Crypto Business Models & Defensibility

PRESENTER
Ali Yahya, Andreessen Horowitz
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Blockchains are **computers**.
Blockchains are ecosystems.
Blockchains Are Ecosystems

A Walk up the Stack
The Periphery

LAYER 3
CLIENT & USER INTERFACE

LAYER 2
SMART CONTRACTS

LAYER 1.5
COMPUTE

LAYER 1
CONSENSUS

LAYER 0
HARDWARE & NETWORKING

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The Core
Core Crypto Business Model
LAYER 1
Business Model
Layer 0: Hardware & Networking

Layer 1: Consensus

Layer 1.5: Compute

Layer 2: Smart Contracts

Layer 3: Client & User Interface

Value Capture Paradox
LAYER 1
Defensibility
Network Effects
Cross-Side Network Effects

Examples: Lyft, iOS
Community Owned & Controlled
Community Owned & Controlled  \rightarrow  Autonomous Programs
LAYER 2
Business Model
Examples
Compound

Case Study
Core Layer 2 Business Model

Capture a Revenue Stream

Governance Token Holders

Supply Side

Demand Side

Smart Contract

Service Offered

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LAYER 2
Defensibility
Virtuous Cycle

Example: Compound

Lenders
Supply Side

Assets in Protocol

Borrowers
Demand Side
Compound Network Effects

Cost & Risk for Users

Defensibility

Assets in Protocol ($)
Exercise: How is defensibility affected by:

1. Fragmentation of assets in protocol across contracts?
2. Distribution of assets in protocol between users?
3. Rate of churn of assets in protocol?
Value Capture in Crypto

Multi-Sided Platforms + Network Effects