creativity culture & capital

NFTs: Understanding the opportunities for arts organisations
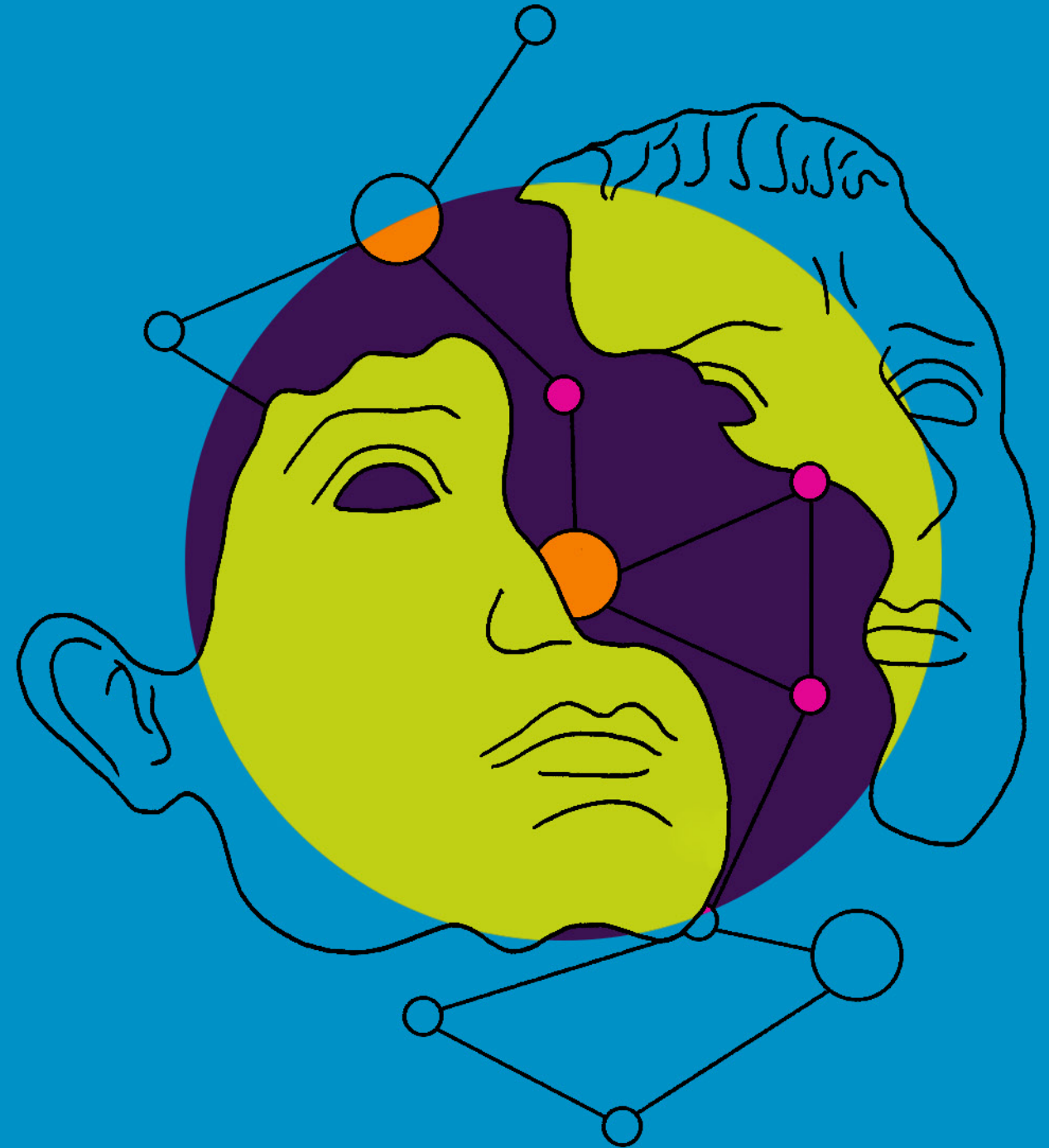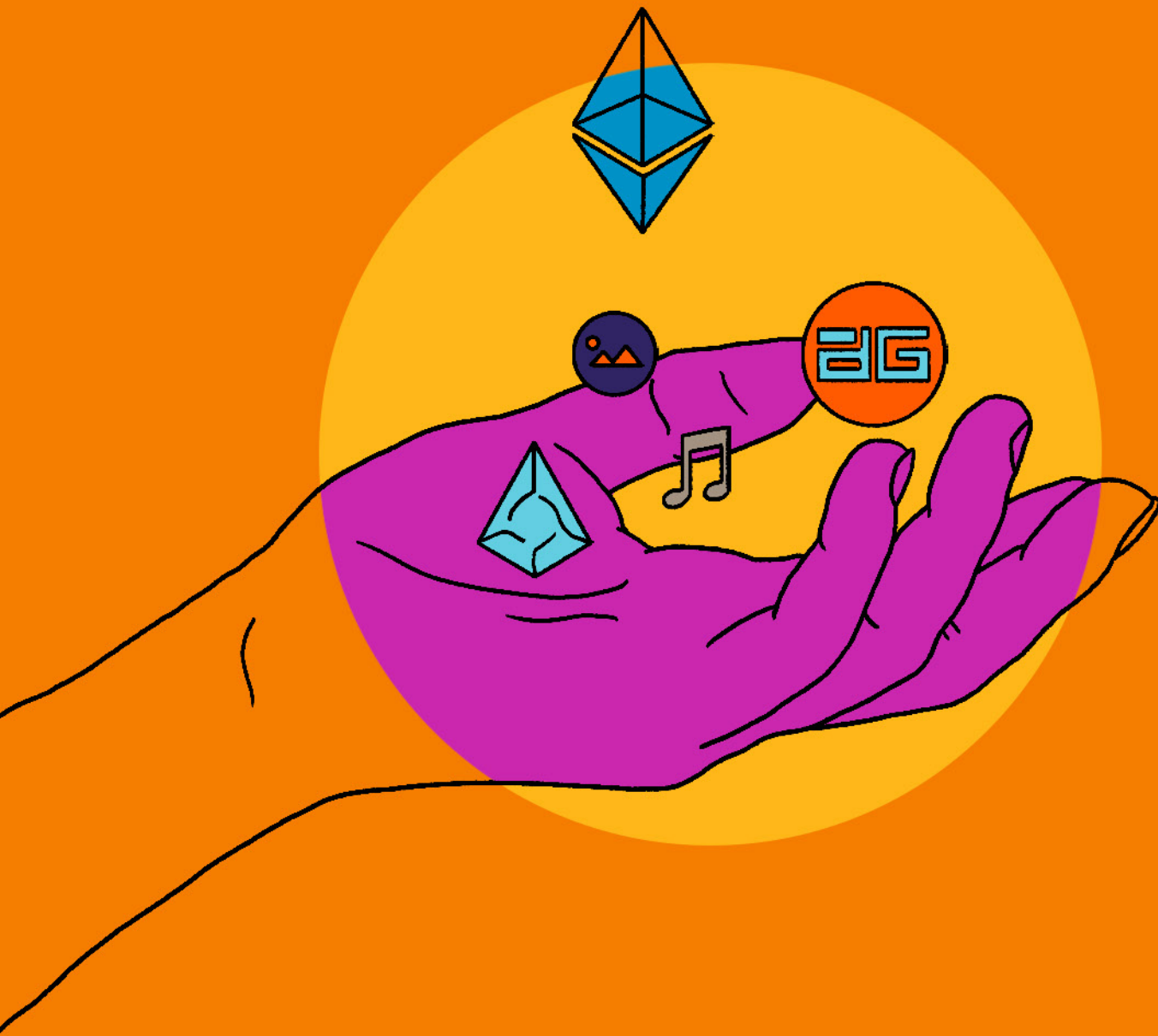
Introduction

NFTs have been championed as a way for artists and musicians to be discovered by and connect with their audiences directly, and a way to finance new work and for fundraising.

This is an early-stage overview of potential longer term opportunities for arts organisations in relation to NFTs. It identifies jumping off points for conversations, and provides NFT case-studies for inspiration. It is a highly volatile and rapidly changing market, which has evolved many times since commencing this research in March 2022.

The information for this short report was gathered using journalistic research which included desk research, attending conferences, and conversations with experts in London and LA in April 2022. It assumes some knowledge of NFTs – please see the glossary and further reading section if you need an introduction to the subject.

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Overview: recent trends in NFTs/Web 3

Blockchain technologies, decentralisation and token-based economics are concepts key to Web3 - an idea for a next iteration of the Web.

NFTs allow you to buy and sell ownership of unique digital items and keep track of who owns them using the blockchain. NFT stands for "non-fungible token," and it can technically contain anything digital, including artwork, animated GIFs, songs, or items in video games.

NFTs allow for on-going value to be ascribed to digital assets, allowing artists to be reumnerated every time their artwork is sold. They also allow for scarcity (because they are unique) and proof of provenance. (For more information please see the glossary and further reading).
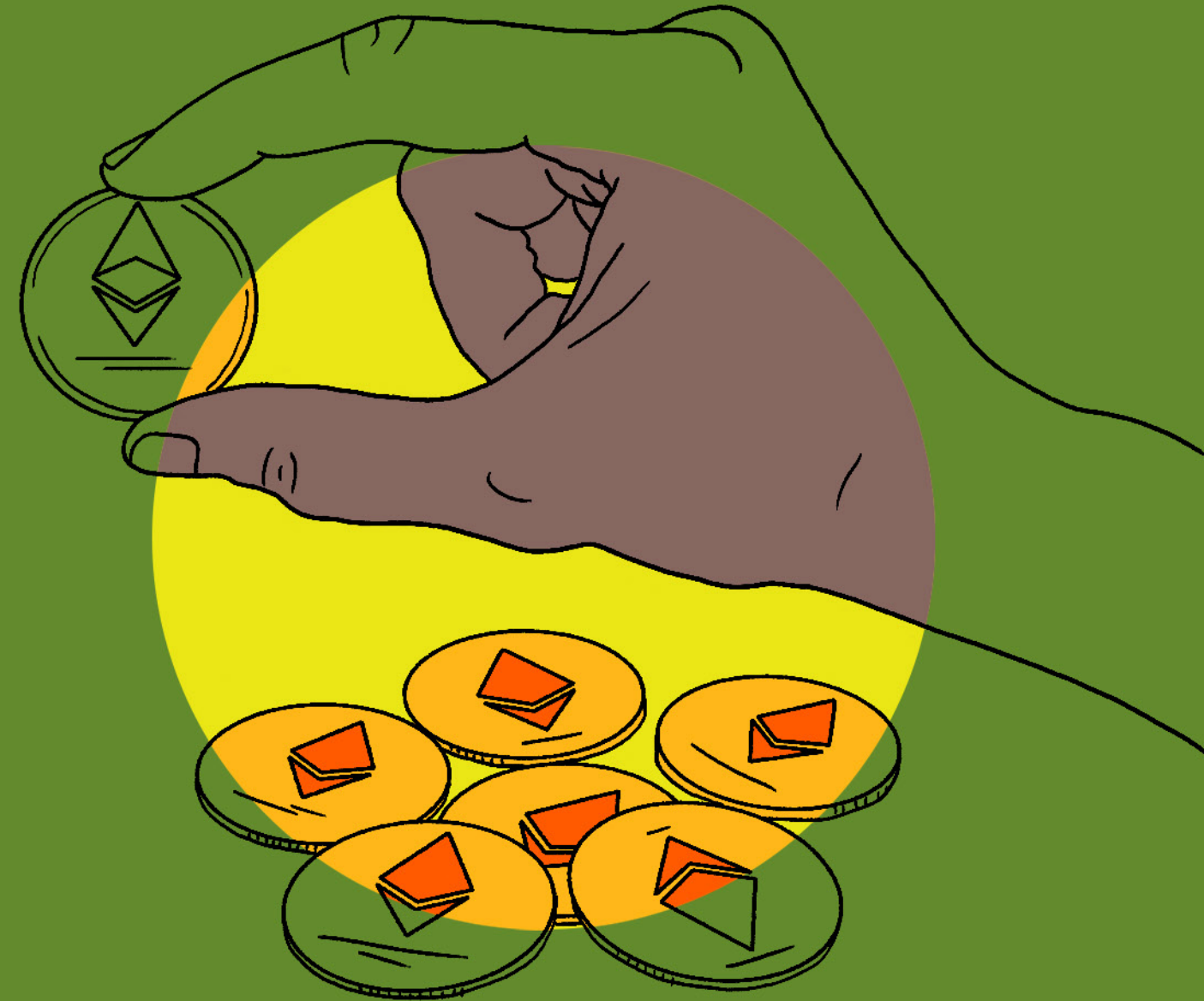
In 2021, NFTs achieved notoriety in the digital art world, eg with the sale of "CROSSROAD" by Beeple for $69m.

Creators have begun to attach wider benefits to their NFTs to add "utility'. For example, access to real-world events or an exclusive platform offering a high-tech fan club using NFTs for tiered membership benefits.

And once a paying audience exists, NFTs may become a new form of creative IP, giving creators the opportunity to license characters and sell movie/game rights.

Issues about sustainability and the carbon footprint of NFTs remain an issue. NFTS can also be misused and there are regular reports around plagiarism, theft, fraud scams and hacks.

"If the goal of getting into Web 3 is to make money, step back. We are at the start of a twenty year evolution towards online ownership versus being online renters. Over time the idea of one's virtual existence being as important as one's physical existence is very real. NFTs are just a technology that allows you to validate ownership online."

Keith Grossman
President of Time, New York

NFTs as a new funding model for arts orgs

Pros

- This is a time for experiments. Early use cases are promising and some NFTs have raised significant amounts of money. Underneath the hype lies technology looking for use cases to drive new audience engagement opportunities and business models, where NFTs have "utility".
- NFT smart contracts can allow artists to be remunerated for future sales (depending on the platform). This changes the economic model for creators.
- The growth of NFTs and Web 3/Metaverse tech needs to be closely watched and understood. It's predicted to transform our digital future, disrupting current content distribution and business models. Early models in the music industry are particularly interesting. Your organisation's core purpose, its audience and its budget will be key to deciding when the appropriate moment is to experiment.

Cons

• Digital art NFTs led to a hyped speculative bubble which has pretty
  much burst, with Ponzi scheme accusations.
• It's a high risk and rapidly changing landscape with emerging tech
  which has been impacted by the fall in value in crypto currencies. Arts
  organisations risk reputational damage unless the purpose and mode
  of their engagement with NFTs is clearly thought through.

"As a technology, NFTs have found a practical use in the digital art space where they enable artificial scarcity of artistic works. As more use cases are explored arts organisations should be on the look out for other applications of NFTs, and related technology, to drive new creativity, audience engagement or business models.

For the time being the enthusiasm for the novel needs to be balanced against the risks, both reputational, opportunity and technical of entering a volatile and nascent market built around emerging technology."

David Johnston
Lead Technologist, Digital Catapult, London

"The stage NFTs are at right now is reminiscent of when apps first became a big thing - everyone knew they wanted one, before really knowing what their strategy was.

First you need to examine how your brand and organisation will benefit and how you'll reach and engage your intended audience... or maybe it's just fine to jump right in and experiment in this way?"

Karl Wooley
Global Realtime Director,
Framestore, London

NFTs for audience growth

- Although when the tech fades into the background, this will change, people buying NFTs today are likely to be crypto-enthusiasts. Creating a wallet is very technical.

- This may enable arts orgs to reach to a new, younger and global audience. But to be successful NFTs must currently meet the needs and demands of a "techie"/crypto-enthusiast audience.

- Artists/creators may use different channels from their audience (Instagram versus Discord), which can create challenges around connecting with an NFT audience.

- Launching NFTs requires publicity and marketing campaigns - using social media platforms and press. This should not be under-estimated.

- Audience data for NFT collectors is limited - audience insight will need rethinking. This will currently pose a particular challenge for organisations required to collect data for diversity/inclusion targets.

- IP is still complex for NFTs - what audiences actually own may be confusing to consumers. Also complex for contracting. Legal challenges likely.
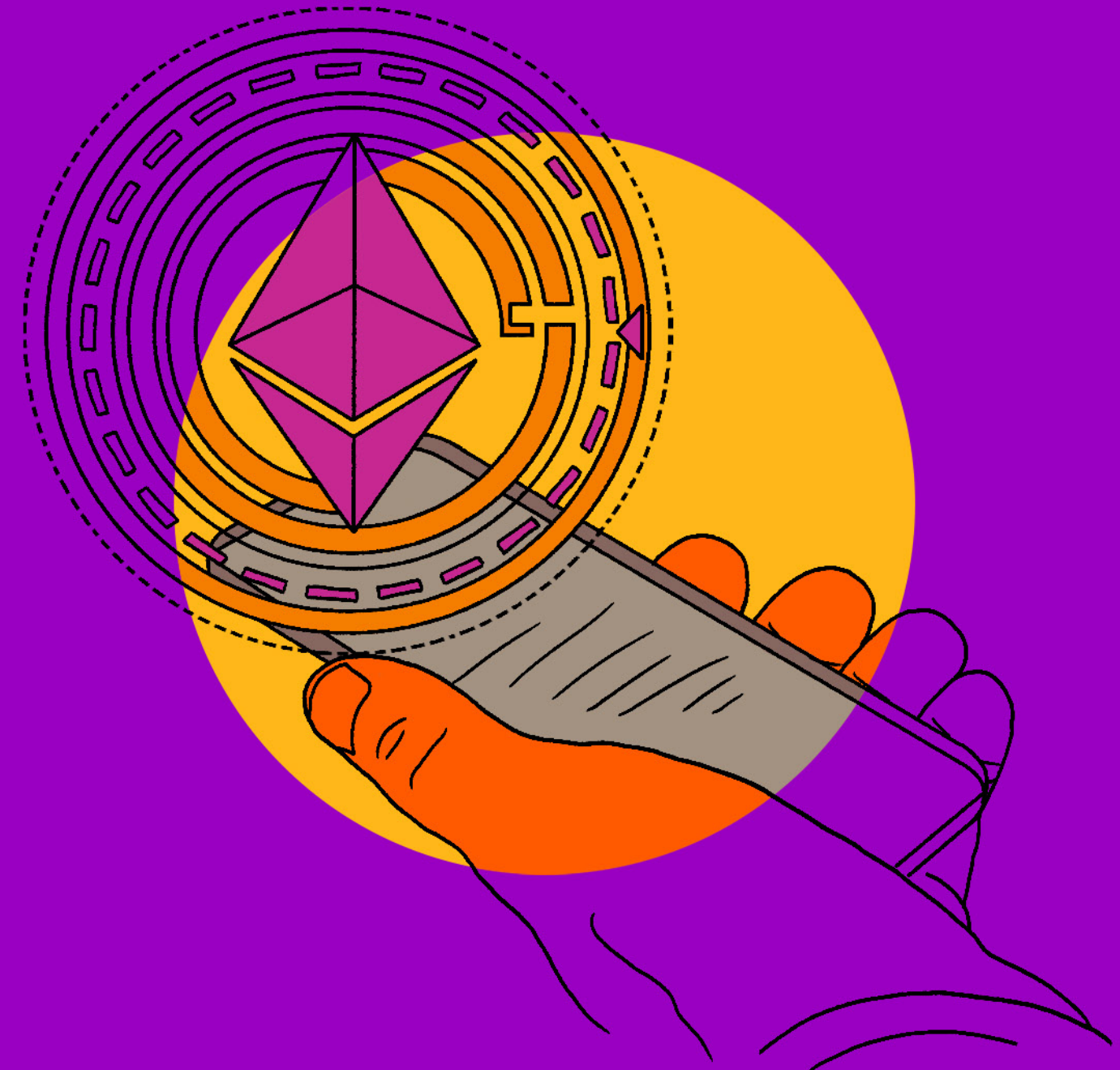
"In comparison to traditional media, the audience participating in NFT launches and communities can definitely feel harder to understand, segment and reach. An added challenge is this audience is evolving as the market changes, and they are learning about what has value to them and their community at the same time as the creators who are experimenting – there's no fixed formula for success. As with any dedicated fanbase, they will need to be reassured that their investment (emotional as much as financial) is in safe hands – that creators are aligned with their values and that their expectations will be met."

Katie Grayson
Executive Producer - Games, Real-time,
Immersive Passion Pictures, London

NFTs for community/fan engagement

- There are interesting examples of NFT-led projects being used to develop communities, including journalism projects such as Time Piece. But managing a community requires resources. Time has seven moderators to manage their "Discord" - the platform where members of a DAO usually connect.

- "Tokenisation" of tickets and other assets is leading to some interesting experiments for fans, particularly in the music industry.

- "Value based " communities developed for the long term most likely to be successful. "Greed based communities", focused only on profit, unlikely to work.

- DAOs rarely live up to their utopian ideal and can be unruly, difficult and expensive to manage. Some artists have retreated from social media after being attacked by their DAO.

- Big questions remain about the role of the DAO in decision making for NFTs used to finance creative projects. (You can't make films/ games by committee).

"NFTs provide a way for creators to potentially delay going to a centralised system and hold onto their IP for a while. Growing a small audience (up to 10,000) can be useful to stress test your world.

The promise of NFTs is you can directly talk to your community and directly monetise.

Mints can go horribly wrong in a multitude of ways. But that's when the work starts. It's a full on job running the community and most people aren't prepared."

Diana Williams
CEO and Co-founder at Kinetic Energy
Entertainment, Los Angeles

NFTs and the environment

The greatest criticism of NFTs is the substantial energy consumption of the Ethereum blockchain, on which NFTs were first invented.

In September 2022 Ethereum migrated to a new architecture that increases transaction speed and capacity and decreases energy consumption. However, any arts org considering an NFT launch should be aware of the environmental concerns and consider how to mitigate these.
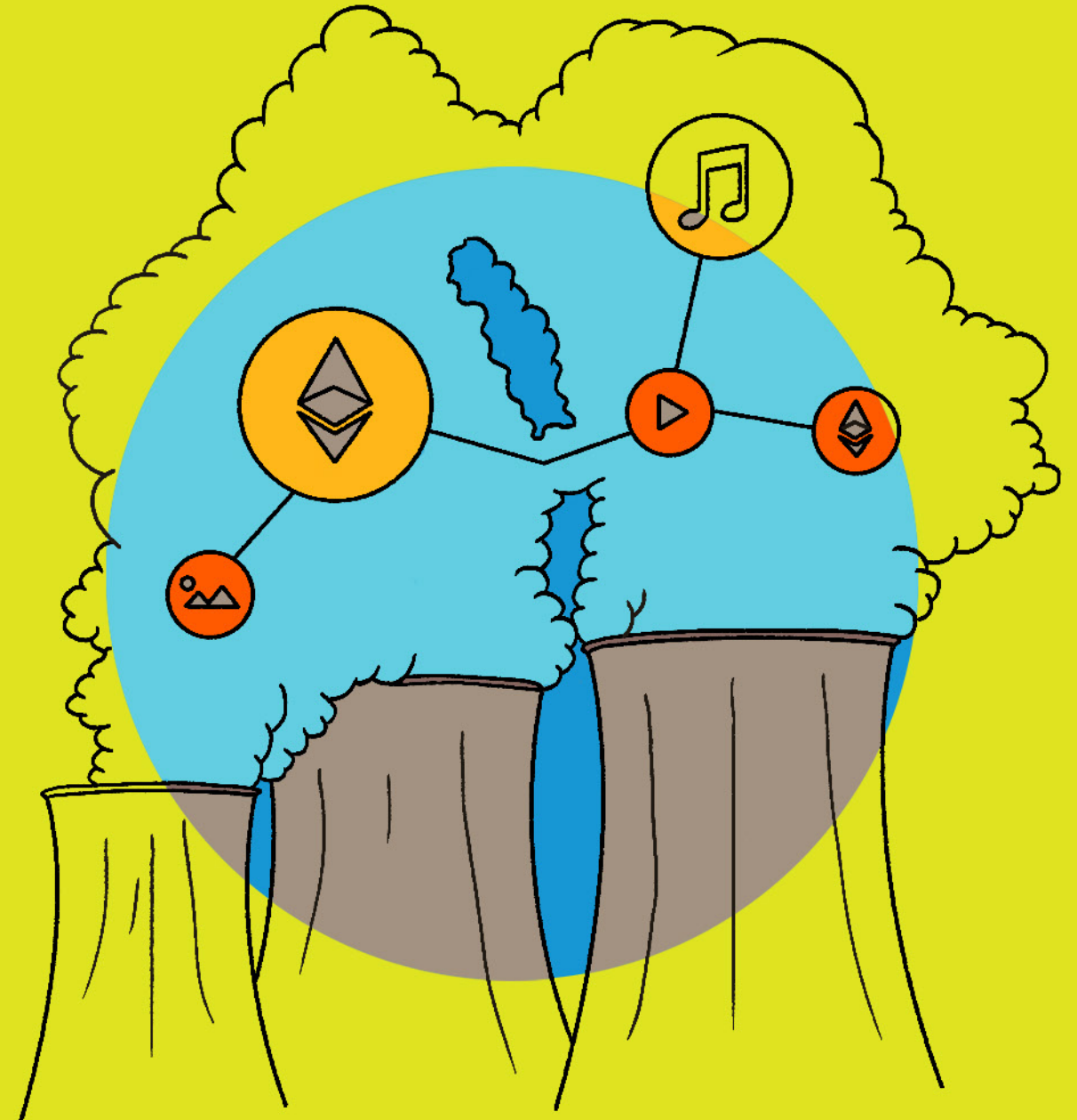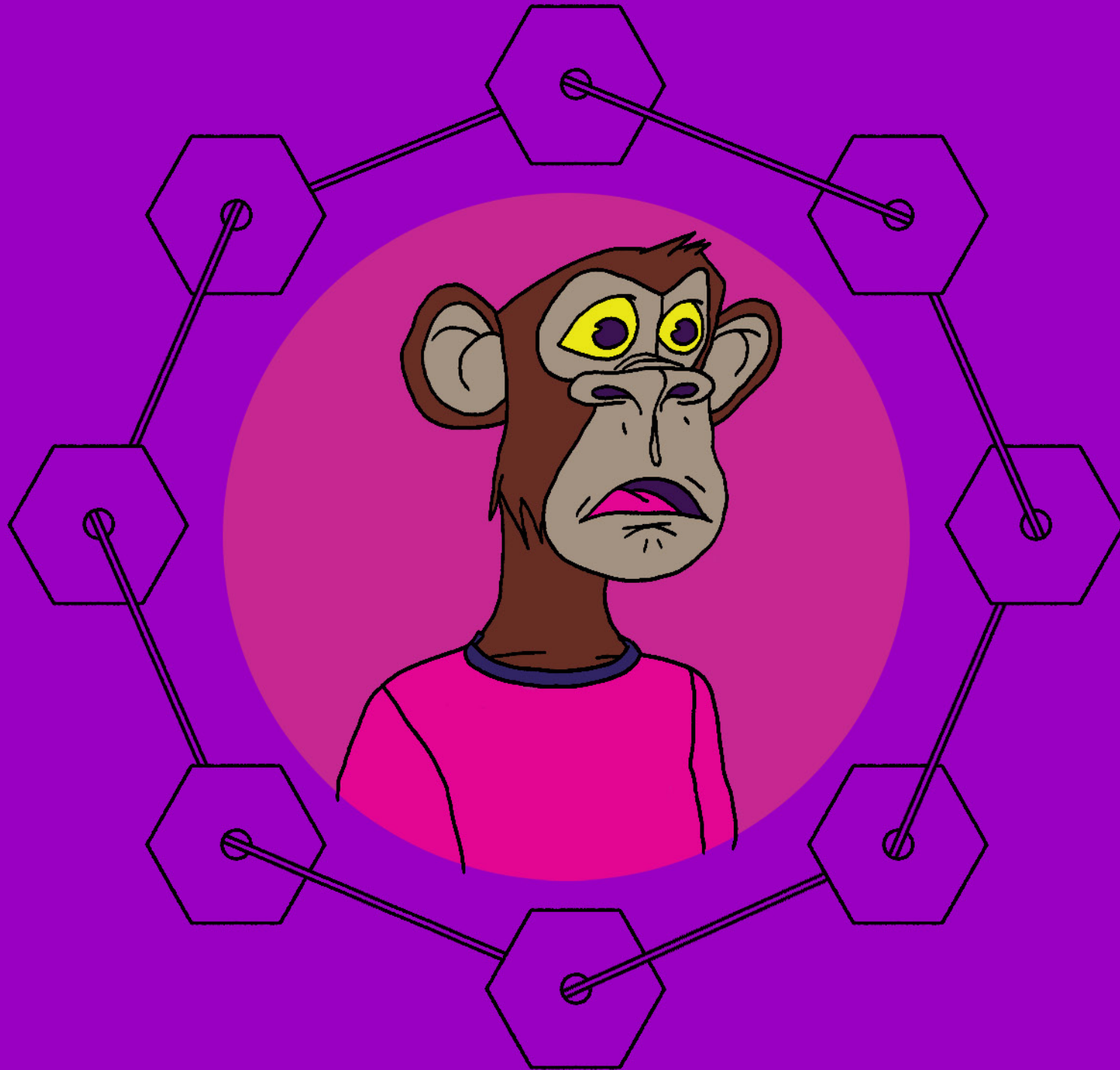
Case studies

Case study:
Bored Ape Yacht Club
NFT art - PPP
collections (personal
profile pics)

Bored Ape Yacht Club
Photo credit: boredapeyachtclub.com

Bored Ape Yacht Club, modified by CoinDesk
Photo credit: coindesk.com/markets

Bored Ape Yacht Club

• Artist All Seeing Seneca created the visual look of the Bored Apes.

• A computer algorithm then created 10000 unique variations of those original drawings.

• Each Ape is unique, some have rarer combinations of attributes than others.

• Over a billion dollars of Apes have been traded since launch.

• Seneca is the creative lead behind BAYC and as such receives the profits/royalties every time a sale is made. (Smart contracts make this seamless)

• The universe has expanded with a currency called ApeCoin - members can use this to buy BAYC unique merch.

Crucially, Bored Apes provided "utility" – you can use your ape to front a brand (beer), start a band, or launch a game – for as long as you own that ape, you can do what you want with it. IP fully transfers from the creator to the buyer at purchase — allowing BAYC owners to make money directly from licensing and any derivative works — blurring the lines between fan, creator, and investor in a way that is uniquely Web3.

Because of how Blockchain works, you can communicate and launch online access, accessories, additional apes etc to your membership incredibly easily. It's a custom-built community "DAO" with some very high profile members and a very high price point to join.

Case study:
Time Piece
NFT art - new revenue/ new audiences/ community for Time Magazine
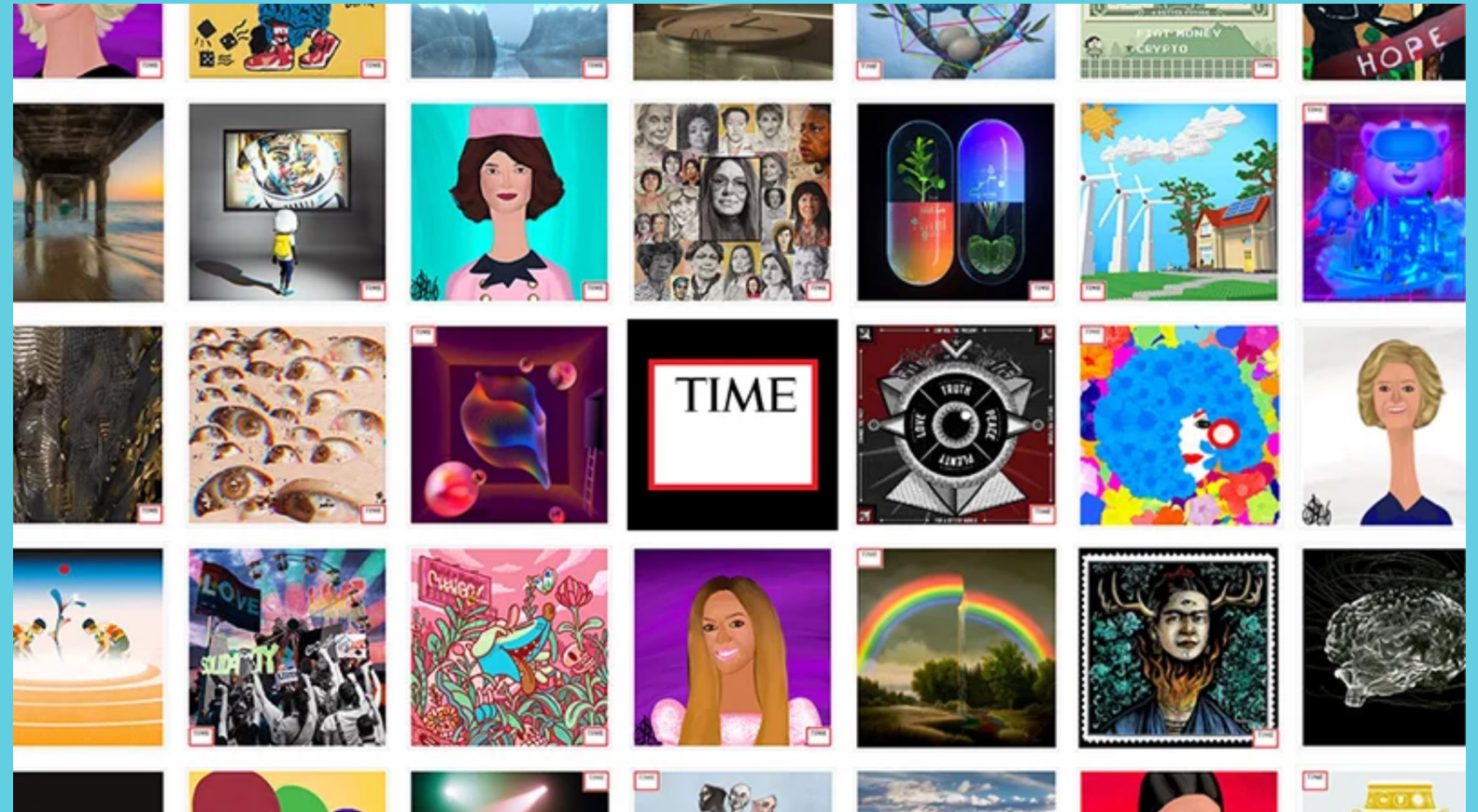
Time Piece
Photo credit: time.com/collection/timepieces-nft

Pussy Riot, 2012
Photo credit: time.com/collection/long-neckie-women-of-the-year

Time Piece - NFT-led Web 3 community strategy

Time has run by far the most successful NFT sales of any publisher, bringing in profits of over $10million.

20,000 NFTs minted so far include historic covers, new art and music videos.

Time describe it as a community initiative - NFT collectors can access Time's paywall content via their wallet, attend a weekly "town hall" meeting about editorial priorities and access special events. NB there are privacy advantages for collectors - they do not need to hand over personal data to have access to the paywall.

Time Web 3/NFT strategies:

• Focus on fostering a value-based community with collectors.

• Building a community of artists and uplifting them with the Time brand.

• "Value-based "communities developed for the long term most likely to be successful. "Greed-based communities", focused only on profit, unlikely to work.

• Time also invest in NFTs (including a Cool Cat) and have a "Block chain to the big screen" strategy developing IP for TV shows with Time Studios.

Case study:
Aku
NFTs for content development/ financing
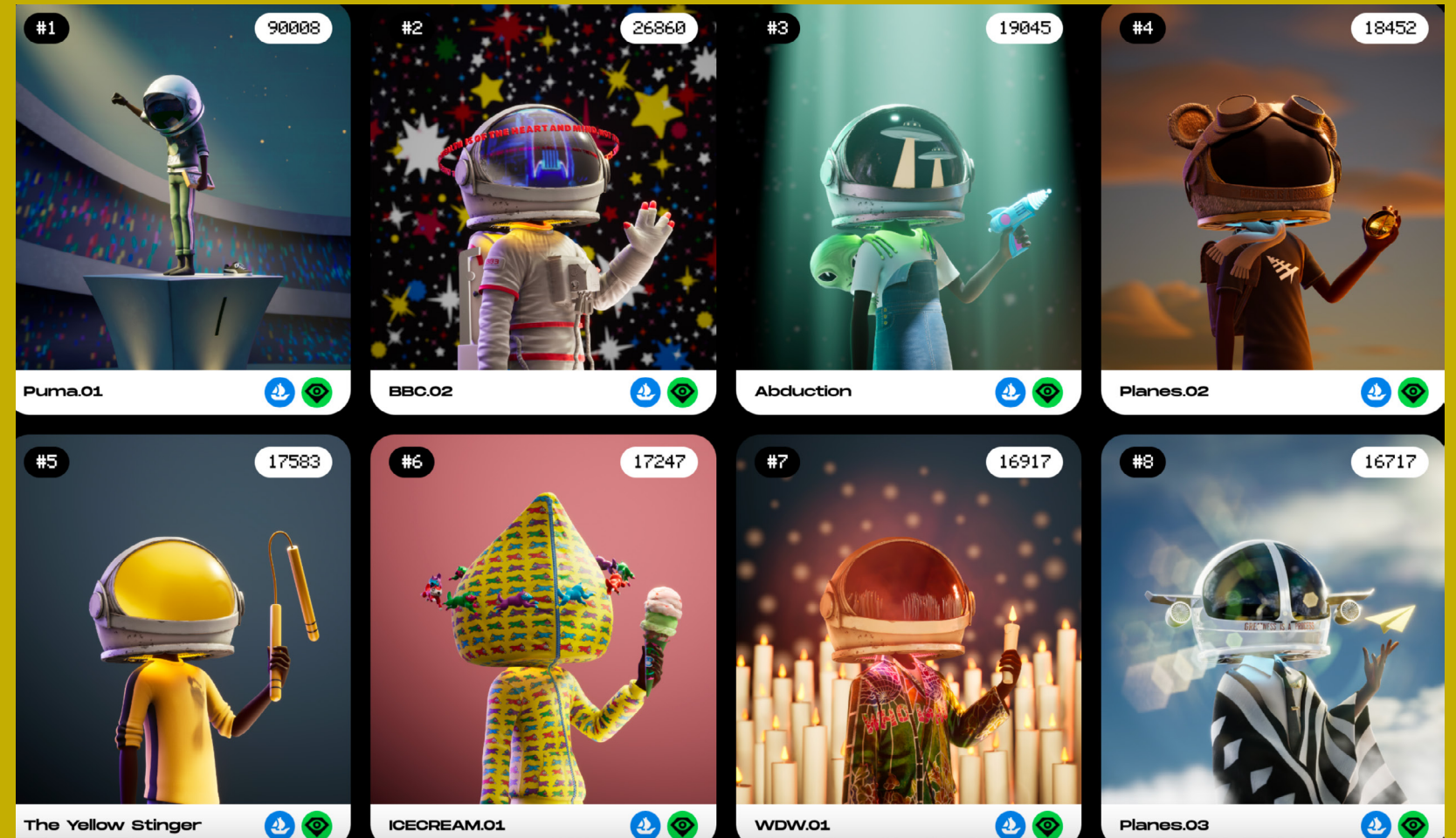
Aku characters
Photo credit: www.aku.world

Aku characters
Photo credit: www.aku.world

AKU - community led IP development

Micah Johnson's Aku features a young boy who is black and has dreams of being an astronaut.

3D animated NFTs were dropped with short animations released in ten "chapters". (Due to a terrible mistake $34 million was lost because of a Smart Contact issue - but this actually raised the profile of Aku.)

A small black crypto community mobilised behind Aku at launch and told the world 'This is a character we want in the world," observed Johnson.

AKU holders don't fully own IP - it's more of a shareholder model. But they have votes.

Aku invites its community to help develop the characters' stories. Aku offers a different conception of the creative process: one in which dedicated fans and stakeholders get to be "in the room where it happens." According to Aku's Discord server, "verified" Aku NFT owners will be able to gain access to private channels where they will be able to chat with Johnson and help decide character and story elements.

Deals are being sought with Hollywood for movie rights - but the character stories and world are being developed by the Aku community.

Photo credit: diymag.com

Case study:
Music Venue Trust
NFTs for music fans and
venues that launch bands

VATOM are developing a model to ensure that small venues who help launch bands can benefit from future success.

Tickets become NFT tokens. When you get to the venue a QR code will deliver proof of presence. If the NFT ticket later gets sold (because the band becomes famous) a royalty can go back to the venue and artist. (At the moment tickets/posters from early gigs can become hugely valuable but the venue doesn't benefit).

NFTs can also be used as a reward system to encourage audiences to attend gigs - eg offering competitions.

Case study:
NFTs for music festival experiences VATOM/ ELROW Madrid

VATOM developed an NFT-focused digital wallet, accessible through the festival app, providing a seamless web-based experience for ELROW Madrid.

Via their wallet, fans could unlock:
• Collectable NFT posters.
• Virtual scratch cards with winners getting VIP access (this was to encourage people to turn up early).
• An augmented reality (AR) egg hunt on the festival grounds to gain access to exclusive offers/prizes.
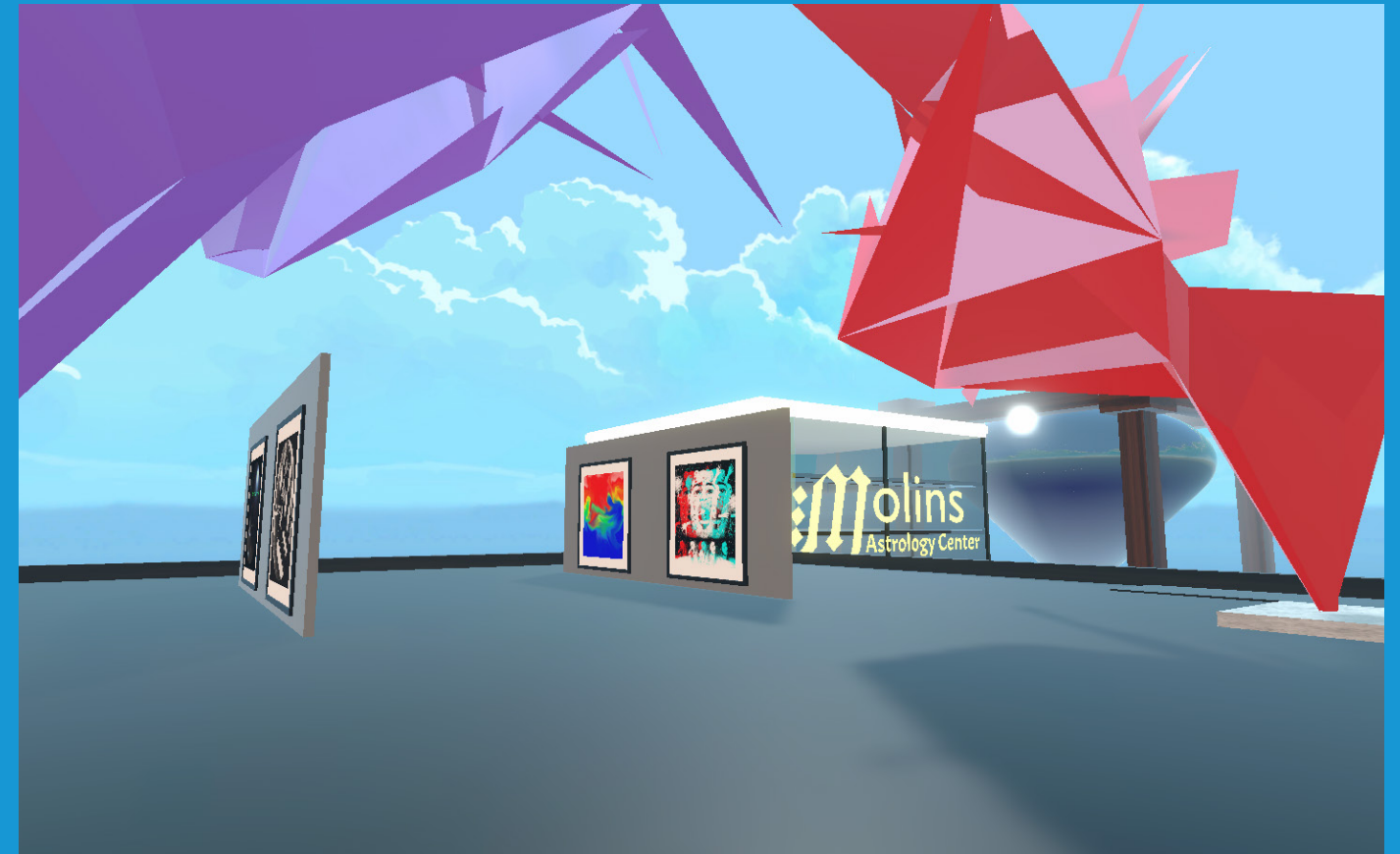
Together they generated hype, distributing roughly 50,000 VATOM Smart NFTs and 500 AR eggs amongst 35,000 attendees.
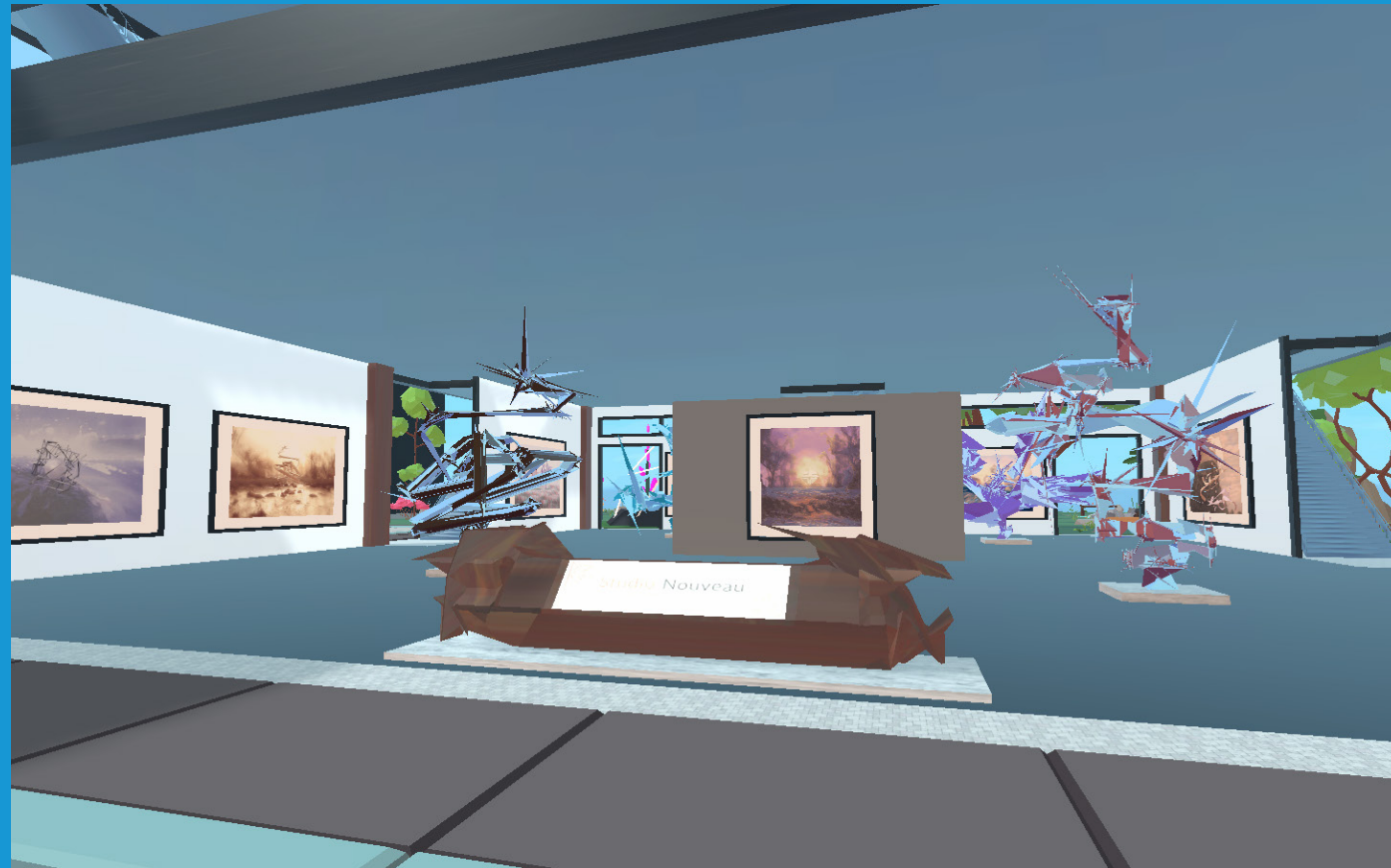

Elrow NFT
Photo credit: https://mpost.io/vatom-joins-elrow-for-european-music-fest-expansion

Case study:
Virtual museums
for NFTs

Studio Nouveau Art Gallery In Decentraland
Photo credit: nftplazas.co dio-nouveau-art-gallery-in-decentraland

Studio Nouveau Art Gallery In Decentraland
Photo credit: nftplazas.co dio-nouveau-art-gallery-in-decentraland

Virtual museums for NFTs

• A number of virtual museums/galleries have been launched for NFT collections in the Metaverse, eg in Decentraland. This provides a neat link between NFTs and the Metaverse. Business models/audience desire remain unclear.

• Some UK museums have launched NFTs, notably the Whitworth Gallery in Manchester, to fund social projects. Their approach is a model in transparency - they make clear their purpose and the risks, and have taken account of environmental concerns.

• The British Museum launched NFTs in partnership with LaCollection. It appears to be a development/marketing led scheme. Questions might be asked about how this squares with a "public collection" and curatorial priorities.

Glossary of technologies/terms

Blockchain   →

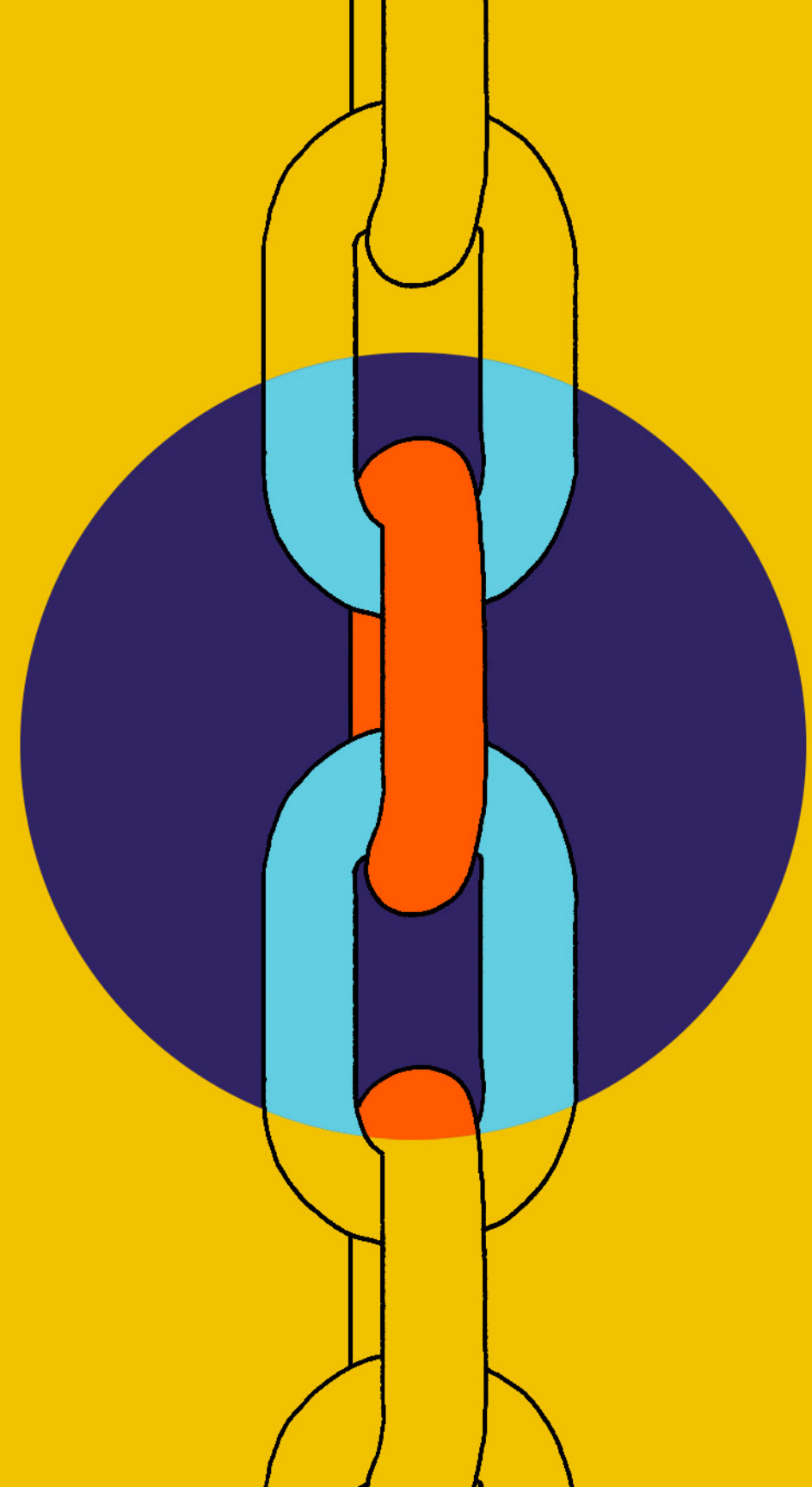Crypto   →

Smart Contracts   →

Minting   →

Fungible/Non-fungible   →

NFT   →

DAO   →

Blockchain

A way of storing information that is considered to be secure/immutable.

• The information is stored in chunks (blocks) that are added to the previous "block" (a chain).

• It's distributed – information is transmitted to huge peer-to-peer networks. The network performs calculations to prove the validity of the entry or transaction.

• These validated transactions are grouped together to form the "blocks" which are "chained" together – a history of transactions, validated by a lot of computing power.
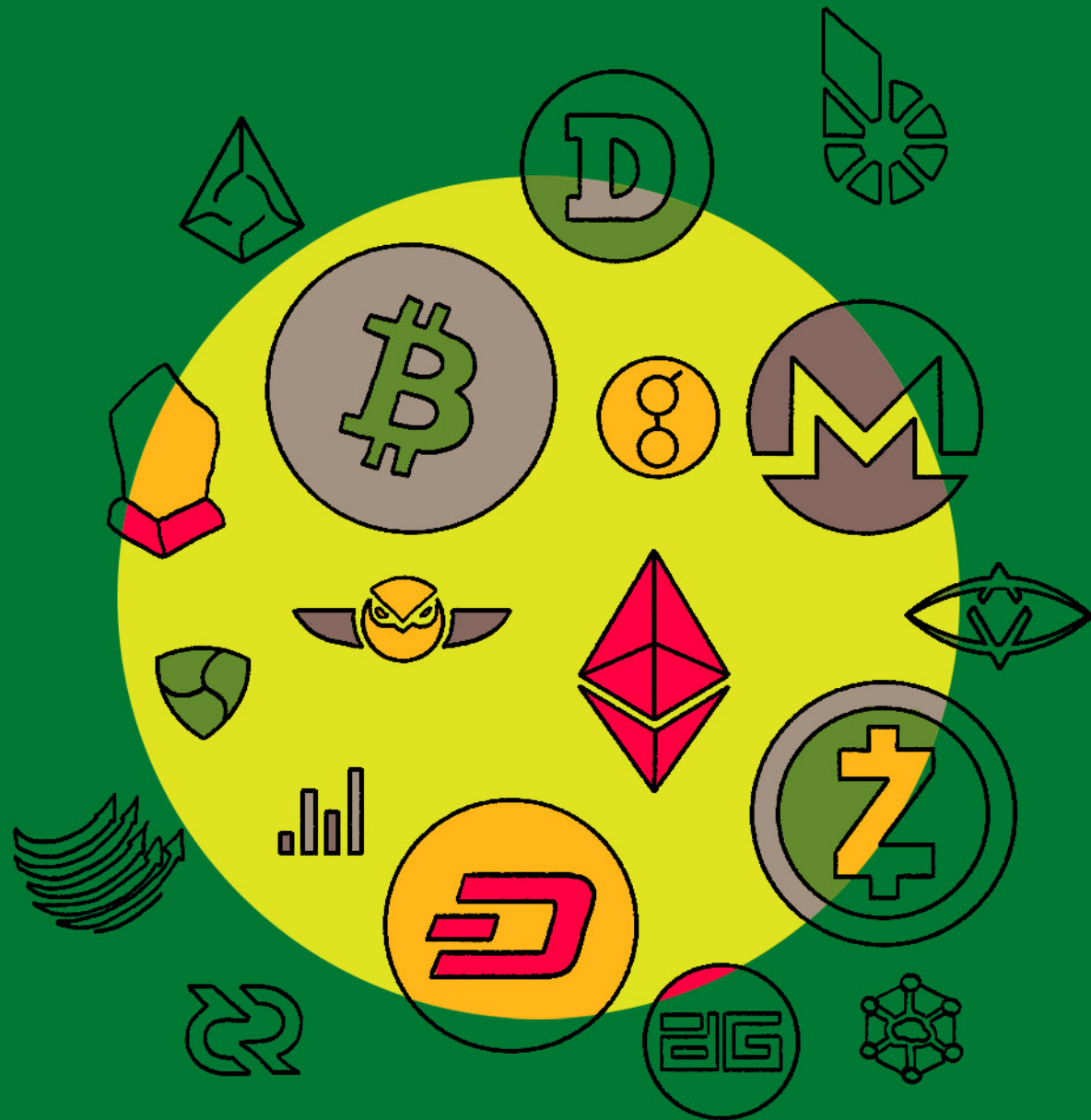
Cryptocurrency

Cryptocurrency was born out of the idea of a true peer-to-peer currency system that used blockchain technology.

• Beyond the control of any person, company or government.

• Constantly tracked and verified.

• Bitcoin is mined as incremental rewards for contributions to the ledger calculations.

• Bitcoin is finite.

Beyond currency - smart contracts

Ethereum is slightly different – it isn't just a cryptocurrency. Ethereum blockchain allows coding to build the equivalent of blockchain/crypto based "applications" beyond just currency – "Smart contracts" that allow in-game purchases, digital items, especially NFTs.

Smart contracts (written in computer code) are digital contracts that are programmed to execute when preset conditions are met. They are considered "smart" because they can automate any type of transaction, no matter how complex it is. In short, without an intermediary like a bank, smart contracts can automatically execute agreements such as loans, sales, royalty payments and other financial transactions, in a way that is both trackable and irreversible.
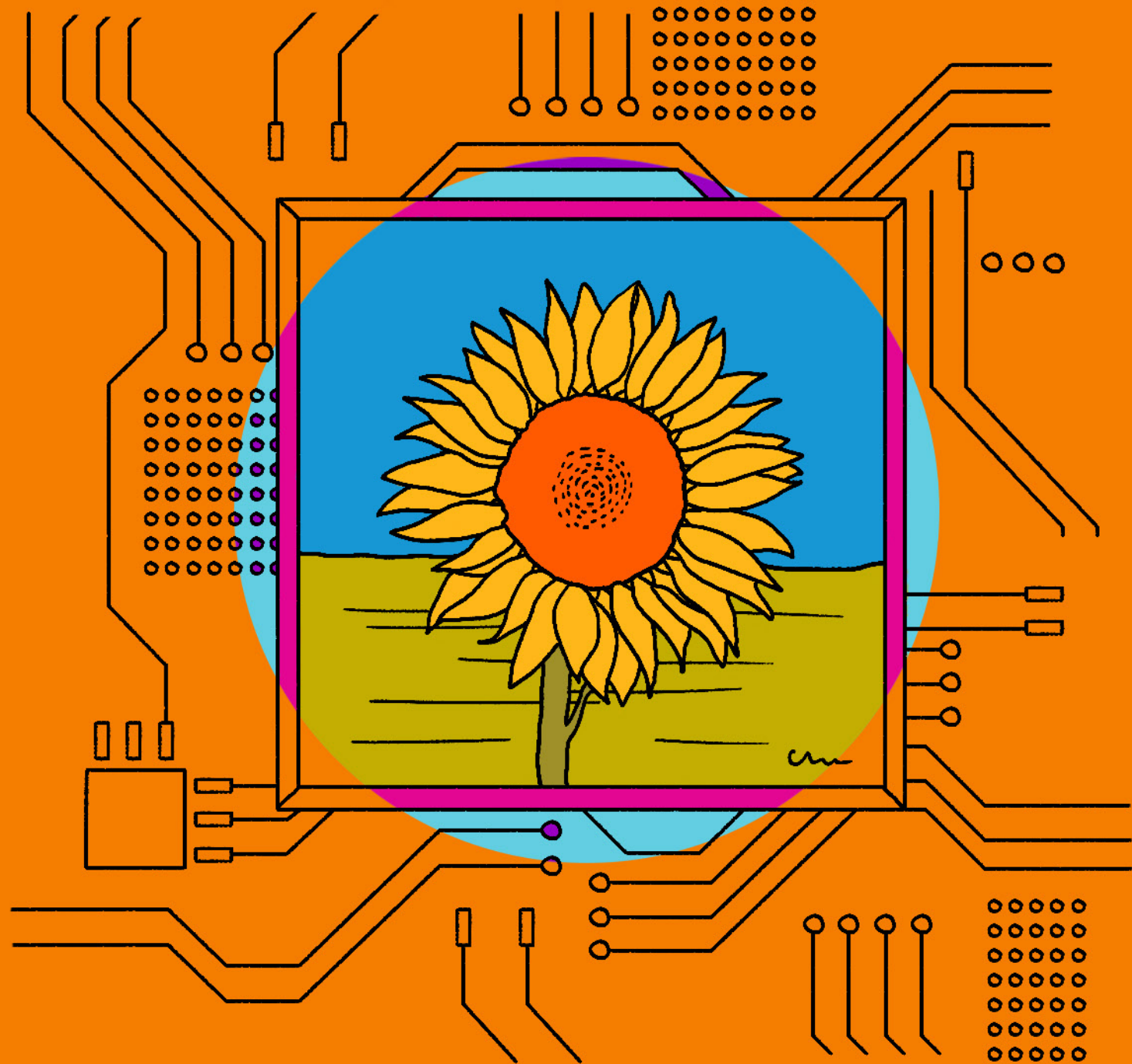
Minting

- When someone "mints" an NFT, they create a unique digital version of the work as a data file using blockchain. An NFT issuance may consist of a single NFT, or may involve thousands or millions of tokens.

- The minting process is decentralised, allowing anyone to create crypto without the need for a central regulatory authority.

- Some blockchains are very slow to execute which can open applications/transactions to all kinds of security and stability problems.

- Once minted, NFTs cannot be edited or deleted - that's why they are considered "secure'. But this also means that human errors cannot be corrected.

What is fungible/ non-fungible?

CRYPTO CURRENCIES are fungible

• Each bitcoin is the same as any other bitcoin.
• They can be exchanged for other currencies.
• That's why they work as a payment mechanism.

When we create a NON FUNGIBLE TOKEN it becomes something indivisible and unique

• Those smart contracts contain specific information that makes each NFT unique.
• It has RARITY, UTILITY and AUTHENTICITY built into its creation and coding on the blockchain.
• It allows you to identify, validate and offer services to owners very quickly.
• You can attach digital assets - images, video, 3D models, songs.
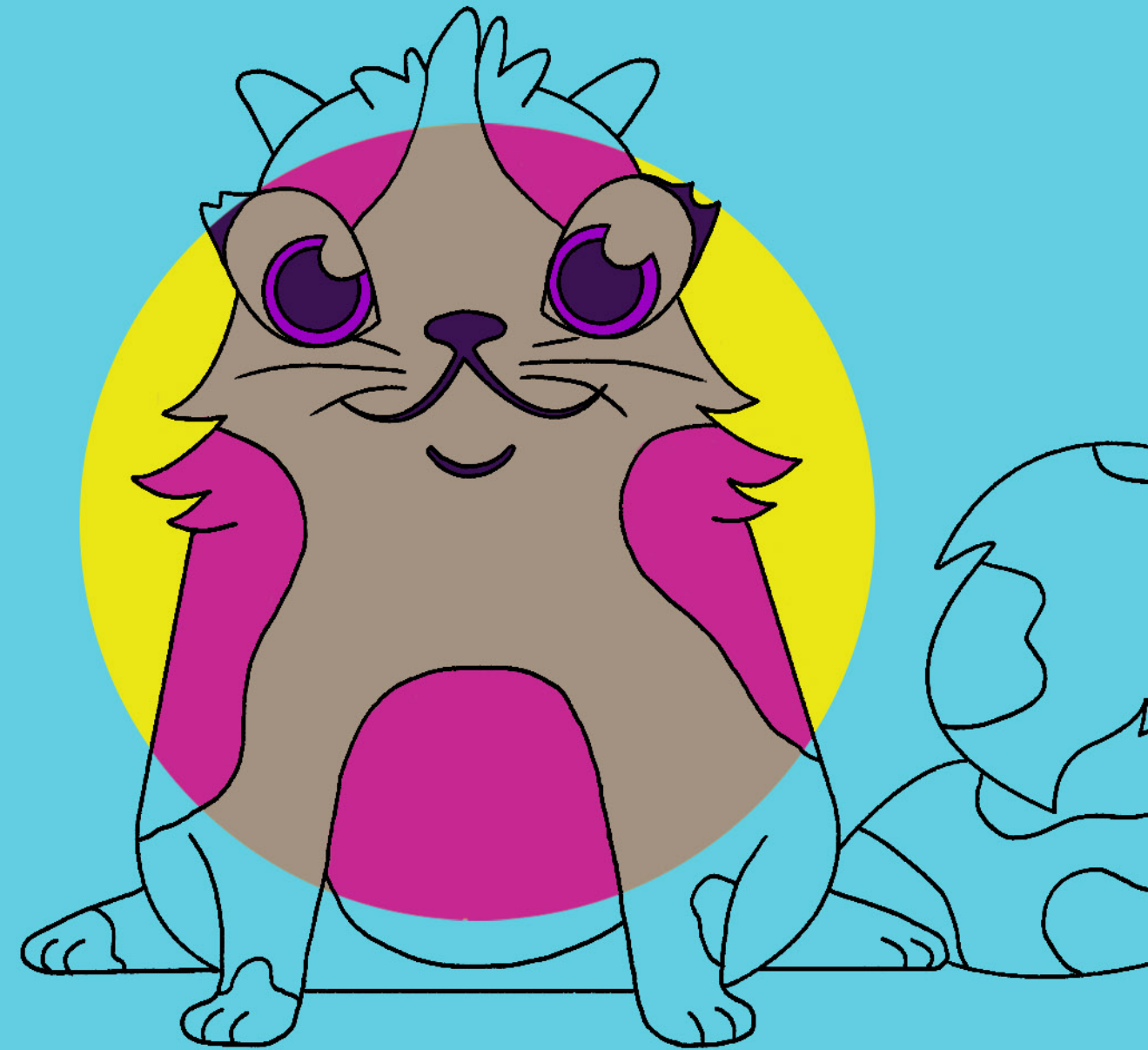
DAO - Decentralised Autonomous Organisation

A DAO (very much a part of crypto-culture) is a group of people who come together without a central leader or company dictating any of their decisions. All votes and activity through the DAO are posted on a blockchain, making all actions of users publicly viewable.

DAO members often have the ability to vote on decisions that are made around how the pool of money is spent and managed. These groups can be made up of people from around the world, who often communicate on Discord channels. DAOs are often associated with NFTs - purchase of an NFT can lead to DAO membership.

Further reading

EU Policy paper on Metaverse (2022)   →

Citi: Metaverse and Money: Decrypting the Future (2022)   →

BCG: Corporate Hitchhikers Guide to the Metaverse   →

NewZoo: The Metaverse, NFTs and Blockchain   →

Freakonomics Radio - What can Blockchain do for You? (2022)   →

BBC Click - Could NFTs change how Hollywood funds its films?   →

NFTs: The Global Legal Impact, Clifford Chance (2022)   →

Crypto Collectibles, Museum Funding and OpenGLAM:
Challenges, Opportunities and the Potential of Non- Fungible
Tokens (NFTs), Appl. Sci. 2021   →

Thank you

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For further information please contact:
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