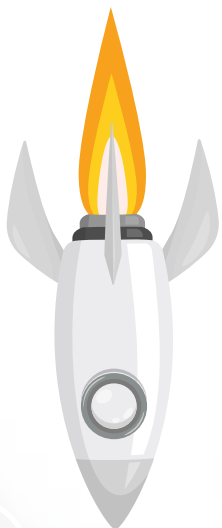
SO HOW DOES THIS RELATE TO WEB 3.0 AND TERMS LIKE 'METAVERSE'?

Web 3.0 as touched upon is a concept, a new set of tools that allows us to interact digitally in a new and more developed manner. At its heart lies decentralisation where consumers control data and content and how to engage across multiple parts of life including communication, money and finance, entertainment, learning and sharing. There will of course be deep applications in key sectors such as health and medicine, education and real estate; as humans and is often the case we develop new technology and interactions for social and entertainment reasons initially hence gaming and social media developing so rapidly into the Web 3.0 space.

The short answer to this very large leading question is - it's being laid out right now and we know some things however there is much we don't, yet.

A succinct line is it's a new form of 'browser' for the internet or everything 'online', a new gateway to new, exciting and engaging content, creators and opportunity. It is not developed yet, we are some way off understanding and building the technology that allows the sustainable, reliable, and healthy tech to support this new movement however at some point soon, quicker than most think, brands and household names including within Sport and Lifestyle will be factoring in Web 3.0 into their mid-term digital strategy. NFTs are the first step into this new world and must be considered in product roadmaps to some extent now.

What we do know is that brand affinity will need to be built in the Metaverse - some brands are already doing this, most prevalently in fashion and luxury goods, edtech and of course, gaming. Younger generations will become much more at home with digital interactions including Cryptocurrency, decentralisation and spaces including personal cloud and data storage, VR, AR, gamification such as avatars and tokens for personal brand affinity. As of now, most people's online and digital signature is their email address and only a fraction of people have a digital wallet to own and store Crypto and assets etc, this will change over time and as it does, new areas such as the Metaverse will become more important. NFTs as a digital asset will allow for access and entry into layers of the metaverse for consumers. Specifically for Sport, this means areas such as digital stadiums, in-stadia experiences, new platforms for content, and engagement between teams, players, peers, and commercial partners.





LET'S TALK A LITTLE ABOUT CSR AND SOCIAL RESPONSIBILITY

Whilst terms such as NFTs and Blockchain are relatively new and only beginning to be understood as of now, the value creation and value exchange they bring with fans and audiences is definitely being contemplated in the wider social context.

Web 2.0 and the internet we experience day to day has many faults and a lot of negative press, for good reason. Parents are struggling to keep their children's content secure and relevant, social media has been central to much negativity for many and over the last 10 years our personal data and manipulation has been central to much of the negative discussions we experience. Web 3.0 is a chance for us to correct some of this course. Without going into detail here on such important topics as how the Metaverse should or could be structured to facilitate education and support children, or how our data is ultimately de-centralised and control given back to the consumer by utilising Blockchain technology, we can make some more central and widespread comments about social responsibility from both brand and consumer perspectives.

The demographic that will utilise digital elements such as NFTs and all discussed in this paper, are making brand affinity decisions and expressing their buying power by choosing ethical and socially responsible companies and organisations. Brands that pay all of their tax and don't employ lowest wage workers as well as brands who actively 'give back' and donate to society understanding the role they play in social responsibility are absolutely heading to the top in many areas. This rising trend can be seen within NFT drops and new wave fan engagement. Fans and audiences want to see those brands and stars making even more revenue from digitising assets, allocate revenue and time to those who need it the most. Example of this could be grass-roots development in the relevant sport or as simple as pledging a % of revenue from a drop to charities or development goals; however it is worth noting that being vague is not an option here. Significant sports brands and stars have been too vague or not mentioned at all any intention of social responsibility in their NFT projects and the results have been bombed with specific feedback regarding not enough CSR input and thought.

This is a chance for NFTs and Web 3.0 to create value for those who need it the most.



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