

Make Me Smart July 27, 2021 transcript

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Kai Ryssdal: All right, Molly, you ready?

Molly Wood: Mmhmm.

Kai Ryssdal: All right. Let's go. Let's go.

Molly Wood: By ready, I mean taking a large sip off coffee but basically ready.

Kai Ryssdal: Hi everybody I'm Kai Ryssdal, welcome back to Make Me Smart. None of us as we like to say around here, is as smart as all of us.

Molly Wood: That's right. I'm Molly Wood. It is Tuesday, which means it's time to get some help being smart dive deep into a single topic. And today you can hear the joy in my voice. Because we are just taking, let's just call this a personal day, like a day, we just want to talk about this thing. The issue that led to bananapants becoming a thing on this show, the company that went so far past bananas that ended up at pants WeWork.

Kai Ryssdal: It's just an amazing story. So we did an episode like two three years ago, about WeWork's IPO that went horribly, horribly, horribly wrong. Failed is a good word you could use also a founder Adam Neumann's sub—"noy-men." I pronounced it like the microphone Neumann his his boot-age from the company. A lot has changed since then. It was like a \$47 or \$50 billion company at one point now it's down to \$9 billion is no longer trying to and this is their, quote, raising the world's consciousness. It's actually doubling down on real estate plans to go public via a SPAC, we've talked about those.

Molly Wood: We have a whole episode about that too, because it's sort of equally bananas. We will put that in the show notes. That of course, though, is that special purpose acquisition company that a lot of companies are using these days where one company goes public as a blank check to bring in lots of others to presumably speed up the process, but potentially get rid of some of the public facing scrutiny that the traditional IPO route entails.

Kai Ryssdal: So this is a story honestly, yes, about WeWork, but about a bunch more about startup culture, about finance and how all that works. Also, in a way about the economy that was and the economy yet to be. And so that's what we're going to talk about with Maureen Farrell. She's a correspondent and the Wall Street Journal, also a co author of the new book, it's called "The Cult of We: WeWork, Adam Neumann and The Great Startup Delusion." Maureen. It's so good to have you on.

Maureen Farrell: Thank you so much for having me.

Kai Ryssdal: I wonder maybe if the first place to start is with Adam Neumann and who he was and where he came from and where this company came from?

Maureen Farrell: Sure. So Adam Neumann, was originally from Israel. He moved over to the United States after serving in the Israeli Navy for many years, in about 2001. And he was an entrepreneur from the minute he set foot in New York, and one of his first companies he went to Baruch College in New York for a while dropped out like every good entrepreneur is known to do you drop out of college to go after your business. And Adam Neumann, in Adam Neumann's case, it was a baby clothes company. And he had this brilliant in his eyes, very brilliant idea. He realized that he didn't have children of his own babies crawled, he thought their knees hurt, but they couldn't tell anybody. So he built baby clothes with built in knee pads. That was his first business.

Molly Wood: I'm like, I just want to interject and say I am already so delighted with how this episode is going. So delighted.

Maureen Farrell: So glad. So yeah, that was not the giant business he was telling everybody it was going to be and he but he was in downtown Brooklyn at the time in layer before the financial crisis like in the mid 2000s. And he met an architect His name is Miguel McKelvey. And they both started sort of talking about all different business ideas they might do together. And he came he stumbled upon this whole idea of subdividing office space. And they started with this company called Greendesk in an area in Brooklyn and decided to try it out when people take a fully fledged office instead of buying their whole own office space outfitting it What if they just did that and subdivided the space, they convinced a landlord to let them do that and a few floors in downtown Brooklyn, and it worked incredibly well. that essentially became the genesis of what a year or two later would become WeWork.

Kai Ryssdal: What was the mechanism then whereby he gets from, you know, the the thing he was doing in Brooklyn to this thing that and look, I follow business news reasonably closely, but it did seem that he kind of we work sprang fully formed upon the scene as a as a gargantuan of the temporary office space thing. And, and I wonder how we got from Brooklyn to there.

Maureen Farrell: When he first started his business. I mean, it took a lot to get this first building going. But essentially, you know how it took he he convinced a landlord yet again, he got some investments, friends and family. And they made this first building work, and it was around the time of the financial crisis. So there was tons of empty office space. So it was a little bit easier to sell this whole concept. Some other people were doing it. But in terms of the answer your question, Kai in terms of what changed it from this thing that other people were doing? It wasn't a neat idea, it made sense. You know, in this post financial crisis, New York with this empty office space, a lot of people are starting as entrepreneurs. But venture capital was really the answer. He is around like, by 2011 2012, Facebook was booming, the tech sector was, you

know, really already starting to take off in such a huge way. And he just started calling this company, you know, we're not an office based company, he started saying, oh, we're the physical Facebook or Facebook in the third dimension. And he started pitching this company to venture capitalists is like the next fast growing company. And what Adam Newman was, as he was an incredible salesman, but what he was probably the most incredible at was raising money, tons and tons of money. And part of the way he did it was by convincing tech investors that this was the tech company. And, you know, not a real estate company, which is still even after writing this book, and following this company, it's sort of hard to fathom how he was able to do that.

Molly Wood: So wait in in the process of writing and researching this book, you never ran across the secret, the secret deck that shows the actual technology here?

Maureen Farrell: Oh, yeah, no, I never Well, there would be like, glimmers of technology. But they, you know, it was it was funny each step of the way he was calling it he sort of always knew how to hook on to what venture capitalism wanted, you know, in 2012, it was the physical Facebook. Eventually, it became more of an artificial intelligence company. And we did, we saw tons of pitch decks and he would sort of put some of the hot button terms of what was in that sort of text. Like I said, the moment he would weave them into rework. But they it kind of made no sense. And it what you never saw was how it translated into a profitable tech company. He was always billing it, as you know, we were going to take off it was going to take on the look like a tech company, but it never did is that I mean, as you both know, from covering the failed IPO, it was growing revenue and growing losses just as much until the day of its ill fated last IPO.

Kai Ryssdal: So so all these investors and venture capitalists, primarily among them SoftBank, big fund, they like got got well, fleeced is too strong word, but they got sold on this vision by this guy.

Maureen Farrell: Yes, it's incredible. I mean, there each step of the way, and I mean these were, Benchmark is considered one of the top venture capitalists in Silicon Valley. And they were one of the first big investors. And yes, each each step of the way, JP Morgan, Harvard's endowment, SoftBank, Goldman Sachs, like even their wealth management arm. Each and every investor he did, yeah, convinced them. And the funny thing that we noticed was that he would always get to sort of the top decision maker and have them see the light of why this was not the company thought it was, and it was so much more. And then there would be underlings who would start doing the math and go through the numbers and say, Oh, I don't know if this valuation makes sense. You might want to look at this more. And they were, they were overruled by these top people who are just sort of immediately smitten with Adam Neumann.

Molly Wood: I mean, I feel like that ultimately, really is the key to this story. Because it is hard to understand if you are a rational person, or have not been in the position where you're just kind of like, swayed by a charismatic leader and the kind of accompanying greed that goes along with it. But like, this is the Silicon Valley story. And when you look at the sort of collection of founders all around us now, Mark Zuckerberg, Travis Kalanick, right? Like any one of them.

Have them could have been Adam Neumann, except for maybe some luck and like marginally better business sense.

Maureen Farrell: And a better business that was able to translate really into what they were saying it would I mean, not Uber, obviously, we're still looking for profits. But I mean, they're they had a little bit more credibility. And I mean, obviously Facebook a lot in being a real tech company. I think Adam Neumann was just able to take it a few more jumps, and then take a few, many more jumps in terms of taking money out of the company to each step of the way.

Kai Ryssdal: Yeah, well, we should, we should say here as part of his separation from the company and the defenestration of WeWork in terms of the IPO and where it is now. He walked away with, I want to say billions, but certainly 10s and hundreds of millions of dollars.

Maureen Farrell: Yes, more than a billion, it's sort of almost up to \$2 billion by the time you you know, add in all all different things into it. But when he I mean, at the time of his IPO, that the IPO fell apart, in 2019, SoftBank was saving the company, there, there's a real chance that could have gone bankrupt. And as part of saving the company, they paid Adam Newman of more than \$100 million consulting fee for over four years. And this is as they were laying off thousands of employees. It was just when I at the time this was happening. Someone called me who is sort of in the room as the decision was being made and said, this is this is what happened. These are the numbers and people are gonna be absolutely horrified that this happens. And Adam walked away with that much money.

Kai Ryssdal: And they were right, because people were horrified.

Molly Wood: Yeah, except people were I mean, I guess like, you know, when we the less fun part of this, though, is that when we start to look at this and its impact on the broader economy, and the fact that WeWork is still around and this guy has all this money and all those people are still laid off. It does not feel like a story of accountability.

Maureen Farrell: That's exactly what I think a lot of people have said after reading our book, they're like, you want the ending to be so different. And I mean, reading all these stories and everything like you the it Yeah, it is capitalism. There is a sense should work differently than this. There should have been these guardrails, like why were there these guardrails on Adam Newman, during the build up of this company? I mean, could he have been this visionary but had guardrails around him that didn't let him do his the things that were as crazy that he was very tempted to do and then yeah, why was there not? Why was there only a come up and for the people who work there, but not for the founder who built the company, but did a lot of things to take it down?

Molly Wood: or any of the investors or you know, yeah.

Maureen Farrell: Exactly.

Kai Ryssdal: Or you feral correspondent at the Wall Street Journal, also, the author of a new book coming out about WeWork and Adam Neumann it's called "The Cult of We: WeWork, Adam Neumann and the Great Startup Delusion" and I think that last ender bit right there. That was the delusion right? That people just want to believe. And so they do and oh, look what happens. Right? Maureen. Thanks a lot. Really.

Molly Wood: Maureen, thanks a lot.

Maureen Farrell: Thank you, great to talk to you both. Thank you so much.

Kai Ryssdal: Crazy, and still it persists, it keeps on going.

Molly Wood: Just for fun. I pulled up one of the decks actually Business Insider had got I think its hands on one of the presentations that Goldman Sachs had used to determine that this could be a trillion dollar company. And it does make you realize that like the power to just be a cult leader is apparently enough and I don't know why I'm wasting my time working so hard on things because evidently you can include as a key business highlight a let's see purpose built technology powering entire platform. Yeah, okay, let's do the business highlight win win win win value proposition across constituents. That's not a business thing. Key financial highlights massive global Tam less than 1% penetrated.

Kai Ryssdal: We're doing wrong. We're doing wrong.

Molly Wood: Rapidly improving efficiencies and economies of scale this crap right here with also by the way a bunch of like pictures of like, people talking about love and stuff, and then living a true life. That was enough to get a bunch of bankers to be like, yeah, trillion dollars. I see it.

Kai Ryssdal: Okay, we're gonna leave it there.

Molly Wood: Yep. We're doing all wrong.

Kai Ryssdal: As we our futures, we're headed to a break. Send us your comments on today's show or any show that we hear that we do. You can do it by sending us an email or a voice memo: makemesmart@marketplace.org. Or you could call us leave us a voice message. If you want to do that. Our new phone number is 508-827-6278, 508-82-SMART. We're coming back.

Molly Wood:
Thanks boss. I was Slacking.

Kai Ryssdal: Anytime.

Molly Wood: Literally. We'll be right back.

Kai Ryssdal: I was slacking, that's my new podcast.

Molly Wood:

I know right? Yeah, I was Slacking. It's actually kind of perfect. Alright, I'm back. I'm focused. It's time for the news fix. Let's do this.

Kai Ryssdal: Let's do this.

Molly Wood: I'm just reeling reeling.

Kai Ryssdal: Yeah, it's an amazing company's worth, by the way. \$9 billion. It's gonna be a real estate company from now on. It's not going to be a tech company. But Holy cow.

Molly Wood: Started out fine and ended kind of sad. Let's talk about the news.

Kai Ryssdal: Yeah, I got a quickie. And it's a follow up actually on the thing that I think you wrote in Kimberly and I talked about Naomi Osaka and the mental health challenges she had. And I want to talk about Simone for a second, right?

Molly Wood: I was here

Kai Ryssdal: It was? I'm sorry. I want to talk about Simone Biles, who spoiler alert, I'll give you three seconds turn off the podcast 123. She pulled herself out of competition at the Olympics, because of mental stress. She basically said I wasn't there, and I couldn't do it anymore. And number one, the courage that takes in the moment on the biggest stage for her sport on the planet. To do that, I think it's kind of amazing. But also just the idea that that we're putting all this stress on on people is just we got to we got to rethink that. And I just want to point that out as a follow up to to the conversation we had about Naomi Osaka. Number two masks are coming back, the CDC reports Financial Times and many others is set to require met, recommend, I guess they're going to recommend right, and guidance that the CDC gives masks for vaccinated people as delta rises. And look, we talked about it yesterday and how you know, or maybe the other day about it, and I was yesterday, sorry, I'm just all buggered up. About about you know, this is a pandemic. Now the unvaccinated but what happens when you get a pandemic of the unvaccinated is that the rest of us are put more at risk. And so we got our masks, and number one, put your mask on. But number two, get your shots. And please try to convince those of you in your orbit who haven't gotten their shots to do that, even though it's really hard to convince them. That's what I got.

Molly Wood: Yeah. And just as a side note, related to that yesterday, you know, I said, we are going to have to create space for people to have a change of heart, take responsibility for that change of heart and then convince others in their orbit. Right? It doesn't mean that we cannot hold people accountable and responsible for their actions when they decide not to get a vaccine

and then put everyone around them at risk. And I will say that, it is hard to do that though. When you then see someone tried to make that change and that about face in the Washington Post, for example, Alabama governor Kay Ivey and also just take a swipe at anti masking at the same time, like cannot deliver your spoonful of sugar with it another spoonful of misinformation, not helpful. Yeah, but it's something. Yep. So I'm trying to stick with my advice yesterday. But one thing that people have cited and we were actually talking about this before the show and slack before I was and then I was like, Alright, we have a show. We could totally talk about this there is that one thing some vaccine holdouts have cited is this thing about how the FDA these vaccines are currently being used under an emergency use authorization they are not technically fully approved by the FDA despite being in the bodies of 10s of millions of People, hundreds of millions around the world, I would assume. And so there is starting to be this question about like, Hey, guys, What's taking so long. And as of actually just today, world health official, sorry, Biden predicted that the FDA would give final approval to the FDA back to these vaccines by the fall. But he kind of said, like, sometime, maybe in the beginning of the school year, at the end of August, beginning of September, October, they'll get a final approval. And there are plenty of health officials out here who are saying like this really maybe shouldn't take that long. And listen, I don't know, what takes a long full disclosure. I do not know what kind of data gathering they do. And scientific verification is happening as on the road to this final approval. However, I find it not totally credible that they would not approve the vaccines, right now that they're in so many bodies, so maybe, like, get it done, and help everybody out.

Kai Ryssdal: And as you pointed out in slack this morning, I guess they approve that janky Alzheimer's drug like this. [snaps] Right, right. And you're like c'mon, man,

Molly Wood: like, like, come on. Right? There's no if you want there to be trusted institutions. One, I would like to see some transparency about what exactly the FDA is doing that takes this amount of time. That would be great, right? Because then we would know I mean, you literally have like the Dean of Brown University School of Public Health on Good Morning America saying, a lot of us are baffled why the FDA is taking so long. But on the other hand, you have this kind of like sketchy situation with the Alzheimer's vaccine or Alzheimer's, drug treatment. And I just, we got to, like, gotta tighten up. I know, there's a lot going on right now and everybody's tired. But like, tighten up.

Kai Ryssdal: You know, what's funny. Sorry, you just saying that. There's a lot going on, and everybody's tired. That's we were saying that like last June, July, August, right, you know, yeah. And I think we're going back to that place where there's a lot going on, everybody's tired. We had a brief moment of ahhh and we're all tired again.

Molly Wood: You know, I was actually thinking that about Simone Biles. Yeah, there's there's that sort of hu- and all of these athletes who have said like my mental health is suffering. Of course it is who's wouldn't be and it's not just about like, yes, it's absurd. Like she's in the middle of this like, really controversial Olympics and some people are mad that it's even happening which I have vacillated on despite it being such good TV. There, you know, she's like, the one and all the commercials in the TV and everything. But then on top of that, we were in the middle

of a pandemic still, you know, there's all of this stuff, get everything is so much harder. There's still this like pandemic tax on life, where everything is just hard. And so everything you're doing has an added burden. Still, totally. Yeah. Okay. Okay. Okay. So that's it for our buzzkill news fix.

Kai Ryssdal: Let's like we tried, man.

Molly Wood: We're back babies. We're back. Yeah. Let's do the mailbag.

Molly Wood: So recently, I love this, I have been trying to say global warming instead of climate change because of the history behind the phrase climate change, which is that it was essentially, you know, marketed to people as a political effort to under to downplay global warming. Here is a listener with a different and pretty good idea.

Paula: Hi, this is Paula from Johnstown, New York, I would like the media to consider changing their use of the term climate warming to climate crisis, because it seems like we are in one.

Kai Ryssdal: Yeah, I'm on board with that totally works for me.

Molly Wood: Our producers note, and this is true that instead of climate change, The Guardian has been using climate emergency climate crisis or climate breakdown. And then over global warming, they've been saying global heating, which I think is just kind of British. But it's true that since I've been trying to say global warming, it does sound sort of outdated and itself kind of a nonspecific, so maybe climate crisis is the way to go the climate emergency. Yeah, I like it. Good note, Paula. Thank you.

Kai Ryssdal: When Kimberly was on last week, she talked about polyamorous relationships, we had a whole conversation about her dating app usage. This is apparently also known as ethical non monogamy. And we asked y'all to tell us what you think of it. And a lot of you wrote in here his voicemail we got from Ky, no relation spelled differently, by the way, in Kansas,.

Ky: As somebody who's been doing polyamory in a relationship that I've had for a long time, I'm just happy to hear y'all name it on the show. I think you're absolutely right, Kimberly, in naming that there are wide swaths of the population that go unnoticed not only by media representation, but also by a lot of marketing agents, and oftentimes, I'm liking You know what, you could probably have more of my money. If you made it appealing to me and spoke to people like me.

Kai Ryssdal: Yeah.

Molly Wood: Yep, definitely. There was some commentary recently, actually on how targeted advertising, I think it was related to the outing of a priest. I was sort of traveling and so went by quickly. But there was a lot of commentary on the fact that it's because marketing companies are trying to make as much money as they possibly can on the LGBT be LGBT community. And it's led to these types of targeted ads that caused that to happen.

Kai Ryssdal: Here's one more on that same discussion. And it's and it's based on an observation I made about how this podcast and we'll get set on it and present it on it. It's kind of different than the way we would say it on the actual air where, you know, sensibilities I perceived were different. Anyway, here you go.

Robin: Hi, there. As somebody who listens both to the radio in the podcast, I do have a concern about polyamory. It's just wrong. It should be poly-philea, or multi-amory, who mixes Latin and Greek? All the love consensually, of course, from Robin in Portland.

Kai Ryssdal: Ah, public radio.

Molly Wood: I love our audience so much.

Kai Ryssdal: Oh, my goodness. Oh my goddess.

Molly Wood: Also, I just love that you guys talked about this? Because man, is it a thing.

Kai Ryssdal: Yeah. And unbeknownst to moi, let me just tell you. Okay. We are going to leave you now with the answer to the make me smart question. What is something you thought you knew you later found out you were wrong about and we're going to do it with Sallie Krawcheck, who used to be a the Chief Financial Officer of Bank of America back in the day, left that for a lot of reasons, but started a female-focused investment firm called Ellavest. I talked to her this past week in New York. If it's loud, it's because we were sitting on a sidewalk on the Upper West Side. Anyway, here you go.

Sallie Krawcheck: The fundamental fairness of business, that if you work hard, and you deliver the results, that you that's what you need in order to move ahead. And in my career, that's been the case most of the time. But there have been times when it just hits you flat in the face.

Kai Ryssdal: So that was Sallie Krawcheck. She's at Ellavest. Right now in New York, the interview airs today on Marketplace, I think it goes like five and a half minutes, something like that. So you get a little bit of what she is trying to do, especially coming out of this recession by the way. And women and not just the pay gap but the wealth gap in the investment gap. Pretty interesting interview anyway, I think, of course, I think that

Molly Wood: I love this. Yeah, I'm I'm looking at Ellavest right now.

Kai Ryssdal: She's really good.

Molly Wood: Fascinating. Yeah. But yes, finding out that you were wrong about the fundamental fairness of businesses. Mm hmm. Tough part of grown up, everybody. Before we go. I'm going to make a quick plug. If you've put off emailing or sending us a voice memo with

your answer to the make me smart question. We have made it much easier. You can just call us and leave a voicemail with our new number 508-82-SMART. Just call us tell us what you're wrong about It's okay. We're not going to judge. You appreciate it.

Kai Ryssdal: I wonder if we're due for a revision on on yours and my answer to that, by the way? I'm not sure most

Molly Wood: A lot has happened. Yeah, we got to find them. Where were they? I wonder

Kai Ryssdal: Oh, I don't know somebody'll know. Somebody.

Molly Wood: That's a good idea. Now we're gonna have to do it. Thanks for nothing.

Kai Ryssdal: Lianna get us out of here. more trouble? Help. Here's more work. Do this. Think about this. Make me smart, which is this podcast that you've just spent the last half an hour listening to is produced and directed by Marisa Cabrera. Tony Wagner is our digital producer Erica Phillips writes your newsletters also our smart speaker skills Grace Rubin is our intern.

Molly Wood: Today's program was engineered by Lianna Squillace with mixing by Emma Erdbrink. Ben Tolliday and Daniel Ramirez compose this rockin song you're listening to right now the senior producer is Bridget Bodnar and the executive director of on demand is Sitara Nieves

Kai Ryssdal: Did I tell you I saw Ben the other day he came in to have lunch with Jeff Peters? Looks great, life good. It was good.

Molly Wood: Good!

Kai Ryssdal: He's doing well.

Molly Wood: Ben. I mean, really? I know we go on and on about both Ben and Daniel. But it's because they're such good humans.

Kai Ryssdal: Yeah, for sure.

Molly Wood: Such good humans.