

## Once-Flush Startups Struggle to Stay Alive as Investors Get Pickier Funding of technology firms plummets after 2014-15 boom, forcing many in Silicon Valley to fight for survival



ILLUSTRATION: ERIC PALMA

By

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April 23, 2017 8:00 a.m. ET

Eighteen months ago, Beepi Inc. was rapidly expanding its online used-car business to 16 U.S. cities where people could buy cut-rate vehicles adorned with giant shiny bows.

Beepi doesn't exist anymore. After burning through more than \$120 million in capital, the startup failed to raise more cash and shut down in February. Its roughly 270 employees cleared out of the cavernous Mountain View, Calif., headquarters, leaving behind the ping-pong table and putting green.

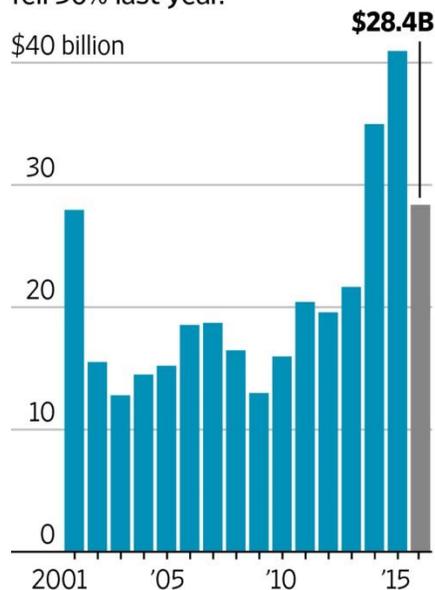
Beepi's rapid demise offers a glimpse into the changing fortunes of Silicon Valley startups, many of which have struggled to adjust since a two-year investment frenzy came to an end.

In 2014 and 2015, mutual funds, hedge funds and other investors pumped billions into companies that they now see as overvalued, and unlikely to pull off an initial public offering. As venture capitalists became more discerning, investment in U.S. tech startups plummeted by 30% in dollar terms last year from a year earlier.

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## Money Trail

Funding for U.S. tech startups fell 30% last year.



Source: Dow Jones VentureSource

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For some startups, investor demand is still robust. Much of the money still being invested is pouring into the upper echelon of highly valued startups like Airbnb Inc. and WeWork Cos., or younger ones with clear paths to profit.

“There are companies that everybody wants to invest in, and there are a large set of companies that almost nobody wants to invest in,” said venture capitalist Keith Rabois of Khosla Ventures.

Venture-capital firms remain flush with cash: They raised \$44 billion last year, the most since the dot-com boom.

But investors are staying away from scores of initially well-funded startups that once looked like relatively safe bets, forcing these companies to fight for survival as they burn through their stockpiles of cash and scramble for new money or buyers.

“They’re like the walking dead,” said David Cowan, a partner at Bessemer Venture Partners, who expects a steady stream of failures.

In 2014 and 2015, more than 5,000 U.S. tech startups collectively raised about \$75 billion, according to Dow Jones VentureSource—the largest amount in any two-year period since the dot-com boom.

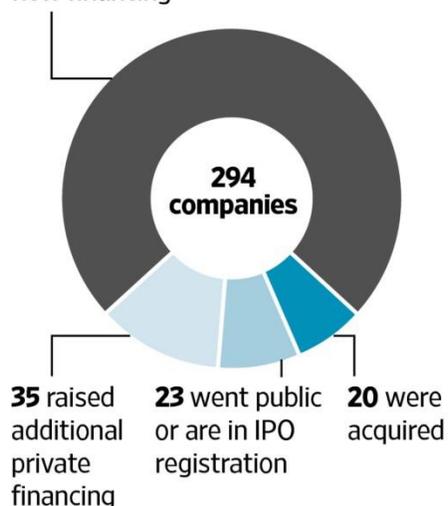
Much of that money went to a small share of tech startups: 294 such companies raised at least \$50 million apiece. Almost three-quarters of those companies—216—have neither raised money nor been acquired since the end of 2015. Startups tend to raise funding every 12 to 18 months.

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## Status Quo

About three-fourths of U.S. tech companies that raised \$50 million or more during the heady years of 2014-15 haven't raised new funding since then.

**216** are still private and haven't raised new financing



Source: Dow Jones VentureSource  
THE WALL STREET JOURNAL.

Seemingly every week lately, a well-funded startup is slashing jobs or pulling the plug.

In recent months, mobile-search startup Quixey Inc. shut down after raising over \$100 million, [health-benefits broker Zenefits—which has raised more than \\$500 million—laid off nearly half of its staff](#), and [blogging platform Medium cut one-third of its employees](#) after raising \$132 million.

Such closures and cutbacks were rare two years ago when venture capitalists encouraged startups to expand rapidly to edge out competitors. Then when capital became scarcer, investors urged companies to turn profitable, which isn't an easy pivot.

Take startup Luxe Valet Inc., whose app lets people summon parking valets in bright-blue track jackets. Founded in 2013, the San Francisco company by early last year had plowed into eight markets and raised more than \$70 million.

Two competitors shut down. But expensive contracts to park cars in garages in big cities like Boston soaked up Luxe’s cash, according to a person familiar with the finances. The startup has had to retreat to three markets. Luxe didn’t respond to requests for comment.

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## Life and Death

The gap between initial funding for U.S. tech startups and company shutdowns has widened over the years.

1,500 companies



Source: Dow Jones VentureSource  
THE WALL STREET JOURNAL.

“There’s going to be a shakeout” for companies that can’t show a profit, said James Beriker, the chief executive of meal-delivery service Munchery. Mr. Beriker joined the company in January after a rocky period that resulted in several top executives leaving—including the co-founders.

Munchery, which has spent much of its \$120 million in funding, is raising a \$10 million lifeline from existing investors. The company is cutting costs and aims to be profitable by year-end, Mr. Beriker said.

For Beepi, profitability proved too distant for investors to wait.

Founded in 2013, Beepi caught on in San Francisco by giving people a fail-safe way to sell used cars online. Beepi guaranteed sellers a price, and if it couldn’t find a buyer in 30 days, it purchased the car. Beepi marked up the price and pocketed the difference.

Venture capital poured in, and its valuation surged from \$12 million in early 2014 to \$525 million by mid-2015. Beepi moved out of its cramped office by a Carl’s Jr. and into a glassy building where the chief executive zipped around on his own Segway. Staffers enjoyed quinoa salad and turkey meatball lunches and dinners when they often stayed late, and unwound with ping-pong or Nerf guns.

The company's strategy was a common one: blanketing the U.S. to thwart competitors rather than focusing on profit in a few cities.



□ Beepi had expanded its online used-car business to 16 U.S. cities where people could buy cut-rate vehicles adorned with giant shiny bows. PHOTO: PATRICK TEHAN/TNS/ZUMA PRESS

Beepi spent a fortune to entice buyers and sellers through radio and [Facebook](#) ads, spending an average of \$1,730 on advertising per vehicle in most of its markets in the third quarter of 2016, according to fundraising documents issued last fall.

Beepi was whipsawed by cars that sat unsold for a month, and that Beepi therefore had to purchase. Losses on those cars could reach more than \$5,000 per high-end car, former employees said.

Revenue for the first half of last year was \$50 million, up about 40% from the previous six months. But with little revenue from add-on services like auto repair, Beepi was losing up to \$5 million a month last year, the documents show. Costs were falling, but profitability wasn't forecast until 2018.

By mid-2016, CEO Ale Resnik hunted for cash to stanch the losses, but investors were spooked, former employees said. Mr. Resnik was in advanced talks with a Chinese company to raise tens of millions of dollars, he told staffers, but the deal crumbled in November.

Most of Beepi's staff was laid off in December, and the startup announced it was headed to liquidation in February.

In an email to The Wall Street Journal, Mr. Resnik said he takes responsibility for missing goals.

Employees say they believed the business would have proved sustainable if they were given more time. "It was clear to us internally how to get there," said Tyler Infelise, Beepi's head of product.

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Appeared in the Apr. 24, 2017, print edition as 'Once-Flush Startups Struggle to Stay Alive.'