

Tech Cash Pours Into Food Start-Ups

By [EVELYN M. RUSLI](#)



Lauren Lancaster for The Wall Street Journal

The Blue Bottle coffee chain has drawn Silicon Valley investor dollars. Above, a Blue Bottle location in New York, shown in December

SAN FRANCISCO—There is a frothy new deal in Silicon Valley, and it gives a taste of where some investors are pouring money these days.

A group of well-known technology investors has bought a \$20 million controlling stake in Blue Bottle Coffee, a specialty coffee retailer that is gaining fame among the Bay Area's hipsters. Among the group: Tony Conrad, a partner at True Ventures, Google Ventures, Twitter Inc. co-founder Evan Williams, and Kevin Rose, the founder of the Digg website. "It's the Apple of coffee," says Mr. Conrad, who will be the company's largest investor, through his firm.

Blue Bottle, based in Oakland, Calif., is a tiny chain with locations in San Francisco and Manhattan. It is part of what coffee aficionados call the "third wave" of coffee, defined by premium micro-roasters like Stumptown Coffee Roasters.

These boutique labels have drawn plenty of investor dollars. Private-equity firm TSG Consumer Partners, a former backer of Vitamin Water, bought a large stake in Stumptown last year. Jack Dorsey, Twitter's other founder, recently made an investment in Sightglass Coffee, a San Francisco-based coffee brand.

The new Blue Bottle investment, which values the company at less than \$30 million, also comes as other tech investors—having changed the world with the social-networking revolution—are eagerly embracing food through a string of investments and new start-ups.

Mr. Dorsey is an adviser to Unreal, an all-natural candy company. Mr. Williams has invested in Beyond Meat, a manufacturer of food that tastes and feels like meat but is made out of plant protein. And more than a dozen investors participated in Blue Bottle's latest round, including Index Ventures, Kevin Systrom, the founder of Instagram, Matt Mullenweg, the head of Automattic, Dave Morin, the founder of Path and Bryan Meehan, the founder of Fresh & Wild, an organic food supermarket chain.

Jonathan Kaplan, the creator of the Flip video camera, is now flipping grilled cheese sandwiches at his start-up, Melt, a casual restaurant chain backed by Sequoia Capital. The venture-capital firm—perhaps best known for early investments in Google and Apple—has food investments in China and India. "We know this isn't a run-of-the-mill investment," says Michael Moritz, a partner at Sequoia Capital, who was drawn

to the childhood nostalgia that grilled cheese sandwiches often conjure. "But this is not an exercise in the vanity of wanting to be in the restaurant business."

Many of the investors describe their gastronomical pursuits as part of a larger movement.

Todd Masonis, a founder of Plaxo—an address-book management site—now operates Dandelion Chocolate, a boutique-chocolate company, which, he says is a reaction to an industry that has been consumed by mass-market, low-quality goods. In typical Silicon Valley fashion, he built his start-up in a garage, where he tested batches of beans for two years to find the right formula.

"Food has become so industrialized, people are interested in going back to the basics," says Mr. Masonis. "Once you look beneath the surface, it's another area ripe for disruption."

The transition from high-tech to sugar high hasn't been all sweetness for Mr. Masonis. It took a year to secure one San Francisco permit and Mr. Masonis didn't expect such high overhead costs. "It was more expensive than we thought," he says. So far, Mr. Masonis and his business partner have put up about a million dollars and raised about \$300,000 from friends and family. They are still accepting investments.

Entrepreneurs have been burned in the past by "hobby" investments outside their expertise. Food is a particularly perilous field with a high failure rate. Mr. Rose, who is now a partner at Google Ventures and has also invested in local restaurants like Central Kitchen and Hapa Ramen, says he usually doesn't expect to make a lot of money when he invests in food companies. When he first considered Blue Bottle, he "didn't really look at the numbers." But when he finally did see the financials, it was a nice surprise. "As an individual it's a nice perk," he said. "But Google Ventures would absolutely not do this deal if it wasn't a real business."

In some ways, Blue Bottle's slow-drip approach seems to run counter to Silicon Valley's high octane culture. At Blue Bottle cafes, each cup of Joe can take several minutes to make. Coffee doesn't spew out of a pot. Instead, the beans are freshly ground for each serving and dropped into thin filters. Hot water is then carefully poured over the top of the grounds, which eventually flow to an awaiting mug.

And unlike many of the start-ups of its new investor group, the company was never designed to scale fast. At the heart of the operation is James Freeman, the bespectacled and detail-oriented founder of Blue Bottle, who started the company a decade ago at a farmers market. Mr. Freeman, who will stay on as chief executive and maintain a minority stake, is near militant when it comes to quality control, which puts a natural limitation on how fast the brand can grow.

The coffee bags that are sold in its stores, for instance, have to be roasted within 48 hours, which means a Blue Bottle roastery must be located near every retail outlet.

And when it comes to location, Mr. Freeman is especially selective, taking into account the neighborhood and the architecture of prospective sites. "Things like leverage and scale are struck from my vocabulary," Mr. Freeman says.

Mr. Freeman is also more cautious in harnessing the power of the Web. He only joined [Facebook](#) a few years ago because of his wife and his profile says, "I am ambivalent about Facebook, or maybe I just think I am."

Blue Bottle's investors don't seem to mind. Several said Mr. Freeman was a big factor for them. "I see James as an Ev Williams or Caterina Fake," said Mr. Conrad, referring to the Twitter founder and Ms. Fake, another new Blue Bottle investor and a co-founder of the Flickr photo site.

"If anything we need to be more like him," said Mr. Rose. "Sometimes we need to slow down."