Is Juul the Startup World’s Greatest Long Con?

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IIt was 25 years ago that executives at Philip Morris and six other American cigarette companies testified before Congress that nicotine was not addictive. Even under oath, the tobacco giants continued their decadeslong practice of gaslighting the public about the negative effects of cigarettes, which were once actually marketed by doctors. The image of seven CEOs being sworn in to answer for their companies’ misdeeds has endured as a powerful visual shorthand for modern corporate villainy. As the lethal effects of cigarettes were drilled into the minds of young would-be smokers by middle school counselors and aggressive ad campaigns, smoking entered an ongoing decline in usage. Big Tobacco had been felled.

Or so it seemed. In late December a Virginia-based conglomerate called Altria bought a 35 percent stake in the San Francisco startup Juul Labs for almost $13 billion. Juul is a maker of e-cigarettes and says its goal is to help adults quit smoking. Altria is the rebranded version of Philip Morris, whose entire corporate directive is to get adults to keep smoking. Juul says its wild popularity among teens is an unfortunate accident. Philip Morris once wrote an internal memo that said, “Today’s teenager is tomorrow’s potential regular customer.”

This seems like a horrible corporate mismatch, unless you see it for what it is: the pairing of two scheming businesses deftly executing a long con. In the decades since Big Tobacco took so many PR lumps that its biggest player had to *change its name*, tech has emerged as the sector most likely to sell people a bill of goods. Phones that were supposed to make us more efficient have made us less so. Social networks that were supposed to bring us all together have repeatedly driven us apart. By joining forces with its professed enemy, Juul is skipping a bit ahead in the Silicon Valley startup timeline, which generally follows a three-step track: (1) Don’t be evil; (2) be evil sometimes, but only when it’s in service of a greater societal good; (3) actually, being evil is fine.

Juul is just one of many tech companies running a con that involves snookering people out of their money, their health, or their god-given right to go to the movies every day for virtually nothing. Here’s a roundup of the most brazen long cons going, their unfortunate marks, and their likelihood to survive 2019 without getting exposed.

Juul

The Con Artists: Juul founders Adam Bowen and James Monsees, who developed their first vaping prototype while in a product-design program at Stanford. According to the pat startup narrative, Bowen and Monsees were both longtime smokers who started experimenting with vaping technology to help themselves and other adults kick the cigarette habit.

The Mark: The constantly renewing supply of teens, who are now so hooked on "Juuling" that in September the Food and Drug Administration called it an epidemic. Juul says it doesn't want underage customers and doesn't market to them, but the company's early social media presence was clearly aimed at a young audience, as were its fruity flavors. The FDA is investigating whether Juul explicitly targeted teens with its marketing.

The Flourishes: Staying a step ahead of FDA regulations by shutting down its social media accounts and limiting the sales of its flavored pods so that its "fight" against teen usage seems voluntary rather than the result of an inevitable government crackdown.

The Moment We Should Have Known This Was a Con: Years before Juul even existed, when Bowen and Monsees sold a stake in their earlier vaping product, Ploom, to the Japanese version of Philip Morris.

Will the Con Work? Juul owns three-fourths of the e-cigarette market and is now treated as a verb. While its products may be regulated further, an outright ban in a country where marijuana legalization is spreading rapidly seems unlikely. And now that Big Tobacco's lobbying heft is backing Juul, the company will be even tougher to topple. For those who feel guilty about getting kids hooked on nicotine hits, Altria reportedly offered $2 billion in bonuses to Juul's 1,500 employees, which comes out to an average of $1.3 million per worker.

The Con Artists: Mitch Lowe, the CEO of MoviePass, and Ted Farnsworth, the CEO of MoviePass parent company Helios and Matheson. Lowe is the affable spokesperson with the established pedigree (he did stints at Netflix and Redbox). Farnsworth is the money man who was all too eager to lure customers by offering the promise of a movie per day for only $10 per month (he used to own a psychic hotline).

The Mark: America's largest theater chains. MoviePass's plan was essentially to buy up a bunch of movie tickets, sell them to moviegoers at reduced rates via the subscription model, and then use those moviegoers as leverage to force the theaters to offer MoviePass discounted tickets. It was a clever idea that probably would have worked if a wealthy company like Amazon had tried it. The problem was that MoviePass was being held together by a data analytics firm no one had previously heard of, word-of-mouth marketing, and some duct tape.

The Flourishes: Using the phrase "We are the Orbitz of the movie theater business" as a flex; temporarily banning AMC from MoviePass before the theater chain could figure out how to ban MoviePass from AMC; thinking that producing the film *Gotti* would somehow keep the con going.

The Moment We Should Have Known This Was a Con: When Lowe said that MoviePass planned to use always-on location-tracking technology to target personalized ads at customers in a speech titled "Data Is the New Oil," then said he was … joking?

Will the Con Work? MoviePass ended its all-you-can-watch subscription months ago. Now, it asks customers to pay about $15 per month to see three movies—but only certain movies, and only at certain theaters. Meanwhile, instead of bowing to MoviePass's demands, AMC recently launched its own subscription app. MoviePass may wither on the vine, or it may go back to being a product for hardcore movie buffs like it was in its early years. Either way, the company is no longer going to disrupt the movie business at large.

The Boring Company

The Con Artist: Elon Musk, who invented his tunnelling transportation company while dicking around on Twitter, and is funding it in part by selling flamethrowers.

The Mark: Cities, like Chicago, that are staking their transportation future on a charismatic out-of-town businessman who offers up a technological marvel that just might put them on the map. Yes, this is literally the plot of a *Simpsons* episode.

The Flourishes: Musk once promised that the Boring Company's tunnels would be a mass transit solution, featuring eight-to-16-person pods hurtling along electric skates at speeds of up to 150 miles per hour. But the first tunnel that opened last month featured normal electric cars moving in single-file fashion at 50 mph. Conveniently enough, the cars were Teslas, which Musk also happens to sell.

The Moment We Should Have Known This Was a Con: When Musk said public transportation "sucks" back in December 2017, not only because it's inefficient but also because riding between places with strangers is, in and of itself, repellant. Good thing the Boring Company tunnels now appear to be a Tesla transportation network.

Will the Con Work? Will Musk single-handedly build a private transportation infrastructure that actually reduces traffic in some of the U.S.'s largest cities while he also sells electric cars, explores space, and dunks on his online haters? Probably not, but he'll definitely sell a lot more merch while trying.

Theranos

The Con Artist: Elizabeth Holmes, the 34-year-old entrepreneur who went from lauded tech visionary to disgraced villain after *Wall Street Journal* reporter John Carreyrou landed the journalistic equivalent of a killshot on Theranos and its unethical business practices.

The Mark: Honestly an incredible number of people and organizations, including Walgreens, FDA lab inspectors, *Fortune* magazine, and Henry Kissinger. Theranos billed itself as a revolutionary bloodwork lab that could diagnose hundreds of conditions with a single prick of a finger. The thing that made its deception so damning was that its faulty blood analyzers were prone to giving people inaccurate diagnoses about the diseases they did or didn't have.

The Flourishes: Holmes is an Apple obsessive who mimicked Steve Jobs right down to the black turtlenecks and the reality distortion field.

The Moment We Should Have Known This Was a Con: When Theranos reached a $9 billion valuation in 2014 without attracting much interest from the top-flight venture capital firms in Silicon Valley. After the company's story started unraveling, VCs revealed that the company had been too secretive about its technology to trust.

Will the Con Work? Theranos announced that it would be dissolved in September. Holmes was banned from serving as an officer or director of a public company for 10 years to settle fraud charges by the Securities and Exchange Commission. And she is still expected to face a criminal case. Theranos was one of the most elaborate cons in Silicon Valley history. It's also had one of the most dramatic falls.

Initial Coin Offerings

The Con Artist: Initial coin offerings are a way for people to generate money by creating virtual currencies and selling digital tokens in them to investors. (Think Bitcoin meets crowdfunding.) The largely unregulated space is ripe with fraudsters; according to one study, almost 80 percent of initial coin offerings are scams. But we'll use the example of Maksim Zaslavskiy, a Brooklyn businessman born in Ukraine whose real estate and diamond ICOs landed him in trouble with the SEC.

The Mark: About 1,000 investors who collectively gave hundreds of thousands of dollars to Zaslavskiy based on the claim that his virtual currencies were backed by real-world investments in real estate and diamonds (they weren't).

The Flourishes: Zaslavskiy marketed himself as a global philanthropist who had a team of lawyers, accountants, and brokers managing his real estate cryptocurrency (he didn't). He claimed that 2.8 million tokens of his currency had been sold (they hadn't).

The Moment We Should Have Known This Was a Con: When Zaslavskiy declared to his backers that he was shifting from investing in real estate to diamonds. Even though he never made an actual investment in either asset, "pivot to diamonds" is still an incredible turn of phrase that I hope enters the lexicon before the next recession hits.

Will the Con Work? Pivots rarely do. In November Zaslavskiy became the first person in the United States to plead guilty to ICO fraud, establishing a precedent that will no doubt snare would-be digital hucksters in the future. He faces up to 37 months in prison for scamming too close to the sun.

The Ultimate Con

Let’s recap: Theranos is dead and MoviePass, at least in its too-good-to-be-true iteration, is as well. The Boring Company still has a lot to prove, while ICO fraudsters will have a tougher time moving forward now that the SEC has settled on an enforcement strategy. That leaves Juul, the startup that knew just how long to market to young people before the feds came knocking. The company never claimed its product was good for you, only that it was less bad for you than the alternative; meanwhile, the scourge of smoking will always hold as a convenient distraction from the potential hazards of long-term vaping and nicotine addiction among people who were never going to smoke cigarettes. And now, as of last month, that company has ridden a partnership with the market leader it aims to disrupt to a huge payday and a valuation of $38 billion. Juul is going to save the world from cigarettes and make Big Tobacco a fortune doing it. It’s almost too perfect a story to believe.