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What went Wrong with WeWork?

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ABSTRACT

WeWork, Silicon Valley's overly revered, supremely pampered and extensively lauded blue-eyed boy turned out not to be as 'Revolutionary' as earlier thought but in-fact emerged to be a catastrophic fiasco. It was the picture-perfect start-up, with a blissful amalgamation of party-like work culture, heavy cash investments, unbelievably high valuation, and a celebrity CEO; WeWork was said to be 'The next big thing' and was expected to soar above and beyond. However, the veil of falsity masking the company's internal troubles was lifted to showcase its true nature driving the utopian unicorn bubble to burst, crashing its \$47 billion dollar valuation to just \$2.9 billion.

Keywords: *WeWork, Downfall, PESTLE, IPO.*

I. INTRODUCTION

The tide turned immediately after WeWork publicized its S-1 documents for its IPO filings. The prospectus was meant to attract a swarm of investors, but in-fact served as its Achilles Heel, advertising concerning financial and operational discrepancies. The failed IPO led to Adam Neumann, the long-haired rock-star CEO, to resign and the valuation took a significant blow, falling by more than half, leading to the IPO being scratched off completely. The failed IPO proved one crucial point, investors were not going to put up with another overvalued company which lacked profitability and had troublesome workings. So, what went so erroneous that a company with \$47 Billion valuation fell through the cracks extremely humiliatingly when it went for public funding?

Firstly, WeWork projected an extremely deluded forecast of its market share. It illusively included every single working person with a desk in a city where there was a WeWork present as a 'potential member' and in cities where WeWork wasn't, that approximation was applied to everyone with an office job. This was truly deceptive and illusive in nature. Secondly, Neumann marketed the start-up as a 'Software company' instead of what it actually was, a 'Real-estate company'. The 'Tech' label was affixed to induce an inflated valuation and to entice meatier investors. Furthermore, Neumann had high aspirations, he marketed WeWork as not what it was- an office space rental company, but what it could become. He painted a remarkable picture,

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he wanted to build a whole community atmosphere- expanding WeWork into retail, micro-apartments, education, recreational services, healthcare etc; WeWork even changed its name temporarily to the ‘We Company’ to enforce this message. However, it neither had the expertise nor the market comprehension of these sectors to venture out into them, thus, these ventures never took off as expected. Thirdly, the company was incurring gargantuan losses. The Financial Times revealed that in 2018, it managed to accumulate \$1.9 billion dollar of losses and in 2019 almost \$2 billion in losses. WeWork aggressively expanded all over the world in top-high end cities, setting up locations in tremendously expensive buildings. It ignored the fact that its primary clients were small businesses and young start-ups which could not afford to obtaining leases in such pricey premises. Furthermore, the WeWork operational model was not profitable in nature, it incurred recurring expenses for leasing properties which then it rented out for short durations. The expenditure was high and prolonged while its income was volatile and subjected to market risks. Fourthly, the CEO was a herculean impediment in the company’s prosperity. Neumann’s loose and bizarre leadership style cultivated a toxic frat-boy like work culture. Alcohol fueled parties, where Neumann personally served tequila, described as ‘Summer Camps’ were prevalent. Atmosphere in these after-work rendezvous resulted in sexual assaults and harassments which brought out lawsuits and were extensively covered by the media, tarnishing the image of the company and its leader in the eyes of the public. His private jet trips, some even involving the transport of marijuana, his exorbitant spending on new lavishes annoyed the investors and drove away the potential ones. Furthermore, the S-1 documents awarding Neumann 20 votes to every one vote of a regular shareholder in the ownership stock structure, made the IPO offer even less desirable. Furthermore, the bombshell exposition that Neumann bought real-estate and then leased it out to WeWork, amounting to self-enrichment made him look like a cheat. Moreover, he encashed \$700Mn worth of stocks from the company ahead of its IPO, exacerbating low confidence in future potential investors. These are the main reasons why WeWork became a major failure. It is undeniable that WeWork was living in its own hyper-inflated LaLa land, the above-mentioned reasons simply acted as piercing needles which burst its idyllic bubble and gave it a reality check!

For the rest of the analysis, I want to showcase the whole picture as to why WeWork went out of business, and hence will discuss the external environmental factors as well. To understand these external facets, the PESTLE model can be used. It stands for Political, Economical, Social, Technological, Environmental and Legal constituents impacting businesses. This framework helps organisations to attain an insight into using adverse external influences to their advantage. So, how does the PESTLE framework lead to the failure of WeWork?

II. MY ANALYSIS OF EXTERNAL ENVIRONMENT

PEST- The Political environment determines the extent to which the government, its policies and overall internal stability affects the organisation. WeWork derives its primary funding from SoftBank, which is funded by Saudi Arabia and hence the Saudi government also holds tremendous power over WeWork's functioning. Firstly, Saudi Arabia was hesitant to invest in a start-up owned and operated by a tequila drinking Israeli (Middle East Eye, 2019). This shows that due to political and cultural factors, WeWork might have never even gotten its wings to fly! However, the new crown prince, Mohammed Bin Salman was on a path to 'Opening' the country and exhibiting to the world a 'New, Modern Arabia'. Investing in WeWork was meant to send that very message boldly and clearly. Moreover, after Jamal Kashoggi, an American journalist who wrote scathing articles against the crown prince, was killed, not only did Saudi Arabia face scrutiny but WeWork also took heat for it. An article titled 'Funded by blood-stained hands' floated, which harmed the reputation of WeWork and made it less appealing for many investors to invest in an IPO backed by a religiously extreme and authoritative regime. This further indicates that political and government affiliations led to hampering WeWork's goodwill and was a helping hand in its failure.

PESTLE- Economic factors are those factors which influence financial and profitability decisions of organisations. In many cities including in India, policies have been formulated to encourage local businesses, giving them more economic incentives as compared to their foreign counterparts. For example, in India many local companies can get tax rebates, loans at low interest rates, prime locations for setting up shop etc, which foreign companies including WeWork cannot. Moreover, due to other economic factors such as high labour costs and rent costs, WeWork had to lay off as many as 6000 employees in 2019 in a cost cutting initiative (Sen, 2019). Furthermore, BloomBerg rated WeWork as one of the first companies to fall if prolonged inflation occurs in the economy. These negative economic factors made WeWork stumble and simply enumerated its failures.

PESTLE- Social and cultural factors impact businesses intensely, the cultural trends, population, mindsets, society's morals & values, demographics etc all help in determining the future of the business. For example, WeWork's Miguel McKelvey (Chief Cultural Officer) announced that it was banning eating and reimbursing meat dished in its premises. This left a shock wave within its US offices (Bussing, 2018). The United States has a freedom-oriented culture and society, a large company controlling what people ate was seen as intrusive and patronising so much so that many lawsuits and public condemnation of the company occurred

and the company faced recruiting issues as well. This shows how important understanding people's mindset and the culture is in the cities WeWork is present in. Furthermore, the sexual harassment complaints against many WeWork employees after baneful work parties also denigrated the company's image in the eyes of the society, where societal values and morals such as respecting and safeguarding women are held in high regard. Other social factors such as understanding the customs of the place is also required.

PESTLE- Technological factors are innovation-oriented automation and software components impacting the ever changing business environment such as AI, 3D tech, wireless connectivity etc. WeWork branded itself as tech company with a large workforce developing new software solutions. WeWork invested heavily into progressing its own internal software's, which was like lighting its pockets on fire as it was a 'Real-estate' enterprise and it didn't need the heavy technological advancements. Moreover, WeWork provides amenities such as VOIP phones, hotspots, high speed wireless internet, printers and copying machines, and end to end IT solutions to attract customers. These understandable to draw customers but requires heavy expenses, which WeWork's revenue is not able to match. These inhouse facilities are available in all WeWork buildings on each floor and upgradation in them happen often to provide up-to-date services to customers, the cost of these amenities is recurring however, WeWork's customers are sporadic showcasing a black-hole in its working model.

PESTLE- Legal factors are the laws, rules, constitutions, amendments, policies and notices which all citizens and organisations of each country need to adhere to. For example, does WeWork come in the umbrella of Subletting? Subletting is legal in some areas while is a questionable and illegal practice in others. When questions concerning the same arose, WeWork presented the legal defence that it does not 'Lease' but a sign a 'Co-working AGREEMENT with its members (Friese, 2020). Moreover, in many countries co-working licensors have come under the microscope as many do not pay rent to their landlords and break legal contracts through loopholes and powerful attorneys. Fighting court cases in the dozens of countries hampers WeWork's smooth functioning and requires hefty money for lawyers. Legal troubles just add to WeWork's already choppy workings, making the situation go from bad to worse.

PESTLE- Environmental factors are the elements such as weather, geographic location, climate change, diseases etc, all present in nature which contribute to shaping an enterprises performance. Covid-19 pandemic was gruelling for WeWork as it had to pay the leases on its properties while lockdowns were in place all over the globe. In a cost cutting effort, it cut 2400 jobs in November 2020 due to meagre revenue (Palmer, 2020). Furthermore, in 2019 it had expanded speedily in the UK, leasing newer buildings which were ambitiously planned to

generate revenue in the upcoming years, however the pandemic transformed them into burdensome dead weights. Moreover, a scorching media reports that WeWork was not following Covid-19 protocols and an employee who had tested positive was still working there damaged its reputation in UK. In totality, WeWork reported to lose \$3.2 billion in the 2020 (Sethi, 2021).

III. CONCLUDING REFLECTION

In conclusion, through this analysis, multitude internal as well as external causes of WeWork's failure have been explored and examined. Simply put, WeWork has turned into WeDontWork. The company begs for quintessential and an absolute overhaul in its operations for it to bounce back. If the company makes changes such as getting competent leadership, tweaking its business model, proactively bettering its work environment, and rebranding, owning and accepting itself as a 'Real estate company', then there is a sporting chance of it bouncing back and even dominating. The pandemic has made people look at temporary work spaces in a modified positive light and metamorphosised their views on the traditional offices, which WeWork can truly take an advantage of. In March 2021, WeWork announced its second run at the public funding, it will float its IPO again in the third quarter of 2021 (Deter, 2021). The company has said that it has learnt from its previous mistake and is ready to take the world by storm in its second chance, the company is bullish, however only time will tell!

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