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The Start-Up Industry Is Challenged by the Market`s Need for Profits

By Renan Braz, LL.M. Candidate 2020 | February 25, 2020

Since the dot-com bubble, a period in which companies made their growth out of the surplus of venture capital funding supporting their internet-based businesses, and the stock market crash that followed it, the start-up industry has faced many highs and lows. The New York Times recently compiled events suggesting that the current year is likely to be a tough one.

Back in 2008, the renowned venture capital firm Sequoia Capital gathered its start-ups to prepare them for a downturn in the industry. The slideshow presented by the firm, then titled "R.I.P. Good Times," set the self-explained takeaway for entrepreneurs to incorporate into their businesses' models: costs moderation.

Despite the hype caused by the formation of the largest venture capital fund in history (when the Japanese Conglomerate SoftBank raised a $100 billion Vision Fund), and by the biggest amount of venture capital investment made in the US history ($130.9 Billion raised in 2018 according to Pitchbook and National Venture Capital Association (NVCA)), recent events suggest that pursuing growth at the cost of profitability might not be a valid business plan anymore.

On January 9, 2020, Lime announced that after reaching more than 120 cities, the company is closing operations in twelve markets across the globe. The reason for this being the company's new primary focus: profitability. Likewise, some trending "unicorns" have been underperforming: Uber and Lyft went through discouraging IPOs and are having yearly losses of billions of dollars. Uber made history by having the worst first-day dollar loss in the US IPO records. Not only did its stocks close down 6.7% on its opening day and amount to an aggregated loss of $655 million for the first public buyers, but its market capitalization of $69.7 billion was also almost half of the valuation predicted by bankers in 2018.

Another Softbank backed company, WeWork, withdrew its IPO, resigned its chief executive and suffered a valuation loss from $47 billion to $8 billion. This move was a consequence of investors' cautiousness about young companies that have yet to prove their profitability in the following years.

Layoffs contribute to what might be the payback for the abundant decade lived by start-ups so far. Zume and Getaround – the robot pizza and the car-sharing start-ups – cut 500 jobs, among other businesses, such as 23andMe, Flexport, Firefox, Quora. Workers are thus prone to be skeptical about finding employment with start-ups.

The "venture" element inherent to investments raised for start-ups is the keystone to transforming ideas into lifechanging products and services. While businesses deepen their roots to compete in

the open market, it is seen that their growth cannot impair the focus on its profitability, as the high availability of investment funds is not translated into guaranteed success as some optimistic players in the industry may believe.