Brand Tokenization and Monetization Through Cryptocurrencies

Hegadekatti, Kartik

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Dr. Kartik H

Author's Email: dr.kartik.h@gmail.com

ABSTRACT

A Company's Brand image is an intangible asset. Though Initial Public Offerings (IPOs) try to capture Brand Value, a company's share value is a result of several factors like performance, initial capital, investor identity etc. Moreover time needed for a company to be listed runs into several months. Therefore immediate capitalization of Brand Value is not possible. Initial Coin Offerings on the other hand deliver a wide range of possibilities not provided by IPOs. Most important among them is Brand Tokenization and Monetization.

This paper explores Brand Tokenization and Monetization through ICOs (Initial Coin Offerings). Firstly, the concept of Brands and cryptocurrencies are explained. Then the concept of ICOs is discussed. I envisage a scenario where a company tokenizes its Brand and attempts to monetize it. We evaluate the advantages that can accrue from such a venture. The paper concludes as to how Brand Tokenization and monetization can be realized through cryptocurrencies and its impact on future businesses.

INTRODUCTION

A brand can be considered a very important social construct through which a society invests its trust and confidence in that particular entity. The concept of a Brand evolved from a system in olden days when kings and merchants used to make permanent marks or 'brand' their animals, goods or place of stay. Branding was also used to differentiate one person's cattle or animals from another. Nowadays a Brand is a symbol for excellence that defines the confidence that public has in a particular company/entity.

Brand identification is not just limited to companies. But it can also be extended to nations, Governments and Individuals. For Example, a Doctor practicing in a particular town has his own image in the eyes of the public which may be considered his/her brand identity. A government (municipal/ Provincial or state) may have a particular image in the eyes of the people which may be considered as a brand The value associated with a brand identity and image identity is that, the brand identity is monetizable, image identity is not. If someone is willing to bet his/her money on you, you have a Brand value. Otherwise you only have an image identity. Brand Value appears Monetized through IPOs. But it is not. In actuality, Brand Value attracts investors to that particular entity who then buy stakes in the form of the company's equity. Brand value therefore is limited to attract investors only, and its full potential is not realised in raising money for the company.

A cryptocurrency (also known as Cryptocoin) is a medium of exchange using cryptographic techniques to safeguard transactions and also manage the formation of additional units of the currency.

A Blockchain is a widely disseminated archive of data that maintains a continually-expanding register of records fully and reliably protected from any alteration or modification. Each block has a timestamp and link to the preceding block.

A Crypto wallet is an encrypted electronic device that allows an individual to make electronic cryptocurrency transactions. Each wallet will have a public key visible to anyone. But it can be operated by only a person who has a private key.

Transactions on the cryptocoin network are usually anonymous. When people send cryptocoins to each other, someone has to keep account of who spent how much at what time. In case of fiat money (or paper money) it is done by banks (known as Trusted Third Parties, for which they charge a commission). But in the case of Cryptocoins, it is registered on a ledger called Blockchain (with nil or minimal fees).

The cryptocoin network makes this possible by detailing all the transactions made during a certain timeframe into a list. This list is known as a block.

A certain set of people called 'miners' verify these transactions mathematically and register themon the BlockChain. Those bona-fide miners who have successfully verified the transactions are paid freshly created Cryptocoins.

This is how miners are rewarded, and new cryptocoins are generated. This is also the reason why no transaction costs are levied, as the network (in the form of miners) verifies the transactions.

Bitcoin is a peer-to-peer based cryptocoin which is not backed by any commodity and (unlike fiat money) carries no sovereign guarantee whatsoever.

Regulated and Sovereign Backed Cryptocurrencies (RSBC), on the other hand are government backed cryptocurrency akin to paper currency, but in digital form. It is based on the K-Y Protocol [1].

The K-Y Protocol is a set of rules and instructions to implement the Regulated and Sovereign Backed Cryptocurrency (RSBC) system. In this system, the cryptocoins (known as NationCoins) are backed by Sovereign Guarantee. They are run on a highly secure Controlled BlockChain (CBC) [2] in which Sovereign backed Cryptocurrencies will be transacted without any hassles. NationCoins are completely managed by the Sovereign Authority i.e. the Government. An ICO is (presently) an unregulated means of crowd funding where a certain number of tokens are sold in the form of cryptocurrencies. The money so collected can be used for the company expansion, introduction of new currencies, paying debts, insurance etc. In an ICO, a proportion of a newly issued cryptocurrency is sold to investors in return for legal tender or other cryptocurrencies like Ethereum or Bitcoin. The term is analogous to 'token sale', referring to selling of stake in an economy, giving investors access to the features of a specific project starting at some later date. ICOs can also be a sale of right of ownership and/or returns and profits of a project.

One of the less explored but great potential of ICOs is the possibilities of Brand Tokenization and the additional Tangible Value that it will generate by converting intangible assets (Brand value and public goodwill). This additional tangible value so generated can be employed to benefit the company (and its Stakeholders) in various ways. We will now analyse in detail the various possibilities that ICOs open up in the area of Brand Tokenization and Monetization.

'BRAND' AS AN ASSET

An asset is any economic resource. That which is tangible or intangible and can be owned, monetized and controlled to produce value is an asset. An asset represents value of ownership that can be converted into cash [3].

A Brand can be categorised as an intangible asset. If a Brand has to be monetized without giving away company equity, then ICOs are one of the most workable ways of doing so currently. Brand Tokenization through ICOs is an equity-less offering of an entity.

Imagine a company called 'Company Z'. Now Company Z has a large number of shareholders. It has a good image in the eyes of the public due to the high quality products and services that it provides. Company Z (essentially its management) decides to have equity-less offering for its Brand in the form of ICOs on its own Blockchain. Due to its fame and value, people buy the tokens issued by Company Z (let's call this coin/token as Zcoin). Due to the sale of Zcoins, the company generates a few million dollars of additional cash. A certain percentage of the tokens is still with Company Z and it has not yet released them into the market. We will now discuss the various scenarios where a hitherto unassessed potential of the brand of Company A can be monetized.

The funds generated by Company Z belong to whom?

It can be argued that the funds so generated by an ICO belong to the shareholders. At the same time, Shareholders are not the only reason that a Company attains a particular Brand Image. Since the company was formed from Shareholders' money and the Brand of the company was built by its employees, it can be said that the funds generated in an ICO belongs to all the Stakeholders (shareholders and employees combined) Therefore, it would be prudent to set aside a certain 'stakeholder portion' of tokens- Zcoins in this case, to be rewarded to all stakeholders. A certain portion can be given to the management to use it for the company in times of need. The cash may also be under Management control; because, eventually the brand value is a function of management decisions.

1) Hedging Risks For The Company

Let's say that Company Z had the carrier liability for a particular commodity produced by some other company- Company A. But due to an accident, their ship gets sunk. Now since carrier liability is with Company Z, it has to bear the losses of Company A. In such a scenario, Company Z can take support of the cash it has generated by its ICO. Not only that, its token, Zcoin may have appreciated in value by being traded in Cryptocurrency exchanges. By using that money, Company Z can offset the losses it faced by having carrier liability. Moreover, its tokens can be used to bridge the insurance costs or be used as collaterals or bank guarantees which will help it to hedge risks purely on the strength of its Brand Value.

2)<u>Funds For Expansion</u>

Company Z can use the funds generated from the ICO, for the expansion of its Business activities, products or services and marketing. This will take pressure off the company from raising additional funds by giving away precious equity.

3)<u>Brand Token As An Indicator Of Trust</u>

Since Brand Tokenization does not involve any additional costs or giving away of valuable equity, it appears that Brand Tokens (like Zcoin) will be liable to be abused. Excessive tokenization can possibly occur leading to unnecessary (and non-existent) monetization of Brand value. But on deeper analysis, we find that it doesn't work like that. Let us assume that 100 million tokens of Company Z i.e Zcoins are in circulation in the market. Each Zcoin costs $1. Company Z holds 50 million Zcoins. As explained in (1) above, let us presume that Company Z has to pay Company A $10 Million in liabilities. Company Z pays 10 million Zcoins to Company A, and becomes free of any liabilities. Now Company A has 2 choices.

(a) It can hold on to the Zcoins and wait for it to appreciate or trade in it.

(b) It can immediately monetize the Zcoins into Dollars.

If it chooses to do (a), it indicates that Company A still has trust in Brand Value of Company Z. If it does (b), then the following will happen; due to the sudden 'dumping' of 10 Million Zcoins in the market, there will be an increased supply of Zcoins, This will lead to a sudden fall in the price of Zcoins. If we take propotional value, dumping 10 million tokens in a market that already has 100 million tokens will lead to supply increase of 10% and proportionally (not considering other factors) lead to fall in value of 10%. Thus, a significant indication is sent to the market that Company Z has run into some liability and that its performance or management decisions may not be going the right way. Thus the price of Zcoins in the market is a significant indicator of people's trust in the Brand value of the Company Z. This may lead to a runaway effect where Zcoin prices will be in free fall. To rectify this 'Fall' in trust, Company Z has to buy back some tokens which entails a definite cost. Thus rather than abuse, Brand Tokenization makes a company more accountable to market forces. If Company Z had agreed to pay liabilities to Company A in fiat money through mediation of Banks, the markets would never have come to know that there was even a liability on the part of Company Z. Thus Brand Tokens will be an important indicator of trust and will bring about more market transparency in the corporate world.

4)Faster Business Cycles

Apart from the many practical uses of Zcoins as a Blockchain Based token (like supply chain management, paperless offices or corporate voting etc), it has the capability to streamline a company's cash flows leading to faster business cycles. Tedious Insurance and collateral procedures involving banks can be bypassed and the Company can directly provide insurance or collateral services in-house to its clients thus shortening negotiation and working processes involving cash flows.

5) Protecting Shareholders Against Risk

Since much of the Brand Value has been decoupled from the company's actual working, Share markets will become important indicators for performance more than brand value. Thus, issues involving brand will affect the token values on crypto-markets but may have lesser impact on share value. Hence Shareholders are, to a certain extent protected from risks involving Brand image

6) <u>Loyal Stakeholders And Investors</u>

Since no equity is given away, investors will be buying the Tokens purely on the basis of the Brand image. Thus those who buy into a company's ICO can be considered as pure loyalists who have nothing in expectation except a rise in the value of the tokens; which in anyway depend on market forces.

7) <u>Residual Intrinsic Value Retained</u>

Let's say, that for some reason, Company Z goes bankrupt and closes down. The cost of its shares will plummet and it will get delisted from the stock exchange. But the fate of Zcoins will be very different. Even if Company Z closes down, Zcoins can still be used as currency and a medium of exchange. There will be a temporary fall of value of Zcoins. But, it will still have some value above zero. And the fact that Company Z has cloed down doesnt mean that Zcoins will be delisted. Traders can still deal in Zcoins based on the integrity of its Blockchain. In this manner, Brand Tokenization through ICOs provides more hedge against a future risk than IPOs.

8) For Governments

Governments can collect money directly from the public and use it to fund space programs or absorb liquidity from the system. Let us name a Government Token as Gcoin. Gcoins may be part of the NationCoin (RSBC) network or may be a separate token on a blockchain of its own. The Government can issue different Gcoins for different projects. Gcoins can be released at certain intervals to absorb liquidity from the market. Since it is a Sovereign Backed Token, it will have the trust of the people. The Government need not rely on it Central Bank or other Commercial banks to mop up liquidity, control inflation, provide loans to government etc. The cost of money to government will be greatly reduced and easy credit will be available with the government for various purposes.

9) Brand Tokens As A Personification And Quantification Of Trust

Brand Tokens personify the trust that the people have in an entity. The entity may be an Individual, Company or Government. Earlier, IPOs were used as a crude measure to indicate a company's brand value. Now, pure Brand Value can be measured using Brand Tokenization. And since market forces will be at play, we can make a real-time assessment of Brand Value. Brand Value can now be quantified. Thus Companies will have an incentive to follow best practices and boost their Brand image more than ever before.

10) Ease Of Listing

Presently for any company to be listed in Stock exchanges, it takes several months. The regulatory requirements are often quite stringent. Only companies with lot of wealth and market influence can get listed through IPOs. On the contrary, ICOs have a great advantage of relative ease of listing compared to IPOs. Moreover, the paperwork and red tape is far less. In such a scenario, even small companies can raise capital to fund their projects, provided their project convinces the investors.

CONCLUSION

We have seen that ICOs offer a wide range of possibilities for companies to tokenize and monetize their brand value without affecting their equity balance. They make it possible for market forces to more closely observe and control company workings, thus leading to a level playing field between various competitors, big and small. It can also be observed that pure Brand Monetization is in fact possible through ICOs and that it is a promising area of exploration for financial technologies leading to a new paradigm of business funding and expansion.

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