

Webvan Who? Investors Hungry for Online Specialty-Food Start-Ups

By Lora Kolodny

Although online grocery services like Webvan and HomeRuns failed badly in the dot-com era, venture and angel investors now appear bullish on the digital grocery business.



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In particular, start-ups that meet consumer demand for organic and specialty food in the U.S. are drawing seed and venture investments.

Among the digital grocery businesses that attained funding recently are [Good Eggs](#), [Relay Foods](#) and [Instacart](#), backed by [Collaborative Fund](#), [Battery Ventures](#) and [Y Combinator](#), respectively.

Beyond these, [AngelList](#)—a site where accredited investors can learn about, connect with and fund promising start-ups—currently features 74 start-ups seeking funding in the “grocery” category.

Organic and specialty food sellers on that platform, [Greenling](#) in Austin and [Mouth Foods](#) in New York, already raised some funding, among others. More than 600 accredited investors follow the grocery category.

Do investors have Webvan amnesia? If they do, that's a good thing, according to entrepreneur and investor [Ali Partovi](#). An early backer of [Facebook](#), [Zappos](#) and [Dropbox](#), he recently invested in [Farmigo](#), a Palo Alto, Calif., start-up helping food producers use the Web to sell directly to consumers, including on a subscription (community-supported agriculture, or CSA) basis.

"Amnesia is one of Silicon Valley's greatest strengths," Partovi says. "Things change, and an idea that was bad several years ago may be a good one today because of a change in underlying circumstances."

In food consumption and purchasing in the U.S., key circumstances began to shift in the early 2000s, around the buzzwords "organic and local."

Focusing on organics and locally made products, the brick-and-mortar grocery [Whole Foods Market](#) helped drive the trend. So did films like *Super Size Me* by Morgan Spurlock in 2004, and books like *The Omnivore's Dilemma* by Michael Pollan, in 2006.

According to the [U.S. Department of Agriculture](#), over the past decade consumer demand for organic food and other products has grown by double digits every year.

An angel investor in [Mouth Foods](#) (and 24 other start-ups), [Jason Calacanis](#) says that "food is the new health care." Mouth Foods bills itself as "an online store for local, artisanal foods." Namely, they sell subscriptions and one-time gift bags full of organic and locally made snacks from around New York.

Consumers would rather spend money on a healthier diet than pay "large surgery and drug bills when they get sick from eating poorly," Calacanis says. Artisan food and co-op markets, including digital ones, provide an "antidote to mainstream food...that is somewhere between low quality, garbage and dangerous."

Mass consumer buy-in to organic and local food has created some problems in the market, however.

"The food supply chain was caught off guard," Partovi said. "It hasn't grown fast enough for the frenzy of people seeking out organic and local food."

But supply and distribution problems represent new opportunities for investors and entrepreneurs.

[Brian O'Malley](#), general partner with Battery Ventures, says that the lower cost of starting a tech business and the higher cost of food represent stronger potential margins for companies working to solve food supply and delivery problems today, compared with the early dot-com era of Webvan.

Battery has backed Relay Foods and another undisclosed food business, O'Malley said. Relay Foods, like [Capital Factory](#)-funded Greenling in Austin, Texas, operates food pick-up sites around U.S. cities. Shoppers order locally made and organic groceries online through the site, then pick them up later at a designated place.

Many prefer this option to spending time at a crowded store, driving around to different local farm stands, or buying goods from conglomerates like Nestle, PepsiCo, Kraft and Coca-Cola.

According to O'Malley, investors all hope the food sellers they've backed will be able to scale. The trick is to do so while providing a great user experience and food to consumers, minimizing overhead costs, and winning the love and loyalty of food producers, market-by-market.

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