August 14, 2009

OpenTable – The Hottest Spot in Town

FORTUNE

When online reservation service OpenTable (OPEN) went public in May, tech pundits gushed like foodies at a five-star restaurant. Some entrepreneurs and financiers hailed the $60 million initial public offering as a sign that tech startups — and their valuations — were poised to rebound from the economic downturn. "This was an overwhelmingly successful offering," a CNBC columnist declared, "and now others are lining up."

There's a delicious irony to OpenTable's status as a symbol of the (still unrealized) IPO renaissance: The San Francisco–based company almost didn't survive, let alone make it to a Nasdaq listing.

Formed during the dotcom boom, the company veered from one strategy to the next, burning through cash, and its venture capitalists nearly closed its doors. Eventually the backers brought in new executives, who reined in OpenTable's efforts to build a consumer brand and instead focused on forging relationships with restaurateurs — a painstakingly slow and labor-intensive process that proved to be crucial to the company's success.

Today the outfit provides reservation services and, perhaps more important, customer-management software to more than 10,600 establishments worldwide.

By giving notoriously tech-averse dining establishments a simple set of tools to help owners attract new diners and keep tabs on customer preferences, OpenTable is establishing itself as a valuable technology partner in the $145-billion-a-year restaurant business. Amid the recession the company eked out $366,000 in profits on $16 million in the first quarter of the year, reversing a fourth-quarter loss. "In times like these restaurants need to look for ways to optimize their operations," says CEO Jeff Jordan. "And what we provide them with helps them achieve these goals."

OpenTable's business model is simple: For $199 a month, restaurants rent a computer terminal and network connection, and they pay OpenTable an additional $1 per diner seated via the company's website. The terminal contains a real-time map of the restaurant's floor, showing how many tables are free and when busy tables might next be available. The terminal can retain individual meal patterns for each party — how many courses they ate, where they sat. It's a bit like a CRM (customer-relationship management) system for gourmands.

A few reservations

The restaurant industry's technophobia proved a challenge from the outset. Founder Chuck Templeton started the company in 1998 as a way to link restaurants' websites to a central reservation website for diners. But Templeton found that most restaurants at the time didn't even have computers. Still, venture capitalists were eager to fund any Net-related business, and Templeton, who previously worked as an engineer at a semiconductor firm, managed to raise $36 million over two years. His investors told him to "grab all the eyeballs you can get and figure out how to monetize them later," recalls Templeton, who is now a Chicago-based consultant.

So OpenTable tried to grow as a consumer dotcom, paying online restaurant reviewers for links to its site and targeting national chains for fast expansion. By 2001, it was in 50 cities but wasn't making money; it was spending $1 million a month to bring in $100,000 in revenue. Investors were ready to pull the plug.

"It was one of those moments," recalls Impact Venture Partners' Adam Dell, "where you had to look into the abyss and wonder, 'Do I really believe in this business?' " Dell had his, um, reservations. That year the board gathered to review the business. The conclusion: OpenTable was worth saving but needed to be retooled.

Angel investor and board member Thomas Layton, founder of CitySearch.com, became CEO. He slashed the staff, shut down spending on consumer outreach, and pulled the company out of all but four markets (Chicago, New York, San Francisco, and Washington). The company fine-tuned its terminals and software to make them easy for staff to use (restaurants have a lot of employee turnover) and deployed a door-to-door sales force to woo high-end restaurants.

A few years ago management began to think about taking the company public. Layton had announced his intention to step down, and the board in June 2007 hired Jordan, the former president of PayPal, who had gained public-company experience when eBay (EBAY) acquired his company. (Layton remains a board member.)

Jordan's first big move as CEO was bold: He pushed ahead with the IPO despite the collapse of the economy and the unfriendly financial markets. Jordan's gamble paid off. On its first day of trading OpenTable's shares climbed 59%. Sure, subsequent tech IPOs never materialized, and some critics now wonder if OpenTable, with a $655 million market cap, is overvalued. But for OpenTable's long-standing supporters, the stock's performance probably feels like just "desserts."