

Analysis of Reasons for Layoffs by Technology Startups during Covid-19 Pandemic

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Abstract

Several technology startups, both in US and India announced layoffs during the Covid-19 pandemic. Many of them gave the reason to be the pandemic which caused almost total shutdown of the business. This contrasted with many other companies like airlines which took the route of salary cuts and leave without pay rather than layoffs. However, the researcher's study of these technology startups, indicates that the layoffs were more to do with shedding non-core businesses, eliminating management layers and terminating non-performers. Many of these startups had a large runway of capital and could have retained employees if they chose to. Several of them resorted to layoffs after a fundraising round. Hence the pandemic was an excuse to realign their businesses, which would have happened in normal course. However due to the pandemic situation and focus on companies to retain jobs, the severance policies announced were more generous than the ones announced earlier. This could set up a new precedent of more generous severance policies during layoffs. The employees can take away that they are always at risk if they do not belong to the core business or area of competency in a company. The mid-level and senior level managers must be cognizant that the value they bring in will always be evaluated against their compensation. They must ensure that their value is recognized. The researcher has analyzed startups that have enough capital to sustain.

Keywords: Pandemic, Covid-19, Startups, Layoffs

The year 2018 saw many technology startups in India attain unicorn status. These include Zomato, Swiggy, Udaan, Oyo (Ghosh, 2018). The investors were betting on these companies as they were mature startups and ready to scale up and become profitable with improving unit economics. The Covid-19 pandemic that began in 2020 is a generational event, which has resulted in the lockdown, and complete shutdown of travel. The governments have implemented many strict measures based on the experience of previous pandemics notably the Spanish Flu. This has impacted many businesses in industries like airlines, taxi services, hospitality, travel, and tourism. The Indian Unicorn startups were no exception. As a result of the pandemic, many of these startups announced layoffs. The pandemic was blamed for this. However, the analysis of the blogs and statements to the press shows that the companies may have conducted these layoffs even if there was no pandemic. The researcher compares their actions with the actions of companies which were also impacted but

did not conduct layoffs. In the end the researcher analyzes the severance policies and concludes that a new benchmark may have been set on severance payments for future.

Overview

A few technology startups who had capital to run the business, laid off employees during the Covid-19 pandemic. The researcher is analyzing whether the layoff decision was due to pandemic, or regular business decision. The hypothesis of the researcher is that the layoff decision was not entirely due to the pandemic. The actions of some companies, similarly, impacted are compared with to show that the reason for layoff holds good even if there was no pandemic. Another hypothesis is that the companies improved their severance payments to the laid off employees, due to the intense focus of the government and press on the job losses during the pandemic.

Proposed Method

The researcher relied on a Google Search Engine results for information on the layoffs that occurred during the pandemic. The sources used were the blog articles of the companies, and statements made to the press. The press statements made by the company are taken from nationally known newspapers like The Hindu Business Line, Economic Times and The Mint.

The press statements were analyzed to understand the reason for the layoff. These were compared with the actions of the companies in either the previous year or the previous layoff. The actions of the technology startups were compared with the actions of the airline companies who were impacted severely due to total shutdown of travel.

Data Analysis

Expedia Inc, an online travel company, announced layoff of 300 employees in December 2020. The travel industry has been hit hard in 2020, but the reason is that Expedia has been priced out of India market by other online travel companies that are offering deeper discounts (Gandhi, 2020). MakeMyTrip layoffs though seem to be directly tied to the impact of pandemic (ET Online, 2020). Cleartrip also laid off during the pandemic (TNN, 2020), but it has laid off employees even before as it was losing out to players like MakeMyTrip.

The two big food-tech companies – Swiggy and Zomato – also laid off employees. But Swiggy laid off employees by scaling down its non-core business which were adjacent ones like Two of the biggest startups, the food tech companies – Swiggy and Zomato also announced layoffs during the pandemic. However, the affected employees of Swiggy were let go by scaling down or shutting down adjacent businesses like Private label kitchens (Bhargava, 2020). In April 2020, Swiggy was able to raise \$43M which showed that the investors were still believing in Swiggy (Singh, India's Swiggy raises \$43M to expand to new businesses, 2020). Zomato also laid off 13% employees but this coincided with their push to move into “transaction first” business model which Zomato has been pushing since 2016 (New Delhi Bureau, 2020). In fact, by mid-2020, Zomato reported a much better unit economics. By end of 2020, Zomato raised another \$660 million, and it became more valuable than Swiggy (Bhalla, 2020).

Bounce, another startup, laid off 120 employees, of which 100 were mid-to-senior level employees who had high salaries (HRK News Bureau, 2020), (Sarwar, 2020). The company further shut down its experimental ventures. Bounce had raised \$105M in January 2020 (Kashyaap, 2020). Udaan, another unicorn startup, laid off around 3500 contract workers from its non-essential goods business (SH, 2020). Udaan had raised \$585M in October 2019 (Shrivastava, 2019) and again raised \$280M in January 2021 (Singh, 2021). Ola laid off 1400 employees from their non-core businesses like financial services and food business (PTI, 2020). On 26th May, Ola's financial services arm

raised INR 200 crore (SH, Ola's financials services arm raises 200 crore, CEO Nitin Gupta quits, 2020). This raises a question if liquidity and capital was the main reason for layoffs in the financial services arm of Ola.

The numerous examples shown above clearly demonstrate that many of these companies had no trouble raising capital even during lockdown. But they probably needed to show proper and sustainable business models to investors. Therefore, they resorted to layoffs to re-align their businesses. Thus, the reasons are clearly to do with regular business decisions of alignment to core objectives. With a few exceptions, the companies used pandemic as an excuse.

In contrast, airline companies in India announced either zero layoffs or minimal. They instead went ahead with options like leave without pay, salary cuts. GoAir, SpiceJet and Vistara did not announce any layoffs, while Indigo announced a 10% layoff but not for pilots (PTI, 2020). These companies probably know that they need all these employees to restart, and hence took the action of collective pain and did not lay off employees. In fact, the technology startups also took these measures for the employees they retained. This is another evidence that the layoffs were a business realignment decision independent of the pandemic.

However, the decent thing that these companies did is to provide an improved severance package. In addition to the standard notice period, most companies tried to give an ex-gratia payment, medical insurance coverage till end of 2020, and a friendly RSU vesting options. In fact, Zomato later provided liquidity to former employees in December 2020. A few startups have even allowed the employees to keep their company laptops. These were some friendly policies adopted during these trying times. Although all companies offered outplacement support, the effectiveness of this is to be studied.

Conclusion

A study of the press statements and the blogs of the technology startups in India shows that the reasons for the layoffs during the pandemic was more to do with aligning their businesses for profitability and improving their business models. Some of these companies had done layoffs even before for these reasons. A number of these companies eliminated management layers and non-core businesses. The companies were able to successfully raise capital after these layoffs during the pandemic. The lesson learned is that the employees in companies must be aware if their business in the company is generating value for the company and if they are adding value. This self-awareness will help them be prepared for any decisions taken by the business.

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