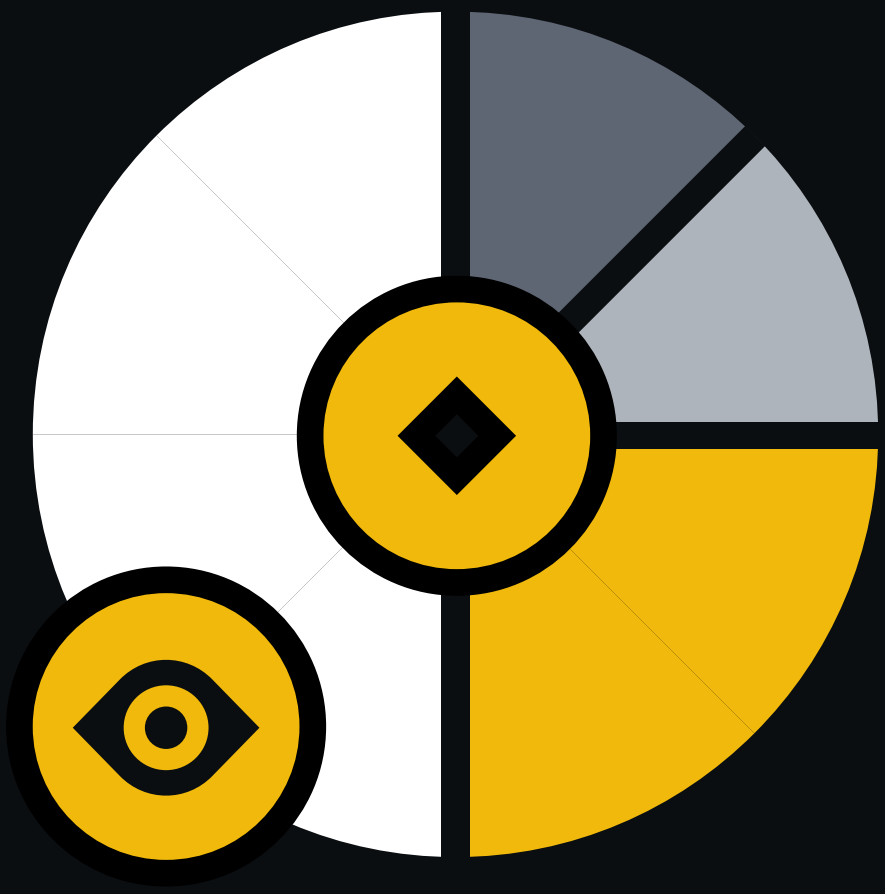
BINANCE RESEARCH

Sustainable Tokenomics: Questions Every Founder Should Think About

MARCH 2025



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01 / Key Takeaways

- **Retail investors have exhibited a preference for tokens with larger supply distribution.** This has contributed to the outperformance of memecoins compared to major traditional finance and blockchain index benchmarks.

- To establish a healthy token economy, we posit that there are four key design objectives:

    - Fair Distribution Of Token Supply
    - Sustainable Supply Emissions
    - Distinct Demand For The Token
    - Active and Decentralized Governance

- **Supply distribution** provides a breakdown of the various groups of token holders, offering insights into how their interest might align with the protocol. The goal of the founder is to (a) find the most aligned group of stakeholders and (b) utilize ecosystem tokens diligently.

- **Supply emissions** refers to the emission schedule of the various token holders and the inflation schedule. Founders have to consider how vested supply enters circulation such that it does not overshadow protocol growth.

- **Token demand** can be intrinsic or speculative. The goal of the team is to optimize for intrinsic token demand as it is more sustainable, as compared to speculative demand. Founders should first (a) consider the type of token they are launching, and (b) figure out if they are able to use tools, such as staking and token buy backs, to create short-term demand which hopefully translates to long-term protocol growth (and future intrinsic demand for the token).

- **Active governance** becomes increasingly important as a protocol scales, when changes to tokenomics might be necessary to better match the needs of the protocol. Founders should think about how to increase governance participation, as traditional models often produce inequitable outcomes for the average voter which can lead to lower participation and centralization risks.

- Key takeaways from the case studies on Jupiter and Solana:

    - Rewarding active governance participants can increase participation and create token demand from future governance participants
    - Airdrops can be designed carefully to reward long-term users, and as an incentive to drive usage towards new product features
    - Buybacks can be seen as a sign of protocol strength, and can only be done by building a great product
    - Decentralization of token supply takes time, and building a great product is one way to attract new groups of token holders
    - A sign of network maturity is when the community proposes changes to the protocol to better align interests between token holders and the protocol

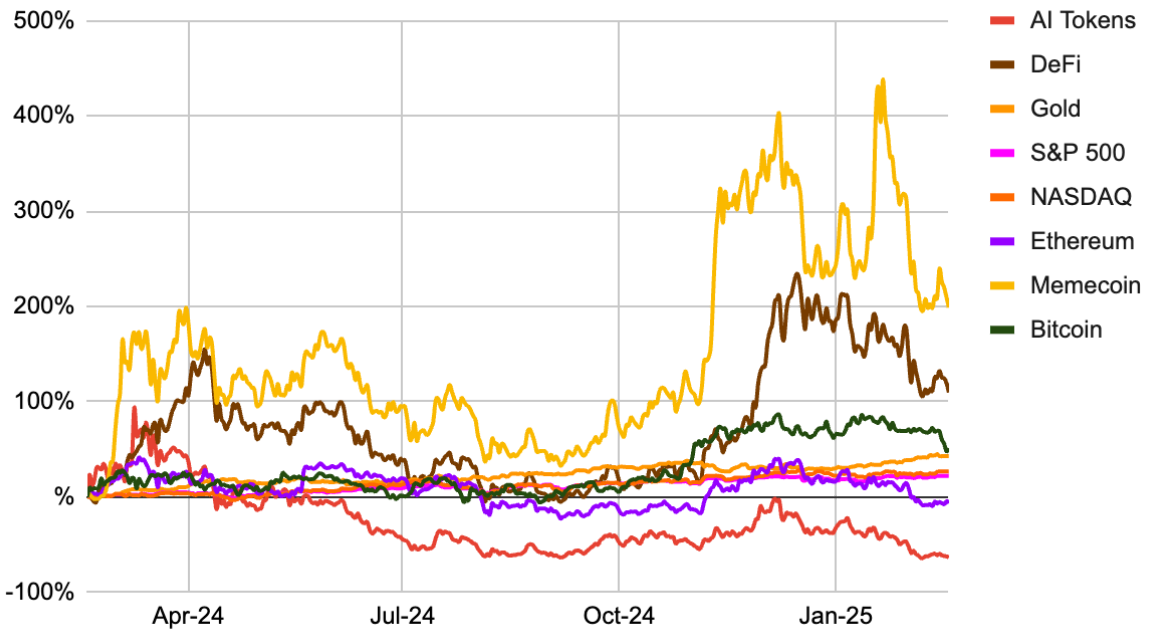
- Other considerations beyond tokenomics that may have a bearing to a token's performance:
    - Valuation on launch
    - Transparency over team vestings / sales
    - The future of governance tokens
    - Product is integral to long-term token performance

02 / Introduction

Background

Over the past year, memecoins were the best performing altcoin asset class (*see Figure 1*) besides Bitcoin, with AI tokens unexpectedly performing poorly despite the amount of mindshare it attracted. One hypothesis is that retail investors are tired of the "low float, high FDV" coins, where there were impending unlocks that would flood the market with dilutive supply, and would rather participate in memecoins where the token supply is fully unlocked on launch. Another hypothesis is that most tokens today are just "memes" with additional steps, and if there is no tangible utility, they rather take it to the extreme and participate in memecoins which do not purport to have any utility from the get go.

Figure 1: Memecoins have outperformed major Tradfi and Blockchain Index Benchmarks

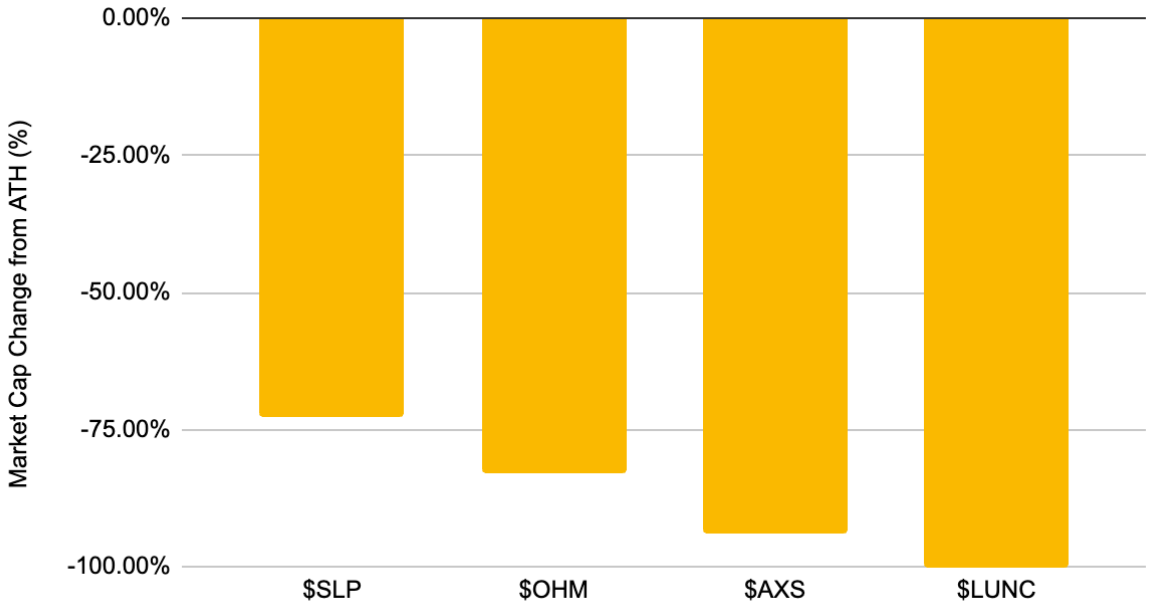


Source: Artemis.xyz, Binance Research

Should Protocols Care About Tokenomics?

This begs the question: *Should protocols then care about tokenomics?* While tokenomics take a back seat in a thriving bull market, poor tokenomics come under the spotlight once the euphoria settles. We can look back at the likes of *OlympusDAO, Axie Infinity and Luna Classic* for examples of this. All three projects had innovative token models – OlympusDAO pioneered the 3,3 model, Axie Infinity adopted a two-token model, and Luna had a two-token algorithmic stablecoin model, which looked great on the way up, but suffered with the death spiral on the way down (*see figure 2*).

Figure 2: Death spiral from reflexive tokenomics resulted in large drawdowns



Source: Coinmarketcap, Binance Research

While strong tokenomics alone may not guarantee a project's success, poorly designed token models can significantly hinder long-term viability. In this report, we look to build on our previous writings about Tokenomics Deep Dive, GameFi Tokenomics Deep Dive and Exploring Tokenomics Models and Developments.

The focus would be on objectives of tokenomics design, and the tools available for the team to create sustainable token economies, which would hopefully drive interest back to the teams that are working incredibly hard to find product market fit. We then look at two different case studies – one where the team took a community centric approach from day 1, and the other where they continued finding product market fit amidst criticisms against their token supply. We then end off with some food for thought on some questions that fall outside of tokenomics design, but equally important in terms of the success of a token.

03 / Tokenomics Design

Key Design Objectives

Launching a token entails additional responsibilities for the team. Besides working on their product, the team will also have to manage the expectations of token holders. A poorly designed token that results in poor price performance can negatively impact the perception of the product, regardless of its underlying fundamentals. Therefore, it is important to clearly define the key objectives of the token launch.

To establish a healthy token economy, we posit that there are 4 key design objectives:

(a) Fair Distribution Of Token Supply
(b) Sustainable Supply Emissions
(c) Distinct Demand For The Token
(d) Active Governance

While the most straightforward way to support a healthy token price is to create strong demand drivers for the token, the team can establish a strong foundation by carefully selecting token holders who are aligned with their long-term objectives. Another lever within the team's control is the rate at which new tokens are introduced into circulation. An excessive and rapid increase in supply can lead to oversupply, which may not align with current demand. Conversely, targeted inflationary rewards can be redistributed to other token holders who contribute to protocol growth. Finally, an active and motivated governance structure allows the team to make adjustments to the token economy as the protocol evolves and matures over time.

A. Fair Distribution of Token Supply

Supply distribution provides a breakdown of the various groups of token holders, offering further insights into how their interests might align with the protocol and therefore their propensity to hold or sell tokens.

Tokenholder groups typically include:

Token Holder Group	Purpose	Propensity to Sell
Investors	• They provide early risk capital	• Traditional VCs may look to sell for distributions • Liquid Funds may hold as they expect value accrual to the token • Angels are unpredictable as they only have to answer to themselves

Team / Advisors	• They work / advise on protocol development	• Some profit taking expected for the work they put into protocol development • Long-term token utility can align the team to hold onto their tokens alongside protocol growth
Community	• They are the users that make up the protocol	• Mercenary airdrop / points farmers are more likely to sell • Users that are rewarded retroactively for organic use are less likely to sell
Liquidity Provision	• This is often used to put the infrastructure in place to ensure deep liquidity and smooth trading experience for the token	• Market makers are profit driven so selling is expected • Token incentives from liquidity mining will more likely be sold (DeFi)
Marketing	• The protocol's marketing budget to attract new users	• Often a cost to the protocol to spur growth so selling is expected from the recipients
Treasury / Strategic Allocation	• The protocol's treasury that can be used for strategic growth initiatives	• Often a cost to the protocol to spur growth so selling is expected from the recipients

Source: Binance Research

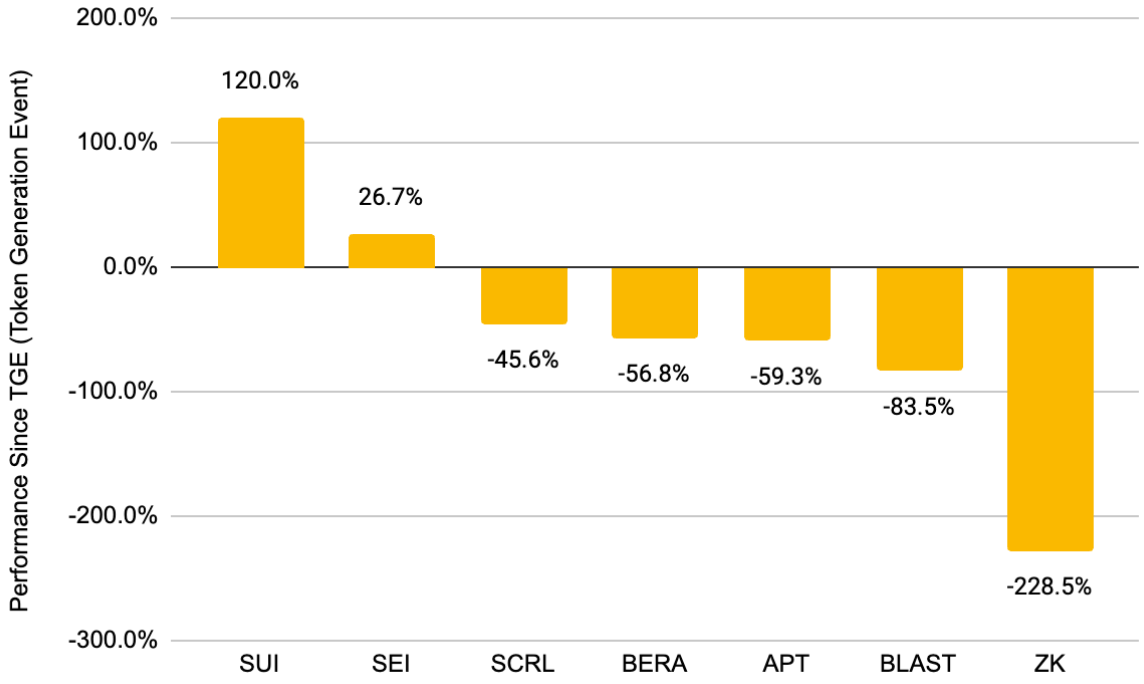
As we can see above, the different groups of token holders have varied reasons to hold onto or sell the token. The first three groups (*Investors, Team, Community*) can be considered the key stakeholders of the protocol, while the latter three groups (*Liquidity Provision, Marketing, Treasury*) represent supply allocations that the team can utilize to drive protocol growth.

So what are some questions the team should ask themselves when it comes to supply distribution? We explore some of them below.

1. **How do we select the most aligned group of stakeholders?**

As a rule of thumb, founding teams should always look for investors that can provide value-add besides capital, especially in areas where the team has gaps. This ensures "skin in the game" and stronger alignment between investors and the team.

Figure 3: Not all token launches by prominent L1 & L2s have done well



Source: Coinmarketcap, Binance Research, as of February 25, 2025

However, recent launches have shown that a strong cap table of reputable VCs may not always have a direct positive impact on token performance. In certain cases, VCs have been associated with 'low float, high FDV' tokens, which might contribute to a negative price action. Instead, some protocols that have been successful. tend to be "community aligned". Teams can consider some tools below that can help involve the community.

Community Fundraising Platforms

There has been an emergence of community fundraising platforms such as *Echo*, *Legion*, and *Buidlpad* where projects can sell tokens directly to retail investors.

Platform	Eligibility	How it works	Traction
Echo	• Dependent on local laws • KYC and Tax residency required	• Founders arrange fundraising directly with group leads who create groups and share their investments • Members can join these groups and invest alongside the lead investor on the same terms • Deal participants	• Over 40 groups investing • Funded over US$20M since beta launch in April 2024 • Notable projects funded include Monad,

		are rolled up into a single entity which then invests into the target company via USDC	Ethena, MegaETH etc.
Legion	• EU & non US persons • Subject to MiCa & Reg S	• Merit-based Legion Scores that lists an investors' attributes • Founders can review Legion Scores and offer a selection of users with early-stage token sales • Core to Legion is an investor's non-monetary value to projects	• Over US$6.5M raised • Notable projects funded include Fuel, Silencio, Almanak, Pulse
Buidlpad	• KYC required • Only non-restricted countries, US and China not included	• Buidlpad collaborates with projects on aspects related to tokenomics, go-to-market strategies and launch process • Buidlpad conducts diligence to ensure projects are suitable candidates for investors on the platform • Buidlpad can offer pre-requisite conditions to qualify investors such as TVL contribution, NFT holding etc.	• Raised US$10.5m for their first community sale for Solayer

Source: Binance Research

Direct Community Sales

Teams can also consider direct community sales, with some sale mechanisms listed below.

Sale Mechanism	How it works	Rationale
Fixed Price	• A fixed amount of supply is allocated for a public sale where all	• Participants receive tokens at a price decided by market

	participants will be able to purchase tokens at a uniform price e.g. ICOs	demand • Those who miss out will have to buy on the open market which can contribute to price discovery
Liquidity Bootstrapping Pools	• Tokens are sold along a price curve that declines over time	• Participants pay the price they want given they have the choice to wait for lower prices • Participants should therefore have an incentive to hold since they have decided what is a "fair price" for them
Single Side Liquidity Pools	• Tokens are sold along a price curve via liquidity bins with an initial price and maximum price • Tokens can be sold back into the liquidity bins with no slippage during a stipulated time period E.g. Jupiter, Sanctum	• Participants have the choice to pay the price decided by market demand with a floor price within a time period • Participants should therefore have an incentive to hold since they have decided what is a "fair price" for them
Airdrops	• Tokens can be given to power users to reward them for their early support E.g. Hyperliquid, Jupiter, Jito	• This creates a sense of loyalty for those that used the protocol because of the utility it brings them • This can backfire if airdrop recipients only used the protocol in anticipation of an airdrop

Source: Binance Research

Points Farming / Airdrop

When done well, this can create a flywheel effect where power users are rewarded monetarily, who then contribute that back to the protocol which results in further growth. The situation that the team would want to avoid is one where users are only there as mercenary capital to "farm" the protocol and are never to be seen after the token airdrop.

As such, teams should carefully design their airdrop to aim for sustained real usage, and reward this group of users accordingly. Some teams that have been commended by the community recently are Jito, Jupiter and Hyperliquid, giving US$165M, US$1.3B (across 2 airdrops), US$1.6b respectively to the community at the time of launch.

The primary objective is to actively consider these tools as a way for projects to decentralize their cap table and engage real users who are aligned and can contribute directly to the protocol.

2. **How should we utilize the token supply for ecosystem growth?**

The token supply we refer to in this section pertains to *Liquidity Provision, Marketing, Treasury.* While having bigger budgets provides greater flexibility for the ecosystem growth teams, there is no such thing as a free lunch. Tokens given out in the form of incentives often introduce inflationary pressures, and if not carefully managed, may be quickly sold rather than retained within the ecosystem.. Conversely, well designed incentives to encourage protocol growth can "pay back the cost" of the token through increased protocol revenue.

Therefore, teams should set clear objectives and performance metrics for each allocation such that these token incentives are clearly accounted for. We discussed some of these design principles for protocol treasuries to account for short-term and long-term goals, but can be extended to other token budgets for Marketing and Liquidity Provision.

The key goal is to balance the short-term inflationary aspects of these token incentives to attract users and adoption that can lead to long-term protocol growth.

B. Sustainable Supply Emissions

While the former section addresses the importance of an aligned token holder base, this section builds on that by introducing the concept of emissions. Even if alignment is achieved, every token holder is eventually going to lock in profits (sell) as a reward from their conviction in the protocol. Hence the key question that teams should be asking themselves is:

1. **How can we design emissions such that there is no supply overhang that overshadows protocol growth?**

Key variables to consider include vesting schedules, inflation schedules which influence the circulating and fully diluted supply.

Variables	Definitions	Considerations
Vesting Schedule	• Typically includes lock ups and a time-based schedule that dictates the rate at which tokens are released • Teams and Investors	• The schedule should align with the stages of protocol growth • Too much supply in the early stages of

	tend to have longer lock ups and vesting periods	growth may be detrimental to price • Large amounts of unlock should be timed to coincide with periods of strong token demand to effectively absorb some selling pressure
Inflation Schedule	• This is the rate at which the total token supply grows at • More commonly seen in Layer 1s, while applications usually have a fixed supply cap	• A healthy amount of inflation is helpful for bootstrapping the "cold start" problem, e.g. block rewards for validators in proof-of-stake systems • Inflation rate can be dynamic to match the maturity of the protocol, e.g. Solana introducing dynamic inflation after more than 4 years
Circulating / Fully Diluted Supply	• The circulating supply and fully diluted supply provide information on present valuation relative to potential valuation if all tokens were to unlock today	• A ratio closer to 1 implies there is less future supply unlocks • A high fully diluted valuation can be counter-productive to token prices since it creates a greater incentive to sell

Source: Binance Research

The key goal is to understand the inflection points in protocol growth such that new tokens entering circulation would not dampen price action.

C. Distinct Demand For The Token

Token demand can be intrinsic or speculative. Speculative demand is often driven by short-term capital, which may not contribute to the protocol's long-term growth and stability. The goal for the team is to optimize for intrinsic token demand as a way to build sustainable demand.

1. **What type of token are we launching?**

To better understand how to create intrinsic demand for the token, we need to first identify the nature of the token the protocol uses. Token types broadly include (a) governance and (b) utility.

Governance Tokens

The genesis of governance tokens began during DeFi summer, when Compound distributed their $COMP token to users who borrowed or lent on their platform. This practice was adopted by many other protocols such as Aave, Maker, and Balancer, and became known as liquidity mining. Liquidity mining initially attracted capital by offering high yielding opportunities but in certain cases, these models proved unsustainable as speculative interest declined. This influx of speculative capital led to reflexive price action, driving prices up rapidly, but also causing sharp declines when the speculative interest waned *(see figure 4*).

Figure 4: Reflexive price action of Defi Pulse Index both on the way up and down

Source: Coinmarketcap, Binance Research, as of February 25, 2025

As the incentives wore off, token holders were left with the stark realization that the tokens only conferred governance rights without any economic benefits. This raises the question: what is the purpose of governance if the protocol is not worth governing? Other issues with governance include poor voter turn out, and inequitable outcomes for smaller token holders. Overall, intrinsic demand for a token solely for governance tends to be low. In the next section, we will explore how teams can invigorate governance.

Utility Tokens

As the name suggests, utility tokens often grant some form of utility to the token holder, which should encourage stickiness. Some use cases for utility tokens include:

Sector	Types of Utility
Layer 1s	• Gas payment • Collateral to proof-of-stake participation • Yield-bearing asset from block rewards • Base asset for DeFi pairs • Fee to launch smart contracts • Governance
DeFi	• Revenue share • Access to fee tiers • Whitelist access • Governance
DePin	• Purchase services • Collateral to participate in network • Governance
DeFAI	• Fee to access service • Base asset for launchpads • Governance
Games	• In-game currency • Access to services • Governance

Source: Binance Research

2. **How can short-term demand strategies be designed to support long-term protocol growth and sustainable intrinsic demand?**

Beyond the nature of the token, there are other tools that teams can use to drive short-term demand for the token. It is important to note that the effectiveness of these tools is dependent on protocol fundamentals: fail to achieve product market fit and the demand for tokens will be short-lived. Some common tools include (a) Staking and (b) Token Buy backs.

Staking

Staking often entails the lock up of tokens in return for some form of benefit (usually monetary), and also doubles up as a supply sink that removes tokens from circulation. Some examples include:

- Staking in proof-of-stake systems where validators stake a minimum number of tokens as collateral to participate in block rewards (inflation + fees + MEV) while token holders can also stake with validators to earn a staking yield (block rewards minus validator commission). Teams can decide on the unlock period to smooth out the staked tokens coming back into circulation.

- Staking to vote can require token holders to lock up their tokens in return for governance power. Teams can also consider introducing time elements to boost the voting power for those willing to lock their tokens longer, or diminishing voting power for those looking to unstake their tokens.
- Staking for revenue share can require token holders to lock up their tokens in return for revenue share. Similar to staking for governance power, teams can consider introducing time elements to increase stickiness of token demand.

Token Buybacks

In traditional companies, buy backs may usually be a sign of strength and a way to redistribute profits back to shareholders without paying dividends. By reducing the circulating supply, it increases the potential earnings per share. While regulatory considerations around token-based revenue sharing continue to evolve, tokens that are bought back can be used for redistribution to incentivize further protocol growth, or burned to reduce circulating supply.

Some notable examples include:

- Hyperliquid uses fees generated from spot trading to burn $HYPE, while using revenue generated from trading and listing fees to buy back $HYPE which goes into its Assistance Fund.
- Jupiter recently introduced a 50% protocol fee buyback program from fees generated from swaps, perps trading, limit orders and DCA.

D. Active Governance

Active governance becomes increasingly important as the protocol scales, when changes to tokenomics might be necessary to better match the needs of the protocol.

Helium is an example of a protocol that has been able to evolve with the times – first introducing new subtokens MOBILE and IOT when expanding into new product offerings in 2022, before more recently going back to a single token in HNT to reduce complexity and simplify the Helium token economy as the network continues to mature. All these changes would not have been possible without active governance participation.

Another example of how active governance can eventually benefit token holders is that of Solana's monetary policy. Two new protocol changes were proposed, one to allocate full priority fees to the validators rather than burning 50% of it, and the other seeking to switch the fixed inflation schedule towards a dynamic one now that validators are less dependent on protocol inflation, given profitability can be achieved with MEV and transaction fees.

However, active governance is often a tough juggling act. Traditional governance models of 1 token = 1 vote can produce inequitable outcomes for the average voter which ultimately reduces participation. Reduced participation then leads to greater centralization in governance which further skews the bias towards the largest holders, which begs the question:

1. **What can we do to increase governance participation to prevent centralization issues?**

Some governance mechanisms that teams can consider exploring include:

Vote Escrow

This often requires token holders to lock up their tokens and receive a number of vote-escrowed tokens (veTokens) in return. veTokens are typically not tradeable and represent the voting rights of the holders. To encourage motivated voters regardless of their size of token holdings, a veToken multiplier can be introduced to reward voters who are willing to lock for longer periods of time. Similarly, voters who choose to unlock their tokens can retain their governance power while it deteriorates with time.

Futarchy

Futarchy aims to replace typical votes with market driven outcomes where participants trade on the likely outcome of the proposal. By putting their capital behind their expected outcome, there is "skin in the game" which increases participation rates. Given it is a market where participants can "short" a proposal, it provides a counterbalance to any individual with excessive influence.

For example, if there is overwhelming support for a proposal to be passed such that the price of the token is expected to increase disproportionately, those who think that the token will then be over valued can vote against the proposal and exit their tokens at a favourable price. This should have the intended effect where aligned token holders continue to accumulate more tokens, and those who are not are able to exit. Some examples of projects adopting futarchy include MetaDAO and more recently Sanctum.

04 / Contrasting Approaches to Tokenomics

In this section, we look at two case studies where the teams took different approaches to tokenomics, through the lens of design objectives discussed above and some of our key takeaways.

Jupiter – Community Centric From Day One

Tokenomics Overview

Design Objectives	How they fared
Supply Distribution	• Started with 50% / 50% to team and community respectively with no external investors • Burned 30% of token supply from 10B to 7B from team allocation and future airdrops in Jan 2025 • Planned for 4 airdrops across 4 years with 2 executed so far, giving away US$700m and US$650m in token rewards in Jan 2024 and 2025 respectively • Airdrop criteria was linked closely with protocol growth, e.g. airdrop 2 rewarded active governance participants and power users of new features such as DCA, Limit Orders, Perps etc.
Emission Schedule	• Started with only 13.5% circulating, c.35.8% in circulation today after second community airdrop and supply burn • Team is still locked for 21 months • Founder has proposed fronting 280m JUP from his personal allocation (five year lock) and requesting 220m extra JUP in 2030 to avoid an net emissions
Token Demand	• Stake for governance • Governance voters rewarded via Active Staking Rewards • 50% of protocol fees being used to buy back tokens which are then locked for 3 years • Jupiter protocol fees amounted to $375m in the past 90 days, translating to $1.5b in annualized fees
Governance	• Community airdrop 2 criteria was voted on via governance • Largest DAO with 736,243 unique addresses • 7% of total supply / 20% of circulating supply staked in governance

Source: Binance Research

Key Takeaways

Jupiter took a **community-focused approach** to their token design from day one, and have done well in listening to real-time feedback from their token holders. By **rewarding active governance participants** through their Active Staking Rewards incentives, they have increased governance participation and **created demand for their token** from those who want to have a say in the future of the protocol.

Moreover, the team has **utilized their airdrop in a targeted fashion**, by **rewarding long-term users who contributed large volumes to their core swap product, and power users of their newer advanced DeFi features** such as DCA, Limit Orders, Perps, which will help them iterate faster to achieve product market fit. Time will tell if the usage was actually organic, though revenue numbers are looking promising at $1.5b in annualized fees.

The recent move to announce a **buyback with 50% of their revenues** created yet another demand driver for their token, and can be seen as a sign of protocol strength. The decision not to burn these tokens, instead **locking them for another three years**, gives the team more flexibility as to how they want to utilize these tokens while **reducing circulating supply of tokens**.

While tokenomics is not an indicator of price performance, Jupiter has given them a fair shot at aligning prices alongside growth by keeping their community involved.

Solana – Product Market Fit First, Tokenomics Later

Tokenomics Design

Design Objectives	How they fared
Supply Distribution	• Initial supply distribution was 40.8% to community with only 1.65% initial circulating supply • Alameda research once held 8.2% of total supply which has since been disposed as part of the bankruptcy holdings
Emission Schedule	• Solana started with a 7 - 9% initial inflation rate and a disinflation rate of 14 - 16%, targeting a long-term inflation of 1 - 2%; Inflation rate is ~4.7% today • Dynamic inflation rate proposed and under discussion right now (SIMD–0228) • 50% burn on base fees, 0% burn on priority fees after SIMD-0096 passed in Feb 2025 • Impending unlock of ~11m SOL tokens (2.29% of supply) from the FTX sale in March • Circulating token supply is now 97.5%, 5 years since launch
Token Demand	• The $SOL token can be staked in return for block rewards (inflation + MEV + priority fees), providing a total yield of ~10%

	• Solana did US$825m in real economic value (fees + MEV) in Q4 2024 with US$1.36b forecasted for Q1 2025 • The $SOL token is used for gas fees to send transactions and deploy smart contracts on the Solana mainnet • Five Solana ETFs from Grayscale, VanEck, Bitwise, 21Shares and Canary Capital have been filed and accepted by the SEC for review
Governance	• Only one validator client which means most changes are proposed by core Solana contributors. Firedancer will decentralize this. • There is an on-chain voting program for validators but only a YES votes can be cast, i.e. hard to discern between a NO, abstinence, lack of participation • Effort kicked off in Aug 2023 to align governance with SIMDs

Source: Binance Research

Key Takeaways

In the earlier days of Solana, it was held up as the **prime example of a low float, high FDV token**. Coupled with downtimes and the FTX implosion, the Solana token suffered one of the greatest drawdowns of c. 97%, going from $258 to $8 in 2022. Much of the initial token design was not given much thought such as copying the inflation schedule from Cosmos, burn mechanisms from Ethereum etc.

The Solana core team had **one single focus which is to find product market fit** as the go-to infrastructure for applications. Through the various downtimes, the chain got more robust and continued to **build through the bear**, eventually emerging as one of the most vibrant chains, **topping real economic value** (fees + MEV) across all existing blockchains. Today, $SOL is a **yield bearing asset** that users can **stake in return for c. 10% yield** in the form of inflation, block rewards and MEV. With Solana continuing to top revenue amongst various blockchains, there is more organic demand for its token.

On the supply side, the network decentralized over time, accelerated by the FTX debacle. The **token is c.97.5% unlocked today**, with **one major unlock (2.2% of supply) coming in March**, beyond which there is **no longer a supply overhang as compared to many other new launches**. The **maturation of the network has also led to changes over the inflation rate which has remained unchanged since inception**. If successful, it will introduce a dynamic inflation rate which should further align supply emissions with the growth of the protocol.

Overall, Solana has shown that while **poor tokenomics might introduce hesitancy for token holders in the beginning**, **building a protocol that users want to use can help organize token holders to make positive changes to the token economy as it matures**.

05 / Parting Thoughts

To round off the discussion above, we want to highlight some considerations beyond tokenomics design that could still be key to a token's performance.

Valuation On Launch

This is in response to some of the newer chains that have performed poorly on launch. There is a consensus amongst retail participants over not being "exit liquidity" for the private investors of heavily funded projects, so projects should think carefully about their launch strategy, e.g. utilizing community funding platforms, retroactive airdrops to reward loyal users etc.

Transparency Over Team Vestings / Sales

Team vestings are often looked upon negatively when it comes to crypto projects, as retail investors assume that teams will cash out and sell on the open market. We believe that there is value in increasing transparency over these token sales, as teams should be able to enjoy the fruits of their labor. In traditional IPOs, there is usually a moratorium on newly listed equities (similar to crypto cliffs), and an announcement on any pre-planned sales by key executives which gives the market sufficient time to react.

Governance Tokens 2.0?

While we think that buy backs are a great way to return value to existing token holders today, there is hope that the current SEC could provide greater clarity over tokens being able to accrue value. Grayscale has moved ahead to set up the Lido DAO Trust and Optimism Trust, and if governance tokens are allowed to accrue dividends, we could see these instruments turn into ETFs.

Product, Product, Product

Looking at traditional IPOs again, companies listed have provable businesses and / or profitability expectations. We posit that crypto tokens are only attractive to prospective holders if there is a potential for upside, which can come in the form of fundamentals (within the team's control), or speculation (outside of the team's control). Teams should focus on achieving product market fit first before obsessing over tokenomics, which breathes a life of its own.

The future for tokens is exciting, albeit uncertain, as we enter a new regulatory landscape with an unprecedented cryptocurrency working group. However, teams can only work on what is within their control – focussing on the fundamentals of their product. Tokenomics design should be carefully considered to incentivise and convert prospective users into long-term users for their product.

06 / New Binance Research Reports

Fundamentals of Decentralized AI - February 2025 Link
An introduction to the key components of Decentralized AI

Monthly Market Insights - February 2025 Link
A summary of the most important market developments, interesting charts and upcoming events

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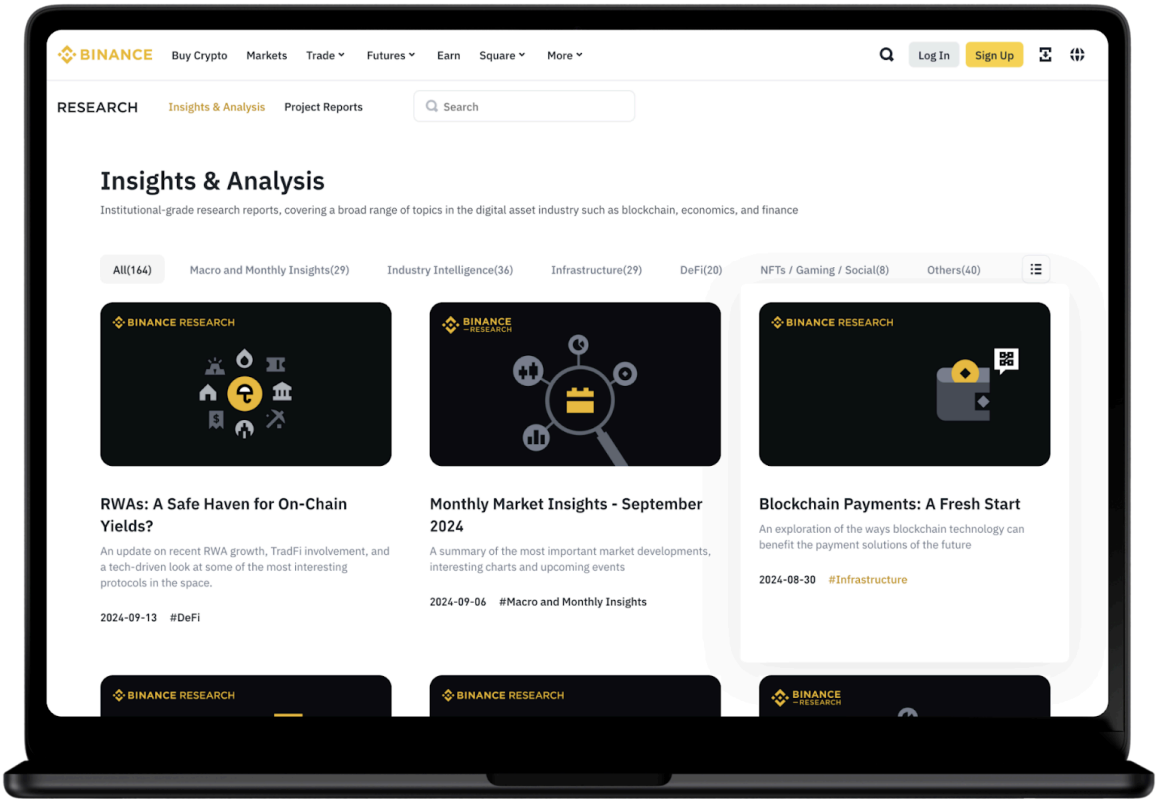

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