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Web3 Ecosystem Overview

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Introduction

In recent years, the web3 ecosystem has roared to life as a new generation of decentralized applications and blockchain-based technologies offer innovative solutions to age-old problems. Proponents of web3 describe how industries, governments, and individuals alike will benefit from a world in which our technologies enable a more open, secure, and user-centric experience.
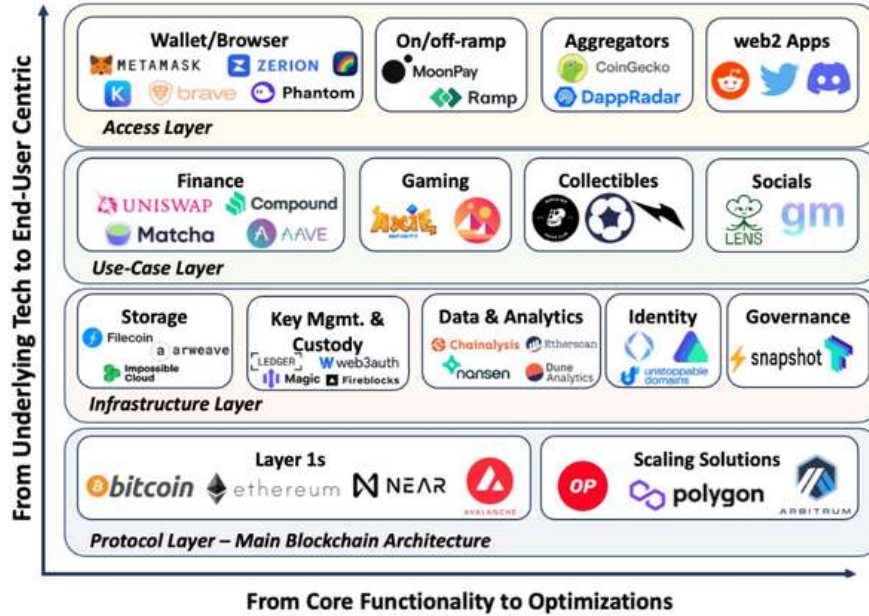
This report aims to provide a high-level understanding of the entire web3 ecosystem, from how the technology stack breaks down, where we sit now, to some real use cases present today.

At web3 Studios, we're expressly interested in the financial context of the web3 space, and as such, this post concludes with an overview of the investment landscape.

Overview Map

The above graphic lays out how we at web3 Studios conceptualize the web3 ecosystem, starting from user-centric interfaces all the way down to the core underlying blockchain infrastructure. We'll discuss each layer in turn here:

Access Layer: This is almost always the first touchpoint that any user has when interacting with web3. Wallets, like Metamask for instance, interface between users and the networks within which they operate. This layer has an extreme focus on UX/UI, and in an ideal world, completely abstracts away the complexity of underlying layers.

Use-Case Layer: This layer is populated by decentralized applications (dApps). dApps cover every corner of the web3 landscape, from trading tokens on Uniswap to aggregating your social graph on Lens Protocol.

Infrastructure Layer: The infrastructure layer is composed of numerous composable building blocks that are specialized in their task, but can be easily combined to create rich and meaningful user experiences.

Protocol Layer: This is the underlying main blockchain architecture which enables all of the above layers of the stack to function. While often people think only of Bitcoin and Ethereum, this level also incorporates the Layer 2 (L2) scaling solutions that help overloaded networks with throughput, speed, and costs.

Web3 State of the Union

Through a quantitative lens, we can see that the web3 space is still marked with some clear indicators of an immature market. This point is illustrated clearly by the fact that **the number of daily active Snapchat users is equivalent to the number of people who have ever used crypto.** The reality is web3 and all its component parts represent a very small portion of our world at the moment, but over the course of its brief existence has tread a consistent (yet bumpy) course towards mainstream adoption.

State of the market | Where are we right now?

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While still early on a product level, the last years have kicked off several key movements

Key infrastructure ready to scale

Long-term nature is understood

Talent flow & corporate web3 strategies

While there remains a lot of development to come, the few aspects of web3 that have been thrust into the global spotlight over the past few years have had a significant impact in laying the foundations of a new industry:

1. **Much of the infrastructure for the cornerstones of a new ecosystem already exists** and is being continuously optimized as the space matures.
2. While at first many dismissed web3 as a flash-in-the-pan phenomenon propped up by hype and speculation, **the market outlook has since shifted to accept the longer term nature of the industry.**
3. We can point to **the influx of top calibre talent and big traditional corporations undertaking web3 strategies of their own** as evidence of this protracted horizon.

Despite this, recent catastrophic events - the downfall of the Terra Luna ecosystem and one of the biggest centralized exchanges (FTX) collapsing - had an undeniable adverse impact on the reputation of the web3 industry, and fueled the fire of many critics and regulators. At web3 Studios, we view the impending regulation, which will make the ecosystem a safer place for all stakeholders, as a necessary step to bring ecosystem legitimacy that is comparable to traditional

industries. Of course, the intensity of these efforts should be in line with the nascent state of the industry and must not risk prematurely suffocating innovation with its emergence.

Real Use Cases

As aforementioned, the web3 industry still needs to realize a lot of growth across almost every facet to achieve the lofty aspirations its proponents preach. However, we've already started to see the value proposition of blockchain emerge in a few areas:

I. Finance - The area where we have seen the most fleshed out development of web3 applications is finance. It is easy for anyone acquainted with traditional financial markets to understand the value that a permissionless, global, trust-less financial system offers. A powerful example is the ability for individuals and businesses in emerging economies to access fair interest rates on their loans, where their domestic banks would only provide prohibitively expensive access to capital.

II. Proof of Ownership - The ability to demonstrate legal and rightful control over a specific asset or property is crucial in many contexts, and in traditional settings is often rife with fraud and corruption. Through tokenization, blockchain technology offers a secure and transparent way to represent the asset or property on the blockchain. Ownership of the token can then be transferred and recorded through self-executing smart contracts, which automate the terms and conditions of the transaction. For example, a property can be tokenized on a blockchain, and the ownership of the token can be transferred between parties through a smart contract, reducing the risk of fraud or disputes.e industry and must not risk prematurely suffocating innovation with its emergence.

III. Gaming - Blockchain enables player ownership of in-game assets, new revenue streams for developers, peer-to-peer gaming, enhanced security, and fraud prevention. By representing in-game assets as unique digital tokens, players now truly own them, and novel markets for buying, selling, and trading virtual assets have emerged that inherently offer enhanced security and fraud prevention - a big issue in the current gaming industry. It further allows for the natural flourishing of micro-economies around the core game, where players or external parties follow organic incentives to develop complementary products and services. This is best evidenced in the rise of gaming guilds across the globe.

Investment Overview

Investment Overview | Possible investment routes

For investors, there are a number of ways to gain exposure to the web3 market. Exploring each of these investment avenues in more detail will in turn provide an understanding of the different financial stakeholders in web3 presently.

Public Market - Equities: There are many publicly traded assets which provide direct web3 exposure to investors. Take Riot, a Bitcoin mining company listed on the Nasdaq, offers a slightly hedged bet on the bitcoin ecosystem for more traditional investors not wanting to hold cryptocurrency directly. Similar risk profiles would also seek investment in publicly traded crypto exchanges (eg. Coinbase) and conglomerates (eg. Galaxy) as proxy bets.

Public Market - Tokens: Investors can purchase tokens either through traditional brokerage accounts or cryptocurrency exchanges. From cryptocurrency exchanges, investors can self custody their assets and access 24/7 liquidity on exchanges, appealing to a more active, savvy, and digital native subset. Illustrating this point nicely, Tesla purchased ~$1.5B of Bitcoin as a reserve asset.

Private Markets: The meteoric rise of cryptocurrencies brought about a burgeoning private market of investors focusing across all stages of web3 assets' life cycles. While initially new web3-native venture capital funds dominated the private landscape, we've seen bigger traditional VC's, such as Andreesen Horowitz, turn their focus to web3.

The largely speculative nature of investing to-date in many parts of the web3 space is often reflected in asset price volatility, with double-digit % daily moves being commonplace, even for blue chip assets. Further, the nascency of the industry means that investors not intent on playing short term speculative market swings must stretch their expected investment horizons.

As the web3 financial market inevitably matures, there will come an increasing requirement for the existence of services that better reflect the needs of stakeholders in this new environment. This web3 future will likely be filled with many of the same financial players that occupy our present (much more developed) traditional markets; investment banks being no exception.

Moreover, the budding nature of the web3 ecosystem means understanding and keeping up with its rapid progression is daunting and confusing. We hope this blog post helped give you a high level appreciation for a few of the important aspects of this burgeoning industry.

About web3 Studios

At web3 Studios, we are supporting founders navigating the complexity of key strategic and financial events by bringing in our experience from traditional markets and passion for this new generation of technologies.

Through our work at the intersection of web3 and corporate finance, we have developed a unique perspective on the challenges and opportunities that companies encounter when facing strategic financial decisions in web3, along:

- **Mergers & Acquisitions -** For ventures to find the ideal strategic partner unlocking its full potential and driving growth
- **Capital Raises -** For founders to steer through the capital raising process and finding the right strategic investors
- **Strategic Advisory -** For investors to navigate the web3 landscape and DAOs to address key strategic topics

Feel free to reach out to us if you want to learn more.

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