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How early can we write about innovations and startups without creating a bubble?

Business publications often hesitate to cover innovative startups in post-bubble periods, due to prior overhype. That might make them better insulated from creating new bubbles. At the same time, the threshold for entrepreneurs to get attention increases.

How can we, as journalist, correctly judge the authenticity and importance of an idea? And which are the signs of hype, of a bubble?

Turo Uskali, a former Innovation journalism fellow, suggests that innovation journalists should present several scenarios in news stories. "In doing this, innovation journalism could prevent the well-documented mistakes made by business journalists with "new economy bubbles," he writes.[1]
The problem of choosing which company to publicize remains. Space constraints often do not allow for many scenarios of the future, at least not in the headline.

In this paper I study an example of hype and interview established technology writers on their widely varying viewpoints.

The example of Hop-On

In 2001, the publicly-traded California company Hop-On announced the development of a disposable mobile phone. For $30 it would provide 30 minutes talking time, a device usable in emergency situations by customers who did not want to pay a monthly fee to operators. To minimize cost, it would contain only a quarter of the components in a typical phone. The idea was dubbed as one of the best inventions of 2001 by TIME Magazine[2]. A Washington Post columnist wrote enthusiastically about disposable mobile phones[3], and BUSINESS WEEK wrote about the company in three separate issues in November and December, 2001.

During the fall, Hop-On struck a deal with Universal Studios to give away several thousand phones in May 2002, branded with Jurassic Park's logo. Additionally, Wakefern Food Corp. agreed to sell 50,000 phones through its ShopRite Supermarkets in the U.S. Northeast. After these deals were announced, Hop-On's stock soared from 2 cents to $1.50.

When Todd Wallack, then a staff writer at the San Francisco Chronicle, was asked to review one of the new disposable phones, he thought it would be a straightforward story. But the Hop-On phone didn't work well, so he started checking out the company's website. As any publicly traded company, Hop-On was supposed to submit financial information to the U.S. Securities and Exchange Commission, the SEC. But the information at SEC was lacking. "So that was weird, "he wrote. "I also noticed that they put up press releases saying they would have their phones out. But they weren't available."

He found a message board online, dedicated to small stock companies, where people had complained about Hop-On. He sent a post asking anyone with information on Hop-On to contact him. He got replies from earlier investors who had been fleeced by the Hop-On CEO, Peter Michaels, during earlier projects.

“They wrote that the CEO had basically stolen their money to buy yachts and cars,” Wallack said. He continued by calling companies such as Cingular Wireless of Atlanta, that Hop-On claimed to have agreements with, to discover that were no contracts. Neither had Hop-On, or any of their three small rivals, obtained any approval from the Federal Communications Commission to ship their devices.

“I talked to tech analysts and they seemed to be very skeptical. No other company in this field was succeeding,” Wallack continued. He got a list of the employees working in Hop-On, and they were only two.

“Everywhere I looked it seemed abysmal,” Wallack continued. But it was only after his first story was printed that he realized that the company’s corporate charter had been suspended. Hop-On had not paid its taxes. Then somebody gave him the idea to take a closer look at the sample phone the newsroom had received.

“I got a hammer and I pounded the phone and got it open.” Inside were partswith their trademarks scratched off. Wallack broke open more phones, and one of the batteries had a name left on it. Nokia. Wallack shipped the battery to the Finnish mobile phone maker, who confirmed that it in fact was their product, in a new shell.

Hop-On had basically disguised a $200 Nokia phone to make it look like a cheap copy. “The only phones they ever produced were for journalists to write stories about, or occasionally for investors. All the company was selling was stocks” Wallack said

After the articles in San Francisco Chronicle, Hop-On’s stock totally plummeted.

When to write on a startup

Today, Todd Wallack works at the Boston Globe, a large public newspaper. He has his rule of thumbs clear on when to write about a company: “Frankly, in most part I avoid writing on startups before they show they’re real.” That means either if the company is funded by a credible venture capitalists, has a partnership with a well known company or the founders have a track record of starting successful companies, such as the founders of Google.

“If there are no good people with track record starting it, no money or no partnerships, there’s no point of me writing about it,” Wallack said. He is weary of so called “penny stock companies. Many startups never turn out to be anything significant. Some are perfectly legitimate, but many are not,” he continued. Wallack suggests the parallel of science writers who only write about discoveries that have been vetted by a scientific journal.

So should no one write about startups?

“I think it depends what type of publication you are writing for,” Wallack said. In his opinion, large publications should avoid covering startups, but blogs like TechCrunch, with a specific readership of venture capitalists and their likes, could well do it.

“As long as they are selective in what they write about and mention the fact that it’s early on, that the company doesn’t have funding and that there is competition,” Wallack said.

He remembered the example of six pet-food companies that wanted to become giants in online sales in 2000. Journalists covering them forgot to mention how small the market was.

John Markoff (above) was born in Silicon Valley and has been covering the happenings there for over 20 years for New York Times. He is less worried about scams than Todd Wallack.

“Fraud is an exception rather than a rule. PR is the rule rather than the exception,” he said. John Markoff is more than happy to write about startups for the general public, and has no firm rules for when an idea is eligible for publicity.

“You can’t make hard-and-fast rules, because things always come from places you don’t expect.” Instead, he uses his experience when deciding what to cover. “My rule of thumb is that the answer is no unless someone can convince me there is a reason for writing,” he said.

John Markoff’s most important criterion would be: does this product affect the world? But it is still difficult to tell which one in the forest of companies with similar products would win. John Markoff never wrote about Google after his visit in the company’s garage during its early years. “I still kick myself about it! But there were so many search engines.”

Rachel Konrad has been a technology writer both for the online technology publication CNET News and for the Associated Press, based out of San Francisco. She feels that the approaches of the two publications differ.

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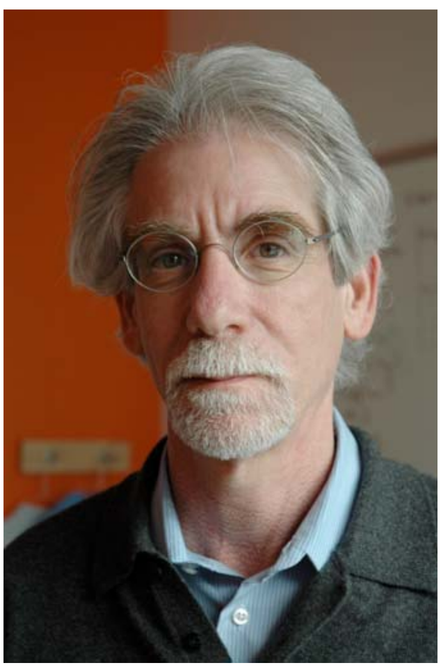
“At AP they wouldn’t run an article without (it containing) a lot of skepticism. At places like CNET they believe that technology is a categorical, truly positive force in this world,” she said. Rachel Konrad recalls the first time she heard Intel’s chairman Andy Grove give a speech, at an anniversary of the personal computer. He talked about the three world-changing inventions in the 20th century: the automobile, the atomic bomb and the personal computer. Grove mentioned that all had brought a lot of good things to the planet but also caused a lot of damage.

“I felt happy to hear that, because a lot of CEO:s don’t understand this. The same goes for CNET and different trade publications like Apple fanzines, PC World, Wired. In all these cases, staff can write balanced articles on technology, but on a macro level they don’t question whether it has produced both good and bad results. They think it’ll save the world,” Konrad said.
She feels aware of the negative sides of technology. “People are tied to their Blackberries. And right now my friend is fighting an infection she got at the hospital.”

Rachel Konrad has her own ways of writing on young, unproven companies, by labeling them as “another example of venture capital funding going into this space.” Shying away from startups would be to “not do your job,” she says. She always tries to find people who think the invention is a bad idea, which, in Silicon Valley—according to her—is easy.

“For one venture capitalist funding a company, you would find 20 who have turned them down. These are happy to speak to you about why they didn’t fund the company, and what faults the VC funding them has done” she said. She calls it a “foolproof way to get criticism.”

Her working method is to adjust the level of criticism according to the audience, and to write about untested enterprises in a way that highlights how untested they are.



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Dan Farber (above), Editor-in-Chief on CNET News, has a different point of view.

"That's a typical wire service-perspective," he called the rule of always having countering viewpoints on a subject in a story. "You often end up calling some expert and more or less telling them what to say," he continued. Instead of trying to cover all aspects of a topic in the same piece, CNET backs and contextualizes their stories through links. That way the readers can dive deeper if they wish. When possible, CNET links to its own content, but it also links to other media and to the companies it covers. By having a tech-savvy readership, specialized reporters and a "web of knowledge" built around each piece, Dan Farber feels comfortable to ride with looser reins than the Associated Press.

So when would Dan Farber write on a startup? The answer: whenever something is interesting. What determines that differs, for instance vs. the space a company is in. Farber gives Social networking as an example. In the beginning there were few companies in the sector, like MySpace and Facebook, so they got a lot of attention.

"Today the ground is ploughed. We get two three press releases from new startups every day. So now they have to be very special to catch my attention," he concludes.

To refrain from writing just because entrepreneurs lack monetary backing for their idea seems needless, said Farber. "The trick is to write without buying into their messianic vision that this is going to change the world," he said. "We are guides for our readers, finding new species. Some might not survive, some might mutate to new species. But we are there to observe."

A publication that itself is part of the market it is covering may have difficulties keeping the distance to that market. That is the notion of **Evan Hansen**, the Editor in Chief of the tech magazine Wired. He worked for CNET during the dotcom bubble. "CNET's stock was soaring in 1999, it went up with the bubble. There was some self interest in the reporting. It is hard to remain completely unbiased in some circumstances," he said.

After the bubble burst in April 2000, Hansen felt that a lot of the tech publications failed to clean up after the party, letting the business publications do the post coverage. "The appetite for covering the aftermath was not as strong as covering the bubble itself," he said.

"Some publications are geared towards boosterish modes. WIRED is in that category, as well as MIT Technology Review and New Scientist. Their bread and butter is to look at the future. Why read about the future if it's all going to collapse?" he continued, rhetorically.

The question Hansen thinks every reporter should ask him or herself is whether they are only writing bullish stories. "You should balance some pro stories with cons and look for companies that are overhyped. That's a beat reporter's responsibility," Hansen said. He himself is trying to look for flaws in the entrepreneurs' business models.

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Tom Abate (above) has the title Innovation Reporter at the San Francisco Chronicle. He learned his hyping lesson after covering a new drug from the pharmaceutical company Genentech some years ago. The clinical trial of the drug was halted three days after his article with the title “New hope for heart patients” was published. Now Tom Abate avoids writing on single companies who lack products. Instead, he would ask them to reveal their closest competitors, and then write about a group of companies in the same space. “There is no way not to hype something that’s new,” he claims.

Just because something is new doesn’t mean it is a good thing, he points out. “The recombination of old things might be the best solution sometimes, but there is no market for that in an innovation economy,” he continued.

Dean Takahashi has recently started working for the young technology blog Venture Beat, which is covering the happenings of Silicon Valley and beyond. Before joining, Takahashi used to be a popular technology columnist and writer for San Jose Mercury News. He tries to make sure everything he writes about a company can be backed up.

“Journalists should be skeptical and patient. In their rush to write something first, they forget to look at familiar patterns,” he writes.

So there are many different approaches to covering startups, and different precautions journalists can take. But how can journalists judge when a particular section of the economy is hyped, as the technology sector was in 2000?

The researchers Turo Uskali and Jari Ojala examined the coverage in New York Times, NYT, prior to the three stock crashes, 1929, 1987 and 2000. In 1929 there were few signals of the coming crash and these were hidden inside the paper and not displayed on the front page. Interpreting these signals was often difficult, since the Wall Street Journal mixed simultaneously many positive articles on the state of the economy. Most of the sources of the negative signals were not named.

In 1987 there were stronger clues prior to the crash; Wall Street gave weak signals during the first week of the year and the Chairman of the Federal Reserve Board, Paul A Volcker, warned about the unhealthy factors on the market, especially the rapid expansion of debt. These February warnings were ignored on Wall Street, and later the White House even replaced the chairman.

In March some analysts predicted coming downfall on the markets, without knowing exactly when this was due. And no earlier than in September—one month before the crash—more warnings emerged in the New York Times.

One of the media principles was “an aim of not making financial crashes worse.” The papers would avoid the darkest headlines and communicate the notion that things were getting better, to avoid creating panic among the population.

The signals about the coming crash before March 2000 were similar to those 13 years earlier. Again, the Fed warned the markets through Alan Greenspan, as with his predecessor Mr. Volcker in 1987, and Paul M Warburg, one of the creators of The Federal Reserve, in 1929. All these warnings were widely reported, though the tone in the commentaries was more optimistic.

More than merely reporting on signals of the coming burst, NYT could have cast a historical light on the economic development, Uskali and Ojala concludes. NYT could for instance been more critical to the slogans of the bubbles, like “the New Economy” in 2000, or “a new economic era” in 1929.

But how do we know when sectors are bubbling in present time? I will let my panel and the audience elaborate on that subject.

Conclusion

There are many different views on the appropriate time to cover a startup. On one side, Tom Abate of the San Francisco Chronicle: "There is no way not to hype something new." He avoids writing about companies who lack products, but could write about a group of such startups in the same space. On the other, CNET News Editor-in-Chief Dan Farber: "We are guides for our readers, finding new species.

Some might not survive, some might mutate into new species. But we are there to observe."

Part of the answer on when to write might depend on the publication. Trade publications and technology blogs focus more on innovations, and space for them. By writing shorter stories and building a web of knowledge from earlier published pieces, as a web publication might do, journalists will get time to cover more stories. The challenge lies in having enough time and knowledge to question the innovations, and to take the entire product life cycle into account when evaluating the idea and its market.

A publication that itself is part of the market it is covering may have difficulties keeping the distance from that market. "Some publications are geared towards boosterism," as the Editor in Chief of WIRED, Evan Hansen, expressed it.

Some good practices for avoiding hyping an idea:

- ask yourself if you're only writing bullish stories. Try to balance then with skeptical ones
- present innovations as "another example of venture capital funding going into this space;"
- make sure everything you write can be fact-checked;
- talk to skeptics, competitors and venture capitalists who have turned an idea down, to acquire perspective;
- mention the fact that it is early on in the game, that the idea might lack funding, or other problems the inventors might be facing;
- be critical of slogans like "the New Economy" and to entrepreneurs who have difficulty explaining their business models.

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Panel: Michael Kannelos, analyst GreenTech Media, earlier Editor at large,CNET.
Peter Fellman, Managing Editor at Dagens Industri
Turo Uskali, senior research scholar at the Department of History and Ethnology, University of Jyväskylä, Finland.

[1] Paying Attention to Weak Signals - The Key Concept for Innovation Journalism
Turo Uskali, Ph.D, 2005.
[2] Time Magazine, Nov 19, 2001.
[3] Michelle Singletary “Talk isn’t cheap, so weigh options”, The Washington Post, Jan 27, 2002,
Any weak signals? The New York Times and the Stock market crashes of 1929, 1987 and 2000. Jari Ojala and Turo Uskali, XIV International Economic History Congress, Helsinki 2006, Session 1.