

Can bitcoin gain legitimacy among companies?

For all the hype surrounding bitcoin, relatively few companies actually accept it. An IESE case study looks at the future of virtual currencies.

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Imagine the future of your business depends upon bitcoins gaining legitimacy as a form of payment. That is the situation facing Juan Jimenez, founder of BitPlata, a bitcoin payment-processing company for hotels in South America.

IESE's [Javier Zamora](#), [Ahmad Rahnema](#) and Katherine Tatarinov take the dilemma of Jimenez and BitPlata to shed light on the still shadowy world of virtual currencies in their case study "[BITCOIN: Deciphering the Crypto-Currency](#)."

The setup

The case, designed to generate class discussion, opens with the short history of BitPlata. Founded in May 2013, BitPlata had seen moderate success in its debut year, first with hotels in Venezuela, where government currency controls and high inflation dogged the credit card industry. BitPlata allows hotels to accept payment in bitcoin and then transfer it to another currency almost instantly.

In February 2014, when the case study opens, BitPlata is looking to gain traction and attract more hotels. A California-based accelerator called Jump Venture Capital is now investing in BitPlata and is helping the young company extend bitcoin's reach. But many hotel owners remain skeptical about bitcoin and its tax implications. Jimenez decides to give himself one week to put together a presentation for the region's hotel owners to help convince them to come on board.

The case setup offers an opportunity to delve into the history and controversy surrounding bitcoin.

Bitcoin in a nutshell

Bitcoin, launched in 2009, is one of the world's first "crypto-currencies" and certainly its most famous. This new form of money uses cryptography to control its creation and transactions, rather than relying on any central authority.

There are basically two ways to acquire bitcoins: Buy them or "mine" them, as the case explains. Mining requires downloading and running bitcoin software. Mining is like playing a lottery, with bitcoins awarded to miners approximately every 10 minutes. Over time, mining will become more difficult, with bitcoins awarded at a slower rate. A maximum of 21 million bitcoins is to be in circulation at once. This is set to occur around 2140.

Buying bitcoins is easier. They are bought and sold on several online exchanges or transferred directly between users' virtual wallets. Bitcoins are divisible into satoshis (with one bitcoin worth 100 million satoshis).

As a decentralized digital currency, bitcoin is monitored by the very people who use it; all transactions are transparent (if anonymous). A log of encrypted transactions is maintained as a record.

Virtual benefits

With the basics established, the case study looks at the need bitcoin fills and its benefits. Those include:

- Transparency
- Speed
- No transaction costs
- Not location dependent
- Easy to participate, requiring only an internet connection and computer or smartphone.

Virtual challenges

The real meat of the case comes with the challenges. And bitcoin, as a potentially revolutionary force in payments, offers early adopters plenty of challenges. Those include:

- Volatility
- Security
- The underworld or criminal element
- Regulatory uncertainty.

Volatility: With supply fixed, the price of bitcoins is determined by demand. Demand can drop or spike on news, rumors, or crisis situations. For example, during the Cyprus bank crisis in March 2013, instead of keeping their money in failing Cypriot banks, people began buying bitcoins. The value of a bitcoin doubled on trading exchanges. Transactions of \$500,000 could swing the price of a bitcoin by several dollars.

Security: Some bitcoin exchange sites and marketplaces have been compromised by hackers. Furthermore, the bitcoin system lacks safeguards against fraud or other consumer protections offered by government-backed payment systems. Bitcoin transactions are irreversible.

The Underworld or Criminal Element: Bad publicity may be the biggest hurdle to bitcoin's mainstream acceptance. Bitcoin's anonymity has understandable allure for drug dealers, money launderers and other criminal elements.

Regulatory Uncertainty: The regulation of bitcoin transactions is still under debate. As an initial step, U.S. Senate hearings on virtual currencies took place in November 2013. Still, regulatory uncertainty rules.

Dramatic days to close the case

Jimenez of BitPlata had his work cut out for him in February 2014. To add to the drama, in the days leading up to his presentation to hotel owners, several developments took place:

- The CEO of the bitcoin exchange called BitInstant was arrested for money laundering.
- Russia declared bitcoin illegal.
- Due to a flaw in its bitcoin protocol, hackers were able to steal an estimated \$2.7 million from the online marketplace known as Silk Road 2.0.
- Mt. Gox, the largest bitcoin exchange, announced that it was planning to file for bankruptcy.

These events left Jimenez with more questions than answers for his big presentation. Would Jimenez's BitPlata gain traction in the South American hotel market? How could Jimenez

convince others that bitcoin's future remains bright if he is starting to doubt it himself?

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