

World's First NFT Restaurant: A Case of FLYfish Club



Source: Pexels (2021)

Background

A non-fungible token (NFT) is a digital replica of a tangible asset that can be traded with Ethereum (Cryptocurrency) on digital platforms. Generated by blockchain technology, each NFT carries distinctive information in the form of an image, video, or animation, which makes every NFT unique (Forbes Advisor, 2023).

Officially opened on September 20, 2024, the FlyFish Club is a curated members-only club located in the bustling heart of Manhattan, New York (Flyfish Club Instagram, n.d.). The club extends over three expansive levels, featuring restaurant & lounge, a private dining room, and an exclusive omakase counter for select members, all tailored to provide an elevated dining and social experience (Flyfish Club, n.d.).

In 2022, while still in development stage, the Flyfish Club was introduced as the world's first NFT restaurant (The Washington Post, 2022). To become a Flyfish Club member, guests had to purchase a NFT artwork from the restaurant for 2.5 Ethereum (approx. 78,000HKD), which can later be used as a membership token to enter the restaurant (Markets Insider, 2022). The membership token grants access to a variety of curated areas within the club and exclusive invitation to private events, which helps members to connect with the club's social network. The club also allows members to gift, trade, or resell their membership token on third-party trading platforms. According to The Crypto Times (2024), the NFT project reportedly raised US\$14.8 million through the sale of 1,600 tokens before the restaurant even opened.

However, just the day before the restaurant's grand opening, the Flyfish Club was sanctioned by the US Securities and Exchange Commission (SEC), in violation of federal securities law

for selling NFT membership and receiving royalty payment from secondary market (Restaurant Business, 2024). The SEC explained that the sale of NFTs represented investment contracts with the expectation of profit, which should be registered with the SEC by law (Restaurant Business, 2024). In its defense, the club argued that the NFTs are intended for members to enjoy culinary and other exclusive membership experiences rather than profiting from it (Blockworks, 2024). Consequently, the club was ordered to pay a US\$750,000 civil penalty fine, destroy remaining NFTs in possession of the restaurant, and to stop collecting royalties on their sale on secondary markets (Restaurant Business, 2024).

In light of the situation, the restaurant dialed back to a more traditional membership model charging real money. A standard annual membership is now US\$3,500 for an individual, plus a one-time US\$1,500 initiation fee (Flyfish Club, n.d.). Following the settlement with SEC, the club said membership NFTs that have already been sold do not have to be destroyed, but owners are encouraged to convert their NFTs to a standard membership as soon as possible (Restaurant Business, 2024). Given that the previously-sold Flyfish NFTs can still be traded from user-to-user, the club now provides a 'Blockchain Registration' function on its official webpage for new owners to register (Flyfish Club, n.d.).

Challenges

Apart from legal issues, there are still quite a lot of challenges faced when integrating digital assets and cryptocurrency into traditional business models. Given that not everyone may understand the concept of NFTs, especially for Gen X and Baby Boomers, the business model may only appeal to tech-savvy individuals and results in a loss of potential customers. Moreover, the value of Ether and NFTs are very volatile, which brings risks and uncertainties to the business and its investors. Furthermore, another big concern is safety issues like fraud and scams regarding fake digital copies.

Discussion Questions

1. What unique value propositions can a NFT restaurant offer that traditional restaurant cannot?
2. Apart from legal concerns, what are the potential operational challenges that a NFT restaurant may face?
3. In what ways could NFTs continue to evolve and be integrated into business models despite current challenges?
4. What strategies could be employed to educate a broader audience about NFTs and their potential benefits?

References

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Keywords

- NFT
- Blockchain
- Food and Beverage
- Digital asset
- Cryptocurrency
- Unique value proposition

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