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Creating Value with Blockchain: What Entrepreneurs Need to Know

The world of blockchain can seem dauntingly complex, but without venturing too far down a technical rabbit hole, there are a few basic principles about blockchain that entrepreneurs and founders should be aware of.

What Entrepreneurs Need to Know

The use of blockchain in the coming decade can enhance the value of many businesses, and right now, there is significant venture capital interest in companies using blockchain technology, with over $25bn of funding provided in 2021. In the coming years, successful companies are likely to be prime targets for future IPO or acquisitive activity.

Why is this? Broadly speaking, blockchain applications have the potential to cut out the costs and inefficiencies of intermediaries, and become trusted solutions.

The blockchain itself is simply a method to store and manage information, like the internet. But where it differentiates from conventional IT structures, is that it is possible to reliably share information, to trust its output, but without needing to trust any of the other parties involved in the network.

What is blockchain?

Blockchain looks to be the next major advance in information technology after the internet. As another method to store and manage information, it has a range of potential applications across many sectors that could lead to it becoming a general-purpose technology.

Its structure enables the creation of a trusted network without individual participants in the network needing to trust each other.

This is fundamentally different to how we typically engage in economic transactions, which is that:

- We trust someone because we know them (peer-to-peer), and this enables a transaction to happen;
- We trust the legal process, which is the framework that enforces a transaction;
- Or we trust an intermediary, like a bank, to facilitate a transaction between unrelated parties.

The application of blockchain avoids the need to rely on these trust models.

Key advantages

Bypasses intermediaries and costs

Through its use of economic incentives and cryptography, blockchain is able to create a trusted record of transactions, a ledger, which bypasses the need for an intermediary, and bypasses certain incremental costs; for example, this might include the costs of monitoring and enforcing sanctions, such as the cost of prosecution if an individual attempts fraud.

Decentralisation avoids failures

As well as this inherent trust and cost efficiency, blockchain's advantage over traditional databases is in its decentralisation – broadly this means that there is no central point of failure that can prevent transactions from taking place.

Synchronisation ensures transparency

The entire network is also synchronised. All data is transparent and available to all parties on the network, and any transactions that are made are conferred and visible across the entire network; there is no need for different parties to create separate ledgers that they then need to reconcile.

Immutability means reliability

Blockchain is then immutable, which means that it is effectively impossible to change a previously recorded transaction. This provides efficient and reliable auditing capabilities.

Chris Malcolm, Partner and Co-Head of Technology, finnCap Cavendish, comments:

"While blockchain as a concept has been around for some time now, we're actually still in the nascent stages in terms of how entrepreneurs are using the technology.

"It will be interesting to watch this trend develop as we move forward; founders and entrepreneurs that identify parts of their business that could utilise blockchain in a positive way could see many potential competitive advantages and places to add value."

Distributed ledgers

More generally, blockchain is one type of a broader set of distributed ledgers that store and manage information in a decentralised form.

There are a wide range of potential applications for blockchain and distributed ledgers, and they are already gaining traction in multiple areas, including:

- Finance (digital currencies, clearing and settlement of financial transactions, financial asset tracking, and insurance);
- Asset exchange (tracking luxury goods or any valuable asset – physical or digital);
- Corporations (supply chain management, contract execution and dispute resolution, and critical information security);
- Governments (voting, land registries, and public records); and
- Personal data management (identity verification and control of online identity).

Examples of where the technology is already being deployed include Walmart Canada, which introduced a distributed ledger to automatically create and process invoices for its 70 third-party freight carriers. This avoided the costs of reconciling the data from multiple systems, to check invoices and resolve disputes.

"As different sectors and different applications need different solutions, it won't be one size fits all, and distributed ledgers will continue to evolve to meet specific needs," explains Michael Hill, Technology Research Director, finnCap Capital Markets. "It will be a mix of existing companies and start-ups that create these solutions, as you can tell from the investments already being made by multinational banks, or for example, shipping companies, which can use it to track the position of any one container. Companies that are developing this technology have a lot of VC interest in them right now, because each application has the potential to become the definitive trusted solution for a network for decades to come."

"As a blockchain or distributed ledger then seeks to scale, potentially with shared ownership from leading stakeholders, external capital can support other stakeholders in validating the network. To this end, transparency is essential, to ensure that new users are confident it will deliver the outcomes they're expecting and trust the solution enough to start using it."

What makes these companies natural candidates for IPO or acquisition, is the independence, due diligence, and corporate governance required to become publicly listed or to maximise value from a sales process. Either process enables a company to publicly demonstrate the success of your operations, show how you're being funded while receiving new funding to accelerate growth, and allow external investors and stakeholders to verify and validate your solution with confidence.

In the same way that the internet impacted all businesses, there is scope for blockchain to do the same.

Bear in mind that after the launch of the World Wide Web in 1989, by 13 years old the internet had already seen the dot com boom and bust. Companies that would go on to shape society and surpass market caps of $1tn were only just forming and scaling: Google was four years old; Facebook would only be founded two years later in 2004. After its launch in 2009, blockchain is now 13 years old and beginning to show similar trends, with a challenging 2022 after a booming 2021, and potentially transformative applications of the technology are continuing to evolve.

A little bit about Bitcoin

Bitcoin was the first application of blockchain back in 2009. Doubtless, though, you're aware that the technology and business of blockchain does not begin and end with Bitcoin.

Indeed, the risks associated with the well-documented, dramatic ebb and flow of the cryptocurrency markets is unlikely to inspire the average entrepreneur to get involved. You'll have enough risk to deal with just trying to grow a company.

It is however worth noting that, with the cryptocurrency market facing challenges, crypto firms are currently on the lookout for acquisition targets, potentially including those with more traditional finance models, to drive usership and/or obtain regulatory licenses. Meanwhile, as recently as August 2022, BlackRock partnered with Coinbase, to make it easier for institutional investors to manage and trade Bitcoin, marking a major push into cryptocurrencies for BlackRock.

Identify where blockchain can help

Putting cryptocurrency to one side, the potential applications are vast. In order to see where you could utilise the technology, take a broad look at all of your operations. As an entrepreneur, if you can identify an area or process of your business that relies on an intermediary to function, ask yourself if creating a blockchain or distributed ledger with your peers could cut out, streamline, or indeed shift the balance of power with that intermediary. It could increase cost efficiency within your operations while also creating transparency and trust that will bolster future growth or acquisitive activity.

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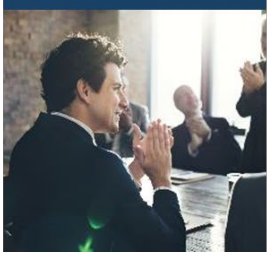

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