

## Venture Capital Journal: VCs Dine on Food Sites

By Tom Stein, Contributor

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It's too soon to tell whether investing in the social food category is a recipe for success, but the sector is filling up with more competitors. A growing number of VCs are taking a stab at food startups.

On the surface, it's not hard to see the attraction. Food has universal appeal. And food-related startups have the potential to draw a broad menu of audiences from multiple regions.

"Food is front and center in everyone's mind, but there have not been a lot of fresh investments here," says Mike Volpi, a partner at Index Ventures. "Added to that is a growing awareness around food-related issues like nutrition and allergies. This has created very fertile ground for new companies that can come up with creative ways to package a business around food."

Some recently funded startups in the food category include Foodspotting, Foodily, Yummly, GrubHub, Exit41 and Shopwell. They all approach the food market with their own unique twists, but they do have one thing in common: They are all trying to integrate social media features into their food-related offerings and infuse a sense of community into mealtime.

"It's funny, because food is a social thing, like going to dinner with friends," says Volpi of Index, which last year invested \$5 million in Foodily to operate a search engine for recipes. "But how do you take that social engagement we have with food in real life, and translate it to the Internet? That's the real challenge."

Foodily thinks it has the answer. For starters, it is different from a traditional search engine in that users can not only search for the recipes they want, but also the ingredients they don't want. In the main search bar, for instance, can type "brownies." And in the second bar, which is specifically for ingredients you want to avoid, you can enter "nuts." Because the site is integrated with Facebook, among the highest ranked search results are recipes that your friends like. Recipes can also be shared with friends and commented upon.

Howard Morgan, a partner at First Round Capital, agrees that there has not been much innovation around food or recipes. He says that what's currently available on the Internet is somewhat dated and limited. That's why he recently

participated in a \$1.85 seed round in Yummly, another recipe search engine that competes with Foodily.

Yummly perhaps goes even a little deeper than Foodily on the technology front. The site uses proprietary algorithms to filter recipe searches by a full cabinet of ingredients, prep time, dietary restrictions, nutritional value, calories, courses and even taste, such as sweet or savory. Yummly also calculates the nutritional value of recipes, displaying the breakdown of calories, fats, proteins and carbs. The site integrates with Facebook, but also has its own Facebook-like platform called TasteBuds, where users can share and rank recipes.

The company was founded by CEO Dave Feller, who previously worked in executive roles at Half.com, StumbleUpon and eBay. Feller, who loves Italian cuisine, says that he doesn't like mustard and started the site in 2009 because he was always annoyed every time he went to a food site and came across recipes with mustard in them.

Yummly investor Morgan, a self-described foodie who enjoys discovering new restaurants, has seen a number of food startups cross his plate over the years, but he wasn't interested in sampling at first because they tend to be niche players, such as high-end gourmet food sites or ethnic food sites. One of the things he liked about Yummly is that it's a broad site with mass appeal.

"The beautiful thing about food is that everyone has to eat," Morgan says. "So a food site that is done right can attract a huge amount of traffic. And that's very monetizable traffic with a lot of intent to buy."

If you're looking at a recipe, you're also thinking about what ingredients you need and the brands associated with them, he points out. "All these things come together to make a site like Yummly very interesting," Morgan adds.

Exactly how big is the revenue opportunity for these food sites? No one can say for sure. But traditional food guides, such as Michelin and Zagats, are themselves a big business, while food media outlets like the Food Channel and celebrity cooking shows continue to mushroom.

"I see it as a several-billion-dollar market and growing, especially now that there are a number of sites and mobile apps providing new use cases around food," says Jay Jamison, a venture partner at BlueRun Ventures and lead investor in Foodspotting, which recently raised \$3 million in a Series A round. The San Francisco-based company previously raised \$750,000 from investors, including Aydin Senkut's Felicis Ventures, Dave McClure's 500 Startups, and Shana Fisher's High Line Venture Partners.

Jamison is passionate about food, having grown up on family farm in Western Pennsylvania that raised all-natural free range lamb. Customers included many

of America's top chefs, such as Wolfgang Puck. Jamison says he wasn't looking for a food investment, but when he was introduced to Foodspotting, he instantly got it.

Launched in January 2010, Foodspotting's website and mobile apps lets users find and share their favorite restaurant menu items using pictures. The idea is you don't just get a restaurant review. You get real insight into what to order at that restaurant and what that particular menu item looks like.

The site can also double as a recommendation engine, serving up suggestions on particular dishes users might like based on previously stated preferences. So far, more than 600,000 people have downloaded the Foodspotting app, and the site is attracting 300,000 unique visitors each month.

"Foodspotting as a company in my mind has existed for 30,000 years," Jamison says. "By that I mean you can go into caves of France where they found the first pictures drawn on walls, and what were they? They were paintings of foods that were captured in the hunt."

Foodspotting, he adds, is bringing this same primal urge to the masses via mobile technology.

### Will Investments Satisfy VCs' Hunger?

The big unknown for food sites such as Foodily, Yummly and Foodspotting is whether they will make money or leave their investors starving.

Because the food category is still relatively new, the sites are focused on building traffic and improving their products. In fact, they aren't even sure how they will make money, though it will likely be through a combination of ads, ecommerce transactions, and possibly even Groupon-like coupons for restaurants and food products.

"We are not so concerned with the business model right now," says Volpi of Index Ventures. "We are more concerned with getting people to love us, and once we have lots of people loving Foodily, there are plenty of ways to make money."

In contrast, Tim Wright, a general partner at GrandBanks Capital, invested in online ordering company Exit41 because the company was already a moneymaker. Exit41 is more than a decade old. It started off as Elm Square Technologies, selling point-of-sale systems to restaurants, but it recently reinvented itself as a software service that allows large restaurant chains to build online ordering capabilities directly into their Facebook pages. As part of the reinvention, Exit41 gobbled up \$6 million in VC recap funding last year from

GrandBanks, Contour Venture Partners and Dace Ventures, while existing shareholder Fidelity Investments also participated .

Exit41 customers, which include large restaurant chains like Red Robin and Lettuce Entertain You, pay an initial cost of \$2,500 to \$5,000, and then a monthly fee of \$65 to \$150 per restaurant for the service.

“Social commerce is becoming a much bigger part of where restaurants are focusing,” Wright says. “They believe online ordering should be doubling year over year as consumers interact more actively with their brands via social networks like Facebook, Twitter and Foursquare.”

Wright says restaurants that sign up for the Exit41’s Facebook app experience greater order volume almost immediately. He adds that the social component is huge as customers are also “liking” the items they order and are sharing their favorite menu items with friends.

“What attracted us was the sheer size of the market,” says Wright. “This is a market space where you have massive chains with more than a million restaurants combined, yet only about 30% have an online solution for ordering. This is a huge untapped market with no clear winner as of today.”

Competing against Exit41 is Chicago-based GrubHub, which raised \$20 million in Series D financing in March led by DAG Ventures, with participation from Benchmark Capital. The infusion comes just four months after GrubHub closed on \$11 million. The company has now raised \$34 million in funding.

Instead of selling Facebook-integration to restaurants, GrubHub serves as a central ordering spot for hundreds of restaurants, allowing consumers to order delivery food and take-out over the Internet.

Consumers order via GrubHub, which then passes the order to the appropriate restaurant, collecting a small commission along the way. The company rang up about \$70 million worth of transactions last year, and is rapidly adding new markets and restaurants to its roster.

***For Robert Rosenberg, a partner at New Venture Partners, this is absolutely the right time to be investing in food-related startups.***

***“The connection between food and health has penetrated the social consciousness in a way we have never seen before,” he says. “Some 25% of the people in this country believe they have some kind of food intolerance, whether they are lactose intolerant or have high cholesterol.”***

***The upshot, he says, is that consumers understand they need to do better job taking care of themselves, starting in their own kitchen. This new***

***change in attitude, he believes, is reflected in the mainstream acceptance of organic foods and that large food manufacturers, such as FritoLay, are investing in healthier snack options. That's why Rosenberg is so excited about his firm's recent investment in ShopWell.***

***ShopWell is a food information site that scores products on how well they meet each person's unique dietary needs. Users enter data about themselves, such as weight, age, height, height, fitness level, food allergies and ShopWell assigns a rating of 0 to 100 for almost any type of food or brand you enter. So if you're in the supermarket trying to decide which kind of snack bar is best for you, ShopWell can tell you instantly.***

***The site and mobile app are free for consumers, but ShopWell is hoping to sell the data it gleans on food preferences and shopping habits to the food companies.***

***"These companies spend billions of dollars every year on focus groups and consumer panels trying to figure out why you buy what you buy," Rosenberg says. "Without disclosing any personally identifiable data, we believe our data can be aggregated to reveal clues as to why people buy Cool Ranch Doritos rather than Chili Cheese Doritos."***

Everyone has to eat, of course. But the question for these food-related startups and their investors is whether consumers will swallow what they are serving.