



FAST TAKE

DEEP DIVE ON

**CRYPTOCURRENCIES &
BEYOND**

BEHIND THE CRYPTOCURRENCY

As a rule, technology moves faster than consumers and consumers almost always move faster than brands. This maxim is especially true in the world of payments, where Bitcoin, the most seamless and secure means of digital transaction possible, has existed since 2009. The number of people who use Bitcoin is nebulous. According to Blockchain.info, one of the few reputable sources for statistics on the subject, there are 11.4 million accounts, but it is likely that multiple accounts are owned by a single individual. The number of actual users could range anywhere from a few hundred thousand to double-digit millions, but no one can say for sure. What we do know is that the Bitcoin market cap reached 17.5 billion at the start of 2017, a clear sign that the ecosystem is thriving. Yet, even at the lowest possible estimate of a several hundred thousand users, these future-forward consumers far outnumber the brands that accept Bitcoin as a means of payment. The discrepancy is ironic since cryptocurrencies are the aspect of the internet that may present the most opportunity to brands regarding growth, revenue and long-term customer loyalty. We are still in the early days, but smart marketers owe it to themselves to understand finer points of how they work and the value they present.

UNDERSTANDING AN EMERGING TRANSACTIONAL MEDIUM: CRYPTOCURRENCIES & BEYOND

WHAT IS CRYPTOCURRENCY?

Many consumers now make digital purchases on a daily basis (e.g. buying on Amazon.com, tapping to pay at the grocery store). However, these transactions are merely a digitally-enabled exchange of traditional currency (e.g. dollars, euros and other forms of money officially established and controlled by a government). Cryptocurrency is something altogether different, a virtual unit of money produced by a community of users that have agreed upon its value. Advanced encryption techniques are used to regulate the generation of currency units as well as to verify the transfer of funds, independent of any bank or government authority. The decentralized nature of cryptocurrencies make them impervious to fraud and manipulation. In fact, for many years economists and digital pundits have been discussing their potential as a solution to the volatility of the global market.

WHAT IS BITCOIN?

The Bitcoin ecosystem is a peer-to-peer file network similar to those used to pirate media. However, in this case, the files shared and stored are Bitcoin units and the accompanying records of their exchange. New Bitcoins are produced by the labor of participants in the system, known as miners, who donate computing power to support the complex computational challenges involved in verifying and logging transactions in a central ledger known as a blockchain. There are many blockchain ledgers just as there are many cryptocurrencies, but what they all have in common is distributed technology – meaning the ledger files are scattered across the computers of all the participants in the system so that no one person or entity can control or manipulate it.

Consumers can use traditional currency to purchase Bitcoins via online exchanges. Once purchased, coins are stored in a digital wallet through which users can execute direct, peer-to-peer payments sans a middleman (e.g. while a PayPal payment goes from payer, to PayPal, to payee, with Bitcoin it is as direct as one person handing another a stack of 'digital' cash). Only 21 million Bitcoins can ever be mined which prevents the system from falling victim to inflation, but the value of Bitcoin currency does fluctuate based on supply and demand. Participants in the system can choose to guard against price volatility by automatically converting their Bitcoin post-transaction into local currency, a service provided by Bitcoin wallets and merchant solutions.

WHERE CAN YOU SPEND BITCOIN?

More places than you might think! As a cryptocurrency, Bitcoin has been associated with the darker corners of the web (e.g. the infamous [Silk Road](#) case), but it is slowly entering the mainstream in the U.S. There are hundreds of smaller online brands that accept the currency, but some of the larger brands and retailers include Target, CVS, WordPress.com, Subway, Victoria Secret, PayPal, Expedia, Home Depot, Kmart, Sears, the Apple App Store, Grooveshark, Dell and Zappos.

WHAT IS THE CONSUMER VALUE?

Bitcoin is uncharted territory for consumers and at present, only the most future-forward early adopters are making use of it. However, it has several key benefits for consumers that are likely to draw more users into the fold in the next several years.

- **Invulnerability to fraud:** Cryptocurrencies cannot be copied, counterfeited, or revoked which protects consumers from the all-too-common occurrence of fraudulent transactions. No one can stop a payment once it has been sent and the value of the transaction is guaranteed.
- **Anonymity and Transparency:** Bitcoin allows for *complete* anonymity, something no other payment system provides. This anonymity can and has been misused for illegal purposes, but it also protects the buyer from potential identity theft. When you're both anonymous nodes in the system, no one can steal your credit card, bank account, social security number, etc.

WHAT IS THE MARKETER VALUE?

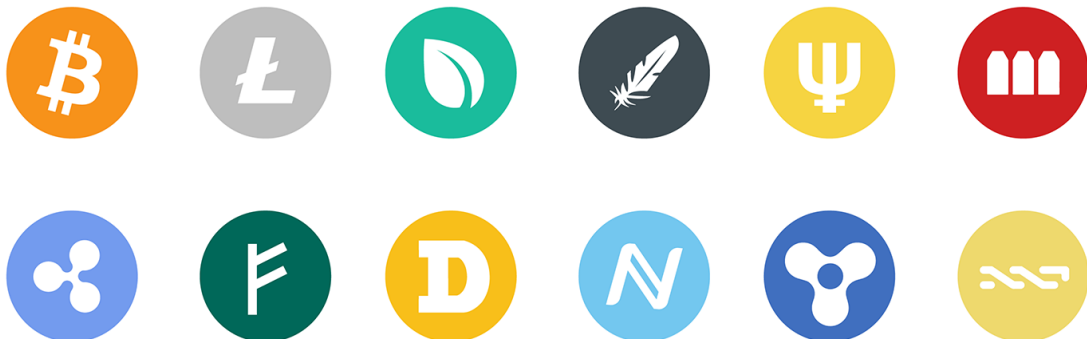
Bitcoin also has big benefits for merchants, several of which are more or less the same as those enjoyed by consumers, albeit in a slightly different way.

- **Invulnerability to fraud:** Much like consumers, merchants are often victims of fraud, but on a much larger scale. U.S merchants lose billions per year on credit card scams and counterfeiting and for every dollar of loss, they lose an estimated \$2.40 in merchandise replacement, chargebacks, and other fees. Bitcoin renders these theft techniques a thing of the past and could, in theory, save merchants billions.
- **Anonymity and Transparency:** Not only are Bitcoin transactions secure and irreversible, they do not include personal financial information, which frees marketers up from the headaches of PCI compliance. Note that merchants can still use online shopping accounts and loyalty programs in-store to mine and maintain CRM data—Bitcoin simply removes the factor of more sensitive financial data.
- **Streamlined Transactions:** Bitcoin is truly peer-to-peer, as streamlined as one person handing another a stack of virtual bills. Elimination of middleman means no waiting for transactions to clear through banking systems or to be approved by third parties. The seller of goods and services gets paid immediately—a huge benefit for businesses of all sizes striving to balance cash flow with expenses.
- **Cost savings:** Mobile wallet services take a small cut of the transaction from the buyer but merchant solutions usually take fees only when Bitcoins in a brand's account are cashed out for local currency. However, these are minuscule compared to the larger extraneous fees of banks, and credit card clearing houses. Once Bitcoin is used at scale as a common payment platform by consumers, it has potential to save brands substantial sums of money.
- **Open access to and for new markets:** Bitcoin's structure makes it invulnerable to fraud and manipulation by third parties, making it possible to enter markets where these issues have made doing business prohibitive. Many of these underbanked and unbanked markets are almost entirely mobile first, with populations already at ease with digital payments.

OTHER CRYPTOCURRENCIES TO WATCH OUT FOR

Many cryptocurrencies have been developed to serve the unique needs of specific industries. In general, these currencies are easier to mine, making it easier for more people to take part in their economies, but due to their smaller market, they are less likely to be accepted. Here are a few to keep your eye on:

- **Litecoin** is the second largest and most stable cryptocurrency and its claim to fame is that it is reportedly faster in processing transactions than Bitcoin.
- **DarkCoin** is based on the Bitcoin infrastructure but adds a more robust level of anonymity to blockchain ledger entries.
- **DogeCoin** is also based on Bitcoin infrastructure but has no cap on the number of units that can be produced so coins tend to be lesser in value than Bitcoin, which creates a lower bar for entry to new users.
- **PeerCoin** like DogeCoin, PeerCoin has no fixed limit on the number of units that can be produced and the process through which it is mined is designed to become progressively easier for participants over time.
- **PrimeCoin** is unique in that mining involves a process of searching for prime number chains that benefit the scientific community.
- **Potcoin** was designed to become the standard form of payment for the fast-growing cannabis industry.
- **Ripple** uses cryptography and blockchain to enable users to pay debts in a more open and flexible way (e.g. a user funds a Ripple account with dollars and the system makes a payment to a user halfway across the world in the form of a direct bank deposit for the same value in Russian rubles.)



A DIGITAL WORLD BUILT ON BLOCKCHAIN AND SMART CONTRACTS

No discussion of cryptocurrency is complete without mention of [Ethereum](#) and its potential to disrupt industries in terms of more than just payments. First and foremost, one must understand that Ethereum is not a cryptocurrency but rather a *platform*, though developers are required to purchase a proprietary cryptocurrency called Ether to buy rights to build on it. The Ethereum platform enables developers to build applications rooted in blockchain technology called “smart contracts”. These smart contracts, also known as *decentralized apps*, or **DAPPS**, are designed to execute a transaction when and *only when* certain criteria are satisfied (e.g. when specific information is verified, a required action is performed, an event occurs, etc.) The transaction itself can be monetary, but can just as easily be an exchange of services, products or information. The Ethereum platform acts as a backend for the smart contract which can then be integrated into a website, app or other form of digital interface to qualify and facilitate a transaction. With Ethereum consider a future in which:

- Your **insurance company** pays out for an accident without you having to actually file paperwork or deal with a claims processor.
- Your **bank** automatically verifies the origin, ownership and authenticity of an antique you want to buy all within the the digital purchase process.
- Your favorite **musical artist** offers you to the option to buy their new album straight from their website and it costs 75% less than usual since all proceeds are going directly to the artists—no more record label.
- That same **musical artist** automatically credits your digital wallet back \$0.05 every time you do something online to promote them (i.e., Instagram posts from their concert, shares of their videos.)
- Instead of listing your **apartment on Airbnb**, you put photos on Instagram and link to a smart contract that vets applicants, accepts payments and grants them remote access to your space, enabling you to keep all proceeds from the transaction.

All these scenarios are entirely possible now from a technical and practical perspective; for brands, the impetus is to figure out how smart contracts can be used to enhance the customer experience before it disintermediates them altogether.

CONTROVERSIES AND CAVEATS

It's important to acknowledge that the chief benefit of cryptocurrency (i.e., its decentralized nature), may also be its Achilles heel. Many believe that when Bitcoin launched in 2009, it was a response to the U.S. financial crisis at the time and today it poses a significant threat to the banking system that brought that crisis about. Consequently, the U.S. government is keeping an increasingly watchful eye on the Bitcoin ecosystem, ostensibly to monitor its use as a black market for trade in illegal goods, money laundering and terrorism, but also for its potential to undermine the dollar and upend the global financial system. Far off down the road though it may be, if a significant enough percentage of the U.S. populace were to abandon banks and the dollar for cryptocurrencies, the impact on our—and the world's—economy—could be catastrophic.

The IRS recently issued a summons to Coinbase, the biggest U.S. Bitcoin exchange, to release its records to route out tax evaders and this is likely just the beginning of government efforts to crack down on cryptocurrency before it is too late. Yet Bitcoin remains a global bull market with trading more active than ever and an exchange rate hovering at 1 Bitcoin to \$900 in U.S. currency. Many are speculating on the “Bitcoin Bubble” bursting thanks to government intervention, but the reality is that it would be near impossible for the U.S., or any government for that matter, to completely stem the tide of cryptocurrencies. After all, despite the best efforts of government agencies and powerful global brands, online piracy of content via peer-to-peer networks is as active as ever.

It is both interesting and encouraging that big banks are looking at Bitcoin and blockchain, the technologies that could, in theory completely disintermediate them, as an opportunity versus a threat. Many financial institutions are experimenting with blockchain technology in an effort to harness its efficiency and security for official transactions and IBM predicts that 15% of big banks will use it in 2017¹. With that in mind, perhaps the most pertinent question is not “will cryptocurrencies become mainstream?”, but “how can brands make efficient and legal use of them once they do?”



WHERE DOES BITCOIN FIT INTO OUR BUSINESS?

We're already seeing brands embracing Bitcoin, albeit on a small scale. The first verifiable Bitcoin purchase was made in 2010 when a Bitcoin miner in Florida convinced his local Papa John's to accept 10,000 Bitcoins in exchange for two pies. This historic purchase makes these the most expensive pizzas ever sold, since those same Bitcoins at the current rate of exchange are now worth roughly \$9 million dollars!

Six years later, Bitcoin is still far from mainstream, but many mainstream brands have embraced it. Today, you can use it to pay for anything from a Tesla to a sandwich at Subway, further proof that smart consumer brands are planning ahead for its inevitable mainstream adoption. Additionally, many other household names, including Dell, 1-800-Flowers, Whole Foods, and Gap, have adopted Bitcoin as a payment option. Though it is unlikely that cryptocurrency represents a significant percentage of their sales, they are well prepared for a future in which it might.

While cryptocurrencies are a *transactional medium*, not a marketing technology, media is moving inevitably towards a more transactional customer experience with shoppable units that support every aspect of making a purchase decision becoming commonplace. Most of these ads necessitate clicking through to a brand's site or app to complete the transaction with the only exception being holistic social systems like Facebook that support secure storage of a user's payment information. Bitcoin however, could enable a one-click-to-buy directly from any ad unit using one's Bitcoin wallet—something that Apple Pay and Android Pay cannot do at present given the way their technology is structured.

But would consumers do it? Signs point to yes, albeit under the right conditions.

MEC's recent Consumer Pulse Survey on Digital Payments, conducted in December 2016, revealed that 40% of respondents would be willing to buy directly from an ad provided they felt confident in the security of the payment methods provided.

We've seen no examples to date of a brand actually presenting click-to-buy-with-Bitcoin as a call to action in an ad unit, but we'll be surprised if we don't see this surface in 2017.

KEY TAKEAWAYS

Bitcoin is highly controversial, and of course, we don't have a crystal ball. Only time will tell whether it will explode or implode in 2017.

Regardless of its volatility, it is clear that cryptocurrencies like Bitcoin provide true value to brands and consumers alike. While the U.S government and others will attempt to regulate the ecosystem to whatever extent possible, Bitcoin is here to stay and its inherent characteristics (i.e., security, convenience, privacy) will have a strong impact on how any B2C brands (or B2B for that matter) make transactions in the future. At this point, it's prudent to map out the legal and financial logistics of accepting Bitcoin and other cryptocurrencies to ensure that if your brand chooses to embrace them in the future, it does so in compliance with any existing or potential government regulation. In short, it's a business decision versus a marketing one, but it may prove to be one of the most important business decisions your brand makes in the decade ahead. These early days are prime time to figure out the details and, if feasible, test and learn. Though it is wild west for now, it is likely that brands that take the calculated risks involved in experimenting with cryptocurrencies will reap considerable benefits from doing so over the long term.

RECOMMENDED READS

- [MEC Spotlight on Creating A Digital Payments Roadmap](#)
- [Wikipedia's extensive list of global cryptocurrencies](#)
- [CoinBase's "Explain it to Me Like I'm Five" 101 on Bitcoin](#)
- [The History of Bitcoin](#)
- [Satoshi Nakamoto, Bitcoin's Mysterious Founder](#)
- [Bitcoin as a Potential Threat to Central Banking](#)
- [Central Banks and the Opportunity of Bitcoin Technology](#)
- [Ethereum 101](#)
- [Ethereum vs. Bitcoin](#)

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