



Internet Economics

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Working in the world of digital assets and being able to provide an articulate thesis around the practical usability of various different crypto currencies has proven to be difficult. This is all set to change with the latest evolution of the internet. Web3.0 makes sense as a proxy for the unity of ideas that bring cryptocurrencies together into a coherent economic thesis, one with deeper philosophical and practical implications for the economy at large.

Expedited by the COVID pandemic, the Internet has become a larger and larger portion of people's daily lives. Within a little over 25 years the internet has connected 65% of the world's population with the average internet user now spending upwards of 5hrs per day online. That level of connectivity has become economically transformative. It is the architecture of the Internet itself that has now become a central economic question, as whoever controls the internet and is able to effectively process the flow of data it generates is able to make outsized economic returns.

Under Web 2.0 those economic spoils have flowed to a handful of major tech companies (Google, Facebook, Apple). One of the key themes of Web 2.0 was the idea that with ease of participation and personalization, people would sign up to the Internet on masse. The providers of these services made it easy for people to sign up, engage and divulge intimate details of their lives to their internet friends. This approach had two key benefits to the service providers, global economies of scale providing a service to billions of people at low cost as well as the data that would be derived from the user interactions on the platform.

The outsized winners were content aggregators and filters that benefited from the drive to join the Internet (such as Google) as well as the providers of Web 2.0 services, Facebook/Meta chief among them. One of the effects this created was an Internet that was centralized and followed many of the same economic rules as other sectors of the economy. Companies that grew up during this era raced to become public companies that traded on stock markets.

As these businesses have matured the level of innovation has slowed and they have remained focused on optimizing advertising revenue or fortifying the commercial moats they have created. Apples recent legal battles with Epic Games is an example of a challenge to the 30% revenue sharing model that businesses must pay to come to market via the iOS App Store. Questions are now being asked by the end consumer as well as Governments on how the massive amounts of user data are being used and how it is managed citing privacy concerns.

Taking a step back, we look to understand the principals of the current internet to apply a similar framework looking forward. The protocols that underpin communication on the internet, namely HTTP for web browsing, SMTP for email, VOIP for phone calls standardized the technological format for these very important internet-based functions. By applying a consistent configuration and structure to the underlying protocols, the technology and its application was able to grow rapidly allowing for today's world of seamless internet communication at near zero cost.

Blockchains

Blockchains are attempting to apply a similar standardized format for money and things of value on the Internet. The rails and pipes that underpin the global financial system of today are old and in desperate need of modernization. The protocols underpinning decentralized networks like Bitcoin and Ethereum are attempting to lay the foundation for a new global financial system. If successful, these protocols will ultimately remove friction and cost from financial transactions.

○ Underpinning Web 3.0

Underpinning Web 3.0 is the new and improved system of blockchains. Instead of having cloud services hosted by different companies providing the backbone of communications on the web, blockchains will further the Internet. This marks a move towards trusting all constituents of a network implicitly rather than needing to trust each individual explicitly and or seeking to achieve trust from a third party. The usability and personalization functionality will remain from Web 2.0, but individuals can become responsible for the self-custody of assets, services, and their personal data. Web 3.0 implies a greater set of responsibilities but also confers a larger degree of autonomy and censorship resistance for its users.

This has dramatic implications for the economy at large. Cash flows from the Internet may no longer be focused on centralized business models and advertising – but rather flow into different decentralized economic flows that might not be tied to nation-state based stock markets but rather different economic values – represented by digital coins and tokens.

There are pockets of the economy where you are starting to rapidly see this trend emerge. Of the 5+ hours per day we are spending glued to the internet a sizeable portion of that time is spent playing online games or watching user created content on sites like Tik Tok and YouTube. Global videogame revenue grew to USD\$175bn in 2020, led by a 24% increase in mobile gaming revenue. This makes the video game industry larger than the combined film and music industries. The video game industry has been very quick to move to blockchain technology by incorporating Non-Fungible Tokens (NFT's) into the gaming experience. NFT's provide the user the ability to monetise the time spent playing a particular game.

The Creator Economy is the formal name for a trend that began in Web 2.0, where people used internet platforms to express themselves online and build online communities. This space has grown enormously and led to the rise of podcasters, social media influencers, and content creators. The below graphic represents the growing Creator Economy and those businesses looking to monetise its growth.

The image displays a comprehensive grid of digital marketing and creator economy tools, organized into several key categories:

- Audience Curation:** Includes sub-sections for Content, Audio & Chat, Events, Live Streaming, and ChatPay.
- Audience Monetisation:** Includes sub-sections for NFT's & Social Tokens, Courses & Monetising Knowledge, Fashion Marketplaces, Brand Deals, Fan Interactions, and Live Shopping.
- Vertical Platforms:** Includes sub-sections for Fitness, Music, Podcasting, Art & Photography, and Gaming.
- Community Management:** Includes sub-sections for Tools, Membership & Donations, and Link in bio.
- Creator Tools:** Includes sub-sections for Web Builders, Audio & Video, FinTech, Tools in a box, CRM, and Design.

NTLER By Ollie Forsyth

Underpinning the growth of this new economy will require a robust, digitally native financial system. Using blockchains and digital asset coins and tokens for routing communications, money, and value can dramatically transform the economy as a whole starting from the Internet itself, and extending into every part of the economy.

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