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Points Farming – Development, Significance, and Controversies

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Executive Summary

- Recently, **points farming** has become ubiquitous in the crypto industry, with more than 115 billion points distributed till Feb 2024. It refers to users completing certain tasks on protocols to accumulate points or rewards.
- It is a **hybrid model** of the **'bait and hook'** approach. Points farming *'baits'* users to the protocol with the hope of a future airdrop. It also provides a 'hook' for users to engage with the dapps, similar to yield farming.
- One of the pioneers of points is **Blur**, a NFT marketplace launched in October 2022. Subsequently in 2023, protocols including **Tensor, MarginFi, Friend.tech, and Jito** also announced Points Programs. This gave rise to the gradual proliferation of points farming across various Web3 sectors.
- **Friend.tech** and **EigenLayer** are successful examples of how points programs can enable platform growth. Yet, both airdrops faced community criticism, including around token transferability and distribution strategy. They serve as reflections on the significance and controversies around points farming.
- Point farming brings pros and cons to both users and protocols:
    - To the **users**, points farming enables earning of potentially lucrative rewards through token airdrops. However, they face considerable information asymmetry as users have no control over the eventual airdrop. Profits may be low as retail participants may be farming with a high anticipated fully diluted valuation (FDV) that offers limited upside potential.
    - To the **protocol**, points farming is an effective way of user acquisition and marketing. It aids platform growth while allowing the protocol to retain control over the usage of points and timing of the airdrop. Yet, it also casts doubt on protocol sustainability after the points program, and may lead to community backlash if the airdrop is not up to the market's expectations.
- Points farming is an overall **positive for Web3** and could help protocol development, while it is not a precondition to a protocol's sustainability. It is important to consistently create value to provide 'hooks' that retain users.
- A point program can only be truly effective if there is a **high level of trust between users and project founders and if the protocol (and its token) can bring true value to the community and space**. While it offers advantages in user engagement and fundraising, misuse of trust could undermine effectiveness in the long run.

1. Introduction

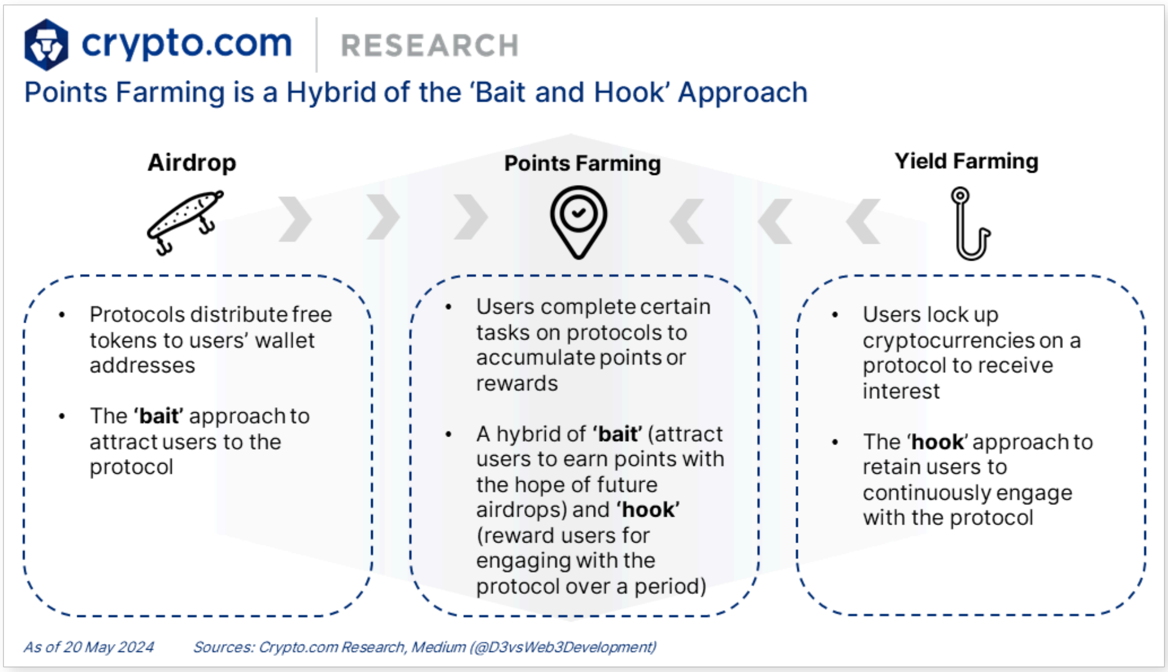
Blockchain protocols are increasingly using 'points' to entice user behaviour or gain user attention, giving rise to the phenomenon of points farming. **Points farming** refers to users completing certain tasks on protocols to accumulate points or rewards.

Points farming is *not unique* to Web3. It is widely seen in the Web2 space – for example points programs in grocery stores or airline programs to accumulate miles. It is a way to induce loyalty amongst customers and provide a trackable incentive.

Points are also *not new* to Web3. It is often described as a combination of airdrops and yield farming.

- An **Airdrop** is the strategy of distributing free tokens to users' wallet addresses. It is often seen as a cost-effective marketing strategy for protocols to raise awareness. However, long-term user stickiness and engagement are often in question as users potentially would 'pump and dump' the tokens post-airdrop. For users, while they earn tokens for free, airdrops are not always guaranteed as the rewards (including amount, constraints, and timing of airdrop) are at the protocol's discretion.
- **Yield farming** encourages continuous user engagement which involves users locking up cryptocurrencies on a protocol to receive interest. It benefits the users through passive income, but on the other hand, users risk facing impermanent loss, fluctuating yields, and smart contract risks.

Similar to yield farming, points farming rewards users for engaging with the dapps. Points farming also baits users just like an airdrop does, as users are attracted to the protocol with the hope of redeeming their points into future token rewards (although this is not guaranteed). Hence, points farming is a hybrid model of the 'bait and hook' approach.



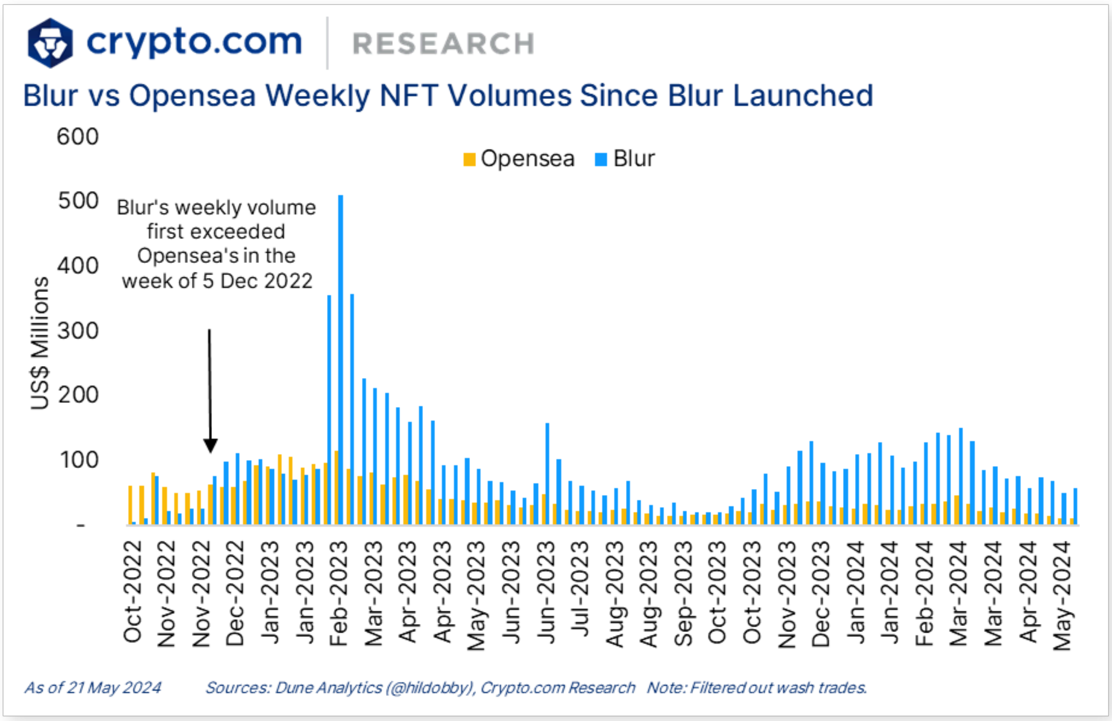
Here are some common characteristics of a typical points farming program:

- Points themselves do not have value – but they could accrue value with the trust of a potential token airdrop in the future, which however is at the team's discretion.
- Earning criteria for points (actions, distribution, timing) are decided by the team. Users may have to pay high gas fees or lock up assets with the protocol to gain points.
- Points are stored off-chain.

2. Overview of Points Farming and Selected Case Studies

2.1 Overview

According to the Block, more than [115 billion points] have been given out till February 2024 across protocols. One of the pioneers of points is [Blur], a NFT marketplace launched in October 2022. It launched a successful points farming program which subsequently converted into an airdrop, allowing it to overtake OpenSea as the largest NFT marketplace (by trading volumes) within 2 months of its launch.

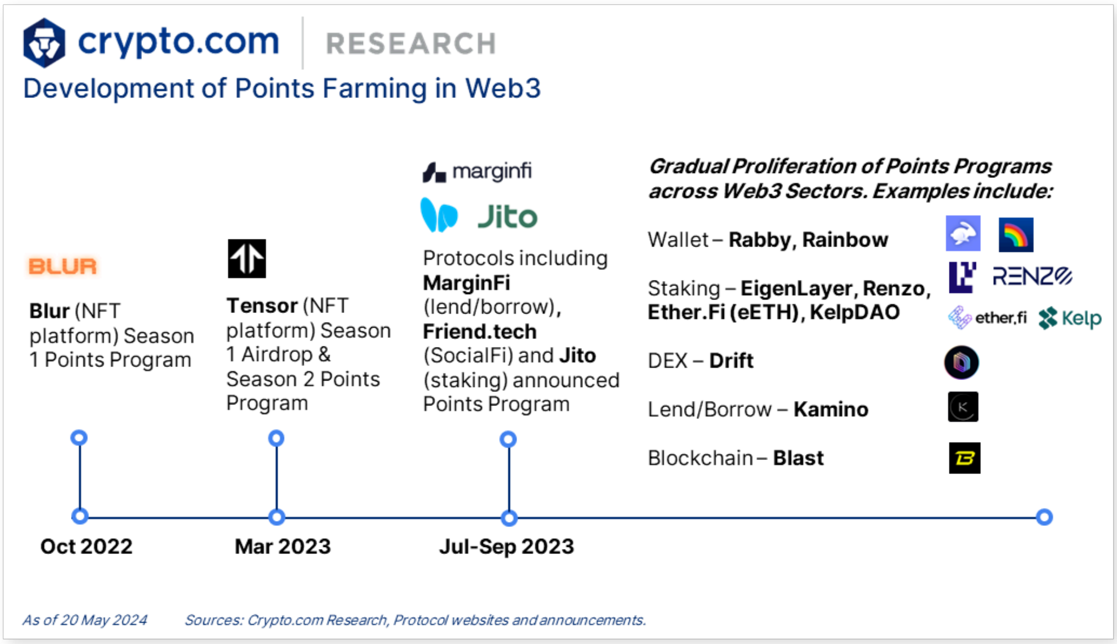


[Friend.tech], a social dapp on the Base blockchain, also caused a frenzy when it launched in August 2023. It captured attention in the community due to its unique blend of SocialFi and crypto. And at the same time, with its points farming program distributing points every week, it quickly gained popularity.

Since then, points programs have become a ubiquitous go-to-market approach for protocols as the market has seen multiple successful examples of boosted user engagement, volumes or TVL on the protocols after introducing points. Protocols including wallets, DEXes, and lending/borrowing platforms have jumped onto the bandwagon to launch various points initiatives. In late 2023/early 2024, points accumulation started to become very popular amongst liquid restaking platforms including EigenLayer, Ether.Fi, and Renzo, as we've seen exponential growth in TVL of these platforms.

Points are perceived as 'tokens before tokens' and precursors for an airdrop. At the same time, similar to airdrops, users have seen how potentially lucrative these rewards can be. Hence more users are devoting their time to 'farm' points in hopes (or expectations) of receiving tangible financial rewards through a future token airdrop.

Here's a summary timeline of the development of **points farming** in Web3:



Points derivatives platforms, which enable pre-trading of points before token launch (spot or derivatives) have also become popular. Some examples include **Whales Market** and **Hyperliquid**. They provide a platform for users to cash-in their points ahead of the conversion to tokens, and provide a way for the market to speculate on the value of their points rewards.

There are some common points distribution criteria from protocols, including 1) Volume, 2) Time, 3) User referral, and 4) Engagement with other protocols in the same ecosystem.

Metrics	Categories	Remarks	Examples
Volume	DEX NFT Marketplaces SocialFi dApps	Trading volume	Drift, Demex Blur Friend.tech

	Wallets		Rabby Wallet, Rainbow
	Borrowing/Lending	Borrowing/Lending volume	MarginFi, Kamino
TVL	Staking/Restaking	Amount of token staked	EigenLayer, Renzo, Jito, Ether.fi, KelpDAO
Balance	Chain	Specific tokens' balances in wallet	Blast
Time	Borrowing/Lending	Borrowing/Lending duration	MarginFi, Kamino
	Staking/Restaking	Staked duration	EigenLayer, Renzo, Jito, Ether.fi, KelpDAO
Referral	Not specific	User referrals	Hyperliquid, MarginFi, Friend.tech, Blast, Rabby Wallet
Engagement with other protocols	Not specific (Examples include blockchains)	Earn points multipliers when engaging with specific dapps in the same ecosystem	Blast

Yet, points programs are not without controversies or failures. Recently, Renzo, the second largest liquid restaking protocol by TVL, saw a major community backlash post airdrop announcement in April 2024. Renzo announced that the initial community allocation in Season 1 was only 5% of tokens. This coincided with a misrepresented pie chart on token distribution leading to community confusion. Subsequently, Renzo saw withdrawals of staked ETH (ezETH), which further led to brief de-peg of Renzo's ezETH to $688 (market price of ETH was ~$3,200) on Uniswap on 24 April and liquidations on multiple protocols. In response to the backlash, the Renzo team updated its airdrop terms.

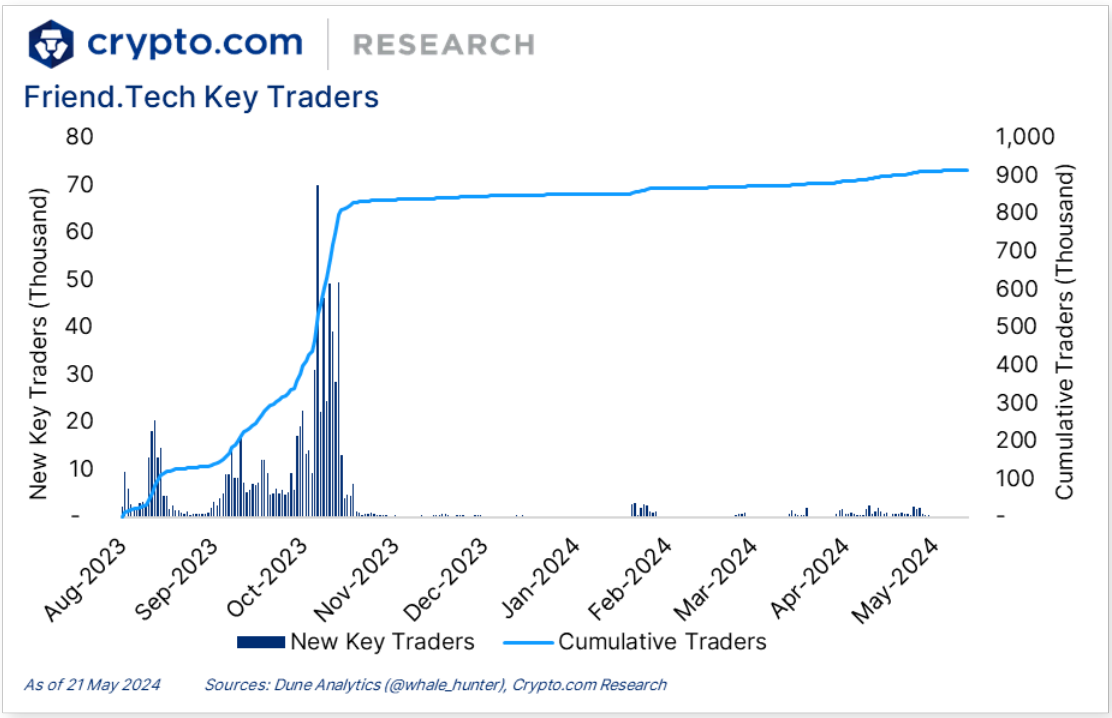
We further explore case studies of Friend.tech and Eigenlayer – the two most recent notable points programs below.

2.2 Friend.tech

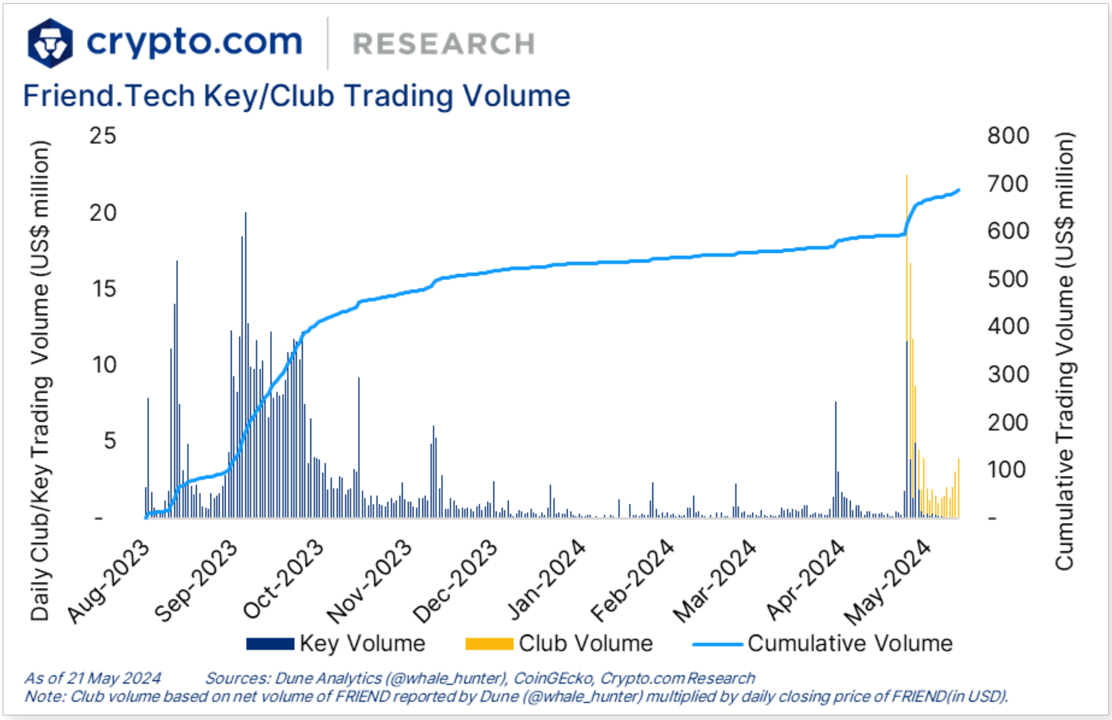
Friend.tech is a popular SocialFi protocol where users interact with content creators using social tokens called 'keys'. Users can purchase creators' keys to get access to privileges, for example private chatrooms and exclusive content. The keys' prices fluctuate and can be traded.

Friend.tech planned to give out a total of 100 million points to active users over 6 months (with points distribution every week). It subsequently announced in January 2024 that it already distributed 90 million points during the beta period and that points earning will be halted, with the remaining 10 million to be distributed after v2 launch (officially live in early May 2024).

Although Friend.tech kept the points-earning criteria non-specific, points distribution is found to be correlated with portfolio/key value, weekly trading fees and weekly fees earned (for creators). The protocol successfully used the 'bait and hook' approach to attract users. Users are interested in the protocol's novel features, yet at the same time, they are potentially also points-driven (or money-driven), as they engage with the protocol to earn points in hopes for a future token airdrop. Friend.tech quickly gained much attention, accumulating ~140,000 key traders and $124 million of key trading volume within 1 month since launch.



However, the hype saw a steep decline amid doubts around its sustainability, revenue model, and privacy policies. The lack of continuous novel features (v2 was only officially announced in March 2024 and launched in May 2024) also couldn't match up to the longevity of the 6-month airdrop program. The number of new key traders dropped substantially since late October 2023 (two months after the protocol launched), while key trading volumes also peaked in September 2023 and didn't reach new highs since.



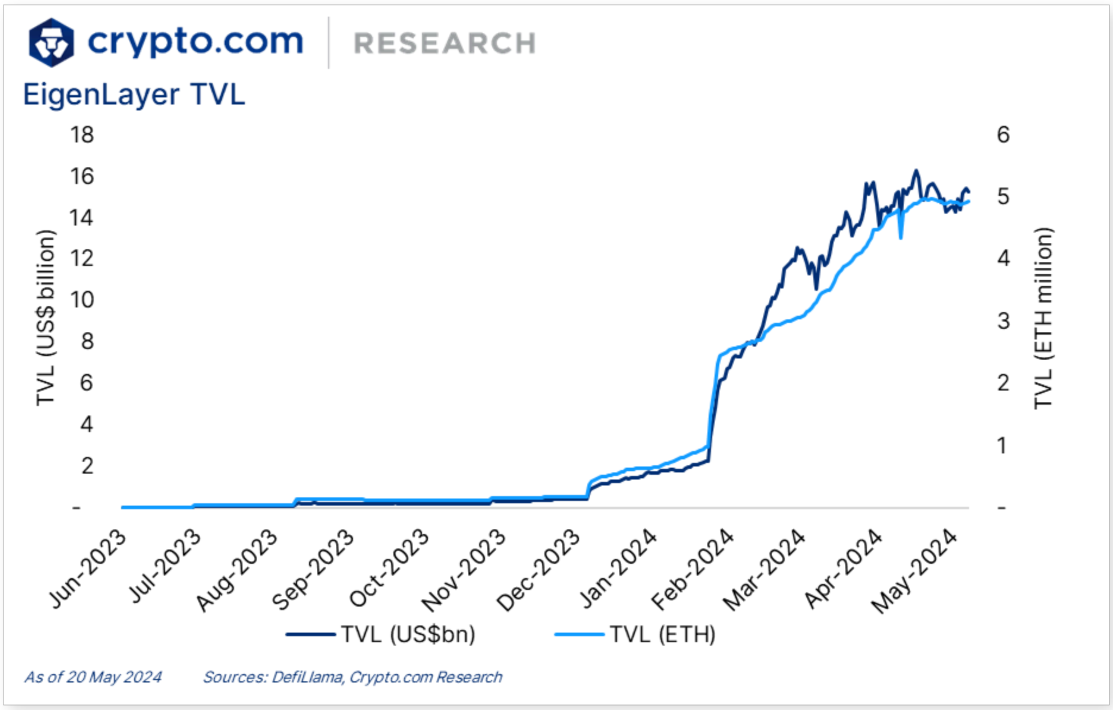
The protocol's activity picked up again in March-April 2024 when an airdrop and v2 launch were teased. Yet, trading volume couldn't reach the highs of September-October 2023. New key traders remain muted and average key trading volume in the most recent two months (21 Mar-21 May 2024) was only 31% of the first two months (10 Aug-10 Oct 2023).

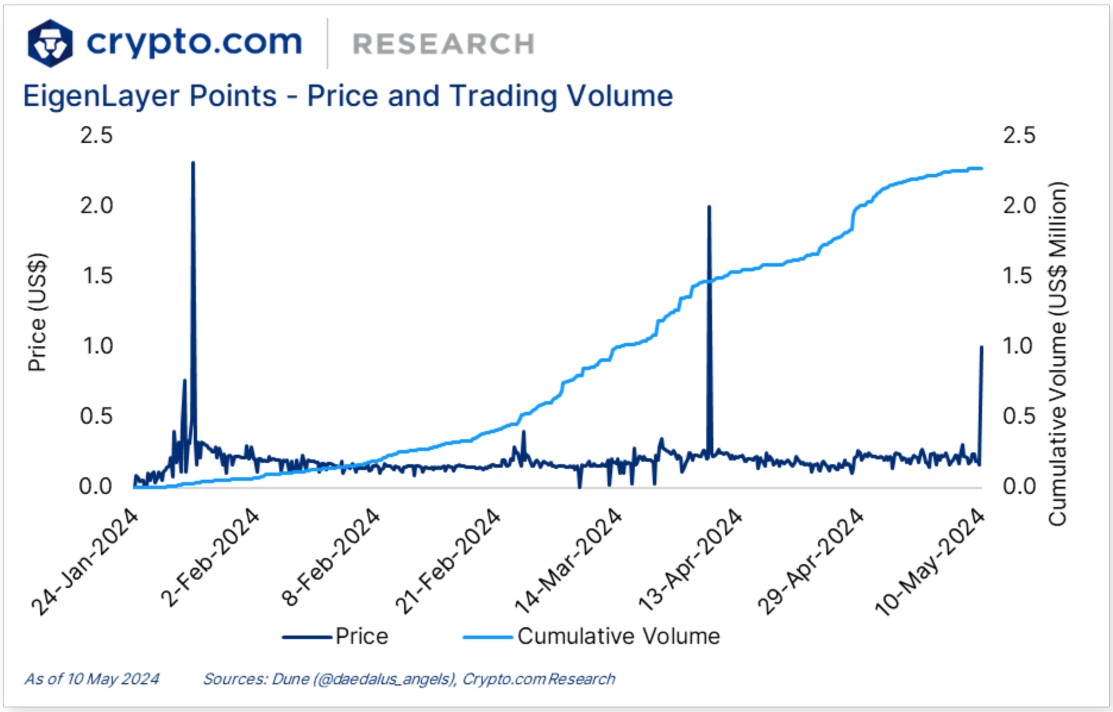
The airdrop happened on 3 May. Subsequently, the token price tanked to a low of $0.89 on CoinGecko within hours of launch, which coincided with 'pump and dump' activities from points/airdrop farmers, as well as reports on the largest holder dumping all tokens. The airdrop also faced criticisms around technical glitches (multiple error attempts) and lack of token transferability except to trade on the native DEX Bunnyswap. Another debatable feature of the airdrop design was that only 10% of $FRIEND can be claimed freely. The remaining 90% only if users follow 10 other users on the app and join a 'Club' – a new groupchat feature where keyholders can elect presidents of the respective clubs.

Friend.tech capitalised on the influencer/content creator hype and launched a points program which served as a bait for users. It was successful in the first two months, yet the hype didn't seem to sustain through the airdrop period. Friend.tech aims to use the recent airdrop to rejuvenate protocol activity – through cross-selling the new club feature. From the users' end, the airdrop restrictions essentially 'forced' them to use 'Club' in order to claim the airdrop. However, from a protocol point of view, Friend.tech used this to keep the 'hook' for users by coupling the airdrop together with the launch of new features. While the market may need more time to judge the sustainability of Friend.tech, with this example we saw a way where points farming and airdrop could enable Friend.tech to migrate and allow users to try out the new features.

2.3 EigenLayer

Eigenlayer is the pioneer of restaking which began its stage one mainnet launch in June 2023. While users are drawn to the additional restaking yield offered, some are farming Eigenlayer points as an added incentive. Points in EigenLayer are accumulated based on the amount and time of ETH and liquid staking tokens staked, and were highly speculated to be related to the future airdrop. It is one of the most notable points programs launched to date. As more liquid staking tokens (LST) are supported on Eigenlayer, as well as multiple ecosystem players like Renzo, Ether.fi, and Swell are supporting Eigenlayer points farming, Eigenlayer's YTD TVL skyrocketed from $1 billion in Jan 2024 to $15 billion at the time of writing. At the same time, pre-trading of Eigenlayer points also picked up since January with $2.3m total volume of points traded till 10 May 2024, in line with the TVL trend.





EigenLayer's airdrop was subsequently announced in April 2024. In the Season 1 airdrop, the initial allocation of EIGEN tokens is calculated linearly based on the amount of points with consideration on loyalty (earliness, amount and duration of staked assets), and with preference to direct native staking.

However, the announcement did receive criticism and caused a backlash amongst the community. One of which is that the tokens are **non-transferable** until a future date. This means that even after months of accumulating points, users could not cash in on their investments. Another common criticism formed around the scope of the token distribution – only 5% of tokens were distributed in Season 1 which **excluded restakers from 30 countries** (including US and Canada) though users from these countries aren't barred from interacting with the platform.

It also **excluded certain liquid restaking service providers or third-party platforms**. In addition, some criticised its linear token distribution – to be favouring the whales since they would have more staked volume, rather than rewarding activeness and engagement.

In response to the community backlash, EigenLayer announced that it would distribute an extra 28 million EIGEN tokens to 280,000 wallets, including all users that interacted with EigenLayer before April 29.

In conclusion, from the protocol's point of view, Eigenlayer's points program led to massive platform growth. Not only can users earn points through native staking on Eigenlayer, points can also be earned by staking on third-party platforms or other providers – which widened the reach and contributed to the exponential growth on Eigenlayer. Eigenlayer's TVL has mostly stabilised in the recent month post airdrop announcement, as users still capture value from the protocol through the restaking yield. Yet the controversies have reflected the debates around points programs and the associated fairness on token distribution. Users have expectations towards airdrops – they expect to be rewarded fairly given the time and capital they put in to earn points, however the ultimate airdrop decision and distribution are at the discretion of the team and may not make everyone satisfied.

2.4 Pros and Cons

We've explored some of the case studies and controversies of points programs above. The table below summarises the pros and cons of points farming for the protocol as well as for users:

Type	Pros	Cons
For Users	• Ability to earn potentially lucrative rewards if the protocol decide to convert points to tokens	• Low transparency of the points program (e.g. specifics of how many points can be earned for different operations)

	• Investors with fewer assets may have a fair chance to earn rewards if the token amount and trading volume are not the main consideration in the point system	• No guarantees that the points will be converted into actual financial rewards since the decision making power lies with the protocol • Potentially low ROI if retail participants farm points at high anticipated FDV before TGE. To capture upside, they must farm more efficiently than others to get better airdrop allocation
For the Protocol	• Effective user acquisition and marketing • Could successfully lead to growth (e.g. no. of users, TVL, revenue) at a relatively low customer acquisition cost • Retains control over eventual usage of points • Provides ample time for the protocol to grow and mature before the eventual token launch (if any)	• Sustainability of the user stickiness post points/eventual airdrop is still under question • Can cause community backlash and impact protocol reputation if the eventual usage of points is not up to expectations

For Users – Pros

Earn Rewards

Points, if converted to actual tokens, can potentially be lucrative. Also, there are points-derivative platforms for example HyperLiquid and Whales Market which enable pre-trading of points from selected protocols if users want to trade-in rewards early.

Depending on the criteria of the protocol, users with smaller amounts of capital may also have a chance to obtain decent rewards if the team decides to reward non-volume related metrics, for example user engagement and activeness. One example is Jito (JTO), a Solana-based liquid staking protocol, that was reported to reward near $10,000 JTO tokens if a user only moved around $40 worth of JitoSOL (staked SOL on Jito).

For Users – Cons

Low Transparency

Users do not have control over the process of this points program – for example, they may not know the criteria that apply to earn the points, or if and when there will be an airdrop. Moreover, the conversion from points to tokens is not revealed in detail in most circumstances. In other words, users are faced with considerable information asymmetry, making points farming another form of speculation.

No Guarantees

Ultimately, points are just an expectation of a potential token airdrop which is not binding. Rewards (if any) may not be up to users' expectations, and in some cases users have to spend high gas fees or certain principal to earn points. This may lead to dissatisfaction in the final outcome e.g. in the case of Renzo or even to losses. Users are 'hoping' to be rewarded by the protocol and investor protection is low.

Potential Low Return of Investment (ROI)

The points distributed by projects are being farmed and can have a certain anticipated (i.e. it could be high) Fully Diluted Valuation (FDV) before the Token Generation Event (TGE). This means that retail participants may be farming with a high FDV that offers limited upside potential. Since everyone has a similar expected FDV for the project, the only way to capture meaningful upside is to farm more efficiently and at a higher rate compared to other participants, in order to secure a better airdrop allocation ratio.

Additionally, if a protocol's airdropped token had a very high FDV but a low circulating supply (meaning that a large proportion of the token is retained for future release), it would suffer from selling pressure as the high FDV (which represents the future of the protocol) is a result of the misleading point farming.

For the Protocol – Pros

User Acquisition & Marketing

The main challenge for new Web3 projects is drawing in users, which necessitates a concerted focus on marketing and business development, particularly if the project lacks significant VC backing. Deploying a points-based system can be an effective marketing tactic, as it provides flexibility to adjust the points-to-token conversion ratio and incentivises targeted user behaviours without being constrained by a fixed token issuance schedule.

Platform Growth Without Giving Up Governance

There are successful examples of protocols that saw huge uptick in platform metrics since the launch of the points program, as mentioned above. In Blur's case, it even exceeded its competitor, OpenSea, after announcing the points program. The growth can come without much upfront cost – the protocol didn't need to issue tokens or give up governance rights in exchange for growth. In a way, the points program is perceived to be 'a token before the token'.

Retaining Control of Points – Both in Usage and Timing

The protocol can decide what to do with its points. There is no fixed promise of an eventual airdrop or conversion to actual tokens – it's all at the discretion of the protocol. Even if there is an airdrop, the team can decide the points-to-token conversion ratio and the reward mechanism.

The protocol can also decide the timing of the airdrop (if any). This provides ample time for the protocol to grow to a certain maturity before deciding on the token launch. This potentially allows users to familiarise themselves with the protocol, discover features and form a habit of continuous engagement to ensure protocol sustainability.

For the Protocol – Cons

Uncertain Sustainability Post Airdrop

Points are a precursor to an airdrop – and similar to what we've seen with crypto airdrops, there are often cases of 'pump and dump' where token value drops drastically when unlocked (e.g. in Friend.tech's case discussed above). User stickiness post airdrop remains in question if the protocol does not continue to innovate and retain users.

Potential Community Backlash

The community has expectations associated with points, for example on the airdrop scope and token allocation. Protocols like Blur, Friend.tech, Renzo, and Eigenlayer have received varying degrees of backlash as the eventual airdrop did not meet community expectations. This may damage the reputation of the protocol, and may be reflected in the token value.

4. Conclusion

Points farming has become ubiquitous in the crypto industry. On one hand, it adds to the speculative nature as points are usually associated with token airdrops. It also shifts most of the power to the protocols to decide on the points mechanism. Nonetheless, it can be perceived as an overall positive development for Web3 as it encourages innovation and experimentation. It gives protocols the time and opportunity to grow and provides a measurable incentive for users to engage with protocols.

Point systems could help the development of protocols, while it is not a precondition to a protocol's sustainability. It is important to consistently create value in the protocol through launching novel features and being responsive to community feedback to provide a 'hook' to retain and stimulate users. Points incentivisation combined with following airdrop plans can mutually impact protocols' future attention and receipt of community support.

Some attempts include Blur's multi-season points/airdrop program, within which each season has different objectives or criteria in earning points depending on what's important to the protocol during each phase. With the recent airdrop of Friend.tech, the protocol requires users to use the new 'Club' feature before unlocking the remaining 90% of the airdrop. These are examples of protocols trying to continuously incentivise users and to cross-market them towards new platform features. However, the experiments does not always match the community's expectations.

This is just the beginning of innovation in points programs. Perhaps in the future, points can act as protocols' long-term loyalty programs, and coexist with tokens. For example, points can enable users to gain priority in unlocking certain features such as multipliers in yields; similar to airline miles which can be used for upgrades or perk redemptions.

A point program can only be truly effective if there is a high level of trust between users and project founders, and if the protocol (and its token) can bring true value to the community and space. Users need to trust that after engaging with the protocol, their accrued points will reliably convert into tokens at a fair price and within a reasonable timeframe. While points offer advantages in user engagement and fundraising, the misuse of trust could undermine their effectiveness in the long run.

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