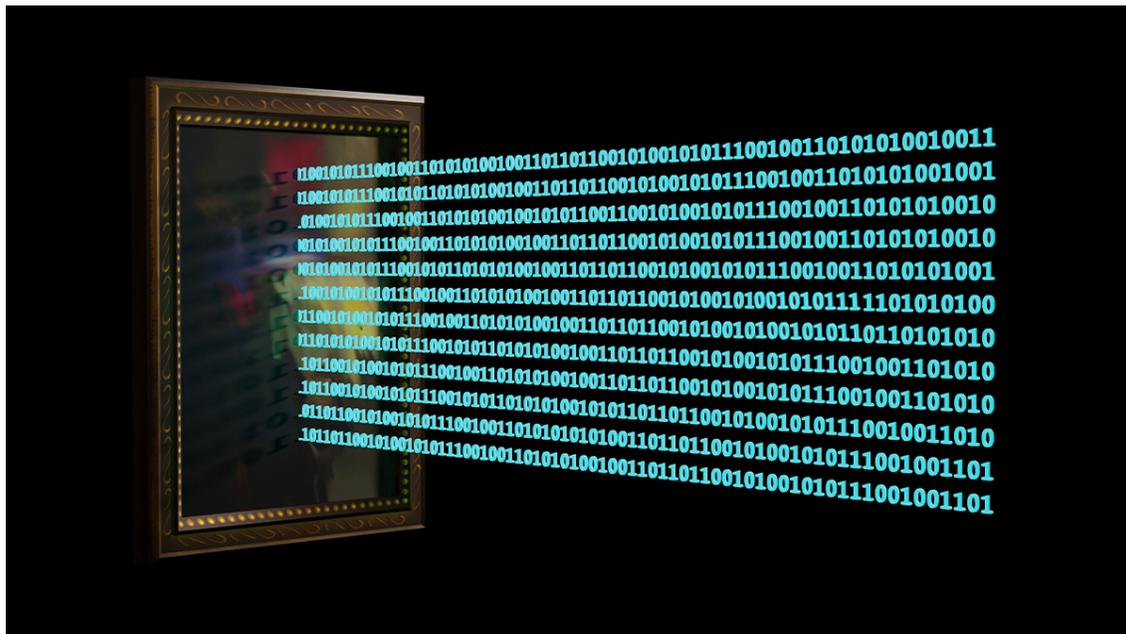


How Your Brand Should Use NFTs

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Summary. Suddenly, NFTs are everywhere. For brands, wading into a new space can be daunting, but there's also risk in not engaging at all. So how should they proceed here? First, recognize that releasing collectables is a good place to start, but it's also just a first... [more](#)

Non-fungible tokens (NFTs) are going mainstream in 2022. You can now show off your favorite NFTs as your Twitter or Reddit profile picture, with Facebook and Instagram soon to follow. Driven in part by a FOMO reminiscent of the 1990s dotcom

anxiety of bricks-and-mortar companies, mass-market players and luxury brands alike are launching NFT collections at a dizzying pace.

Granted, a vast majority of mainstream consumers still struggle to make sense of the 2021 NFT world of Bored Apes and CryptoPunks. And the usability of the underlying blockchain technology is still a long way from being consumer friendly.

But don't make the mistake of thinking that NFTs are a passing fad. While the current hype cycle might be fueled by crypto-millions and Discord-obsessed Gen-Z users, NFTs could be the killer app of Web3 and its gateway into traditional commerce. The *really* interesting thing about NFTs is the tech they run on, which reveals their broader promise as a vehicle by which brands bypass the platform-centric marketing world of Web2 and reclaim ownership of their digital consumer relationships.

Early days: From collectibles to digital product-line extensions.

Right now, NFTs seem inextricably intertwined with digital collectibles, and many brands' first step into the NFT waters has thus been to launch their own collections. These early efforts range from exclusive releases of Campbell's soup can art and Coca-Cola digital apparel to generative art of burgers from White Castle.

But a first step isn't a strategy. Successful brands didn't call it a day after buying a domain name and posting a website in the dotcom era and, similarly, smart brands today need to be asking themselves what comes next.

The answer will present itself more readily for some brands than others, just as it did when 1990s "brick and mortar" companies sought meaningful ways to use the internet. Back then, retailers with a catalog business like Office Depot were able to start using the internet as a channel more quickly than other companies because they already had the infrastructure for taking orders and

making deliveries. The ecommerce journey of bookstores like Barnes & Noble was simpler than those of apparel, furniture or grocery retailers because they sold books — easy to describe, of a convenient form factor, non-perishable, and presenting no issues of user “fit.”

There’s a similar dynamic at play in the NFT world today. Companies in the media business can naturally use NFTs to create a new class of media assets. NBA’s TopShot is currently the most compelling legacy example of this kind of product line expansion. (Media giants CNN and the Associated Press are betting, perhaps optimistically, that consumers will be as excited about buying news clips and iconic photos as they are about owning a LeBron James dunk.) Analogously, apparel companies can envisage digital versions of their physical clothing and accessories. Ralph Lauren has already been selling branded digital apparel in virtual worlds like Zepeto. Dolce & Gabbana recently auctioned millions of dollars’ worth of NFT-based digital couture.

Each of these projects ports a current product line into the metaverse, expanding how consumers engage with and experience the brands. The transition is especially seamless for sneaker companies already steeped in the NFT lingo of drops and flipping. Nike has gone as far as acquiring RTFKT, a startup specializing in NFT-based digital sneakers, while Adidas has created a line of virtual gear for the characters of NFT leader Bored Ape Yacht Club.

The real promise: NFTs as the basis for a multifaceted digital consumer connection.

Extending product lines into digital worlds is just one possible use for NFTs, however. Mark Zuckerberg’s fascination with the metaverse notwithstanding, companies that bind NFT thinking exclusively to collectibles or creating digital assets for virtual avatars are missing a more important shift. Looking ahead a few

years, NFTs could be the central digital touchpoint between brands and their consumers — and one that is controlled by the brand itself.

While NFTs are mostly being used for unique *digital* assets (a specific Bored Ape image or NBA video clip), the underlying technology could just as well identify a unique experience (the fact that you attended an event, for example) or a unique *physical-world* object. It's a question of how companies use the digital identifier that forms the basis for each NFT's assertion of uniqueness and authenticity. For instance, Nike's 2019 CryptoKick patent connects a physical pair of shoes to an NFT-based virtual twin, setting up a future in which owners of multiple sneaker NFTs might even "breed" them into custom kicks. Today, emerging technologies like those from Veracity Protocol facilitate the creation of digital identifiers encodable into an NFT that are derived from the actual material or structural properties of the physical items in question.

Such NFT-encoded digital identifiers can chronicle a whole host of real-world purchase and consumption experiences, infusing them into our digital lives in ways that are authentic and portable across communities, and creating exciting new possibilities for brands and their consumers. Designed right, NFTs could build on the expansion of conspicuous consumption seeded by social media, allowing us to showcase our non-digital lives in our digital spaces more expansively and more authentically. Did you stand in line to buy the new iPhone on the day it was released? Attend a concert by that popular band before they were famous? Or are you simply interested in sharing your extensive brand-name wardrobe with your digital friends in a way that is natural and understated? Future virtual spaces could feature your NFTs of each of these purchases or experiences, providing presentation options tailored to your preferred level of subtlety or ostentation that transcend today's narrow alternatives of Facebook check-ins and Reddit profile badges.

These blockchain-based tokens of authenticity could also revolutionize secondary markets for physical items. Thus far, original manufacturers have rarely captured value when their items are resold, and in these rare cases of value capture (like certified-pre-owned vehicles), the items must be expensive enough to justify the overhead of certification and sales. An NFT-based digital seal of authenticity for a physical item creates more seamless trust in peer-to-peer resale and can empower a brand to share in the associated value capture more easily using platforms like Trove and Recurate that integrate this kind of secondary trading into a branded retail experience. In fact, since NFTs are not just static digital records of authenticity, but are programmable, brands might even implement an NFT royalty standard that encodes a small fraction of value capture associated with every resale.

Brands should also consider how some things of value are unique but not scarce. Minting an NFT with each consumer transaction can create a dynamic digital point of contact specific to that transaction that can respond to a range of external events and signals. The possibilities for new and creative loyalty and after-sale engagement are endless.

Brands' path towards an NFT future.

It's easy to forget how long it took established companies to figure out how to navigate Web1 and make meaningful connections between the Internet channel and their existing businesses. Walmart started actively selling online only in 2000, a full 6 years after Amazon's founding. As late as 2001, other retailing titans like Target, still struggling with e-commerce operations, chose to rely on Amazon's storefront and fulfillment capabilities, laying the foundations for Amazon's immense platform business.

And Web3 is developing more slowly than Web1 and Web2 as a commercial technological infrastructure, in part because of an ethos among some of the community to actively resist the

centralized coordination that can accelerate that evolution. As such, the true brand possibilities of NFTs will take a few years to realize.

Nevertheless, much like in the early days of the Web, it is critical for brands to simultaneously ensure that they don't fall behind, while also not succumbing to misguided choices that look like "checking off the NFT box."

Start with smart digital collectibles.

It's a safe bet that the immediate NFT mindset will remain centered around digital collectibles. During this phase, it's important to engineer the right tradeoffs between availability and exclusivity when creating an NFT collection. For instance, the rarity of the Campbell's and Coca-Cola NFTs may make sustaining consumer interest a challenge. On the other hand, making your NFT collection too abundant can lead to a perception of insufficient value. The desire for collectibles is mimetic — value stems from enough people wanting what others want. Striking the right balance is critical.

Exclusivity is just one lever that shapes consumer interest. Brands can also leverage the programmability of NFTs to make them more collaborative and engaging. Gap has gamified its NFTs collection by allowing multiple common NFTs to be combined into fewer limited ones. Integrating community features into an NFT collection can further enhance engagement. Social value is partly why the Bored Ape Yacht Club is sustaining greater interest levels (and valuations) than its CryptoPunks predecessor.

Tie your NFT collection to your brand and core product.

Most brands don't aspire, long term, to remain in the business of creating and selling digital art. Connecting your NFT collection to your brand identity is essential, like Nivea has done with their non-fungible touch collection. Brand perception can also be enhanced with a novel philanthropic dimension. Budweiser's sponsoring of 22 rising musicians via their Royalty NFTs

creatively uses the capabilities of NFT technology for micro-sponsorship, allowing the brand to rise above the more prosaic philanthropy of “donating the proceeds of my NFT drop” that numerous others have already tried.

While lamenting the glacial consumerization of the underlying Web3 technology, you can nevertheless start to strengthen NFT connections with your products or services in small ways. Invert the idea of an NFT as a digital token of physical product ownership by giving away a physical product tied to a digital NFT collectible. When Coach launched an NFT collection featuring art of animals from its holiday promotions, it also promised a custom Coach bag to each NFT holder. Connect NFT issuance to participation in brand-associated experiences (events you sponsor, for example). Mint NFTs that document attendance of exclusive branded experiences like product launch events or fashion shows. Enhance an existing loyalty program with an NFT collection, like Clinique has done.

Experiment, but with authenticity and an eye on the future.

Wading into the murky waters of Web3 will seem daunting at first. Over time, brands must figure out what works for them through trial, error and observing what succeeds and fails for others. Remember that much like with Web1 and Web2, earnest adoption and experimentation will attract greater rewards. Feigning community membership by co-opting NFT slang in social media posts can backfire by make one appear out-of-touch (so go easy on those WAGMIs), and token NFT art collection efforts will probably get you as far as your dotcom era vanity websites did.

The good news is that the true impact of NFTs will unfold gradually over the next few years, and there’s plenty of time to figure the space out. Your eventual audience is the entirety of your existing and future customers, not today’s crypto community. So don’t measure success by your NFT prices on OpenSea. Rather, orient your metrics towards those that better

illuminate a future in which NFTs anchor all real-world products and experiences while extending them into the digital world of your choosing.

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