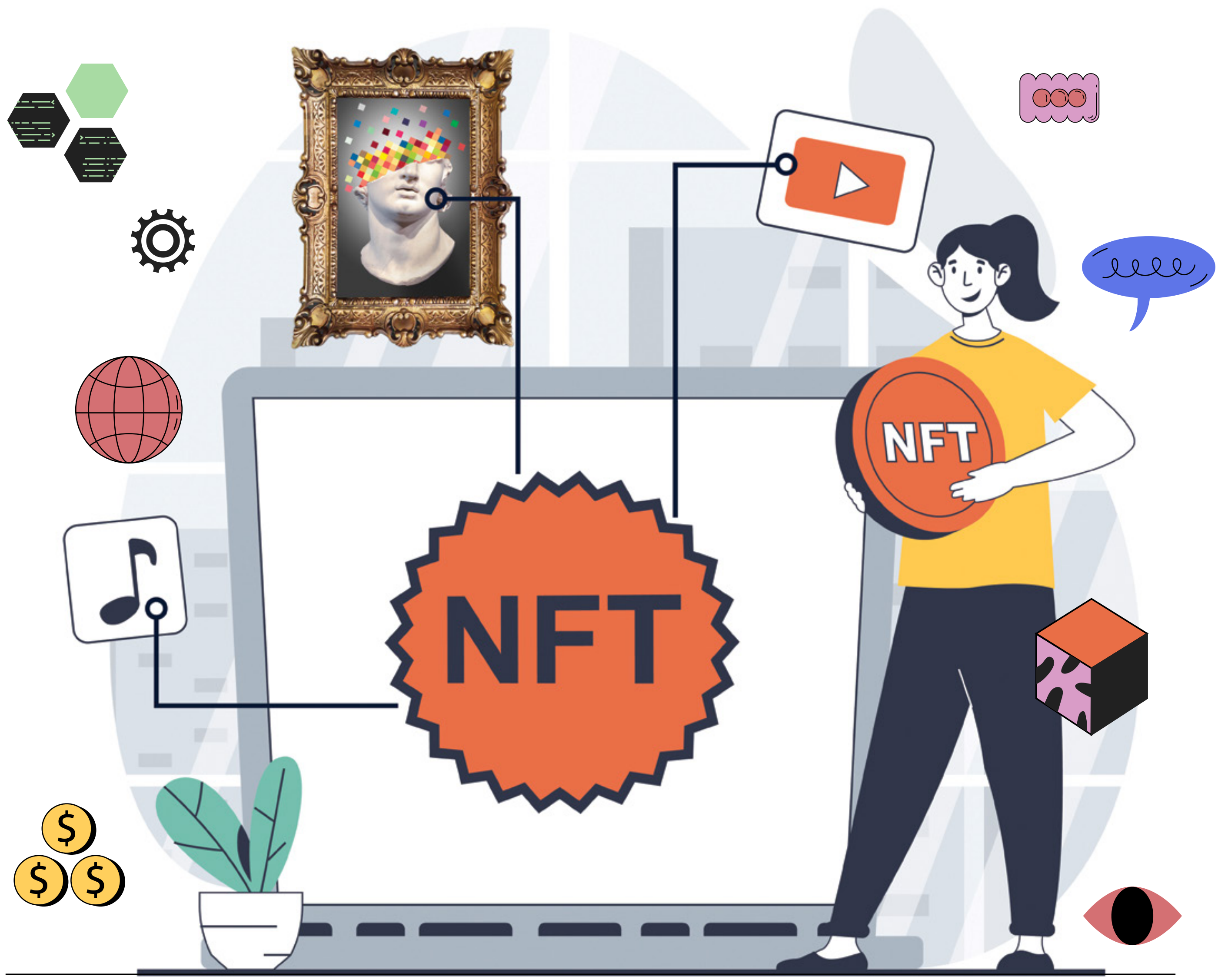
BRANDING

BUILDING BRAND ENGAGEMENT: LESSONS FROM NFTS AND COLLECTIBLES

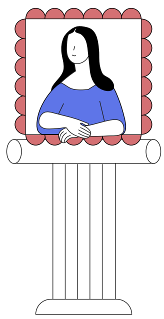
by Frank Cespedes and Ben Plomion

The hype about NFTs might be over, but when carefully deployed, they remain a viable tool for brand engagement, customer reward, and revitalising a fading product.



Arthur Clarke's aphorism still applies: for some time, a new technology is "indistinguishable from magic." Witness the hype cycles concerning the metaverse, cryptocurrency and, most recently, ChatGPT and other machine-learning technologies. Executives know these developments are potentially too important to ignore. But the problem with magic is that, in business, you must distinguish reality from illusion— opportunity from fad —to allocate resources wisely.

This is especially true with Non-Fungible Tokens (NFTs), which attracted high-profile investors until the market collapsed. During May 2023, the NFT market trading volume was $293 million. Just a year earlier, in one day (May 1, 2022), 118,577 NFTs were sold for $780.4 million. The NFT hype is over. But brands continue to launch marketing campaigns in this medium, and there are lessons about identifying value-added use cases for new technologies from how NFTs are changing loyalty programmes and consumer engagement.



NFTS AND COLLECTIBLES

During the hype phase, most commentary about digital tokens focused on gamers using Fortnite, Roblox, and similar platforms. But the collectibles market is twice the size of the gaming market and with more diverse products and customers, comprising jewellery, sports/trading cards, watches, fashion apparel, toys/figurines and other items. Digital collectibles (aka NFTs) were $15 billion in 2022 and are expected to grow 40% annually to about $200 billion by 2030[1] because NFTs are a natural extension for brands to engage consumers in online environments.

In collectibles, there are "profile picture NFTs" like CrytoKitties, Doodles, and Moonbirds, which are images that can be displayed on owners' social media profiles. But more interesting are "utility NFTs" which enable firms to improve customer experience and gather insights, while aligning the brand and consumers' interests. Here are some examples and lessons learned.

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Rewards and Promotions. Adidas introduced in 2021 its "Into the Metaverse Community Token," which provides community members with access to exclusive merchandise and live events. Adidas generated about $22 million from primary sales and a community of 19,500 fans[2], and the merchandise linked to the tokens has become collectible. Tareq Nazlawy, Senior Director, Digital Strategy at Adidas, notes that the NFTs create additional ways "for us to connect, create and belong" with consumers. Hence, in May 2023 Adidas invited its "Into the Metaverse" community to upgrade their existing NFTs for a new token that unlocks an interoperable avatar that can be used in a growing number of interactive experiences.

This example should resonate with many other brands that now face steeply rising customer acquisition costs (CAC) in digital marketing channels. There has been an estimated 60% rise in CAC via digital channels over the past 5 years—a trend accelerated by the pandemic —accompanied by a decline in click rates and less customer information as Apple, Google and others restrict the ability to track users using third-party cookies.[3] Firms pay more, get less, and are increasingly reliant upon coupon codes to increase the odds that a customer will purchase rather than abandon the cart. But traditional coupon codes are also seeing diminishing returns, while NFTs have better effects. G-Star Raw, a Dutch clothing company, introduced its G-No Community Token, which provides merchandise such as PHY-G the Rhino (G-Star's mascot logo) and access to events. The benefits have included better returns on digital marketing initiatives and brand enhancement: as its Chief Marketing Officer (CMO) emphasises, the NFTs are "an art project that brings our story to life [and] we're able to be in the spaces where [our customers] are." [4]

Engagement. NFTs can be both content and enablers of marketplaces that drive brand engagement. "Top Shot," licensed by the NBA, allows basketball fans to buy, sell, and trade NBA-themed digital collectibles. Each has a unique serial number that guarantees its authenticity, and the NFTs feature events like a winning three-pointer or a dunk shot by a favourite player. In effect, Top Shot is a next-generation trading cards market but without the friction inherent in selling and shipping cards plus a level of engagement that allows fans to interact with the game in novel ways. Top Shot generated over $1 billion in sales in 18 months, and 13 Top Shots have sold for more than $100,000 each.[5]

Provenance. Many companies issue credentials to customers, but traditional means (centralised databases or paying third parties) are expensive, slow, often frustrating to use and subject to stolen log-in credentials and other security risks. NFTs address these issues in a customer-friendly way that helps to develop the relevant market and brand differentiation. With NFTs, customers control the credentials, privacy is enhanced, ongoing brand value is more transparent, and engagement possibilities increase.

For example, watches are prominent collectibles. Some high-end watches routinely get 200% of firsthand prices in the secondhand market. In fact,[3] preowned watch sales are growing faster than new watches, seen as a viable alternative asset class for investors seeking to diversify their portfolios (outperforming the S&P 500 index from 2018 to 2023), and players like Watchbox, Watchfinder, and Chrono24 focus on higher-priced preowned watches. Buyers tend to be younger (mostly millennials and Gen Z)[7] and use online community forums to exchange information (and bragging rights) about brand acquisitions.

Creative and user-friendly applications of NFTs can address many of these challenges, and help to monetise brand equity via secondary sales.

Luxury watches have long come with certificates of authenticity and international warranty; these credentials are an important part of the heritage storytelling inherent in a brand's identity, especially in social media channels. But the industry has always wrestled with ways to track certificates and service history, and thus the risk of brand dilution if the seller cannot authoritatively vouch for the authenticity of the secondhand product. Breitling now offers an NFT passport for its timepieces. With certification stored on the Blockchain, the passport verifies the origin of the watch, a timeline of repairs, and ongoing information about the history of the watch, its owners, and significant events. In the future, Breitling may offer insurance and other products through this platform.

Tokenisation as a Service. Like many products and services, collectibles are plagued by issues like fraud and high transaction costs in buying, selling, shipping, and insuring valuable items. Creative and user-friendly applications of NFTs can address many of these challenges, and help to monetise brand equity via secondary sales. A business model known as "Tokenization-as-a-Service" (TaaS) is growing in response to the opportunities.

TaaS helps brands, collectors, and intellectual-property holders convert physical items into digital assets that can be bought and sold on NFT marketplaces. Moreover, the owners can have the physical asset associated with the NFT shipped to them or stored in a secure vault, enabling the authenticated transfer of ownership while minimising the need to physically transport rare and delicate items through the mail or other delivery services. Brands and large IP holders like Disney and MGM are using what they know and control in their physical collectibles to enter Web3 and engage with current and new customers in novel ways.

QUESTIONS YOU SHOULD ASK AND ANSWER

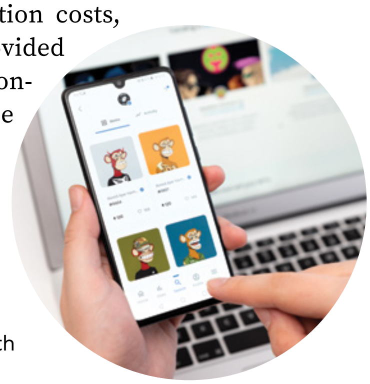
Collectibles are an early-adopter market of NFTs because the benefits are especially relevant to assets that are traded and must be authenticated to retain value. But many other types of goods can be tokenised and, in the process, create better connections between brands and consumers. To get started, here are two key questions to ask and answer:

Has your product stalled with your customers? Its original intent was to be the "Third Place", but Starbucks recognised that over time its locations became a place where people are alone together. The company introduced Starbucks Odyssey, a Web 3.0 loyalty programme featuring items representing its Siren logo and found a dynamic secondary market for these items. Then in March 2023, Odyssey released its first limited edition NFT called "Stamps". These items sold out in 18 minutes, paving the way for customers to become stakeholders in the brand and via trading opportunities, enhancing the brand's original assertion of community.

Connections are the essence of a brand and lifetime value, and NFTs are the next iteration.

Are you capturing the full value of your product's life cycle? HBO's "Game of Thrones: Build Your Realm" uses NFTs to enable fans to build a realm by collecting customisable avatars inspired by characters from the series. As well as new ways for fans to interact with the stories, the NFTs open other opportunities for HBO to increase the lifetime value of its intellectual property.

Two decades ago, many firms were disrupted by online platforms because they did not realise that, as well as reducing transaction costs, those market spaces provided important connections for consumers. Connections are the essence of a brand and lifetime value, and NFTs are the next iteration.



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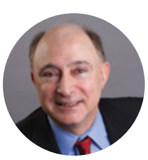
ABOUT THE AUTHORS



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