10 biggest startup layoffs in 2020 hit 25,500

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The global economy continues to relish from the coronavirus pandemic, with startups emerging as one of the most affected businesses. As a means of remaining afloat, save money, and readjust their business models, most startups have resolved to roll out massive layoffs.

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Data presented by Buy Shares indicates that approximately 25,500 jobs have been lost in the top ten largest startup layoffs between March 2020 and January 2021. Cab hailing firm Uber, from the transport sector, leads with 7,525 layoffs accounting for 29.5% of all the highlighted job losses.

From the covered startups, companies in the travel sector account for the highest cumulative layoff at 7,775 or 30.49%. Stone from the financial industry had the least layoffs in the tenth spot at 1,300.

Reduced demand pushes startups into layoffs

The travel and transportation industries are the most hit mainly due to wide-scale global lockdowns and self-quarantining occasioned by the pandemic. With most people confined at home, the demand for services from companies in the sectors significantly declined, impacting revenue margins. To sustain the business models, layoffs were the last resort. Meanwhile, a new trend emerged, with some selected startups laying off workers temporarily. These workers can report back to work once things return to normal.

The research shows that the startup level did not have a significant impact on the number of layoffs. For example, some startups like Uber are miles ahead compared to the rest of the group but recorded the highest single dismissals. Notably, Uber is a publicly-traded company, and under operating in the most impacted sector meant its business development level had little impact on avoiding layoffs.

Some of the covered startups boast unique business models, but their funding sources dried up during the health crisis. In reaction, they radically reduced their staff to keep their long term projections on course.

When the coronavirus pandemic first hit in March, the companies braced themselves for tough times ahead by adapting to new operating models like shifting to low-cost areas and enabling remote working. Some also resolved to hire part-time employees since they still had some funding. However, as the uncertainty from the pandemic grew, venture capitalists funding dropped significantly. Layoffs were projected to be a direct impact of the funding crunch.

Startups that raised money just before the pandemic were poised to better weather the crisis than companies planning to raise next round this spring or summer. Firms with cash reserves placed their bet on economic recovery through containment of the pandemic or rolling out vaccines.

With most startups based in the United States, they could not take advantage of the federal government Paycheck Protection program to offer the much-needed cash boost. According to the government, venture capital-backed startups are not eligible for the program as the funders are classified as affiliated businesses.

During the pandemic, the demand for startups in education, telehealth, e-commerce, and remote workers' software grew. Firms in these areas grew by adapting to changing consumer behavior. However, not all startups in these spaces escaped unscathed. For instance, WhiteHat Jr in education and Stitch Fix in retail were forced to lay off workers to remain afloat.

Pre-pandemic challenges still impacting startups

At a period marked by economic uncertainty and revenues affected by containment measures and a significant drop in demand, startups were already battling many challenges. Limited resources, winning customer trust, and stiff competition are just some of the challenges synonymous with startups before the pandemic. Coupled with the health crisis's effects, the startups were forced to take radical measures to survive.

Therefore, a post-pandemic economy will be one of resiliency and the ability to operate across vast distances and connect with customers in ways that mimic physical interactions. Specifically, pre-pandemic challenges might still exist. The successful administration of vaccines offers hope to companies that stared at a dim future.

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