



CRYPTOCURRENCY IN COMMERCE BY EFFECTUS STRATEGY PRACTICE

Over the last year, we have become no stranger to unexpected change. We have found this to be especially true in the digital world. A prime example being cryptocurrencies, or “crypto”, which is shaking up financial markets and business as we know it. While crypto has been around for more than a decade, it has recently gained traction due to its widespread adoption and recent recognition as a valid method of payment by some of the world’s largest organizations, including Microsoft and Starbucks. As crypto changes the world of finance, it is important to evaluate and assess what impact it could have on businesses and the executives in the ecosystem of product.

MAY 2021 AREAS OF INSIGHT

- 01 WHAT IS CRYPTOCURRENCY
- 02 BRAND IMPACT
- 03 RETAILER IMPACT
- 04 CALL TO ACTION



I. WHAT IS CRYPTOCURRENCY

There are more than 1,600 cryptocurrencies in circulation today. Many companies have issued currencies, known as “tokens”, which can be traded for goods or services at the issuing company or others that accept the token. They can be acquired by exchanging currencies like the US Dollar (USD) or mining over time with special software and hardware configurations. Their effectiveness is driven by technology known as blockchain. Blockchain is a distributed ledger that is verified across various devices and across various networks which makes these assets “decentralized” and theoretically unaffected by interference or manipulation of the government or the issuer. Cryptocurrencies enable secure exchanges online by way of cryptography which insulates them against counterfeiting or double spending. To better understand blockchain and how it works, take luxury goods company, Moët Hennessy Louis Vuitton (LVMH), who partnered with Microsoft to create a startup that utilizes blockchain technology to let customers trace their products from design to distribution. Their intent is to protect the legitimacy of their brand and immediately discredit counterfeit goods that lack the proper blockchain validation of their products.

Over the last few years, free-to-play video games have developed a business model that focuses on in-game purchases. Parents to young children and teenagers have likely caught wind of either “V-Bucks” or this “skin-phenomena” where players can exchange cash for in-game currency that allows them to buy exclusive content. It is important to understand that there is a difference between in-game currencies and cryptocurrency, despite both being “digital

currencies.” Video game virtual currencies should be viewed as credits in a one-way transaction to unlock digital content, while cryptocurrencies are assets that can be traded back-and-forth in exchange for real currency if there is purchase interest in the asset.

II. BRAND IMPACT

Apart from a means of diversifying assets on a company’s balance sheet, crypto is shaping brands and their businesses by being recognized as a method of payment comparable to form factors we are familiar with such as: cash, credit card, and check. Many technology-forward organizations have embraced this change including Big Tech companies like PayPal and eBay; Automotive manufacturers like BMW, and other various dealerships; Fast Food franchisors like RBI (Restaurant Brands International), YUM Brands and more. While there are many more companies on the list of those embracing crypto, one thing they all have in common is that they recognize the opportunity that accepting crypto creates. Regardless of the industry, these companies are noticing that despite the initial risk associated with this new form of currency, each new adoption further legitimizes the concept of crypto and the more a specific token (e.g., Bitcoin and Ethereum) is adopted (increased demand) the less risk falls on the individual business that utilizes the token. By giving consumers more ways to spend money, you are creating more opportunities for your business to capture their spending. With each brand that adopts crypto - making it more widely accepted - consumers are enabled to rely more on cryptocurrency as their preferred form of payment. This validates cryptocurrency at the concept level, and de-risks each brand recognizing it as an acceptable alternative to the USD.

III. RETAILER IMPACT

Blockchain technology is also gaining interest in the retail space as many corporations and e-commerce giants like Walmart, Amazon, and Alibaba are exploring how blockchain can be incorporated into their business. Blockchain technology could transform e-commerce by lowering transactions costs and improving the security of online orders and transactions. In some cases, we will see blockchain technology being used to innovate the way consumers buy goods. In other instances (e.g., The Home Depot), we see blockchain being utilized to change the way companies handle supplier relationships. This allows them to reduce vendor disputes and manage their business more effectively. Blockchain and cryptocurrency is also disrupting retail with the creation of decentralized marketplaces that enable buyers and sellers to interact directly in an open-source, peer-to-peer network. This new method incentivizes brands to go directly to the consumer.

IV. CALL TO ACTION

In 2021, we are finding new ways to utilize cryptocurrency and blockchain technology. For that reason, crypto will continue to gain popularity, continue making headlines and continue shaping the way business is done by all of us who play a role in the ecosystem of product. Some topics have even been controversial, such as the energy and environmental impact of mining digital currency. Meanwhile, governing authorities like the IRS are making strides to clearly communicate the fiscal impact crypto can have on investors and businesses dealing in the asset. Whether your business decides to align itself with cryptocurrencies or not, thorough research should be given to the subject as there are many decisions to take into consideration before implementation.