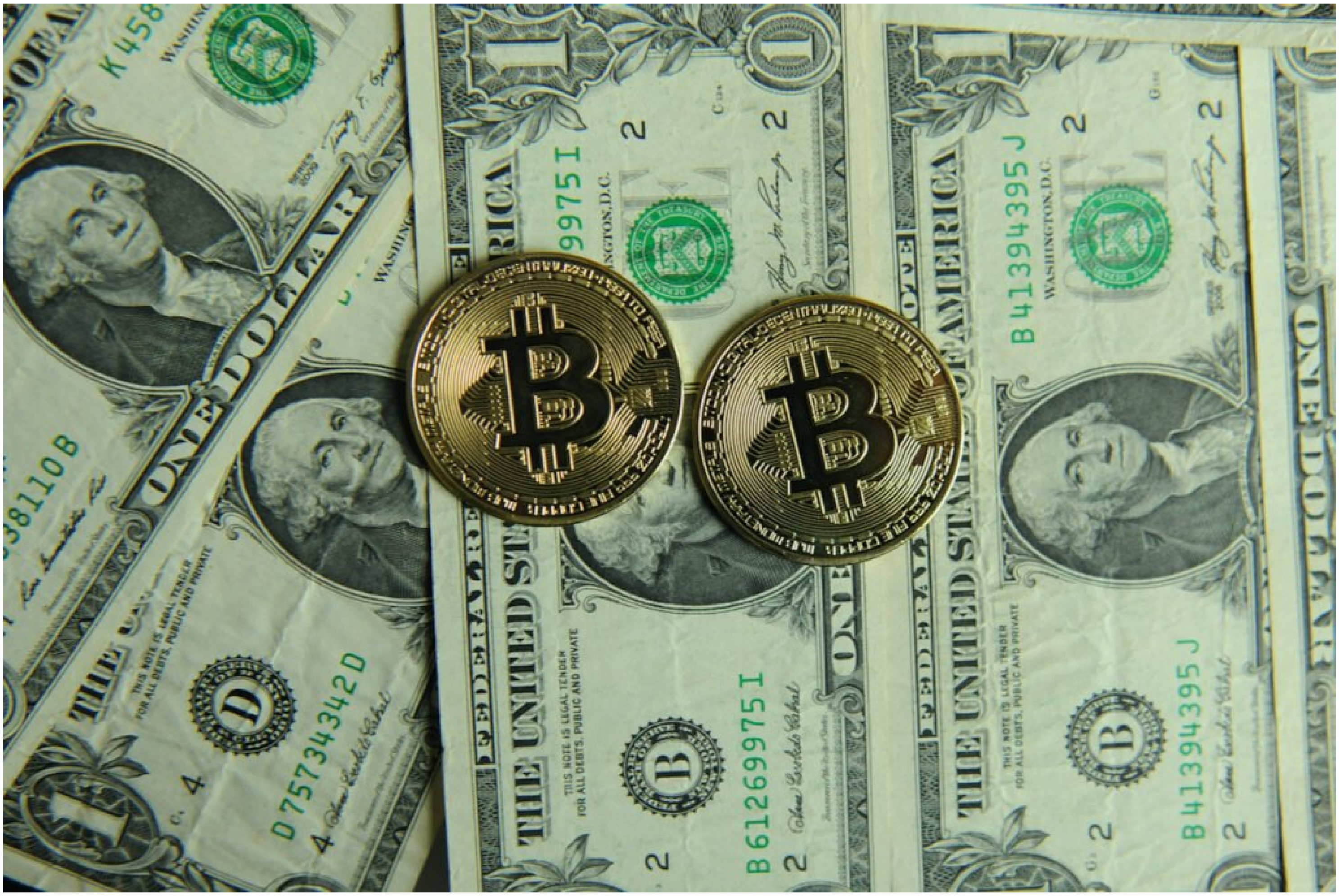
Blockchain, crypto and NFTs are the risky 'next generation of value creation' in sports



By Bill Shea (/author/bill-shea/) Mar 30, 2021

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Joining terms such as Wins Above Replacement and Player Efficiency Rating in the sports lexicon are phrases such as non-fungible token (NFT), blockchain and cryptocurrency.

The language of Silicon Valley entered the sports industry this year on the back of the white-hot sports collectibles market (https://theathletic.com/2428346/2021/03/05/sports-cards-tom-brady-luka-doncic-andre-the-giant/) because of the enormous sums of money involved.

Why? Simple: In an era with little or no in-game fan revenue because of pandemic health-safety protocols, concepts such as NFTs and blockchain are viewed by leagues, teams, owners and athletes as opportunities to make more money.

Fans can expect to see a growing wave of NFT promotions — would you value a bobblehead that exists solely on your iPhone? — and the possibility that future re-sale of tickets will occur on a blockchain that allows the team to get another cut of money.

While the technology has been around for years, it's only in the past couple of months that it's widely entered both sports and the broader national culture. "Saturday Night Live" did an NFT skit this past weekend, and celebrities are glomming onto the trend.

Saturday Night Live - SNL
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what the hell's an NFT

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Whether it's a bubble or a long-term cash generator remains to be seen, but it's all part of the cultural and business conversations in sports for now. (And for a quick explanation of what these things are, scroll to the bottom.)

Things like Bitcoin have floated around the periphery of sports (https://theathletic.com/1277753/2019/10/10/its-all-about-experimentation-why-nba-teams-are-adopting-blockchain-technology-and-cryptocurrency/) since at least 2013-14 when the Sacramento Kings began accepting the cryptocurrency, but it went into overdrive in February when NBA Top Shot, the licensed video highlight collectible brand — functionally a virtual limited-run trading card sexed-up for the digital age — began to see millions of dollars in sales (https://theathletic.com/2385311/2021/02/15/nba-top-shot-people-buying-virtual-highlight-cards-risks-remain/). As of Monday, it had nearly $461 million in sales since its October public beta testing launch, and $200-plus million of that has come within the past 30 days, per tracking site cryptoslam.io (https://www.cryptoslam.io/).

That's gotten a lot of notice across the sports industry, particularly because the NBA and the players union get an undisclosed cut of all sales. While the other major leagues declined to comment, it's known that all are interested in getting into the NFT, blockchain and crypto spaces.

The Oakland Athletics got some attention for a recent crypto deal: A full-season six-seat suite at RingCentral Coliseum can be bought for one Bitcoin. Such a suite is priced at just under $65,000, and Bitcoin at the time of the March 15 offer was trading at $61,000. It subsequently dipped to about $55,000 and as of Monday had risen to $58,000 — illustrating the volatility risk compared to traditional fiat currency (like U.S. dollars).

Still, the Athletics are keen to get into the fintech (finance and technology) space as part of doing normal business — not an unusual risk for a team situated so close to Silicon Valley.

A's team president Dave Kaval said the club had gotten 50-60 inquiries about the Bitcoin-for-suite offer.

"There's been an incredible amount of incoming interest," Kaval said. "We're really curious to see if people will transact in Bitcoin. I think we're pretty close. We'll see if it translates into actual sales or if people are just tire-kicking."

Here are a few of the other headline-grabbing NFT, crypto and blockchain developments in and out of sports:

- A Hong Kong-based cryptocurrency exchange last week agreed to pay $135 million over 19 years for the naming rights to the Miami Heat's home venue, which will be called

FTX Arena.

- Tampa Bay Buccaneers tight end Rob Gronkowski sold $1.75 million worth of NFT trading cards, including a 1/1 "career highlight refractor" card for $433,000. The sales were conducted using Ether, the cryptocurrency of the blockchain platform Ethereum, rather than cash or credit card.
- Chiefs quarterback Patrick Mahomes sold a reported $3.4 million of digital artwork within 15 minutes on March 17.
- Carolina Panthers tackle Russell Okung announced last year that he was converting half of his $13 million salary into Bitcoin, which was at $27,000 at the time.
- Calgary Flames forward Matthew Tkachuk is believed to be the first NHL player to make NFTs of himself available (https://twitter.com/TKACHUKycheese_/status/1375269415479083014) for auction through April 1.
- Brooklyn Nets guard Spencer Dinwiddie tried to tokenize his $34.3 million contract until the NBA ruled in 2019 that he could not because the collective bargaining agreement with the players union forbid it.
- Blockchain company Chiliz says it has sold tens of millions of dollars in NFT "Fan Coins" in deals with Manchester City, FC Barcelona, AC Milan, Juventus, Paris Saint-Germain and other clubs.
- Carmaker Tesla disclosed in a financial filing that it has bought $1.5 billion worth of Bitcoin, and customers can buy the manufacturer's cars using the cryptocurrency.
- The artist known as Beeple sold an NFT painting (https://www.forbes.com/sites/abrambrown/2021/03/11/beeple-art-sells-for-693-million-becoming-most-expensive-nft-ever/?sh=3f4dbf72448b) via the iconic Christie's auction house for $69.3 million on March 11.
- Twitter founder Jack Dorsey auctioned his first-ever tweet as an NFT for charity, and the bids hit $2.9 million. The auction ended Sunday, which was the 15-year anniversary of the tweet.
- The top sale of a crypto collectible so far has been "CryptoPunk 7804 (https://www.cryptoslam.io/cryptopunks/mint/7804/)" — a small, light blue 8-bit cartoon character described as "alien, small shades, pipe, cap forward" that sold for $7.8 million.
- Goldin Auctions, which handles enormous sums of sports card and collectible sales, inked a deal with cryptocurrency exchange Gemini last week to start taking Bitcoin and Ether as payment.

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There have also been some speed bumps. First, Dapper Labs — the company that owns and operates NBA Top Shot — has repeatedly delayed drops of its digital cards because of technical issues — a common occurrence during beta testing but something that gets public notice because of the company's enormous sales. On Tuesday, Dapper announced $305 million in new funding.

NFTs also are subject to the whims of the market. PGA Tour golfer Bryson DeChambeau last week put several up for auction but the $62,000 in sales was underwhelming (https://www.thescore.com/pga/news/2141681) compared to what Mahomes and Gronkowski pulled in. A $40,000 1/1 card drove most of DeChambeau's total, and it includes a meeting with him along with physical prizes such as golf clubs, balls, a signed U.S. Open flag and a gift card.

"The fundamental risk (with NFTs) is that the value is really in the eyes of the beholder," said Stuart Madnick, an MIT Sloan professor of information technologies who has studied blockchain technology.

There also is consumer risk when it comes to these technologies, he said. While blockchain is touted as basically impervious to hackers, the technology infrastructure that supports blockchain transactions isn't always as robust. And users have to keep their alphanumeric key — the long chain of letters and numbers that gives them access to their accounts — safe.

"It doesn't exist in isolation. That whole system that surrounds the blockchain is like any system and is hackable," Madnick said. "It can fall victim to what happens to bank and email accounts. If you leave it out someplace, it's like leaving your safety deposit box key out. That has happened. People have left it atop their desk."

Between 2010-18, there were 72 blockchain breaches or incidents that cost users $2 billion, according to Madnick's MIT cybersecurity research.

There are also horror stories of people losing their key and being unable to recover millions of dollars in Bitcoin.

"If you lose that key, there is no way to get it back," Madnick said.

In the case of blockchain-based NFTs, the value comes from what buyers are willing to pay. As long as buyers think NBA Top Shot highlights have intrinsic investment value, they will pay considerable sums for them — creating a bubble risk. If buyers decide it's not worth it, they'll exit and the bubble snaps.

"There is a hype factor at work. Will it live up to the hype or implode?" Madnick said.

Another cryptocurrency risk is swings in price, which makes it unattractive to many as a regular form of transactional currency.

While Bitcoin has increased in value over time, it also has been subject to sudden sharp declines, making it far more volatile than traditional securities such as U.S. government Treasury bills — long considered a safe place for companies to invest surplus cash. Bitcoin was worth about $30,000 at the end of 2020 but surged to more than $60,000 before receding a bit.

Kaval, the Athletics president, said the team is keenly aware of such volatility but said he isn't concerned about a suite selling via Bitcoin for much less than traditional currency.

"We're taking risks right now. You're basically almost getting a $9,000 discount. From our perspective, that's fine," he said. "It also could drive some volume and interest. Maybe that's what it's going to take to get it as a transactional medium."

Also limiting the risk is the April 1 deadline to use Bitcoin for a suite.

"I feel that brackets some of the risk," Kaval said. "We're going to stand by that. It could go up. It's highly volatile."

That volatility isn't scaring off the major players in the sports industry.

Dallas Mavericks owner Mark Cuban is a tech billionaire who is all-in on blockchain and NFTs. He doesn't, however, place much significance on whether or not fans will shift from traditional cash to cryptocurrencies like Bitcoin or Dogecoin. Instead, he's more interested in the wider business applications of all the technology.

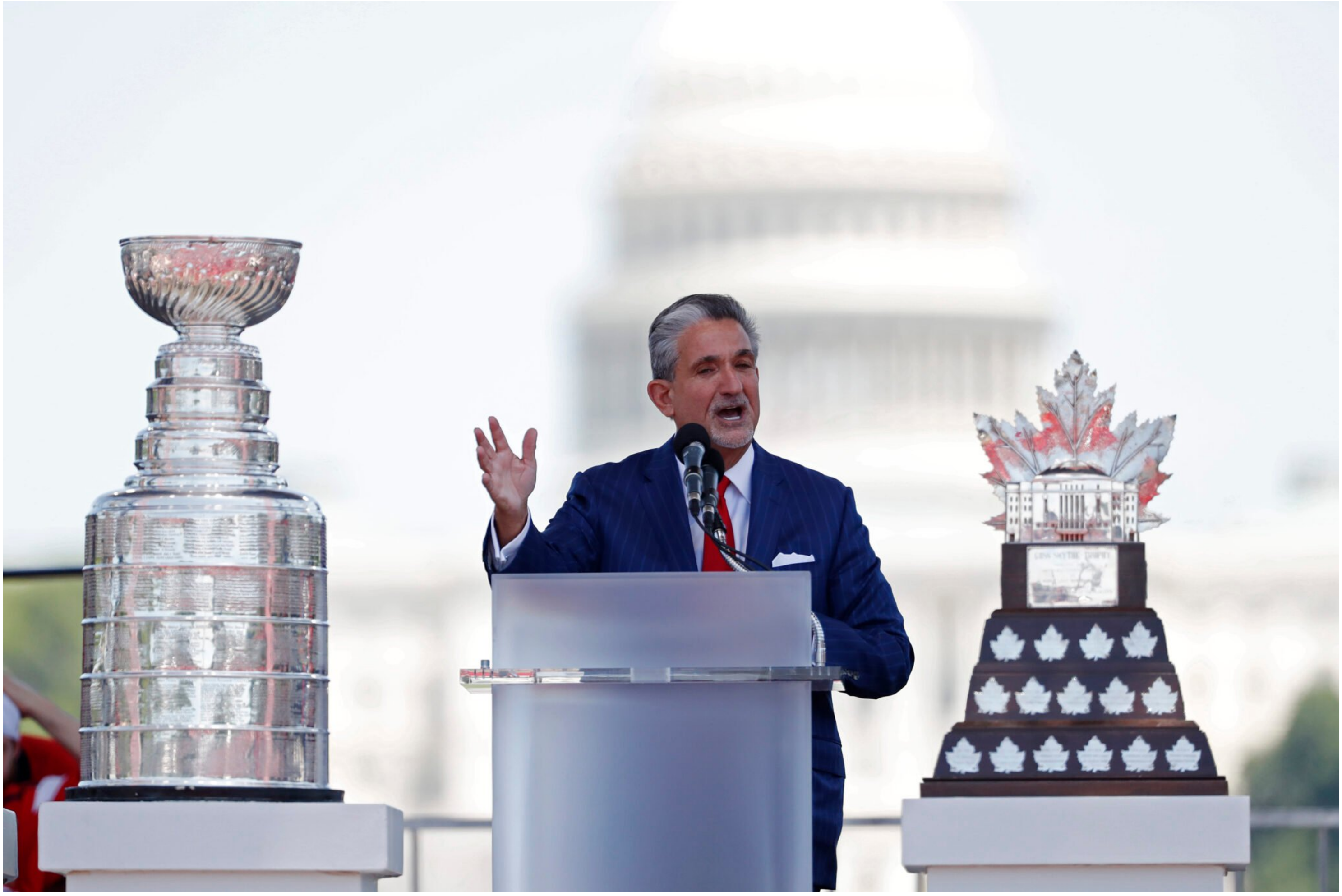
"Everything is on the table. But I think the least important is using crypto as a currency. There are already gateways that enable that, so it's simple for anyone to add," Cuban said.

An NBA team owner/co-owner committee was recently formed to study blockchain technology and it includes Cuban, Ted Leonsis (Wizards), Joe Tsai (Nets), Steve Pagliuca (Celtics), Vivek Ranadive (Kings) and Ryan Sweeney (Jazz). All come from tech or finance backgrounds, indicative of a common denominator for sports team owners in the modern age.

One area that team owners are expected to try to apply blockchain is ticketing. Most entry into sports events now is done via digital applications rather than paper tickets, for both front-end retail sales and for the resale market. Putting tickets on blockchain theoretically allows teams and leagues to get a slice of secondary market sales when a buyer sells their ticket to someone else.

Leonsis made the case for blockchain-based ticket tracking in a recent call with *The Athletic*. He posed the example of a fan reselling a $150 face-value season ticket for $1,000.

“You made $850 and I didn’t share, the player didn’t share, the league didn’t share,” said Leonsis, a former AOL executive who also owns the WNBA’s Washington Mystics and NHL’s Washington Capitals.



(https://cdn.theathletic.com/app/uploads/2021/03/30093022/USATSI_10890758-scaled.jpg)

Ted Leonsis, owner of three Washington, D.C., area teams, sees blockchain technology as a possible future for ticket sales and expanding a local franchise's reach. (Geoff Burke / USA Today)

He also said he's interested in the technology to expand the global footprint for his teams beyond their local markets.

"I'm really interested in how to get out of the notion that I own a sports team and I have local media rights and a local market and I'm only as good as the size of my market. That to me is what is so interesting here," Leonsis said. "There are eight billion people on the planet; six billion connected to high-speed internet; 500 million with interest in basketball. I have the Washington Capitals and I have 20,000 seats that I can sell to people 41 times a season. My market seems finite. A global market seems infinite."

He theorized that could include selling NFT tickets to fans who'll never attend a game in person but are willing to pay for digital keepsakes.

"A buyer can hold onto the memory, then resell the ticket," he said. "I can sell a ticket to eight billion people. Previously, I could sell a ticket to 800,000 or 10 million, whatever is in your market. When people start to wrap their heads around this, it will be astounding the sea change this represents."

It also could apply to merchandise and apparel sales that traditionally have been physical if enough fans are interested in buying virtual items.

"When we reveal a new jersey and it sells for $300, people can buy it online or in the arena. But if it becomes a collectible globally, that could be a much bigger business," Leonsis said.

He likened the blockchain, crypto and NFT trends to the mid-1990s internet explosion. There is a lot of money to be made, he said, and that's important to him because he estimates the pandemic effects on his business will take three years from which to recover financially.

"It feels to me like when we first got people in America online and the internet became open via the Netscape browser in '94 and the world was your oyster in terms of innovation and creating new apps," Leonsis said. "We see (blockchain) as a profound move from analog to digital, from unaccountable to transparent. From a way to know who is buying and to turn episodic revenue into reoccurring revenue. That's a long and subtler story in building value."

And speaking of value, he said NBA Top Shot as a business could be worth more than most NBA teams — thanks, in part, to the league's backing of the NFT technology to help fuel a boom.

"It's possible that Dapper Labs is now one of the 10 most valuable NBA teams," Leonsis said. "It's stood behind, it's trustworthy and the marketplace is real. They have that magic right now."

He did express some skepticism over some NFT efforts and acknowledged that the new technology will not be a windfall for everyone. That said, the underlying blockchain tech is here to stay, he said, and the winners will be those that are patient as markets sort themselves out.

"There is going to be some losses, some companies that don't make it, people will lose money. That's what happens," Leonsis said. "A few people make money who are in early and it disappoints other people. Not everyone is going to be a winner in this short period of time.

"This isn't just about the LeBron card trading up, the Jordan rookie card selling for $700,000. This is much, much bigger and I believe will be looked at as the birth of this next generation of value creation for many businesses but especially sports and teams and leagues," Leonsis said.

"No one knows how the movie is going to end. It's just starting. These are like coming attractions. I'm sending out the warning signals — don't get overwhelmed by the theater, the noise being generated."

What is blockchain?

A secure network of computers that act as a digital ledger of publicly visible but encrypted financial transactions and records, each of which is created as a consecutive "block" that forms the so-called chain. Security and speed are its advantages over traditional banking or financial logs. It's expected to eventually be used for other types of record-keeping, such as in medical, technology, industrial and other fields. There are many blockchain networks, with Ethereum being popular at the moment. NBA Top Shot operates off the Flow blockchain. Investopedia has a good blockchain layman's explainer here (https://www.investopedia.com/terms/b/blockchain.asp) for those that want more detail.

What is cryptocurrency?

The digital currencies created by blockchain technology. Domestically, they are indexed against the U.S. dollar, and in the case of Bitcoin only a limited amount (21 million) will ever be created, or mined, from a blockchain. Such currencies are mostly unregulated by governments and do not have any safety net like the FDIC that protects bank deposits. Among the most popular and valuable cryptocurrencies are Bitcoin and Ether. They are used to conduct transactions on a cryptocurrency exchange and require a digital wallet for storage. Volatility is a primary concern, and for now only a limited number of businesses accept crypto for transactions. Another concern is that the specialized "mining" required to create new Bitcoin is energy-heavy enough to be poor for the environment.

What is an NFT?

Non-fungible tokens are the digital record of a piece of data on a blockchain and can be traded or sold but not replicated. Each token — which can be a virtual trading card, video, image, etc. — has unique code and data that makes each a 1-of-1 record. Real-world assets such as event tickets and artwork can be tokenized to make them saleable on a blockchain, but the buyer doesn't necessarily come to own the original physical item (if the asset exists in a tangible way at all). They can be serialized like a trading card as part of artificial scarcity efforts to goose up value. There is no physical element to NFTs unless the seller opts to provide some real-world perk. Instead, buyers simply own a unique virtual image. The intellectual property rights usually remain with the artist, company and/or seller. In the case of NBA Top Shots, the league owns the original highlight video clip and it can and does put those same clips online for anyone to view. Cryptocurrency is not an NFT because it is fungible, meaning it's fundamentally identical — each Bitcoin is the same at the next Bitcoin.

(Top photo: Costfoto / Barcroft Media via Getty Images)

Bill Shea (/author/bill-shea/) is an award-winning reporter and editor who worked for daily newspapers in Ohio and Michigan for nearly 25 years. He spent the past 13 years as a reporter with Crain's Detroit Business, creating the sports business beat to the point that Forbes named him a Twitter must-follow on the topic for four consecutive years. Shea spent 2006-07 moonlighting as the last-string quarterback on a minor-league football team, an experience that will feature prominently in his eventual debut novel. A Cleveland native and jaded devotee of its star-crossed sports teams, he lives today in suburban Detroit, just across 8 Mile, with his family and polydactyl cat Marti. Follow Bill on Twitter **@Bill_Shea19 (https://twitter.com/Bill_Shea19)**.