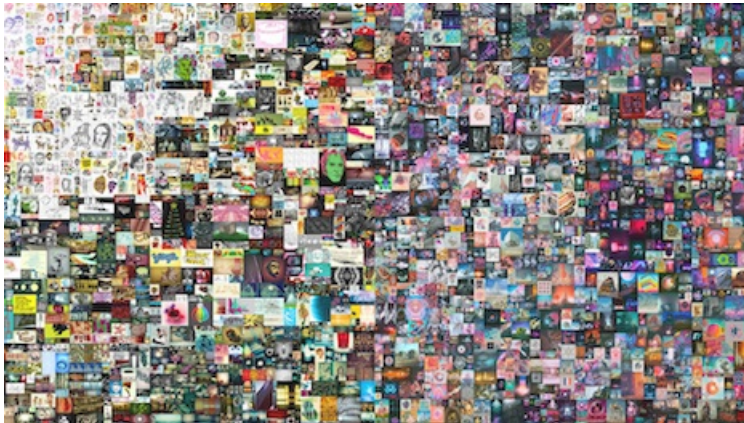


INTERNET

Why luxury cannot ignore NFT

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The First 5,000 Days digital artwork. Image credit: Christie's

By SARAH RAMIREZ

Non-fungible tokens (NFT) have rapidly emerged as a buzzword in recent weeks, as digital assets are sold for eye-popping figures.

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NFT can be traced back to blockchain technology and cryptocurrencies, and can be a similarly intimidating subject. As affluents become more comfortable with digital currencies, investing in unique online collectibles may be the next step for luxury buyers.

"The NFT market is just too large to ignore and could easily see \$500 billion in value over the next five years," said Megan Kaspar, managing partner of **Magnetic**, an investment firm specializing in digital assets. "The dematerialization of products, everything from clothing, shoes, handbags, accessories and even makeup is here.

"2020 was the catalyst for 2021's NFT boom and the big gateway' push for what is to come through in the next decade," she said. "The NTF for sale and that are being traded today are just the beginning of a global disruption wave coming to transform all industries, and most excitingly the fashion industry."

NFT building blocks

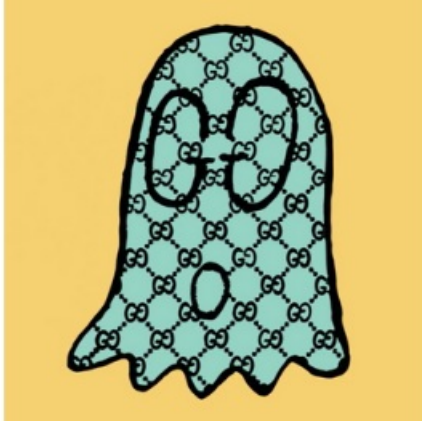
NFT are unique, or non-fungible, and easily verifiable digital assets, such as art, music, video and even GIFs and tweets. The NFT market is seeing exponential growth and achieving record sales, even as many consumers still try to wrap their minds around the concept.

"NFT have really captured people's attention at a time when so much of our time is played out online," said Alex Sturtevant, director of brand at **Stink Studios**. "It's important to understand that what's being traded isn't the object itself, but a digital certificate of authenticity that is seen as being valuable in its own right.

"Brands are already selling virtual products, but it's harder to create a sense of scarcity driving demand in the way that a luxury brand would do in the real world," he said. "NFTs offer a solution to that."

While a digital file, including those associated with an NFT, can be replicated endlessly, NFT are intended to give buyers proof of ownership through a unique code. This is verified through blockchain technology, which makes an NFT one-of-a-kind even as creators retain the copyright and others can still use and copy the image, video, etc.

online.



An NFT of a Gucci Ghost digital artwork is listed for sale for \$16,300 on Nifty Gateway. Image credit: Nifty Gateway

Currently, most NFT are part of the Ethereum blockchain, which is a type of cryptocurrency.

While a bitcoin is interchangeable with another bitcoin, or ethereum with another ethereum despite the fluctuating value of the specific cryptocurrency NFT are not interchangeable. Although a digital artwork or video highlight can be copied, only the owner of the NFT can sell the unique certification associated with that artwork or highlight.

"Only digital assets that harness blockchain technology are valuable," Ms. Kaspar said. "This is because the origin and ownership of a digital item harnessing the technology can be tracked on a blockchain."

The concept can be compared to art collection: while an artist may make and sell prints of their artwork, only one person can own the original. Similarly, if an artist signs and numbers the prints of their work, those become unique items, albeit less valuable just as one digital asset can have several NFT associated with it, since each collectible has its own entry on the blockchain.

Blockchain helps ensure authenticity, since the code cannot be counterfeited the way a certificate of authenticity for a painting could be forged.

Fittingly, perhaps, auction house Christie's set a new global record when it sold its first purely digital artwork, created by the digital artist Beeple, for \$69.3 million earlier this month ([see story](#)).

Outside of the art world, other brands and companies have started experimenting with NFT.

Twitter founder and CEO Jack Dorsey sold an NFT of his first tweet for \$2.9 million, with his proceeds going to charity. The Associated Press and *The New York Times* have also sold NFT for about \$180,000 and \$560,000, respectively.

There are several NFT marketplaces, which accept various forms of currency both digital and standard. One of the most mainstream platforms is NBA Top Shot, a joint venture between the National Basketball Association and the blockchain company Dapper Labs.

Similar to trading cards, game highlights are cut and sold in packs on the NBA Top Shot site for buyers to resell or trade later or "display" in an encrypted digital wallet.

According to the platform, more than 2 million purchases have been completed on the Top Shot marketplace, exceeding \$300 million in transaction value. Prices for "common" tier packs start at \$9, but an NFT of LeBron James dunking sold for \$208,000 in February 2021.



NFT of basketball highlights can sell for tens of thousands of dollars. Image credit: NBA Top Shot

"Collecting and trading unique or limited items has been trending for a long time," said Pieter Konickx, creative director at [B-Reel](#). "We've all been collecting and trading these items from when we were younger from marbles to Pokmon cards to sneakers and now NFT.

"This isn't a new behavior; it's just entered the digital era," he said.

Other sellers are already experimenting with tying NFT to valuable physical assets.

For instance, crypto-auction house [Duchamp's](#) recently launched by selling physical lots such as mint condition Pokmon box sets and Rolex timepieces paired with NFT. On March 31, master watchmaker and former Tag Heuer CEO Jean-Claude Biver and Swiss cybersecurity company Wisekey will open an [auction](#) of a luxury watch with a corresponding NFT.

"The next generation of NFT 2.0 will include usable, functional augmented reality (AR) NFT and virtual in-real-life (vIRL) NFT, which are physical objects and their digital twin tied together," Ms. Kaspar said.

What's next?

For now, part of the appeal of investing in NFT is the status and exclusivity associated with having large sums of cryptocurrency in the first place ([see story](#)).

Cryptocurrencies can also be difficult to spend. Currently, one bitcoin is valued at more than \$57,000.

U.S. automaker Tesla has announced plans to accept bitcoin as a form of payment ([see story](#)), while Major League Baseball's Oakland Athletics are offering full-season suites in exchange for one bitcoin. NFT offer another way to spend cryptocurrencies, while adding other digital assets to one's portfolio.

This is a gamble, however, as the value of both cryptocurrencies and NFT can oscillate. Blockchain use may prevent counterfeiting but does not eliminate all security risks.

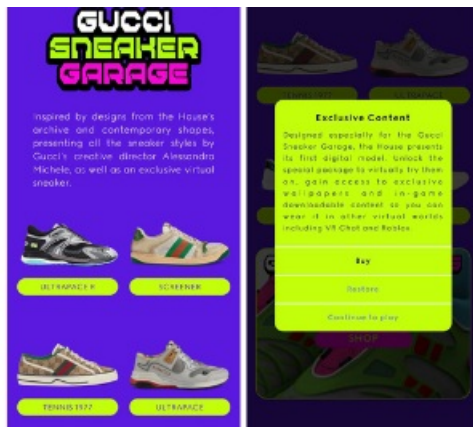
"NFT are a burgeoning industry with a lack of regulations and oversight by design as it is blockchain-based, like cryptocurrencies," said David Pickett, senior cybersecurity analyst at software company [Zix](#). "As such, the security implications will exponentially increase as user adoption grows with new attack vectors continuously discovered."

There are also environmental concerns surrounding NFT. While mining cryptocurrencies and validating blockchains have less of an environmental impact than diamond or gold mining, the energy consumption is still significant.

While some companies are looking to address this issue, others that want to be more involved with NFT should be cognizant of the environmental ramifications particularly as younger affluent consumers become more interested in sustainability.

"The fashion industry is notorious for being one of the top-most polluting industries globally," Ms. Kaspar said. "But we can change the medium and format in which consumption takes place and ultimately drastically reduce our use of physical resources."

It remains to be seen exactly how luxury brands, specifically in the fashion space, will approach NFT.



Consumers had to spend \$12 to access the Gucci Virtual 25 sneakers AR filters. Image credit: Gucci

Italian fashion label Gucci, which has already been experimenting with AR and gamification ([see story](#)), recently monetized its mobile AR filters. To view the new Gucci Virtual 25 sneakers, consumers have to pay a small fee before accessing the AR filters and sharing photos on social media.

B-Reel's Mr. Konickx expects more brands and platforms to monetize collectible AR filters. He also predicts that luxury brands will use NFT to offer exclusive products to their top clients.

Luxury will have to tread carefully, however, to avoid diminishing brand value, according to Magnetic's Ms. Kasper.

"Digital and fashion are colliding fast," Ms. Kasper said. "We believe most high-end luxury fashion brands will use their current business models in addition to consistently selling more rare or one-off' items in their use of AR NFT and vIRL NFT.

"The companies and brands that respond to these trends and move quickly will secure an extremely valuable position over the next decade," she said.

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