



Navigating opportunities in NFTs



The non-fungible token (NFT) market has entered mainstream media, and with reports of seemingly stratospheric sales across the media landscape, industry leaders are considering how to capitalize on this dynamic opportunity. For example, the ability to create these virtual assets presents organizations with multiple opportunities, from developing marketing “buzz” to providing unique experiences as a result of NFT ownership.

NFTs are unique in that the assets can be owned and controlled by the creators and can be transferred between consumers. Growing communities are forming organically around experiences and the marriage of the physical and virtual worlds.

Winning brands will channel the energy of these communities by creating differentiated opportunities for fans and consumers to participate. Success in the NFT ecosystem will revolve around content, community, and utility.

Some benefits of a successful NFT strategy include:

- New monetization options for existing IP
- A massively growing market for new content, IP, and brand stories
- New forms of customer engagement and community building
- Stronger incentives for superfan participation
- The opportunity to improve brand perception and enhance customer engagement in an emerging space

Media companies are well-positioned to take advantage of this disruptive technology, but they need a defined NFT strategy that leverages customer engagement and supporting technologies (created by third parties or internally), takes a portfolio management approach, and focuses on brand preservation, tax, compliance, and risk management.

In this paper, we present a set of frameworks and considerations to help structure your thinking around NFTs and outline how your organization can enter the space in a way that aligns with your strategic goals and operational capabilities.

The market today

As the NFT market expands rapidly, we're seeing daily headlines of soaring NFT valuations and sales, and new announcements of organizations across industries diving into the NFT marketplace.

According to DappRadar, NFT trading volume surpassed \$23 billion in 2021 vs. sales of roughly \$0.095 billion in 2020. This represents a colossal ~24,000 percent increase year-over-year. Just a few days into January 2022, sales were over \$2 billion.

Although the media sector's NFT efforts remain primarily in the experimental stage, studios, music labels, and other content providers have dropped a variety of NFT projects to monetize library content or to promote upcoming releases.

While we believe virtually any consumer brand can play in this space, media, gaming, and sports companies are especially well-situated to capitalize on NFTs by creating online and offline experiences for customers and partners.

Examples of what these companies can bring to the NFT marketplace include:

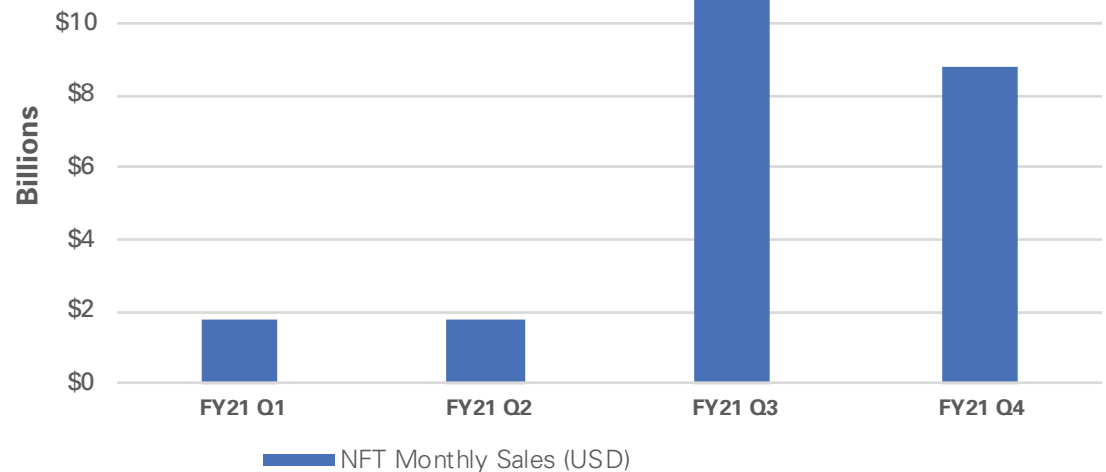
— **Media: Rich content libraries and strong brand enthusiasm.** Some will have the ability to blend in-person experiences with digital assets. Major studios and numerous other content creators have released digital collectible images, videos, avatars, and other NFTs. Several studio-focused NFT marketplaces are scheduled for release.

— **Gaming: Massive digitally native customer bases and established "worlds" of digital content.** Some of the biggest brands in gaming have released NFT-based avatars, weapons, and levels. In addition, NFTs have been the catalyst to an entirely new gaming ecosystem and economy: the play-to-earn (P2E) gaming model. For the first time, gamers can play to earn in-game rewards in the form of cryptocurrencies or NFTs (such as weapons, abilities, or avatars). And since these NFTs represent a player's

individual ownership and not a gaming studio's, these NFTs can be bought or sold for real monetary value.

— **Sports: Dedicated fan bases, celebrity athletes with their own followings, and local, national, and global presences.** As with media firms, sports teams and leagues, athletes, and fantasy sports can blend in-person and digital experiences and assets. Many of these entities have released NFTs based on videos, animations, digital trading cards, and signed sports memorabilia.

NFT Quarterly Volume



Source: DappRadar.com, 2021 Dapp Industry Report, Pedro Herrera, December 17, 2021

The market today continued

While the opportunity is compelling, getting involved with NFTs brings inherent risks:

- **Execution Risk:** NFT success requires dedicated time, resources, and organizational focus. Your technology focus, for example, requires determining whether you'll develop a proprietary tech platform or partner with a third party.
- **Brand Risk:** NFT fans and advocates are quick to identify and denounce offers they see as "cash grabs" or inauthentic forays into the space.
- **Technical and Compliance Risk:** This includes managing risks and protections in essential areas such as cyber, regulatory, fraud, tax, and reporting.
- **Market Risk:** Valuations in this market are volatile and correlated with broader Web3 trends, making it difficult to forecast short-term financials.

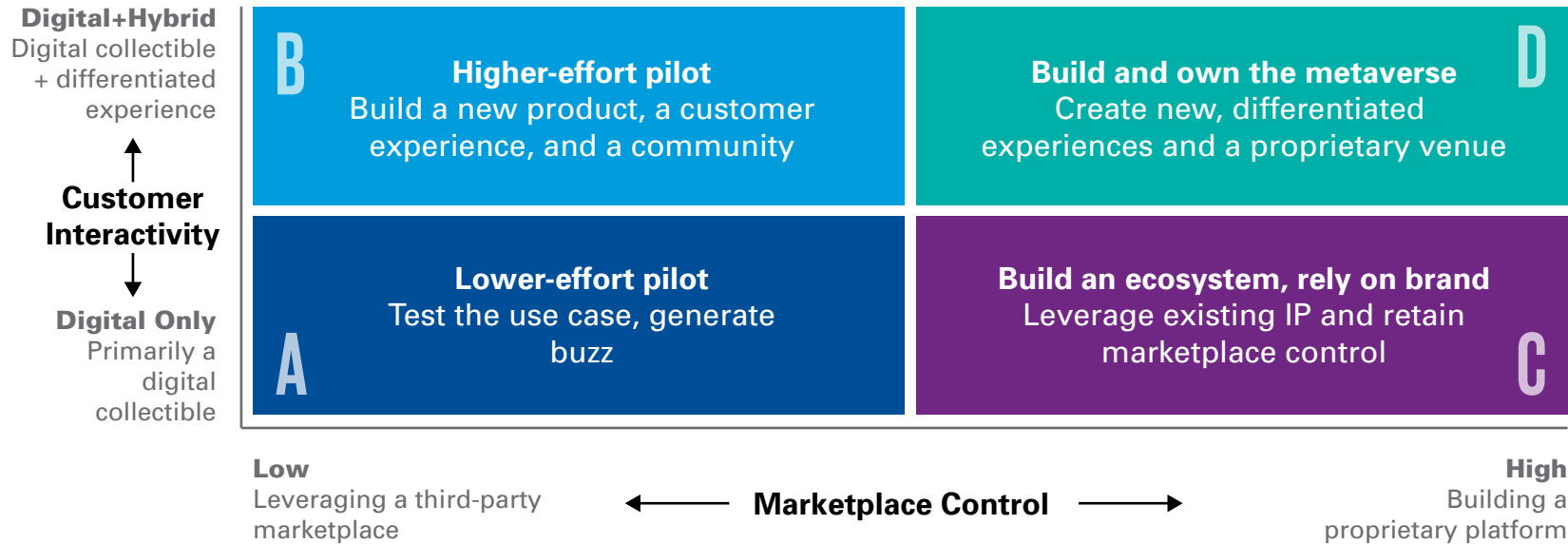
Despite these challenges, NFTs can be a key part of an effective business strategy ranging from creating an initial buzz around your market entry to engaging and further expanding your customers' experiences with your brand and content.

KPMG has developed our NFT Framework to classify the broad universe of NFT strategies being deployed across industries including media, gaming, and sports.

This simple model can enable organizations to make strategic decisions around how to participate across the key dimensions of NFT Marketplace Control and Customer Interactivity.



The KPMG NFT Strategy Framework



Our NFT Strategy Framework plots Marketplace Control and Customer Interactivity on a traditional X-Y axis in the following manner:

Control of Marketplace Experience

As consumers increasingly interact with companies and brands through digital environments and metaverses, the X axis represents Marketplace Control. The organization must determine its desire to leverage others’ tools and NFT marketplaces, or to design a proprietary system to manage the customer’s NFT marketplace experience.

The X axis ranges from:

- **Low:** Companies allow broad, decentralized listings on NFT marketplaces like OpenSea. This sacrifices direct control of the user experience, but requires far lower technical requirements.

- **High:** Companies build or partner to create a proprietary selling, trading, and displaying marketplace. This comes with higher technical requirements and may limit broad adoption, but the organization retains full control of the consumer journey and owns the interaction with the customer directly.

Customer Interactivity

The Y axis represents Interactivity with the NFT customer and is characterized as:

- **Low interactivity:** Companies issue a digital token, which has some form of artwork, memorabilia, music, or other digital asset attached to it. The resulting token is a digital collectible that may be based on existing IP.

- **High interactivity:** The digital token also comes with extra benefits in the form of unique experiences, such as front-row access at a concert, VIP access to events, gameplay, or engaging directly with artists through exclusive communities.

Major companies are active in each of these four quadrants profitably. All of these options can be winning strategies if you are clear about your ambition and understand your willingness to invest, partner, and grow.

To help, we’ve constructed a series of high-level questions, outlined in the next section, for media executives to consider.

Motivations and insights

To help organizations use our framework effectively, we've developed a series of questions that help you determine the optimal NFT strategy and define the tactical steps needed to execute on that strategy. This approach can help prevent missteps and false starts, and allows your organization to pursue a scalable approach to NFTs.

The questions encompass four key dimensions—what we're calling the NFT ACCT Grid—that drive a successful NFT strategy. The answers will show you where you plot on our ACCT Grid and highlight potential strategic directions to help you navigate the NFT marketplace effectively:

Ambition
Customer
Content
Technology



Ambition: The first question for organizations discusses your core reason(s) for considering the NFT marketplace. This includes factors such as generating interest in the product or brand, engaging customers with new IP, tapping existing IP to develop new markets, or seeking new lines of business.



Customer: The second series of questions focuses on defining the core target audience and the type of relationships media companies want to maintain with NFT owners. Some organizations may seek to control most or all of the ownership experience and a strong connection with the brand, while others may choose to offer NFT digital collectibles as distinct products without maintaining an ongoing relationship with collectors.



Content: Media companies will address questions to determine the degree of digital rights associated with their NFT offerings. A company interested in developing an NFT needs to ensure its IP rights would allow this. It's important to stress that an NFT collectible is a unique asset and distinct from the underlying content and/or IP from which the NFT was developed. A consumer purchase of an NFT based on a classic movie clip, for instance, does not convey ownership in the original film.

We've already seen copyright and trademark litigation surrounding the rights to NFT content, and studios and creators may have to re-interpret (and potentially renegotiate) contracts developed in the pre-internet era.





Determining content rights and royalty implications will be a key focus area for the overall strategy, as the underlying rights and ownership within the NFT lifecycle will be key to maintaining the NFT's long-term value.



Technology: Companies that embrace NFTs need to consider carefully which technologies they will use (whether developed externally or internally) to store, secure, and maintain the NFT and its continued movement in the marketplace, such as future sales and ownership. Securing provenance on the blockchain is one of the main benefits of NFTs, and royalties may be due to the original creator or owner of the underlying asset. Many companies are being built to help onboard new users and brands to the NFT space, and selecting the right technology partner is critical.

As with any partnership, due diligence is foundational to developing and preserving the value of the organization's NFTs. Existing platforms will provide ease of access to the marketplace but no certainty of longevity or interoperability. Internally developed platforms will require a long-term commitment once deployed, as NFT purchasers assume they will be available forever.

Keys to determining how to participate

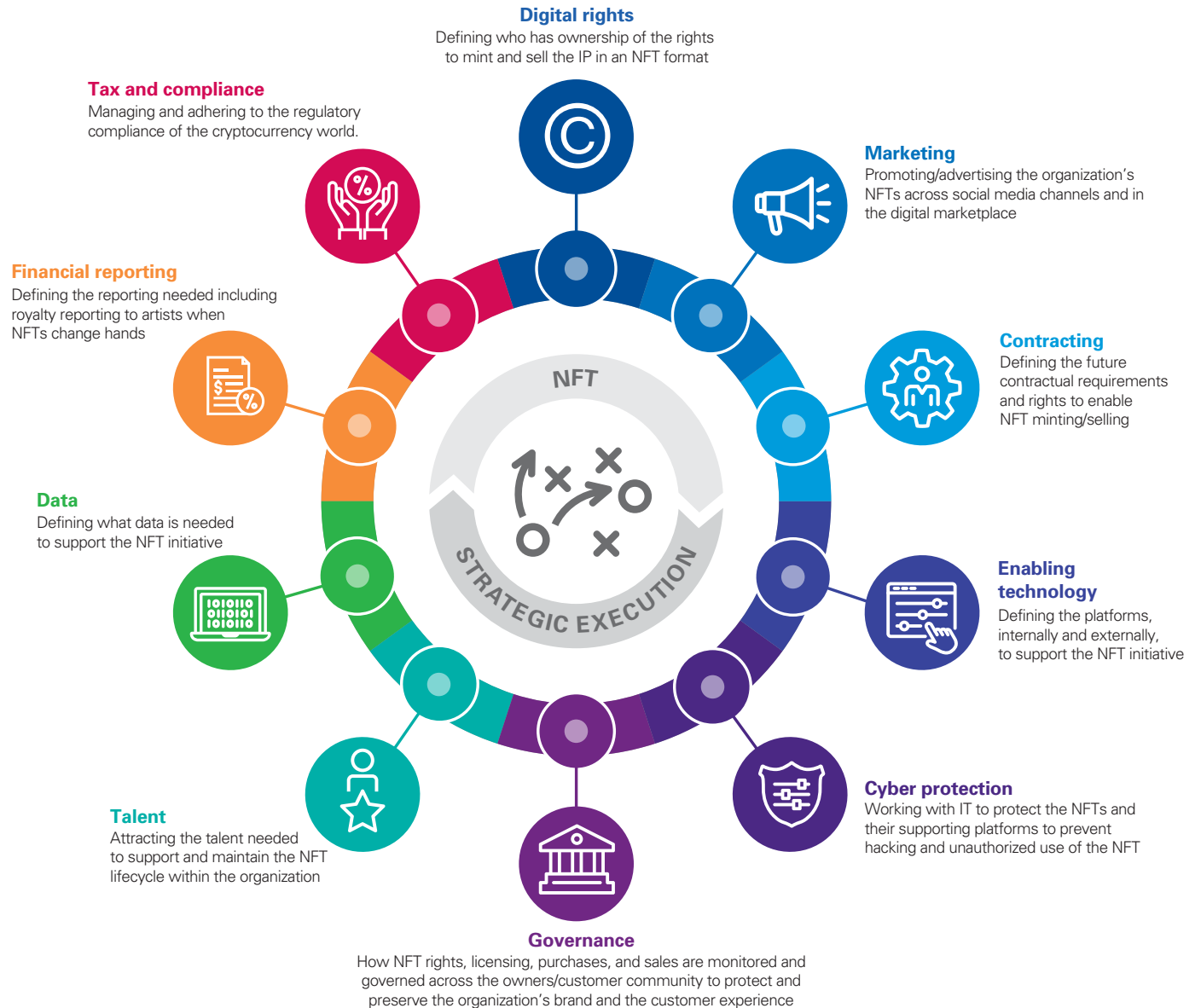
Key Question	Interactivity	Control of marketplace experience	A		B		C		D	
 Ambition			Generate buzz and awareness	Market new IP and create communities around them	Create new markets for our existing IP	Develop a new line of business complementary to core mission				
 Customer	Who is our target audience?		Early NFT adopters	Experienced NFT adopters	Existing customers	Die-hard superfans				
	How strong is our customer relationship via our NFT offering?		Limited	Strong	Strong	Very Strong				
	How much of the consumer experience do we want to have ownership over?		None	Some	Most	All				
 Content	Do we own rights to existing IP that we want to leverage as part of an NFT offering?		Prerequisite	Prerequisite	Prerequisite	Prerequisite				
	What are our ambitions to transform our existing IP?		None (issue digitally "as-is")	Create interactive experiences	Build a secondary market	Build a digital universe				
 Technology	How willing are we to invest in technical resources and capabilities to build a sophisticated NFT offering?		Low willingness	Medium willingness	Strong willingness	Extremely willing				
	How strong are we with community building, experiential content, and marketing?		Medium	Strong	Medium	Expert				

Operationalizing the NFT strategy requires focusing on 10 key dimensions

Once you have developed a participation strategy, the more challenging phase of operationalizing the strategy begins.

These 10 dimensions are the themes around which organizations can operationalize their NFT strategy.

Looking ahead, the KPMG POV is that NFT leaders will be those that execute solidly on each of these 10 dimensions.



How KPMG can help

Depending on whether companies are starting out in their NFT journey or growing their presence in the NFT marketplace, KPMG can support your organization with a flexible and scalable approach to reaping the rewards and opportunities offered by the new world of NFTs.

We'll collaborate with your teams to provide strategic advice and technology design support to help you optimize:

- Business model strategy
- Operating model and supporting team and processes
- Technology strategy and partnerships
- Risk and controls framework
- Tax, regulatory, and compliance considerations

Our experienced professionals create practical approaches designed to help clients achieve their business ambitions while navigating the challenges posed by NFTs and managing the risks inherent in any NFT strategy. With fully integrated, cross-functional teams, we are committed to providing meaningful insights to clients about the opportunities and potential pitfalls associated with NFTs.

About the Authors



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