

The Metaverse in Retail: Taking Brand Recognition, Engagement and Loyalty to a New Level



We explore the technologies behind the metaverse and Web3, their benefits for retailers and selected use cases. We also profile blockchain platform Tezos.

- The metaverse stands on technological foundations, including virtual, augmented and mixed reality (AR, VR and MR), as well as blockchain, cryptocurrencies and NFTs (non-fungible tokens).
- Web3, the third iteration of the Internet, promises a decentralized version of the Internet, in which user content and data is no longer under the control of large tech companies, enabling creativity to flourish.
- The metaverse opportunity is estimated at hundreds of billions of dollars; sales of NFTs amounted to billions last year; and sales of virtual environments are running into the billions on a weekly basis. The magnitude of these investments suggests that there is an enormous emerging commercial opportunity.
- Brands and retailers can use the metaverse to create new, fantastic, otherworldly spaces and experiences, which can promote their brands, market their products and generate new levels of consumer loyalty.
- Tezos is an open-source, energy-efficient blockchain platform that embraces long-term upgradability, open participation, collaboration and smart-contract safety. These factors define how the Tezos blockchain differentiates itself from other blockchain technologies.

What We Think: Although the development of the metaverse is in its early stages and its timeline remains unclear, its development is likely to parallel that of the Internet, in which the experiments in the initial Web 1.0 version were perfected in its second incarnation, leading to the new business models and commercial opportunities that are commonplace today.

Introduction

What's the Story?

The [metaverse](#) (part of Web3, the third iteration of the Internet) continues to generate eye-popping headlines about the billions of dollars being invested and deployed into securing the ownership of certain assets and virtual land.

The metaverse land rush parallels the early 1990s (or Web 1.0), when there was a stampede of investors trying to secure a foothold in the early Internet, and many of these early business models were unsuccessful. Viable business models did emerge through Web 2.0, which have become successful franchises in online media, e-commerce and social media, among others.

While the metaverse is still in its infancy, already substantial investments suggest that the virtual world presents a sizable opportunity. In this report, we explore the technologies that drive the metaverse and Web3, and their benefits for retailers. We also present notable examples of brands that are exploring the frontier of the metaverse today.

This report is sponsored by Blokhaus, a marketing and communications agency specializing in the blockchain space.

Why It Matters

The metaverse economy could approach triple-digit billions of dollars by the end of this decade, according to Bloomberg and other forecasts, if current investment trends and the level of interest by platform developers, content creators and investors remain at current levels. As the Internet has become a life-altering, commonplace technology and a substantial contributor to retail sales, so the metaverse could become the platform for the next generation of commerce. Brands and retailers need to explore the opportunity and establish a virtual presence in order to participate in the metaverse economy.

The Metaverse in Retail: Coresight Research x Blokhaus Analysis

The Metaverse and Its Technologies

The metaverse is envisioned as a decentralized virtual environment—i.e., not under the control of any companies or central entities—that unlocks human creativity to create virtual worlds in which people can spend time, be entertained and engage in commerce. Technologies such as VR provide immersive, 3D experiences that give the user the impression of actually being in these imagined spaces, represented by personalized avatars.

Key Building Blocks of the Metaverse

We identify three key technologies as fundamental to the opportunities and benefits presented by the metaverse that we discuss through this report:

- **Blockchain**—This decentralized technology forms the basis for commerce and asset tracking in the metaverse. It enables a public ledger of transactions in an indelible record that is shared across the participants in the chain, and its strengths include trust, verifying ownership, transparency and traceability.
- **Cryptocurrencies**—The decentralized nature of cryptocurrencies make them a logical method of payment in the decentralized metaverse.
- **NFTs**—Non-fungible tokens (NFTs) are unique, unreplicable units of data that represent the ownership of a piece of digital intellectual property such as an image, work of art, video or audio clip, or virtual property. NFTs can also have utility, in that they can be used to gain access to exclusive experiences, for example. Records of NFTs reside on a blockchain and can be owned, sold or traded.

Internet Technology's Evolution Toward a Decentralized Structure

The evolution of Internet technology spans three distinct stages, which we present in Figure 1.

Figure 1. Stages in the Development of the Internet

Stage	Web 1.0	Web 2.0	Web3
Period	1990–2005	2005–Present	Future
Features	<ul style="list-style-type: none"> • Static web pages • Few images • Owners create content • Differing browser standards 	<ul style="list-style-type: none"> • Dynamic web pages • Video • Social media • Greater performance • Some personalization • Common standards 	<ul style="list-style-type: none"> • Decentralized web pages • Decentralized data • Intelligent web • AR/VR/MR • Metaverse and virtual worlds • User ownership of data

Source: Coresight Research

The decentralized nature and different architecture of Web3 offers benefits for users and content creators, including the following:

- **Longevity through decentralization.** Websites in Web3 are decentralized: they are not hosted on one server or network and are therefore protected against deletion or failure.
- **User ownership of data.** Whereas data in Webs 1.0–2.0 are hosted on the servers or networks of the host, data in Web3 belongs to its owner and is not subject to control or misuse by any one entity. The data is on the blockchain, without centralized intermediaries.
- **User content promotion.** Although Web 2.0 enabled the creation of user content such as videos, blogs and social media posts, these media are highly reliant upon the large technology companies hosting and storing the information; in Web3, these restrictions fall away, unlocking users' creativity.
- **Foundation for the metaverse.** The strengths of Web3 enable users to imagine and create their own worlds and experiences that they own and curate them with content, which can be durable, long-lasting entities that are not beholden to large tech companies or hardware failures.

The Metaverse and Web3

The terms metaverse and Web3 are interrelated, since the metaverse can have a decentralized structure and uses many of the same technologies. Figure 2 illustrates that the metaverse centers on creating an immersive environment that connects to the physical world, whereas Web3 contains the tools for creating a decentralized Internet with user ownership of data. Therefore, while the metaverse leverages many of its technologies, Web3 represents a new technology paradigm that is much broader in scope than just providing immersive experiences.

Figure 2. The Metaverse vs. Web3—Key Differences

	Metaverse	Web3
What is it?	A digital environment that connects to the physical world; the closest approximation to real-life human experience possible through technology	Concept of a decentralized Internet, with user ownership of data
What technologies does it use?	<ul style="list-style-type: none"> • Aural, visual and tactile experiences • Decentralization • Graphical interface • Internet connectivity • Web3 technologies 	<ul style="list-style-type: none"> • Blockchain • Cryptocurrencies • Decentralized finance • Distributed autonomous organizations • NFTs
What is available now?	Some parts available	Available

Source: Coresight Research

Tezos: A Promising Blockchain Platform in Web3

Tezos is an open-source blockchain platform (supported by Blokkhaus) that embraces long-term upgradability, open participation, collaboration and smart-contract safety. These factors define how the Tezos blockchain differentiates itself from other blockchain technologies, offering the following advantages:

- **Self-amending:** Community governance is a unique feature of Tezos. The platform was built with mechanisms to ensure active participation. Users can evaluate, propose or approve amendments to Tezos, empowering collaborative innovations that keep the platform on the leading edge of technology.
- **Smart contracts:** According to Tezos.com, it is a leading smart-contract proof-of-stake blockchain. The platform's smart contracts use a formal verification process, enabling them to be mathematically verified, reliable and secure. Its smart contracts are written in a language called Michelson, which Tezos states makes them more dependable and secure.
- **Low-carbon footprint:** Tezos' low-carbon footprint is one of its greatest competitive advantages. In addition to its energy efficiency, the blockchain has relatively low mining costs, which enables marketplaces to offer lower transaction costs and so reduces the economic barriers for entry into NFT marketplaces.

As illustrated in the next section, the Tezos blockchain has been used by brands for gaming, the creation of avatars and NFT marketplaces.

Why Should Brands and Retailers Leverage the Metaverse?

Benefits

The nature of the metaverse enables brands and retailers to create new virtual spaces and experiences (that can be combined with physical counterparts), which are able to employ visuals, sound and even touch to new places or experiences to reinforce their brands or enhance customer loyalty.

- **Engaging with consumers.** Brands and retailers can create new, imaginary or fantastic otherworldly places and experiences that even transcend the laws of physics in order to create a sense of engagement that cannot be duplicated in the physical world.
- **Selling products/content.** Goods and services in the metaverse are virtual—including avatars, power-ups and apparel—and shopping experiences in the metaverse can be used to purchase goods and experiences in the physical world as well.
- **Ensuring brand recognition.** Brands can use the combination of places, images and sounds to create fantastic and unforgettable experiences that leave an indelible impression on the consumer's mind, associating the experience with the brand.
- **Promoting consumer loyalty.** The unique expression of creativity possible in the metaverse offers new ways to enhance customer loyalty, such as by offering loyal consumers access to unique places and experiences to keep them returning.
- **Offering a compelling consumer experience.** Brands and retailers can offer virtual experiences that are impossible in the physical world. The metaverse enables retailers to remove friction in the shopping process compared to brick-and-mortar retail, such as having to stand in line at checkout.
- **Using smart contracts.** Blockchain-enabled contracts are activated when certain conditions are met, triggering an action such as effecting payment. They are able to greatly reduce administrative and compliance costs, enabling retailers to be more efficient, offer lower prices or pass on lower transaction costs.

Opportunities

We believe that there are three significant opportunities for brands and retailers in the metaverse: the ability to engage in commercial transactions, the ability to own unique items representing digital content and virtual spaces, and the potential value from appreciation in the cryptocurrencies that transmit value and anchor assets. We explore each below.

- *Commercial Transactions*

The commercial opportunity in the metaverse is set to grow to nearly \$800 billion in 2024 from about \$500 billion in 2020, based on research from several sources compiled by Bloomberg in December 2021. This figure comprises social media ads; gaming AR and VR hardware; gaming software, services and ads; and live entertainment—combining mature markets such as social media ads and gaming software as well as emerging markets such as VR hardware. The future metaverse opportunity, if successful, could ultimately be many times this figure once the underlying technology is able to offer billions of users a compelling experience.

- *NFTs and Virtual Land*

We are seeing multibillion-dollar investments into the rights to digital property and virtual land, suggesting that investors expect a substantial return once billions of users start visiting, and spending in, the metaverse.

NFT sales hit \$17.7 billion in 2021, a near-200X increase over the \$82.5 million total sales in 2020, according to a study conducted by NFT data provider NonFungible and L'Atelier BNP Paribas. Included in this figure is \$5.4 billion from reselling or buying NFTs.

The top 10 NFT collections have generated over \$14.6 billion in sales for their creators, as shown in Figure 3.

Figure 3. NFT Collection Rankings by All-Time Total Sales Volume (USD Mil.)

Rank	Collection	Sales
1	Axie Infinity	\$4,067
2	CryptoPunks	\$2,228
3	Bored Ape Yacht Club	\$2,054
4	Mutant Ape Yacht Club	\$1,468
5	Art Blocks	\$1,241
6	NBA Top Shot	\$994
7	Otherdeed	\$778
8	CloneX	\$644
9	Azuki	\$644
10	VeeFriends	\$536
	Total for Top 10	\$14,652

Sales figures as of May 5, 2022

Source: CryptoSlam

The sale of land in virtual spaces also generates large figures. In one week in late November 2021, metaverse land sales amounted to more than \$100 million, of which \$86.6 million alone was generated by NFTs representing land sales within metaverse platform *The Sandbox*.

- *Cryptocurrencies*

The strengths of cryptocurrencies—digital, decentralized, low/zero transaction costs—are even more compelling in the decentralized, global metaverse. Many virtual environments are built upon currency blockchains.

Despite its popularity in trading and speculation, Bitcoin is not the primary building block of the metaverse, largely due to a lack of smart-contract capabilities. We believe that about 80% of

NFTs are traded using Ethereum, denominations of Ethereum or currencies based on Ethereum such as SAND and MANA (which are used in *The Sandbox* and *Decentraland* virtual environments, respectively).

NFT Use Cases

There are several compelling use cases for NFTs from brands and retailers. We summarize notable examples in Figure 4 and discuss each in detail below.

Figure 4. Selected Retailer and Brand NFT Use Cases

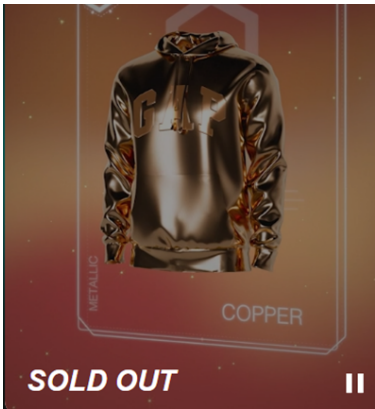
Brand	Partner	Platform	Products
Gap	Tezos	Gamified NFTs	Hoodies
Nikeland	Roblox	Customize avatars	Enhancements and accessories
OBJKT	Tezos	Smart contracts	NFT marketplace
OneOf	Tezos	Music NFT marketplace	Connects music artists with fans
Play with Brio	Tezos	Gaming platform	Skill-based esports
Red Bull Racing Honda	Tezos	NFT fan experience	Collectibles
Zara	Zepeto and Ader Error	Creating avatars	Apparel and footwear

Source: Company reports/Coresight Research

Gap: NFTs To Drive Consumer Engagement

On January 13, 2022, Gap launched its first product line of NFTs in collaboration with Interpop, a company building on the Tezos blockchain platform. The series of limited-edition Gap hoodies was designed by New York City artist Brandon Sines on Tezos.

Gap added a gamified element to its NFT product launch to drive consumer engagement. The digital collectibles were launched in four phases: “common,” “rare,” “epic” and “one of a kind.” Consumers had to qualify to be eligible to purchase the “epic” collectibles: After collecting four “common” and two “rare” NFTs, consumers could fuse the six NFTs to create a collector’s special NFT and so qualify for an “epic” NFT or exclusive physical merchandise.



Source: Gap

Nikeland: Shopping and Gaming on Roblox

NIKE partnered with *Roblox*, a multiplayer online virtual environment, to create “Nikeland,” an immersive experience modeled after the brand’s headquarters where visitors can play games, personalize their avatar’s looks and enjoy experiences not possible in a physical setting. In Nikeland, user avatars possess super abilities such as lightning speed. Users can browse shoes, clothes and accessories to personalize their avatar, which they can take anywhere they travel within the *Roblox* universe. NIKE has also incorporated Nikeland into its physical NYC flagship

store with an AR function that allows games to be played inside its physical store using a Snapchat Lens.



Source: NIKE

OBJKT Marketplace for Eco-Friendly NFTs

OBJKT is one of the leading and largest marketplaces operating on the Tezos blockchain. It supports both English and Dutch-style auctions. The platform began as a unique NFT marketplace that offered extra tools and a unique user interface. Since its launch, OBJKT has expanded to support NFTs from other Tezos-based NFT platforms and honors the creators' royalties as set on the original platform the NFT was minted on.

OBJKT is the largest marketplace operating on the Tezos blockchain and is considered the most eco-friendly NFT marketplace, since it leverages a low-carbon-footprint blockchain.

OneOf: Connecting Music Fans and Collectors

OneOf is a green NFT platform that connects music artists with fans. The NFTs are built on the Tezos blockchain, which uses "over 2 million times less energy" than other popular proof-of-work blockchains, according to Tezos.com. In an era of increased focus on social responsibility and the conscious consumer, the OneOf platform is popular among artists and consumers because it uses a blockchain with a low-carbon footprint.

Furthermore, by leveraging Tezos, OneOf removes financial barriers within the NFT marketplace. Tezos offers low transaction fees for NFTs, and OneOf further reduces these costs to \$0, to create an equitable community without economic barriers, where artists and collectors of all backgrounds have a creative space to mint, share, buy and sell their creations.

Play with Brio: Esports Skill-Based Platform

Play with Brio is the first esports skill-based gaming platform. Currently, games available include the *Solitaire Square-Off*, in which users compete head-to-head, attempting to move cards from the deck and tableau to the foundation before their opponent can, and *21 Throwdown*. Eventually, Brio intends to launch the Bingo, Mahjong, Sudoku and Yatzy games to its platform. Users will be able to compete in games to earn cryptocurrency.



Source: Tezos

Red Bull Racing Honda: Digital Collectible NFTs

Red Bull Racing Honda announced its partnership with Tezos in May 2021. As part of the initiative, Red Bull Racing Honda launched its first digital, collectible NFTs in November 2021, exclusively on the Tezos blockchain. As global Grand Prix fans are still being affected in varying degrees by the pandemic, the NFT launch enables Red Bull Racing Honda to provide a new, unique and immersive experience to its fans.



Source: Red Bull Racing Honda

Zara: Digital Clothing and Makeup for Avatars

In December 2021, apparel brand Zara announced a collaboration with Zepeto, a Korean tech firm, and Ader Error, a Korean fashion collective. The “AZ Collection” was designed as a reflection of the ability to express ideas and originate new thoughts, according to Zara. The collection includes oversized down jackets, patchwork knitwear, scarves, hats, messenger bags, backpacks, sunglasses, jeans, sneakers, suits, coats and cosmetics. Each SKU (stock-keeping unit) is available for purchase online through the Ader Error x Zara virtual store, hosted within the Zepeto platform. The physical version of these products is also available for purchase, as Zara is bringing the digital and physical realms closer together.



Source: Ader Error

What We Think

Although the metaverse and Web3 are still in their early stages, we have already seen glimpses of the potential to combine VR, decentralized data and storage. Moreover, the metaverse possesses the power to unleash human creativity to create new places and experiences that represent a quantum leap above what current computing and communications hardware and software. As was the case with Web 1.0 becoming Web 2.0, the general direction of Web3 is clear, but the timeline is unknown.

However, we can imagine the immersive and fantastical nature of these new places and spaces, and their compelling nature is likely to bring in consumers who will want to spend time in the metaverse and use their cryptocurrencies to purchase goods, services and experiences.

While the current environment appears a chaotic land rush, retailers and brands certainly do not want to miss out on a new cultural and technological movement on a global scale—and would be well served by placing a stake in the metaverse and experimenting today. The potential economies of a decentralized, unlimited global playground are too large to ignore.

Implications for Brands/Retailers

- Brands can engage with the metaverse via minting NFTs, acquiring virtual spaces, and collaborating with platforms and marketplaces. There is unlimited potential in terms of the environments, products and experiences that can be imagined.
- Virtual places and experiences can be combined with physical ones. Sales of virtual goods and experiences could potentially surpass sales of physical ones.
- Employees or virtual assistants will have to be developed or trained to work in virtual shops.

Implications for Real Estate Firms

- Real estate firms are currently exploring transferring their expertise to the metaverse. Property rights take on another meaning when backed by an NFT.
- The details regarding collecting rent, offering mortgages and evictions will have to be worked out.

Implications for Technology Vendors

- Blockchain technology continues to evolve, offering new opportunities.
- There are opportunities in creating the tools to design virtual worlds.
- One major technological hurdle being worked on centers on the ability to take one's virtual goods into another virtual ecosystem.

Deborah Weinswig, CPA

CEO and Founder
Coresight Research
deborahweinswig@coresight.com

John Harmon, CFA

Senior Analyst

Richard Marooney

Analyst

New York • Hong Kong • Lagos • London • Mangaluru (India) • Shanghai

Coresight.com