Introduction to Ethereum’s dApps – Deep Dive into OpenSea

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This is the second blog in a series about Ethereum blockchain’s applications.

Non-fungible tokens (NFTs) are taking over the internet.

From athletes to corporates, we are seeing increasing interest in NFTs. In the past week, Visa bought a digital avatar – CryptoPunk #7610 – for $150,000, marking the first major payment platform to tap into NFT space.

So, what are NFTs? They are records of ownership of digital files on blockchains.

NFTs are called non-fungible tokens because each digital asset is unique to its existence: if you trade one NFT for another, even if they have the same value (they generally don’t), they aren’t the same thing. The difference between an NFT and a bitcoin is that a bitcoin is fungible – all bitcoins are the same.
In this blog, we will explore one of the most popular NFT marketplaces, OpenSea, and its relation to Ethereum.

What’s OpenSea?

Founded in 2017 as a private company, OpenSea became the largest NFT marketplace that facilitates peer-to-peer transactions on NFTs and crypto collectables. It is essentially an eBay or Amazon for NFTs.

The platform allows anyone to buy, sell, and mint1 NFTs with more than 200 payment options. Items include art, website domains, videos, gaming, music. Currently, OpenSea has more than 30 million NFTs, spanning 901,000 collections.2

OpenSea also allows developers to directly power their marketplaces on the platform. They can gain access to OpenSea’s full suite of functionalities, ranging from setting up auctioning methods to creating bundle sales.

OpenSea is currently pioneering a royalty model, where creators can choose to earn royalty each time the

NFT is re-sold. This concept could potentially revolutionize the payout model for creators and provide more protection to intellectual properties.

How does OpenSea work?

OpenSea is a non-custodial marketplace, meaning that it doesn't store any digital assets on its protocol. Instead, users store the assets in their own wallets. Every time an ownership is changed, the record of ownership switches from the seller to the buyer. In this process, OpenSea takes a 2.5% fee for profit.

Besides the 2.5% operations fee and purchasing/selling price, users incur gas fees when they participate during the transaction process. These gas fees are paid to the underlying Ethereum protocol for miners to maintain the network. These include setting up an account, accepting an offer, and cancelling a bid, etc.3

Other NFT Marketplaces

Major decentralized marketplaces include Rarible.

The main difference between OpenSea and Rarible is how they charge fees. On OpenSea, a user can list any file, but OpenSea waits for the file to be sold to mint the NFT. That way, if it doesn't sell, the user doesn't need to pay the minting fee. Rarible, however, mints immediately, so even if the NFT doesn't sell, the user must pay fees. This difference has led most new and veteran users to move to OpenSea.

While not a direct competition, there are other platforms that just sell NFTs. Autograph.io and NBA TopShot are the two largest examples, as each sells NFTs for sports fans who want to collect, but don't allow users to list their own NFTs.

OpenSea's Future

In April 2021, OpenSea partnered with Polygon and IoTeX to enable its cross-chain support. Now NFTs can be made on Polygon protocol besides Ethereum, and they can be transferred from one blockchain to another. Users also won't have to pay gas fees for NFTs made on Polygon. OpenSea is working to make the platform more accessible to a larger audience, especially for people who haven't worked in the digital space.

In late July, OpenSea raised $100M from venture capital company A16z.4 Following the funding, OpenSea stated the hope to become a value transfer machine, instead of an information transfer machine, to realize true ownership and total freedom of trade.

Conclusion

If last summer is the summer of DeFi5, this summer is the summer of NFTs.

OpenSea became the top dApp on Ethereum with most gas burned.6 It kept breaking its volume record since the end of July. It now generates a 30-day trading volume of $1.54 billion, a 5x increase from the previous month.7

With Visa's purchase of CryptoPunk, a new wave of participation has arrived. Traditional auction houses such as Christies also begin to host sales of NFTs.

Despite many people's questioning of NFT's objective worth, the trend of digitalization and tokenization of rare collectibles is here to stay. For many reasons and among which – we humans desire what others desire – NFTs' value is driven by this demand.

As NFTs gain more popularity, they represent one of the best examples of Ethereum's value and potential.

1 The process of adding a blockchain to an NFT is called minting. Some marketplaces, like OpenSea, allow users to mint NFTs on the site. The minted NFTs are stored in the user's crypto wallet until OpenSea can facilitate a transaction.

2 https://opensea.io/about

3 OpenSea is built upon the Wyvern Protocol, which is a set of smart contracts on Ethereum designed to power decentralized digital asset exchange.

4 https://twitter.com/opensea/status/1417468800845455360

5 Decentralized finance

6 https://dune.xyz/k06a/Ethereum-after-1559, as of 9/6/2021.

7 https://news.bitcoin.com/openseas-record-breaking-monthly-nft-volume-captures-more-than-1-5-billion/

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