

The State of **NFT Marketplaces**

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Key Takeaways

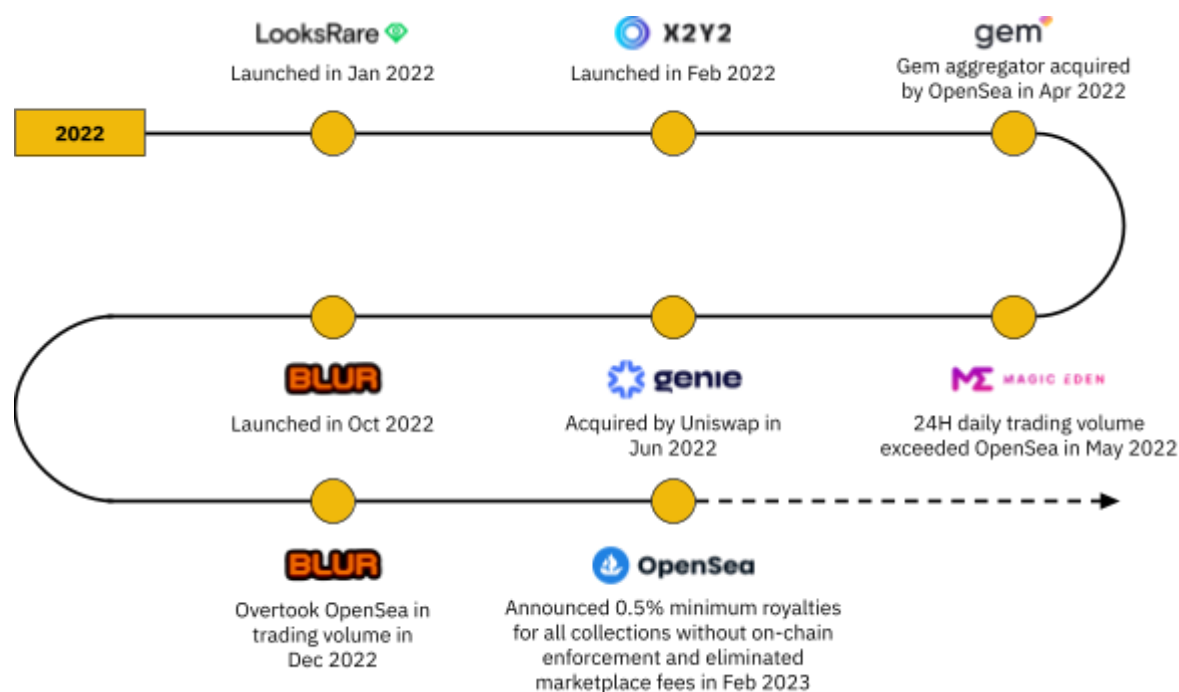
- ❖ The entrants of several new NFT marketplaces over the past year have upended the status quo and challenged the market dominance of existing players.
- ❖ Blur, a relatively new NFT platform, has moved up the leadership board barely two months after their launch in mid-Oct. We analyzed their rise and attributed it to competitive strategies relating to their product, token incentive, airdrop design, and the team. It remains to be seen whether Blur will be able to sustain their lead when incentives taper.
- ❖ Given the fluidity of the market and the general lack of platform loyalty, the marketplace war is far from over. Notably, OpenSea has turned up the heat in their latest move to eliminate trading fees to compete with Blur. Nonetheless, the lack of token incentives (when \$SEA?) makes it challenging to incentivize usage of the platform as OpenSea has to figure out other non-monetary ways to do so.
- ❖ Our view is that the next critical move in this fight for market share relates to royalty policies. While optional royalties increase price competitiveness of platforms, creators have been caught in the crossfire of this NFT marketplace battle. Optional royalty policies are not beneficial for the industry, nor sustainable for creators in the long run.
- ❖ In the ideal scenario, marketplaces, creators, and market participants should work out a middle ground that is beneficial for all - balancing considerations involving monetary incentives, fostering creators' creativity, and long-term growth. Perhaps a decentralized marketplace is a potential solution that can allow for social consensus to be built and to align the interests of different stakeholders in a democratic manner.

Introduction

NFT marketplaces play an important role in facilitating NFT trading activity by connecting buyers and sellers. In return for their services, NFT marketplaces generally receive a portion of sale proceeds as fees. As such, considering their revenue model, NFT marketplaces have a direct incentive to compete for market leadership and to position themselves as the go-to marketplace for NFT trading.

Over the course of 2022 and going into 2023, the entrants of several new marketplaces have upended the status quo and challenged the market dominance of existing players.

Figure 1: Timeline of selected events



Source: Binance Research

The first half of 2022 saw the launch of LooksRare and X2Y2 which presented strong competition to OpenSea. To incentivize adoption, both platforms launched vampire attacks and airdropped their native \$LOOKS and \$X2Y2 tokens to OpenSea users. While initial trading volumes on these platforms surged, signs of wash trading indicated that demand was not entirely organic. Subsequently, we witnessed the acquisition of NFT aggregators (Gem and Genie) as interest in their ability to provide a one-stop aggregation platform for NFT traders picked up. The year ended off with the launch of Blur, a new entrant that has gained considerable traction and market share.

Considering the fluidity of market dynamics, we share our thoughts in this report on the competitive landscape, market developments, as well as our outlook on the royalty wars.

Competitive Landscape

Before diving into our analysis of recent market developments, let us take a look at the competitive landscape and understand the major players in the space.






While the broad utility of NFT marketplaces is the same (i.e. connecting buyers and sellers), each differs in terms of their product offerings, fee policies, and incentives, among others. Understanding these differences will help in appreciating the market positioning of each marketplace, and their respective competitive strategies.

Some key factors to consider when comparing NFT marketplaces include:

- ❖ Platform: Apart from direct marketplaces, some are also NFT aggregators which allow traders to buy and sell NFTs across different marketplaces from a single platform (think of it as Skyscanner for NFTs).
- ❖ Platform fees: This refers to the fees charged for trades that happen on the marketplace. Fees directly impact the amount of profit a seller receives, and indirectly affect buyers via higher listing prices (seller may price a NFT higher by factoring in fees).
- ❖ Royalty Policy: It is a common misconception that royalties are enforceable at the smart contract level. In reality, marketplaces can decide whether they are enforced. This has led to different marketplace policies and opposing schools of thought on this topic. We have dedicated a section in this report to royalties.
- ❖ Supported Blockchains: While Ethereum has one of the most vibrant NFT ecosystems, activity on other chains have also picked up. Certain marketplaces only support NFTs on single blockchains and have carved a niche in the ecosystem, whereas others have expanded multi-chain to branch out their offerings.
- ❖ Token Generation Event (“TGE”) Strategy: Tokens serve as helpful incentives to encourage usage and adoption of the platform. Airdrops have been a common distribution mechanism we have observed, although eligibility to qualify for airdrops differ across marketplaces.
- ❖ Token and Platform Performances: We examined the impact of tokens on performances of NFT marketplaces post-TGE.

For easy comparison, we have compiled the aforementioned metrics in Figure 2.

Figure 2: Comparison table of selected NFT marketplaces

	 OpenSea	 BLUR	 MAGIC EDEN	 X2Y2	LooksRare 
Year of Launch	2017	2022	2021	2022	2022
Platform	Marketplace	Marketplace + Aggregator	Marketplace	Marketplace + Lending	Marketplace
Platform Fees	0% (for a limited time). Originally 2.5%.	0%	2.0%	0.5%	2%
Royalty Policy	Enforces a minimum royalty of 0.5%.	Enforces a minimum royalty of 0.5%.	Enforces royalties for collections that opt-in to Magic Eden's Open Creator Protocol. Royalties are optional otherwise.	Enforces royalties.	Optional. Buyers can opt to pay royalties.
Supported Blockchains	Ethereum, Arbitrum, Avalanche, BNB Chain, Klaytn, Optimism, Polygon, Solana	Ethereum	Solana, Ethereum, Polygon	Ethereum	Ethereum
Token	N.A.	\$BLUR	N.A.	\$X2Y2	\$LOOKS
Token Generation Event ("TGE") Strategy	N.A.	Airdrop (~12%) to users with immediate unlock, based on 3 rounds below:	N.A.	Airdrop (~12%) to OpenSea users, with immediate unlock.	Airdrop (~12%) to OpenSea users, with immediate unlock.

		<p>Airdrop 1: Active NFT traders (over preceding 6 months) who also list on Blur.</p> <p>Airdrop 2: Users who list and trade NFTs on the platform in Nov 2022.</p> <p>Airdrop 3: Users that place bids (on collections with high trading volumes as close to the floor price as possible), and creators of collections that trade on Blur.</p>			
Post TGE Strategy	N.A.	Will continue to deploy community allocation (remaining ~40%) via airdrops and grants.	N.A.	<p>Trading Rewards (45%): Distributed over 2 years.</p> <p>Staking Rewards (20%): Distributed over 2 years.</p>	<p>Trade Mining Rewards (44.1%): Distributed over 2 years (1st year 34%, 2nd year 10%).</p> <p>Staking Rewards (18.9%): Distributed over 2 years (1st year 15%, 2nd year 4%).</p>

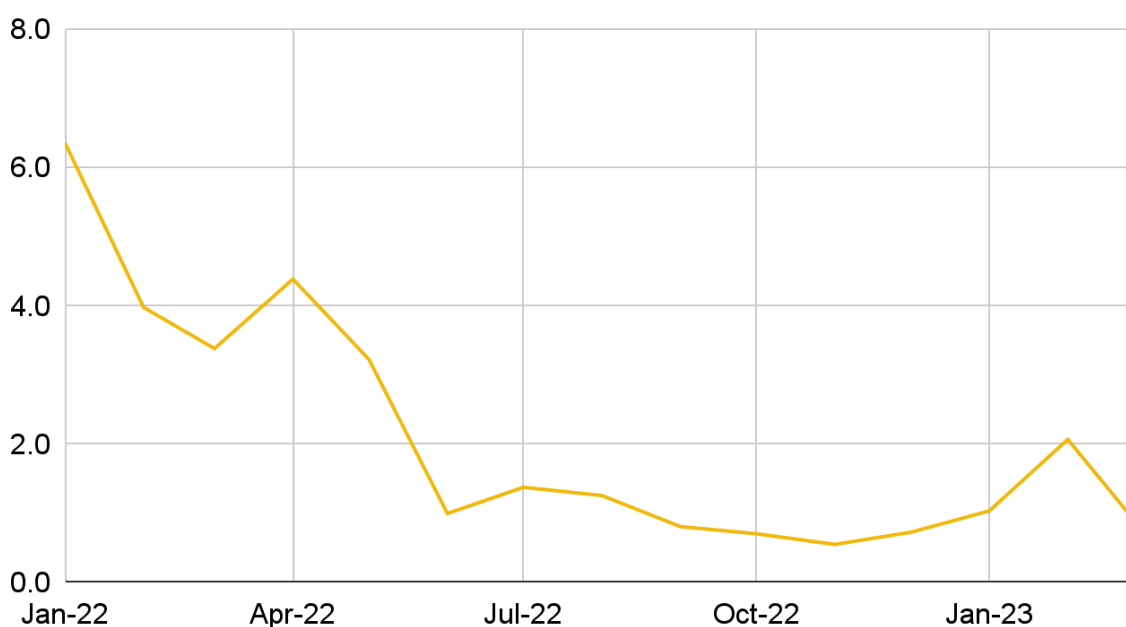
Token Performance (Volume & Price)	N.A.	<p>7 days after TGE: Price - Sharp drop. Volume - High.</p> <p>180 after TGE: -</p>	N.A.	<p>7 days after TGE: Volume and Price - Sharp drop</p> <p>180 after TGE: Volume and Price - Down only trend. Remained at low levels ever since.</p>	<p>7 days after TGE: Volume and Price - Sharp increase due to hype at the time.</p> <p>180 after TGE: Volume and Price - Down only trend. Remained at low levels ever since.</p>
Platform Performance (NFT Volume & Users)	N.A.	<p>7 days after TGE: NFT Volume- Increased dramatically. However, the majority of the volume can be attributed to ~500 wallets, which suggests heavy farming. Users - Daily unique users doubled⁽¹⁾</p> <p>180 after TGE: -</p>	N.A.	<p>180 after TGE: NFT Volume - ~85% wash trading. Users - Low, mainly large users wash trading to earn rewards.</p>	<p>180 after TGE: NFT Volume - ~98% wash trading Users - Low, mainly large users wash trading to earn rewards.</p>

Source: Projects' Websites, Binance Research

Market Developments

Following a relatively subdued second half of 2022, NFT trading volume was range-bound in January 2023 but saw a spike in February, largely driven by recent market events (which we will elaborate later). Notably, February's trading volume came in at approximately US\$2B, a level unseen since last year and roughly double that of the preceding month. March looks on track to record a similar level in trading volume to February on a normalized basis.

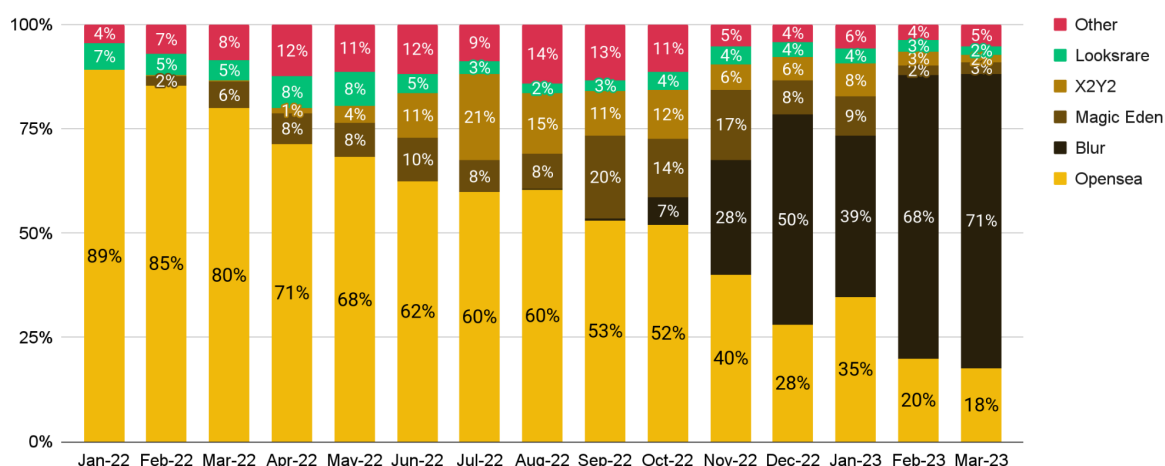
Figure 3: NFT trading volume has been range-bound since the second half of 2022 but saw a surge in February 2023



Source: Cryptoslam, Binance Central Data Analytics, Binance Research
As of 13 March 2023

Changing tides: Blur Disrupts the Status Quo

On the surface, while NFT trading volume indicates a sideways market, there have been significant developments in underlying market dynamics. Specifically, **the launch of several new marketplaces over the past year posed a serious challenge to OpenSea's market dominance** as witnessed by the steady decline in market share by trading volume. Notably, Blur has overtaken OpenSea to take the top spot with 71% of the market share as of 13 March 2023.

Figure 4: Blur's market share in terms of trading volume has increased since its launch

Source: Dune Analytics (@sealaunch, @ka_mo_ki), Binance Research
As of 13 March 2023

What has driven the shift?

Blur, a relatively new NFT platform that targets NFT power users, rose to the top barely two months after their launch in mid-Oct. We attribute the change to be driven by a few factors as listed below.

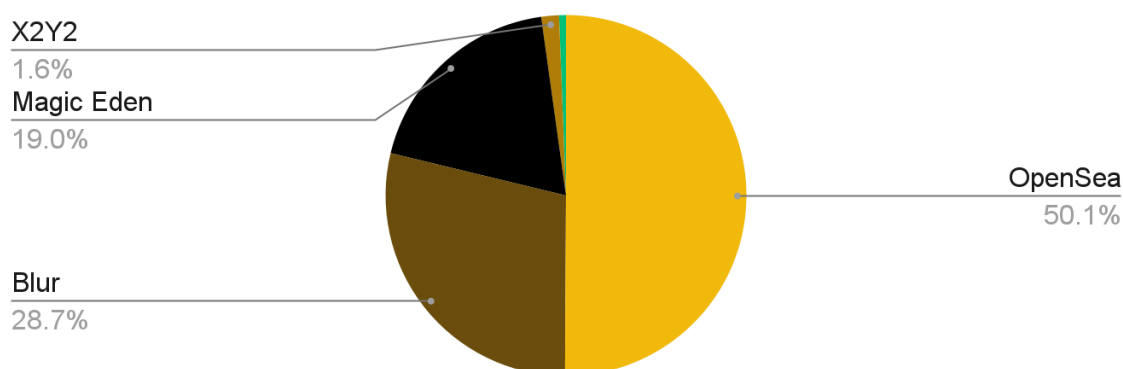
1) Product Differentiation and Positioning

Players in the NFT market are constantly innovating and developing better products to meet the needs of users. A key pain point experienced by many advanced traders has been the lack of sophisticated NFT trading tools. Initially, we saw the emergence of NFT aggregators which aggregate listings and offer traders the ability to “sweep floors” of collections across different marketplaces. This was later followed by all-in-one NFT marketplace and aggregator hybrids, most recently Blur, which has attracted a sizable volume fairly quickly.

However, the lines are blurred (pun unintended) when comparing which platform has a distinct edge over the other. Aggregators such as Gem, Genie, and X2Y2 have their own strengths and offer similar aggregation functionality. On the other hand, Blur claims to be 10 times faster than other aggregators⁽²⁾, has a comprehensive suite of NFT trading tools, and offers a better UI/UX experience for pro NFT traders. Besides, Blur also has a temporary advantage in terms of zero marketplace fees. Depending on future governance proposals on fees, it remains to be seen whether users and volume can be sustained at current levels if fees are increased.

Looking at user metrics in the form of unique active wallets, we observe that OpenSea remained the top NFT marketplace by a large margin. Blur, on the other hand, has >40% less in terms of absolute number of active wallets in the past 30 days. This illustrates that a **relatively small number of users account for Blur's behemoth trading volume** - a sign of large deal sizes, more frequent trades per active trader, or wash trading (we will touch on this later). This is in line with Blur's market positioning to target pro traders.

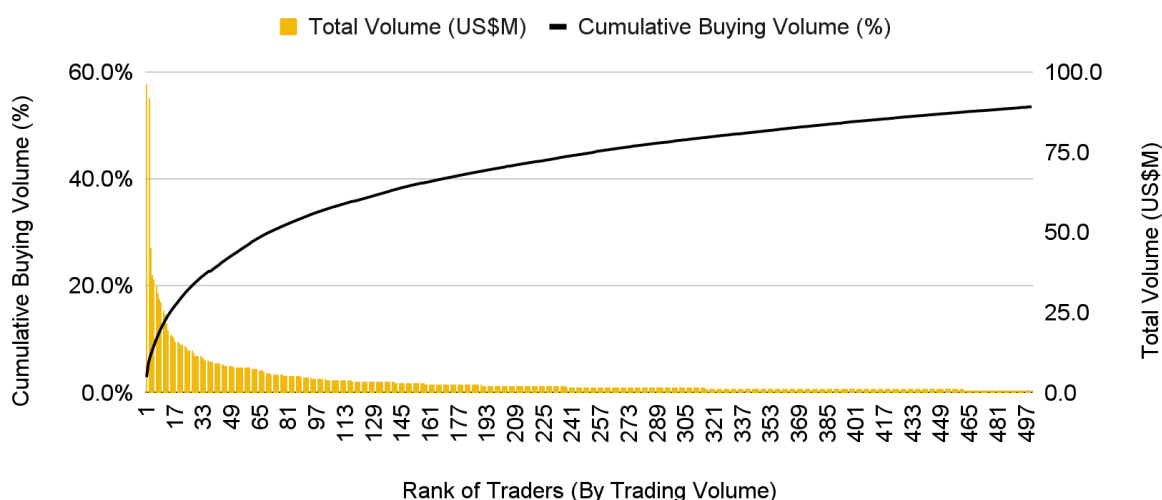
Figure 5: Blur has a relatively lower number of active wallets (30 days) vs. OpenSea



Source: DappRadar, Binance Research
As of 13 March 2023

Data from Dune Analytics (@jhackworth)⁽³⁾, further corroborates Blur's appeal to power users - **the top 15 users account for close to 15% of total buying volume on Blur** as compared to OpenSea where the top 250 addresses only make up ~11% of total trading volume.

Figure 6: Blur's top users contribute a sizable trading volume to the platform



Source: Dune Analytics (@jhackworth), Binance Research
As of 13 March 2023

2) Token Incentives

Tokens act as direct monetary incentives that are helpful in driving adoption of the platform. Since the launch of Blur in Oct 2022, it has been made clear that users who fulfill certain conditions would be eligible for care packages which would later translate into \$BLUR tokens. This has incentivized traders to adopt certain behaviors and to utilize the Blur platform for NFT transactions. For example, in “Season 2” of its airdrop consisting of 300M+ \$BLUR, Blur has announced that users that do not have listings on any other marketplaces will have the highest chances of receiving “Mythical Care Packages” which are worth 100 times that of “Uncommon Care Packages”. **This essentially disincentivizes users from using other NFT marketplaces.**

Despite the prominence of OpenSea, it has yet to announce its own native token. The lack of a native token makes it harder for both retail and institutional investors to gain exposure to OpenSea, with the few ways being to participate in their equity fundraising rounds or through private deals. Correspondingly, we have witnessed temporary declines historically in OpenSea’s trading volume market share as competitors (e.g. LooksRare, X2Y2) utilized tokens to incentivize usage of their respective platforms.

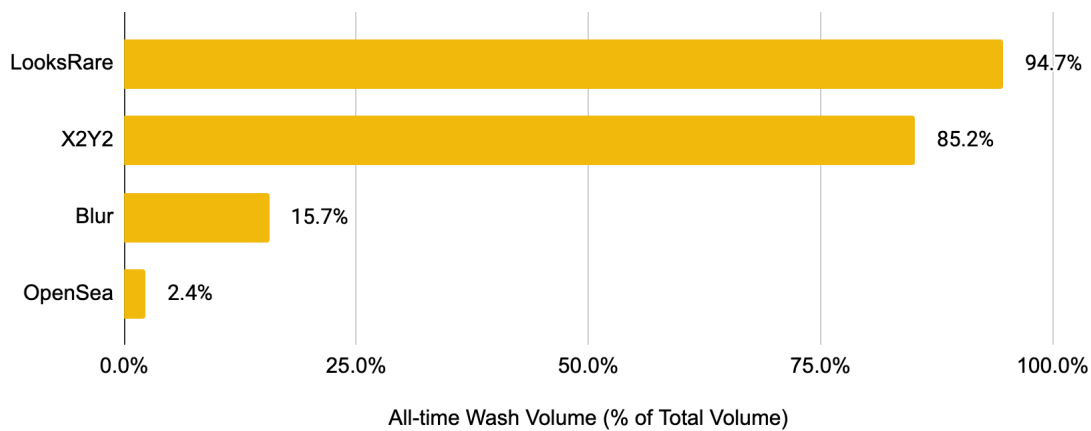
Nonetheless, we would highlight that **token incentives, while helpful in driving initial adoption of the platform, is not a catch-all solution** to drive sustainable growth.

3) Airdrop Design

Sybil airdrop hunters are not uncommon in crypto. For these users, the underlying motivation to use a platform is largely driven by the anticipation of future airdrops. They would find ways to game the system to increase their chances of being eligible for the airdrop. This is the case even with Blur, but what Blur has done differently is in terms of the airdrop design.

Instead of directly incentivizing users’ NFT trading activity, Blur has focused on incentivizing NFT listing liquidity (e.g. placing bids on collections with high trading volumes as close to the floor price as possible; rewarding users who list and trade NFTs on the platform). As a result, these strategies have contributed to a relatively low percentage of wash trading and genuine user traction. Referring to Figure 7, the proportion of wash trades on Blur (15.7%) is relatively low compared to LooksRare (94.7%) and X2Y2 (85.2%), although it is still elevated as compared to OpenSea (2.4%).

Figure 7: Comparison of all-time Ethereum NFTs wash trading volume as % of total volume

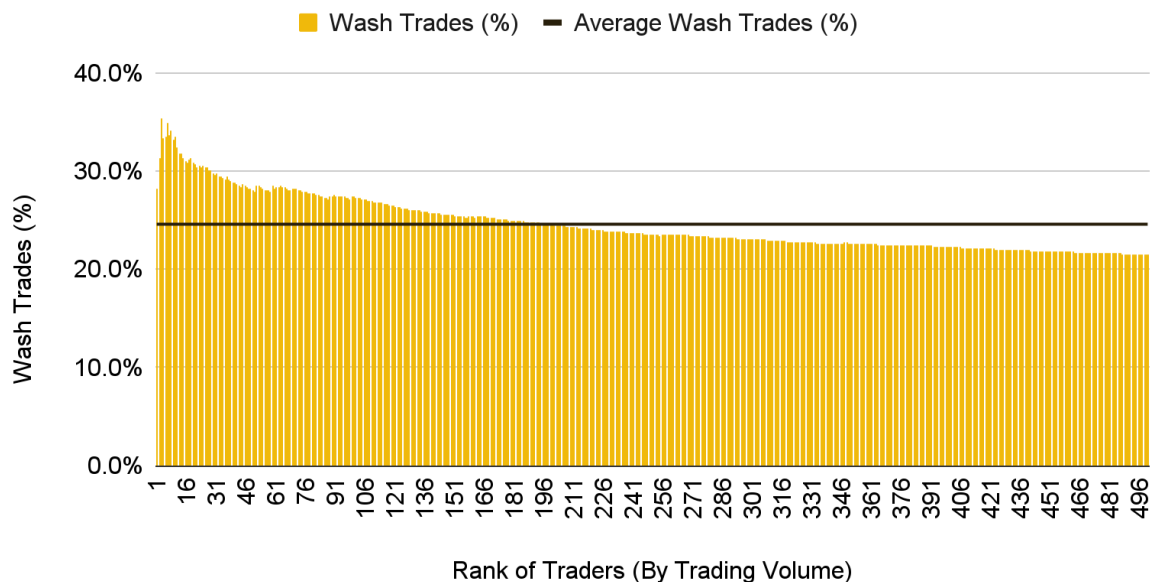


Source: Dune Analytics (@hildobby)

As of 13 March 2023

Given the prevalence of wash trading, it is almost impossible to eliminate such behavior although Blur's airdrop design has mitigated it. Notably, while the overall proportion of wash trades on Blur is relatively low, top traders on Blur have participated in a fair bit of wash trading to earn more rewards. **The top 500 traders on Blur have an average of 24.6% of their trades being wash trades, vs. 15.7% on the overall platform.**

Figure 8: Top 500 Blur traders have an average of 24.6% of trades being wash trades



Source: Dune Analytics (@jhackworth), Binance Research

As of 13 March 2023

4) Team and Investors

Behind every successful project is a team of hardworking developers who build new features and maintain the project, a group of active users who interact with the platform, and a passionate community that supports the project. In other words, people are at the heart of successful projects.

Besides OpenSea, the project teams of many competitors have opted to remain anonymous (e.g. X2Y2)⁽⁴⁾ or pseudonymous (e.g. LooksRare)⁽⁵⁾, making it difficult to discern the background and competency of team members. While Blur's team started off being pseudonymous, Blur's founder has since doxxed himself and disclosed more details about his background in a recent Twitter thread.⁽⁶⁾ Additionally, Blur claims that team members have amassed past experience from institutions including Citadel, Five Rings Capital, Twitch, Brex, Square, and Y Combinator.⁽⁷⁾ Although there is no way to publicly verify the background of other members, we reckon that the credentials have played a part in attracting community and investor attention.

In addition, having a strong cap table often gives confidence to retail and other investors that the project is credible. In this aspect, Blur has Paradigm as their lead investor and backing from various prominent crypto key opinion leaders such as [Zeneca](#), [DeeZe](#), [Oxmaki](#), [Santiago Santos](#), [Keyboard Monkey](#).⁽⁸⁾

What's next?

All things considered, it is too early to tell if Blur will be able to continue its growth trajectory after the recent airdrop, and if/when the marketplace introduces trading fees. Intuitively, activity should taper and there will likely be some form of trend reversal when incentives to use the platform reduce (although the extent of decline in activity is unknown at this point).

As we shall touch on in the next section, we believe the next critical move in this fight for market share relates to royalty policies.






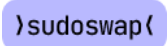
A Tough Fight: The Royalties War

In the fight for market share, NFT marketplaces have sought different ways to increase the competitiveness of their respective platforms. One way to achieve this is to reduce the cost of purchase by making the payment of creators' royalties optional for NFT traders. Besides affecting usage of the platform, strategic decisions relating to royalty policies taken by NFT marketplaces have a direct impact on creators' earnings. As such, it is pertinent to watch how this space evolves going forward.

In a move that represents an escalation of the marketplace royalty war, Blur has urged creators to block trading on OpenSea recently and will encourage this by enforcing full royalties on collections that block trading on OpenSea.⁽⁹⁾ In response, OpenSea announced that it will be moving to optional creator royalties with a 0.5% minimum for all collections without on-chain enforcement. Critically, OpenSea has also eliminated marketplace fees for a limited time.⁽¹⁰⁾

In effect, **by adjusting its trading fees and royalty policy, OpenSea has increased the competitiveness of its platform as the cost disparity for traders transacting on OpenSea and Blur has narrowed significantly.** As one of the most prominent NFT marketplaces, OpenSea has turned up the heat on the marketplace war.

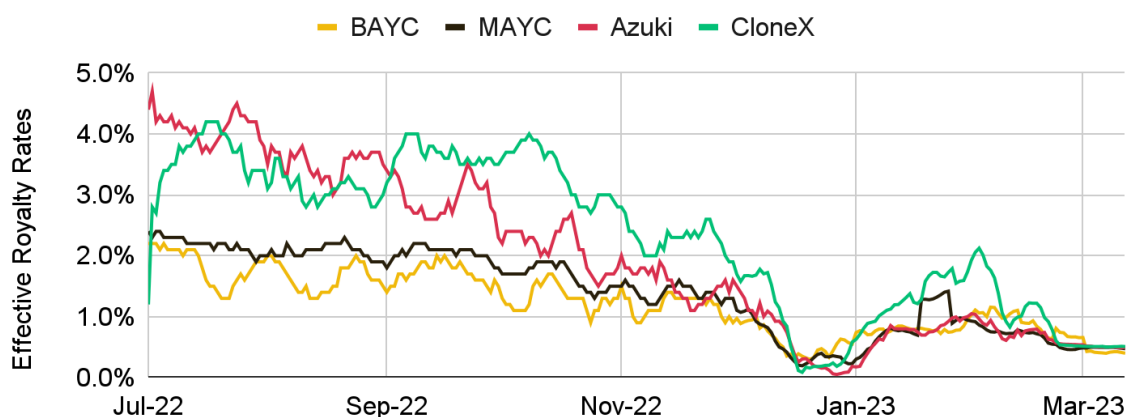
Figure 9: Overview of royalty fees policies

Marketplace	Royalty Fees
 OpenSea	Enforces a minimum royalty of 0.5%.
 BLUR	Enforces a minimum royalty of 0.5%.
 MAGIC EDEN	Enforces royalties for collections that opt-in to Magic Eden's Open Creator Protocol. Royalties are optional otherwise.
 X2Y2	Enforces royalties.
LooksRare 	Optional. Buyers can opt-in to pay royalties.
 sudoswap	Optional

Source: Marketplaces' websites, Binance Research

Looking at some of the top NFT collections, it is evident that circumvention of royalties is commonplace. Effective royalty rates (total royalties collected / total volume transacted) have generally fallen across the board. On first glance, the move to optional royalty fees has had an impact on creator earnings.

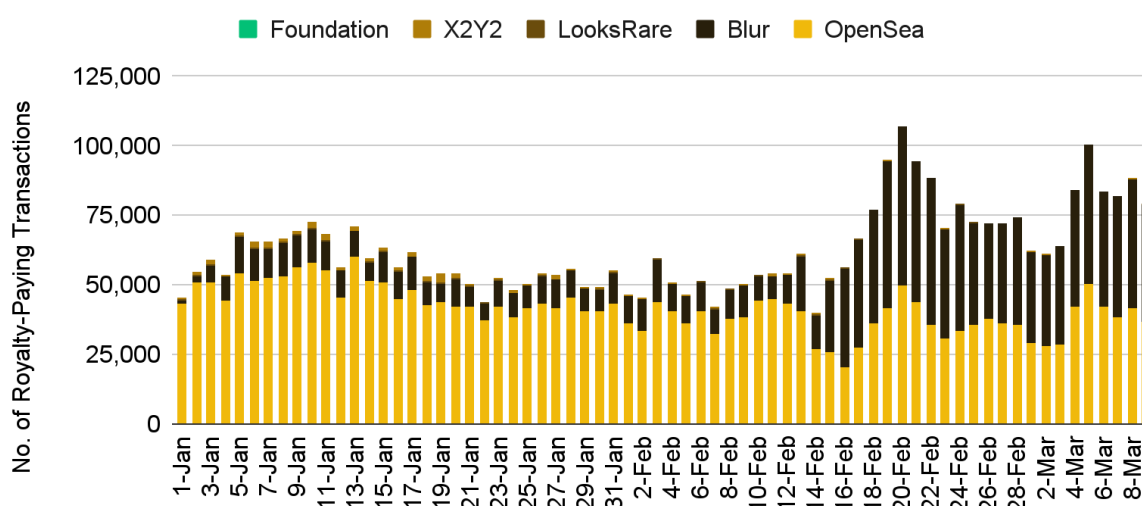
Figure 10: Effective royalty rates has fallen



Source: Dune Analytics (@beetle), Binance Research
As of 13 March 2023

However, a mitigating trend that we have observed is an increase in the number of royalty-paying transactions (largely attributed to Blur). This is likely a result of (1) lower royalty fees contributing to higher trading volume, and (2) an inorganic pickup in NFT transaction activity as a result of Blur's airdrop scheme.

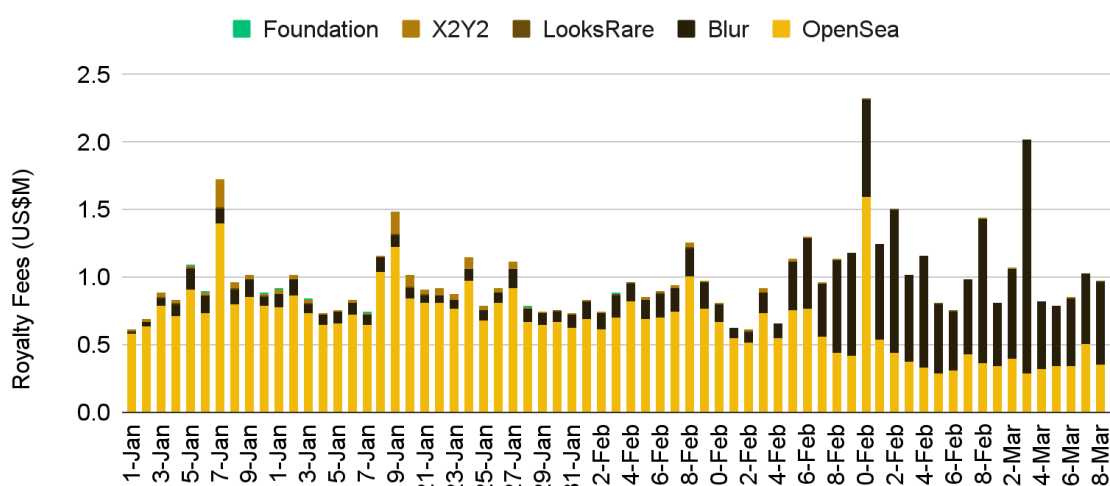
Figure: 11: No. of royalty-paying transactions has picked up



Source: Dune Analytics (@hildobby), Binance Research
As of 9 March 2023

On an overall basis, **creators today are receiving slightly more royalties than at the start of the year**. The increase in the number of royalty-paying transactions has somewhat offset the decline in royalty fees percentage. Nonetheless, we believe that this may be temporary as trading volumes today are not 100% organic but are instead, partially driven by airdrop incentives and reduced marketplace fees. When these schemes inevitably end, trading volume will likely decline, resulting in a net reduction in royalties received by creators. In this regard, we have seen some signs of reversion in March.

Figure 12: Royalties received by creators picked up in February



Source: Dune Analytics (@hildobby), Binance Research
As of 9 March 2023

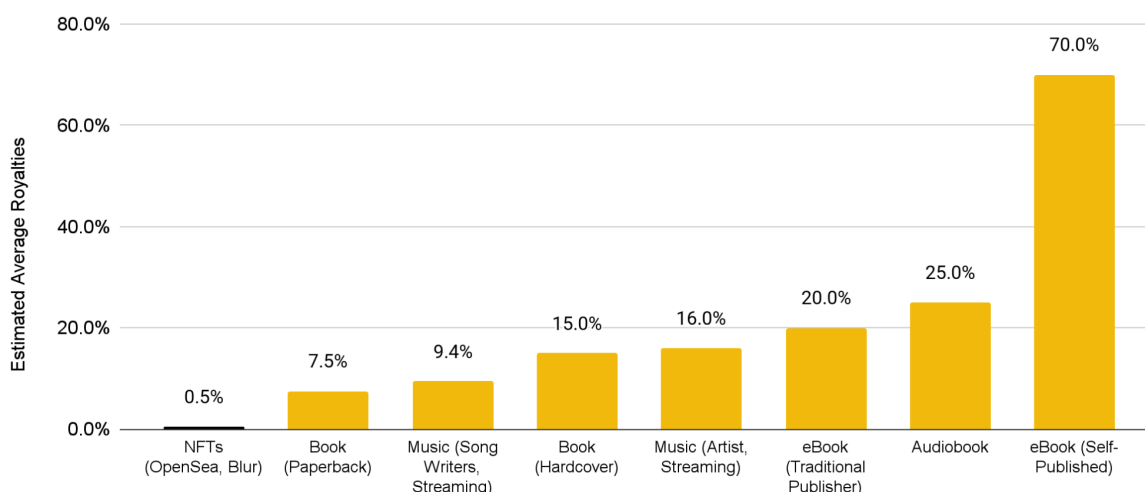
So where do we go from here? There are a few possible outcomes:

- ❖ Optional royalty policy is the new norm: At risk of losing market share, there is minimal incentive for NFT marketplaces to reverse their course and reinstate compulsory royalties. In the worst case, we may even see moves to further reduce minimum royalty thresholds (e.g. below 0.5% imposed by Blur and OpenSea today) although that is not our base case.
- ❖ Introduction of collection-specific marketplaces: Creators are at the losing end of this competition given the impact to royalty revenue. NFT projects may be incentivized to create their own native marketplaces (e.g. CryptoPunks marketplace) to facilitate secondary trades and enforce their own royalty policies. However, this may be difficult for smaller projects without the financial resources or technical expertise to do so.
- ❖ Change in creators' revenue strategy: We may see higher mint prices going forward as creators take into account lesser secondary royalties.

In its current form, enforcement of royalties is up to the discretion of marketplaces. Creators have been caught in the crossfire of the NFT marketplace fight. Until there is a clear consensus around this issue and infrastructure is more developed to help express such consensus, it is clear that **creators need to pursue additional means of monetization and foster a loyal base of collectors**. For NFT marketplaces, given the impact of royalty policies on usage of the platform, there is a clear motivation to keep policies in line with competitors to maintain competitiveness. However, an industry-wide implementation of optional royalties is unlikely to be sustainable for creators in the long run.

In the ideal scenario, marketplaces, creators, and market participants should work out a middle ground that is beneficial for all - balancing considerations involving monetary incentives, fostering creators' creativity, and long-term growth. For what it's worth, if royalties in other creative industries can serve as a guide, the current 0-0.5% NFT creators' royalties charged by major NFT marketplaces look unquestionably low.

Figure 13: Other creative industries generally charge higher royalties than what have been imposed by major NFT marketplaces



Source: Billboard, PublishDrive, Binance Research

Admittedly, differences in the maturity of the NFT market compared to the aforementioned traditional industries, as well as differences in the utility of products (e.g. profile pictures vs. books), makes for a challenging comparison. Nonetheless, it is clear that **royalties are a key source of income for creators in creative industries**. While completely eliminating NFT royalties or pegging them close to zero may spur innovation as creators look for alternative revenue streams, such a policy will undoubtedly reduce the attractiveness of developing in the space and impact the industry's growth in the long run.

Outlook and Closing Thoughts

Overall, the entrance of new players over the past year has contributed to an increasingly fragmented NFT marketplace landscape. We expect the competitive landscape to remain heated as incumbents battle for market share, and as new players try and enter the market to compete for a piece of the pie.

As we have observed over the past year, one of the key challenges that NFT marketplaces face is the lack of platform loyalty or user stickiness. At the end of the day, most NFT traders are inherently marketplace-agnostic. They typically do not mind which platform they are using as long as they are able to transact at the best possible price. In this aspect, price competitiveness is key. However, **besides competing on prices, NFT marketplaces need to focus on building a superior product to foster brand loyalty and drive long-term growth.** This includes but is not limited to developing valuable new features, ensuring deep liquidity, and optimizing the user experience.

In a similar vein, while royalty policies have a direct impact on buyers' cost and correspondingly, platform usage, a "down only" trend is unlikely to be sustainable for creators in the long run given that they are the lifeblood of creators. **Given the vital role that NFT marketplaces play in enforcing royalties, there is an unspoken social responsibility to do right by creators in order to foster sustainable growth of the NFT industry.** As such, it is important that all stakeholders come together to figure out a viable path forward (e.g. setting a reasonable royalty %) for creators, NFT marketplaces, and traders. Understandably, this is easier said than done and would likely involve some form of compromise from different parties, and will require some time to play out. Perhaps a possibility could be the emergence of a decentralized NFT marketplace to allow for social consensus to be built and to align the interests of different stakeholders in a democratic manner.

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- 9) https://mirror.xyz/blurdao.eth/vYOjzk4cQCQ7AtuJWWiZPoNZ04YKQmTMsos0NNq_hYs
- 10) <https://twitter.com/opensea/status/1626682043655507969>

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