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VIRTUAL VS PHYSICAL: WHAT ARE NFTS AND WHY ARE SOME WORTH MILLIONS?

Виртуальный против реального: что такое NFT и почему они стоят миллионы?

The purpose of the research is to study the market of non-fungible tokens and compare it with the physical one.

An NFT (non-fungible token) is a record on a cryptocurrency's blockchain (an immutable ledger that can record more than just virtual coins) that represents pieces of digital media. Invented a few years ago, it can link not only to art but also to text, videos or bits of code [1]. With the help of NFT technology, any digital objects can be bought and sold – music, image, 3D model, text, game item, etc. The essence of this technology consists in registering the ownership of a specific virtual object in the blockchain.

The reasons for buying an NFT are diverse. On the one hand, these purchase and sale transactions can be considered as a new way of collecting. In the future, the resulting works may be used to create various projects (e.g. video games). It is also a perfect way for talented, but still unknown artists, to promote their works. On the other hand, a buyer may just not be interested in, for instance, the painting being bought as in a piece of art. In this case, the buyer pursues only speculative goals.

It should be noted that prices on the NFT market are much higher than on the goods market. The record for the most expensive NFT ever sold (and one of the most expensive works of art ever sold) goes to «EVERYDAYS: THE FIRST 5000 DAYS». The painting belongs to a famous digital artist Mike «Beeple» Winkelmann and it was sold at Christie's for 69.3 million dollars [2]. That was the first time an auction house had sold an entirely digital work of art.

Thereby, the following advantages of the NFT market regarding to the physical one are identified:

1. Thanks to the blockchain platform, buyers can make sure that they own the original, but not copies from the Internet. On the physical goods market it is more difficult to track whether a person buys an original product or a fake one;

2. The author of the work receives a commission for each subsequent sale of their object, which is impossible on the physical market;

3. The uniqueness of each NFT token increases the possibility of selling it at a higher price when compared with the mass production of goods on the physical market;

4. The possibility of making a profit with the further commercial use of the NFT token (resale, creation of video games, etc.).

Of the disadvantages of the NFT market, the following ones are determined:

1. Low liquidity. Since the purchase and sale of all NFTs is made in cryptocurrency, it will require additional time to convert it into liquid funds. Moreover, all platforms for working with cryptocurrency withdraw a rather large percentage when withdrawing funds;

2. High risks. The price in the NFT market is formed by demand, the volatility of which is very high. Therefore, the chances of losing everything are also very high. On the physical market, goods are usually mass-produced, and limited collections are well adapted to the current demand, which reduces the likelihood that products will remain unclaimed.

Consequently, the market for non-fungible tokens can be compared to buying a painting by a famous artist or a product from a limited collection.

Thus, the NFT market is more suitable for trading unique goods in digital format. As the owner, a person has more chances to get a real assessment of the work of an artist and gets more income from its sale. As another interested party, this market is convenient for making profit through speculation due to the high volatility of demand. So, if a person has at least a little knowledge in this area and is not afraid to take risks, then building their business on this platform is a great option for them.

However, more traditional entrepreneurs who want to have a safety cushion, receive subsidies and investments, and have a direct connection with consumers should give preference to the physical market of goods and services.

References

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2. ТОП самых дорогих NFT из когда-либо проданных [Электронный ресурс] // BYTWORK.com. – Режим доступа: <https://bytwork.com/articles/nft-prodano#toc-1-everydays-the-first-5000-days-69-3>. – Дата доступа: 06.11.2021.