The New York Times https://nyti.ms/32wkjLz

As the Start-Up Boom Deflates, Tech Is Humbled

Layoffs. Shutdowns. Uncertainty. After a decade of prosperity, many hot young companies are facing a reckoning.

By Erin Griffith

Feb. 24, 2020

SAN FRANCISCO — Over the past decade, technology start-ups grew so quickly that they couldn’t hire people fast enough.

Now the layoffs have started coming in droves. Last month, the robot pizza start-up Zume and the car-sharing company Getaround slashed more than 500 jobs. Then the DNA testing company 23andMe, the logistics start-up Flexport, the Firefox maker Mozilla and the question-and-answer website Quora did their own cuts.

“It feels like a reckoning is here,” said Josh Wolfe, a venture capitalist at Lux Capital in New York.

It’s a humbling shift for an industry that long saw itself as an engine of job creation and innovation, producing the ride-hailing giant Uber, the hospitality company Airbnb and other now well-known brands that often disrupted entrenched industries.

Their rise was propelled by a wave of investor money — about $763 billion washed into start-ups in the United States over the last decade — that also fueled the growth of young companies in delivery, cannabis, real estate and direct-to-consumer goods. Unlike low-cost software start-ups, these private companies frequently took on old-line competitors by spending heavily on physical assets and workers while losing money.

Now a pullback is unfolding in precisely the areas that drew the most hype.

Around the world, more than 30 start-ups have slashed more than 8,000 jobs over the last four months, according to a tally by The New York Times. Investments in young companies have fallen, with 2,215 start-ups raising money in the United States in the last three months of 2019, the fewest since late 2016, according to the National Venture Capital Association and PitchBook, which track start-ups.

And those are not the only signs of change. Casper Sleep, which billed itself as the “Nike of sleep” by selling mattresses online, flopped when it went public this month. Once-hot companies like Lime, the electric scooter provider, have pulled out of some cities. Others, like the e-commerce start-up Brandless, the game app HQ Trivia and the electronics maker Essential Products, are on the verge of shutting down.

There are now “frantic mini-moments of panic, as one thing after another happens,” said Roy Bahat, an investor at Bloomberg’s venture arm in San Francisco. “At some point, one rock after another will fall away from the cliff and we’ll realize we’re not standing on anything in many, many companies.”

Many start-ups are sagging after a difficult 2019, when prominent “unicorns” — companies valued at $1 billion or more by private investors — fell flat on Wall Street. Uber and Lyft, which are losing billions of dollars a year, staged disappointing initial public offerings last spring. And WeWork, the office rental firm, pulled its public offering, ousted its chief executive and cut its valuation by 80 percent late last year.

Zume, which raised more than $400 million for a robot pizza delivery service, laid off hundreds of employees and stopped making pizza last month. Marcio Jose Sanchez/Associated Press

The retreats are being led by companies that were backed by SoftBank, the Japanese conglomerate with a $100 billion Vision Fund for investing in start-ups. SoftBank bet big on companies like Uber and WeWork, as well as the Colombian delivery start-up Rappi and the Indian hospitality start-up Oyo. All have undergone layoffs in recent months.

"You can't build on top of something that's not strong," said Seth Besmertnik, chief executive of Conductor, a marketing business that WeWork acquired in 2018, which he and others recently bought back.

This month, SoftBank reported that its Vision Fund and other investments led to a $2 billion operating loss in the last quarter of 2019. In a statement, it said some of its start-ups had acted "quickly and responsibly to make some difficult decisions to better position themselves for long-term success."

The pullback will probably not be as severe as the dot-com bust in the early 2000s, when dozens of unprofitable internet firms failed. Today, venture capitalists and other investors still have large pools of money to invest. And certain types of start-ups — like those that make tech for businesses and that typically have steady sales — continue raising large sums of money.

But in an industry known for irrational optimism, skepticism now abounds. In San Francisco, entrepreneurs are quietly sharing tales of skittish investors and a struggle to adapt to a new reality. Spreadsheets of freshly unemployed workers are circulating on social media.

WeWork's headquarters in New York. The company said in November that it would lay off 2,400 people. Sangsuk Sylvia Kang for The New York Times

Start-ups that once touted fast growth are changing their tune. Brad Bao, chief executive of Lime, wrote in a blog post last month that his scooter company was withdrawing from 12 cities and had shifted its "primary focus" to making a profit.

"Firms that were spending money in an un-economic way can't do it any longer," said Steven N. Kaplan, a professor of finance and entrepreneurship at the University of Chicago.

More workers are questioning the promises from start-ups, Kate Bratskeir said. She knows — she lost her job at a start-up twice in 12 months. A year ago, Ms. Bratskeir, 30, was laid off from her job as a writer at Mic, a digital media start-up in New York that failed to turn a profit. In November, she was again let go, this time from a marketing job at WeWork.

"People are becoming more critical and skeptical before just joining the party," said Ms. Bratskeir, who received severance from both companies and is now working on a book about sustainable food shopping.

Some start-ups are even laying off the robots. Last month, Café X, which operates robot coffee shops and raised $14.5 million in venture funding, closed three stores in San Francisco. Henry Hu, its chief executive, said in an email that the company had "learned everything we could" from the shops and now planned to "laser focus" on airports, where it has two stores.

A bounce back does not appear likely soon. When Casper — which raised more than $300 million in venture capital — went public this month, its stock promptly plummeted. That served as a warning to other high-profile start-ups that are expected to go public this year, including Airbnb and DoorDash, the food delivery company. Both companies are losing money.

Airbnb and DoorDash declined to comment.

When Casper Sleep, a mattress start-up, went public this month, its stock immediately fell. Vincent Tullo for The New York Times

Perhaps the most drastic turn has happened among cannabis start-ups, which rode a wave of exuberance in recent years as countries like Canada and Uruguay and several U.S. states loosened laws that criminalized the drug. Last year, more than 300 cannabis companies raised $2.6 billion in venture capital, according to PitchBook.

Then in mid-2019, investors started doubting whether the industry could deliver on its lofty promises when some publicly traded cannabis companies were tarred by illegal growing scandals and regulatory crackdowns. Start-ups like Caliva, a cannabis producer; Eaze, a delivery service; and NorCal Cannabis Company, another producer, have together cut hundreds of members of their staffs in recent months.

“A lot of companies are not going to make it through this year,” said Brendan Kennedy, chief executive of Tilray, a cannabis producer that went public in 2018. Mr. Kennedy said he was stopping spending on new projects to survive the shakeout.

Investors became skeptical of cannabis companies last year. Sara Naomi Lewkowicz for The New York Times

Even a start-up named Unicorn hasn't been spared. The company, which sold personal electric scooters, raised just over $150,000 last year from investors. But it quickly spent the cash on online ads and got just 350 orders, said Nick Evans, its founder.

In December, Unicorn said it could not afford to deliver any scooters and shut down. Mr. Evans ended up giving some customers refunds with his own money, he said.

He added that he was building a new company. While he declined to specify what it would focus on, he allowed that there would be a major difference this time: The start-up, he said, had to be profitable from the beginning.

Correction: Feb. 24, 2020
An earlier version of this article misstated the surname of the chief executive officer of the cannabis producer Tilray. He is Brendan Kennedy, not Kenney.

Erin Griffith reports on technology start-ups and venture capital from the San Francisco bureau. Before joining The Times she was a senior writer at WIRED and Fortune.
@eringriffith

A version of this article appears in print on Feb. 24, 2020, Section A, Page 1 of the New York edition with the headline: Losing Sizzle, Top Start-Ups Cut Tech Jobs