The Other Way to Make Money Out of Bitcoin

By Andrew Shipilov , INSEAD Professor of Strategy

The best strategy to piggyback on a new ecosystem may be to build a complementary product or service.

What does a Bitcoin day trader or an Ethereum miner of the 21st century have in common with a Californian gold digger of the 19th century?

The answer is that they are both looking for gold—digital or physical. Another similarity is that their endeavours will benefit the ecosystem of complementary product or service providers. During the Gold Rush period, Levi Strauss made money selling jeans to the gold diggers. Jeans were part of the gold diggers' ecosystem at that time. Today, wallets to store coins or computer chips that solve math problems play the same role as the jeans back then.

Making complementary products can be a way to benefit from other people's risk taking. The value of complements frequently rises with the value of the core products.

Storing the gold

Take the cryptowallet Ledger Nano S. This is a USB-like device that allows digital currency owners to store value offline and mitigate the risk of hackers stealing their funds.

In France, you could have ordered this product in November 2017 for 60 euros. By the end of December 2017, the price had already gone up to 79 euros. The company that makes this device, Ledger Wallet, is currently not shipping until March 2018 as it ran out of stock. The product can still be purchased on Amazon for more than 100 euros, and on Ebay.fr for close to 400 euros. By the time you read this, prices may be different.

Clearly, many people bought a lot of digital gold during the bit- and alt-coin trading frenzy over the Christmas break. Fearful of hacker attacks, owners of digital currencies started to look for secure ways to store them. Cryptowallets such as the Ledger Nano S flew off the shelves. Whether cryptocurrency prices go up or down, the maker of the wallet will still make money because people will need to store their more (or less) valuable coins somewhere.

Nvidia is another case in point. Its share price has more than doubled since last year. A large part of this growth can be explained by the demand for its graphics processing units, which were used by miners to run the operations that generate digital currencies. In other words, Nvidia benefitted from the fact that people were using its chips to mine digital gold, and not to play video games. A perfect parallel to Levi Strauss.

Complements help avoid the pain

In general, the best strategy to piggyback on a new ecosystem is to build a complementary product or service. The complements have to address a user pain point. For example, the Ledger Nano S addresses the pain point related to storing cryptocurrencies. Levi Strauss addressed the pain point of gold diggers who couldn’t find pants sturdy enough to withstand the stress of hard physical labour.

How do you know which pain point to address? Become a core product customer and observe your own pain points. As they’re likely to be shared by other users, it can give you ideas for what the market may need. If you discover multiple pain points, these can be addressed during the product iteration process. The more pain points your product or service addresses, the more likely it is to be taken up by customers.

Beware of creating your own pain points, however. The navigation system of the Ledger Nano S only has a basic LCD screen and two buttons, which makes it painful to enter passwords or security phrases. The company recognised that pain point and has now launched Ledger Blue, an iPad-like device with a touch screen. This creates a nice set of a low-cost product (for price-conscious customers who don’t mind the two buttons) and a differentiated product (for those willing to pay more for ease of input).

Despite the volatility of cryptocurrencies, there is a non-zero probability that some of them are here to stay. What their price will be in 12 months is anybody’s guess. It could reach the sky or it could be close to zero. But what is clearer is that a lot of money was made last year not through buying and selling digital coins, but rather through the making of complementary products.

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