Start-Ups Are Pummeled in the ‘Great Unwinding’

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Erin Griffith
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SAN FRANCISCO — After a crush of travel cancellations in March, WanderJaunt, a short-term home rental start-up in San Francisco, laid off 56 of its 240 employees last week.

Demand for services from Wonderschool, a start-up that helps people find day care and preschool providers, dropped by half, leading it to cut most of its 60-person staff.

And at ClassPass, which offers a membership program for fitness classes, over 95 percent of revenue evaporated in just 10 days as studios and gyms around the world shut down. To survive, the start-up slashed spending, froze hiring and rushed to build a video streaming service for virtual workouts.

“This is the great unwinding,” said Martin Pichinson, head of Sherwood Partners, a Silicon Valley advisory firm that restructures failed start-ups. In recent weeks, he said, his firm has fielded a “firestorm” of calls — a volume three or four times the highest he had ever seen.

Start-ups have always been risky, designed to grow fast or die, but the coronavirus pandemic is turbocharging Silicon Valley’s natural selection and causing a shake-up so sudden it has defied comparison. In just a few weeks, more than 50 start-ups have cut or furloughed roughly 6,000 employees, according to a tally by The New York Times. Plans for initial public offerings are on hold. And funding is drying up for many young tech companies.

The fallout is hitting the highest-profile start-ups as well as the smaller ones trying to disrupt them. Airbnb, the home rental start-up valued at $31 billion, has stopped hiring and has suspended $800 million of marketing. Bird, an electric scooter start-up, laid off 30 percent of its staff last week, while Everlane, an apparel company, cut or furloughed hundreds of workers.

The real estate start-ups Knotel and Convene have laid off or furloughed half of their workers. The hiring site ZipRecruiter cut around 40 percent of its staff. OneWeb, a satellite start-up that had raised $3 billion in venture funding from investors including SoftBank, the Japanese conglomerate, filed for bankruptcy on Friday and plans to sell itself. And travel start-ups — Vacasa, Sonder, Inspirato, Zeus Living and TripActions, among others — have been some of the hardest hit.

The numbers are stark. In March, job listings at the 30 most valuable start-ups in the United States dropped 19 percent, or an average of 21 jobs each, according to Thinknum Alternative Data, a research company. Start-up funding in the first three months of 2020 was also on a pace for its second-steepest quarterly decline in 10 years, said CB Insights, which tracks start-ups.

Start-ups in some areas — telemedicine, food delivery, online learning, remote work, gaming — are thriving amid the quarantines. And there were signs that the boom times were shaky even before the coronavirus brought wide swaths of the U.S. economy to a halt.

But the pain is now deeper and most likely just beginning, especially as investors, already bruised by a string of disappointing I.P.O.s last year, become even more cautious. On March 5, Sequoia Capital, a top venture capital firm in Silicon Valley, issued a warning to start-ups, calling Covid-19 "the black swan of 2020."

Bill Gurley, an investor at the venture capital firm Benchmark, said that over the past 10 years of the start-up boom, investors had taken on more and more risk. That has changed, leaving many of the riskiest start-ups exposed.

Let Go With Little Warning

For start-up workers, the past few weeks have been sobering. Many had bought into the tech industry's change-the-world ideals, had few boundaries between their work and personal lives and hoped for big payouts if their start-ups went public.

Now they were being laid off over video calls.

At Bird, the Los Angeles scooter start-up, which had once been valued at as much as $2.5 billion, hundreds of employees were invited to a video conference call on Friday morning with just an hour's notice. On the call, the voice of an unidentified executive explained that their jobs had been eliminated. A slide outlined the terms: a month of severance pay, three months of medical benefits and one year to exercise their stock options.

The workers were asked to mail in their laptops, said Jenny Alvauaje, a Bird data analyst who was on the call. Some workers missed the call but learned they had been laid off when they lost access to internal systems shortly after, she said.

In a statement that called the layoffs "a difficult decision," a Bird spokeswoman added, "We purposefully and intentionally did not have any video on to protect privacy as we delivered the news live to individuals."

The end was equally abrupt for Nik Buenning, 40, a data scientist at Panoramic, a marketing software start-up in Los Angeles. He was just settling into his work-from-home setup on March 23 when a companywide email said to expect a call from human resources.

Right away, he said, "people started sending Slack messages like, 'I'm out.' 'I'm out.' 'I'm out.'" An hour later, he was out, too.

Mr. Buenning signed up for Upstream, a new networking app that unveiled itself earlier than planned to cater to tech workers affected by coronavirus layoffs. Sites like Silver Lining are also helping people connect with companies that are still hiring.

Many start-up workers have added their names to Google spreadsheets, which recruiters share in weekly newsletters like Layoff List, created by a recruiting company called Drafted. Hiring managers, venture capitalists and start-up advisers read the newsletter, said Vinayak Ranade, chief executive of Drafted.

Some laid-off workers said they might flee to the safety of the largest tech companies, which are sitting on piles of cash and benefiting from increased use in the quarantines.

When Kenyon Brown, 24, a product manager, left his job early this year at Mariana Tek, a software company in Washington, he had eight or nine promising job leads at start-ups. Those quickly evaporated as the virus spread. He said he was now more open to big tech companies since they were still hiring.

The situation “has definitely forced me to think about my short-term career in another light,” he said.

Survival Mode

The start-up survival guide reads something like this: Cut spending, lower prices on products, renegotiate fixed costs for things like leases and ask the government for assistance for the fitness studios, home rental operators or gig workers they rely on.

Some entrepreneurs said they viewed the coronavirus as a moment to rally around their company’s mission, citing the “wartime C.E.O.” idea popularized among start-ups by the venture capitalist Ben Horowitz. It states that executives facing an “imminent existential threat” do whatever it takes to win.

“There are no distractions now,” said Michael Chen, 30, chief executive of WanderJaunt, the short-term home rental start-up.

Mr. Chen’s four-year-old company, which had raised $27 million in funding, has slashed its prices; a house that rented for $700 a night now goes for $100, for instance. And it has switched its focus from vacation travelers to those displaced by the virus, like stranded college students, people seeking a separate work space or medical workers isolating themselves from family.

At Sonder, a travel start-up in San Francisco that laid off 282 people and furloughed 135 of its 1,254 workers last week, the speed of decision-making has increased from a few days to a matter of hours.

“In many ways it’s energizing, but it’s also quite chaotic,” said Francis Davidson, chief executive of Sonder, which raised $345 million in funding and was valued at $1.1 billion. He said his investors had advised him to cut fast and deep to allow employees to hit the job market before things got worse and to avoid multiple rounds of layoffs.

“People that are looking for a really coddled environment should not be in start-up land,” he said. “You need to have thick skin and a high adversity quotient.”

‘A Time of Weeding Out’

Many venture capital firms are flush with cash from record-breaking hauls in recent years. But they may not decide to use the money to keep struggling start-ups alive.

“There’s no doubt that this will be a time of weeding out of start-ups that can’t survive,” said Mike Jones, an investor at the venture capital firm Science.

One venture capital firm in San Francisco, Alpha Bridge Ventures, said it was too small to pour more money into its start-up investments. The firm has made a promise to the founders it has backed: If their companies fail because of the coronavirus, it will give them $25,000 for their next company.

“We can at least take one burden off their shoulders,” said Jake Chapman, an investor at Alpha Bridge, adding that two or three of the firm’s 21 investments are at risk of failing.

In lieu of networking events and lavish retreats, venture firms are now dispensing advice in blog posts, on Twitter and at virtual panels over Zoom. At a March start-ups event, Alexis Ohanian, an investor at Initialized Capital in San Francisco, encouraged founders to adapt to the new reality.

“If what you’re doing now is just not a viable solution in this new world and in a different economy,” he said, “then find something that is.”