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Software start-up attracts investors for grocery work

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A start-up technology firm—founded by four former Wegmans Food Markets Inc. employees—is seeking \$3 million in second-round funding to launch software that creates efficiencies for the estimated \$700 billion grocery industry.

The company already has received several million dollars in funding and has added a top executive experienced with leading high-tech start-ups.

Pittsford-based m2Methods.net LLC has developed software to streamline operations at grocery chains. It already has 31 employees.

Though the market has cooled to investing in technology firms, investors have been receptive to m2Methods' private offerings because it integrates new technology into old economy companies, its founders say.

"It's actually being received quite well. One of the main reasons is the new-old thing," said Thomas Robinson, chief operating officer.

Robinson is no stranger to technology start-ups. He co-founded Blue Lobster Software Inc. and Gizmo.com Inc. Both were later sold.

If fully implemented, the technology could generate annual store savings of 1 percent to 3 percent in pre-tax income. That would equal millions of dollars in savings per store, said CEO Mark Kindig.

Two years ago, Kindig teamed with three other Wegmans' employees to launch the firm.

Kindig was a former senior financial executive at the local grocery chain. Mike Wolf worked in information technology, Frederick Kopp worked in retail advertising and marketing, and Ronald Lillis worked in financial management.

The four founders invested more than \$500,000 to start m2Methods. The firm then raised \$2.8 million through a private angel investment round that ended about a year ago. The second round, targeted to raise \$3 million, is expected to close in 30 to 45 days.

"It primarily will go toward getting the product to market," Robinson said.

The second round also will fund continued improvement and upgrades to the firm's technology products.

Food market research indicates that food,

drug and household products represent more than \$700 billion in annual sales. The local firm initially is targeting grocery stores in the Northeast.

It is working with two clients in pre-implementation consulting and product testing. Together these two grocery retail and distribution companies represent more than \$3 billion in annual sales and operate more than 100 stores. Company officials declined to identify the clients.

Most chains have an automated book-keeping process at the main office, but they do not have automated operations at the store level, Robinson said. It is at the store level where m2Methods sees its opportunity to deliver value.

Kindig explained current store level information exchange is inconsistent and inefficient with phone, fax and paper. The start-up's product automates hundreds of isolated, manual and repetitive processes, he added. These applications, for example, can help forecast demand-driven ordering and track employee and customer patterns.

"I would say that anything that helps us save time or make processes of the store more efficient would be something that we



would consider," said Brian LaValley, community relations manager at Tops Markets LLC.

Ordering products to stock on store shelves creates one of the largest paper trails at the store level, LaValley said. He believes cutting that down would add value to the operation.

Making the product user friendly with a relatively short learning curve is essential, LaValley added.

M2Methods becomes the data collection, organization and distribution provider for its customers. The company has created a model for information storage and retrieval that grocers can apply to any work process and access through the Internet.

The system can reduce operating expenses, and increase productivity and revenues, Kindig said. Replacing paper-based, people-intensive processes with electronic commerce drives out enormous

costs.

For example, a bank transaction at a teller's window costs more than \$1 to process compared with the Internet where it costs closer to a penny.

Another facet of m2Methods' business model is to improve a store's consumer advertising and marketing activities. For example, a store can build better customer relations by offering enhanced products and services tailored to individuals. The store could reward a customer by sending a coupon or gift certificate for a specific product.

Tops' LaValley said m2Methods' technology appears to take the loyalty shoppers' club concept one step further.

A software client can receive a return on its investment in 12 to 18 months, company officials claim. The company will generate revenues in two ways. The most common way will be from a subscription service where a client will pay monthly. The firm also will sell direct-licensing agreements similar to a company purchasing the software.

The firm recently expanded its sales team and plans to expand its marketing, Robinson said. The technology is scaleable and can be applied to home improvement, auto parts and sporting goods chains.

The firm has several business partners to help it deliver this technology: Sprint Corp. and Genuity Inc. for data center and managed networks; and IBM Corp., Microsoft Corp. and Sun Microsystems Inc. for software technology tools.

Kindig spent more than 20 years at Wegmans. He indicated he was instrumental in building the shoppers' club loyalty card program, store office automation programs and a variety of other applied technology initiatives.

Robinson's previous ventures included Blue Lobster, a Java-based software company, and Gizmo, a dot-com business service company. The assets to Gizmo were sold last October to a non-New York firm. Robinson could not disclose additional information because of a confidentiality agreement.

Robinson estimated it will take one to two years before m2Methods can position itself to take on other strategies, including an acquisition, venture capital funding or a possible initial public offering.