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OpenTable Claims Victory In Food Fight

Red Herring

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OpenTable is making an advance reservation to be the last one standing in the online restaurant reservation business. At a time when many Internet companies are shutting their doors for lack of continued venture funding, OpenTable just got a huge vote of confidence from brand-name VCs.

Benchmark Capital and Adam Dell's Impact Venture Partners led a third round of \$42 million in the San Francisco-based company. (They also led OpenTable's \$10 million second round in January.) The other investors in the fourth round include Integral Capital, Epoch Partners, Comdisco Ventures, Upstart Capital, and Worldspan, a provider of distribution systems for the travel industry.

CEO Jeff Edwards says he expects the new capital to last up to three years and that he expects the company to reach profitability by the end of 2001. "In these tough capital markets, this may be the last money I get, so we need to be successful off of this round," he says.

RACING TO DESSERT

OpenTable's investors are so certain of the company's dominance that they're dancing in the aisles. "The game is over," claims Mr. Dell, an investor and board member. "Only one company will survive." Adds Mr. Edwards: "The marketplace has decided. Our competitors are all falling over."

Not so fast, say analysts and competitors. "OpenTable is not the winner because it's the leader," says Rob Leathern, an analyst with market researcher Jupiter Communications. "It has a lot of work ahead of it: it's challenging to build up a network at both the consumer and merchant ends."

Srips Paul Lightfoot, CEO of Foodline.com: "OpenTable has been prone to hyperbole before."

Hyperbole or not, OpenTable has performed better than all of its challengers. Eseated.com shut down in September because it couldn't raise enough financing. The Boston company's assets were put up for bid on auction site eBay. A month earlier, Foodline.com laid off its marketing and editorial teams and shifted its strategy away from business-to-consumer (B2C) to focus on business-to-business (B2B).

Free to consumers, OpenTable's Web site allows diners to browse restaurant reviews (through a partnership with Zagat) and make reservations online. Its primary source of revenue comes from charging restaurants a monthly membership fee (\$300) to be listed on its site and a \$1 fee per person for each reservation made through its site.

To boost its attractiveness to restaurateurs, OpenTable also offers to install PCs in restaurants. And it's building new products, such as customer-relationship management tools, that will allow restaurateurs to remotely manage tables and track customer profiles, such as seating and wine preferences.

IN THE KITCHEN

OpenTable is cooking up more deals to drive revenues. One key deal that came out of the new funding round is a partnership with Worldspan, a reservation system for about 21,000 travel agencies. Worldspan will allow travel agents and other travel service providers to book dining reservations for customers through OpenTable along with their travel reservations. It also will allow consumers to make reservations through Expedia (Nasdaq: EXPE), which runs on Worldspan's reservation system. OpenTable will split revenues with the travel agencies and other travel service providers that give customer referrals.

"Part of our path to success has been getting enough restaurant partners on the supply side to be an interesting value proposition for travel agents to book against," says Bill Gurley, a managing general partner at Benchmark and a new OpenTable director. "Now we have 250 restaurants signed up in the Bay Area."

The Worldspan deal is a continuation of OpenTable's efforts to partner with hospitality companies to gain more customers. Two months ago it started offering a service that allows hotel concierges to book dining reservations for hotel guests and another for executive assistants to book reservations on behalf of company executives.

OpenTable is trying to ink similar partnerships with travel booking powerhouses Sabre Holdings (NYSE: TSG), Amadeus Global Travel Distribution, and Galileo International (NYSE: GLC). None of those deals has closed.

"Forging partnerships makes a lot of sense for OpenTable, since integrating with someone else's service will reduce customer-acquisition costs," says Matt Stamski, a retail analyst at Gomez Advisors.

Beyond simple expansion, OpenTable's partnerships with those outside of the restaurant business could ultimately mean that the company will grow out of its OpenTable name. "Our strategy is not limited to restaurant reservations," says Mr. Edwards. "We are broadening the definition of our customer base and becoming more of a ubiquitous booking engine."

"What we're doing is not rocket science," acknowledges Mr. Edwards. For that reason, market share is critical to OpenTable, as well as its competitors.

GUEST LIST

OpenTable has 36,000 registered members and 1,200 registered restaurants in 22 markets across the country, and it adds about 150 new restaurants a month, Mr. Edwards says. If it keeps that pace, it would have 4,200 registered restaurants within a year.

Mr. Edwards would not give a specific annual revenue figure, but he says OpenTable now pulls in about \$600,000 a month. That would put annual revenues at \$7.2 million. That's a small figure, but Mr. Dell is bullish about growth. "We're certainly trying to build a company with north of \$100 million in revenue per year," he says. He notes that the fine-dining hospitality business is about \$267 billion a year, or three times the size of the airline business.

In contrast, competitor Foodline.com has signed up about 500 restaurants, a Foodline.com representative says. OpenTable's backers claim most of the company's competitors have yet to register 100 restaurants.

Besides Foodline.com, its competitors include New York-based Ireserve.com, San Francisco-based DinnerBroker.com, New Orleans-based iSeatz.com, and RestaurantRow.com.

How the industry will shake out is open for debate. Mr. Dell says OpenTable's goal is to be a "stand-alone public company." But others say that the business could get overtaken by large companies from other industries. Restaurant guide guru Tim Zagat, who is an investor in OpenTable and Foodline.com, predicts that large telecoms will jump in and "do some serious wrecking." Deep-pocketed telecommunications companies provide the broadband networks that the OpenTable system runs over.