

MoS Rapid Response Transcript – Danny Meyer

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REID HOFFMAN: Today we're honored to have restaurateur Danny Meyer joining us. You'll remember Danny as the founder of Shake Shack, and CEO of Union Square Hospitality Group, which owns New York's Gramercy Tavern and dozens of other groundbreaking restaurants.

Some of you probably know that Danny had to lay off 2,000 employees last week. In this special episode, we have a chance to hear from Danny as he grapples with the impacts of the layoff, and what comes next for his company and industry.

Danny will be interviewed by our Editor at Large Bob Safian. Many of you know Bob from his 11 years as Editor in Chief of *Fast Company*. He's now our Editor at Large for us at Masters of Scale and I'm grateful to him for stepping in to do these interviews when my schedule won't allow it.

With that, I'll hand it over to Bob....

BOB SAFIAN: So let's just jump right in. You made a really difficult decision last week, just a few days ago. I just wanted to start by asking you to talk about it. You have always put your employees first. You said, "Employees first, customers second, community third, investors down the road," this sort of virtuous cycle. And these layoffs are obviously hard in the context of that philosophy. So I'm just curious about how you made the decision? Why you made it? When you made it?

DANNY MEYER: Well the first decision that was incredibly hard was closing a small handful of restaurants the very first week that we were really learning a lot about this in New York City, because of either hearing that one of our employees was expressing flu-like symptoms – which all turned out to be negative – but it took a day and a half to get any kind of testing and results. So during that day and a half we closed restaurants and threw away food – and that was the same thing, which was putting our people first and putting our guests second. It was a distasteful but easy decision, in retrospect.

Then towards the end of that week, as we started learning more and more about the need to prevent people from gathering – which is, counterintuitively, the very business we're in, which is providing opportunities for people to gather with people – we opted to close all of our restaurants. And this was about three or four days before the city mandated that restaurants discontinue full service operations.

Then we said, "Uh oh, our revenues have just gone poof." And now we're faced with this just terrible decision, which is how do you both put your people first and put your people out of business? How do you do that and how do you reconcile those two things? It just

forced us to stand back and say, "Because if your people come to work it could be dangerous. B, there is no work. And C, the only way that there will be work for them when they come back is to have a company that is alive and kicking."

Then finally, if people are laid off, there is something called unemployment insurance. There is something that we have, which is a very, very good health plan. We've found, as we did a run rate, that we could afford to pay our share of people's health premiums through April 11th – and that date's going to come and go pretty quickly – but it was something. Then we said, "All right, what else can we do?"

So we quickly created a 501C3 and we've been raising some pretty good funds so far by virtue of selling gift cards to anybody who wants to buy them. We told our guests we will contribute [100% of all revenues to gift cards to our employee relief fund.](#)

So I'm fortunate to be able to say that I've never personally experienced a round of chemotherapy, but I know a lot of people who have. And what they've all said is that it's a very similar kind of awful choice, which is that in order to be alive, you have to almost kill yourself. I know that that sounds really, really extreme, but this is, in a weird way, a business version of chemotherapy. We just really hope it works.

SAFIAN: Did you, sort of thinking about this at home, come in one day and get your team around you and say like, "This is what I think we need to do."? Or was this something where you weren't sure what to do? How did the team come up with, this solution, this approach?

MEYER: I think the framework of enlightened hospitality – which is as you said, is the prioritization of our stakeholders and really believing in this virtuous cycle – has always been the framework that's helped me to get my head – and my heart – around how to solve problems. I think that when we talk about this virtuous cycle – of putting our people first and our customers second, community third, suppliers fourth, and investors fifth – it is truly a cycle.

If you break it anywhere you've broken the whole thing, because at the end of the day, the only way I know to really take great care of your employees is to make sure that over time they are growing both professionally and financially. So if you don't have happy investors, all bets are off. But it's really about the inputs coming first. I would say, especially when times are tough – any kind of economic crises or it could be what do you do during a hurricane?, it could be what do you do during a terrorist attack, as we had in 2001? – that it's especially important to use that framework. So the framework helps.

But I don't go into any meeting knowing the answers. I often go into a meeting with a strong point of view, but I really have worked hard to surround myself with really smart people, and by breaking that group into the right teams and making sure that everybody was curious enough to get external information and bring some combination of what

they've learned and what their heart is telling them to a meeting, I think we make our best decisions. We often make mistakes. We often make course corrections.

Every single day of this crisis we've honored the work we did yesterday and found all the ways we could have done it better knowing what we know today. This is especially a time, I think, for leaders to take it in, be decisive, be open, shift, be nimble, but never lose sight of your core values, because the thing I know for sure, the only thing I know, is assuming that this thing is over one day – and I could not possibly believe more strongly that it will be over. I do not believe that this is the thing that's going to end the world. I think we're going to get back to something someday. We don't know when, we unfortunately don't know how many lives that'll take in the meantime.

But if you believe that it's going to be over, then the thing I think is crucially important is to say, when you look back at how you behaved and who you were and who your organization was, you want to look back and say, "We were true to ourselves and we didn't do things that our heart regrets." And so that – and I've had to make course corrections even there, because sometimes my heart speaks up and my mind – with today's information – quashes what my heart felt.

SAFIAN: Can you give me an example of something that you started one way and went the other way? Because I think a lot of leaders are trying to manage this balance between patience – because things are moving so fast – and decisiveness as you talked about, those both ends.

MEYER: Here's an example. When you're doing massive layoffs and you've never done them before, I mean we've laid off people in the 35 years I've been in business, of course we have. My guess is I don't think we've ever laid off more than three or four people at one time. This was 2,000 people last week. You want to approach that in a one size fits all manner, because you go, "How can you begin to make exceptions for anything?"

And we've been doing a lot of communicating with our team, both the people who have been retained – which is a very small number. As of today, it's 147 people out of what used to be, I think, closer to 2,200. So I think we actually laid off slightly more than 2,000 people.

So you communicate as well as you can. And this is also bizarre because we are all forced to be far away from each other. So your heart says, "I wouldn't lay off anybody without looking at them in the eye, a one-on-one conversation." But you've got 2,000 people who cannot be together in the same room, how do you do that? How do you manage to show authentic compassion for people via Zoom? Thank goodness we have some way where we can see one another, but I can't have dialogues with everybody. You can't have 2,000 people having a dialogue, and even their bosses can't have 100 dialogues with people, or whatever it may be.

So, an example, we did all of our run rates and we said, "If we ..." The day that we did these layoffs, we told everybody, "We are going to pay through the following work week." And believe it or not, that costs a lot of money times that many people. And then furthermore, we said, "And we're going to give everybody a PTO day and if and when you come back to the company, which we certainly hope you will, all of your benefits will be in place as they were. All of your personal time off bank will be exactly where it was." And as I said earlier, we made another run rate decision and we said, "Let's absolutely pay our share of people's healthcare premiums through April 11th." Now that's a lot of money to do that, and it felt like a good one size fits all.

And the very next day, I received a very, very heartfelt email from someone on our team who loves our company, that her due date for her baby, which was supposed to be the happiest day of her life, coincided with what would be the end of her ability to pay her healthcare premiums. And furthermore, one of the reasons she had joined our company was that relative to most other businesses in our industry, restaurants – especially independent restaurants – the family leave policy that we have was something that was attractive. And the happiest day and happiest month of her life was now all of a sudden something that she deeply feared.

And so that gave me pause and I said, "You know what? I may regret having an exception to what we're doing, but I will never regret doing the right thing for that person. And so let's find a way to do it." And that's when we said, "All right. Well that's what we should be using our employee relief fund for." It just forces you to go, "Yeah, it's a mistake probably to start making exceptions on a group policy, but that doesn't mean you can't come up with another solution for the benefit of a human being."

SAFIAN: And so that's what spawned the idea of the employee relief fund or you already had it and you realized, "Oh, this is the thing I could use it for"?

MEYER: The fact of the matter is that this is one of these things where we had come up with this idea probably two or three years ago. Because every year, whether we like it or not, we will learn that maybe they had a house fire, maybe there was a massive flood in their basement, maybe someone in their family got sick. And so in a case-by-case basis, we would then get their restaurant community together and do a GoFundMe or something like that.

And so for the past two or three years, we've said to ourselves, "We should really have a not-for-profit employee fund where we can seed it, I can seed it with my own funding. And then we can also invite all employees if they want to, to contribute a buck a week, let's say." That adds up with a lot of employees, and start to see that grow. So we had really been dragging our feet on that for the last two or three years, but we already had thought about it enough to have the framework in place.

And so really the minute we started talking about this number of layoffs, we said, "This is the time. Let's fast track this thing." And our legal department and our people department really did a great job of collaborating together. And that's when we put together our fund and that's when we decided how to fund that fund. And I said, "I'm going to give all of my compensation to that fund." And that's when we started selling gift cards to our regular guests and giving 100% of those revenues to the fund. And now, as I speak, we're in the process of doing all that we can to get really, really nimble so that people know how to apply to get the aid they need in a way that is simple and fast.

And yet, it's not easy, because with 2,000 people, everybody needs something, and we want to make sure to do it in the fairest, quickest possible way. There's a board that we put together, which was a legal requirement, and on that board are lots and lots of employees. I'm not on that board, for example. I want people to be making good decisions for people.

SAFIAN: I think there are some folks who when the news first came out about all the layoffs, that some of the surprise was, "Well, Union Square Hospitality Group, it's so successful." And given the pressure that you felt and you needed to react to, what do you think the implications are for the hospitality industry overall? I know 2,000 people is a lot, but it's a small number relative to the number of people working in hospitality.

MEYER: Yeah. I think most people don't really understand the magnitude of our industry and they don't understand the way we do business, and so maybe I can just share a couple of those things. I think unlike the, let's say the airline industry, where anybody who's listening to this right now can name all the major carriers in the United States and you go, "That's a big industry. Look how many people they move every day."

What if I were to tell you that the restaurant industry is much harder to get your arms around because there's 660,000 restaurants, not five major carriers? And what if I were to tell you that we employ more people than the airline industry? And we feed more people every day than the airline industry flies every single day? And we buy more products and help more people pay rent?

Now if you want to unwind what I just told you, it blows my mind how inefficient our industry is because, in order to produce the revenues we produce, it takes so many more human beings than say, the tech industry. The tech industry can make a dollar with a tiny fraction of the number of people hired than it takes to run a restaurant. A restaurant is basically a manufacturing company with a sales room attached to it. The manufacturing plant is the kitchen and the salesroom is the dining room. And furthermore, we're in the real estate business and we're renting spaces, mostly in locations you would never put a manufacturing plant. In fact, our real estate costs and

our labor costs make us a very, very inefficient business, and yet, really one of the nation's most important employers.

And that's why even a company like ours – and even the big chains, which you would say, "Well, it's a public company. They should have all the money in the world." Guess what? The economics of our business are such that if you have no revenues, you just can't keep the lights on. It takes those revenues to eke out what on a good day for most restaurants is a 10% margin. That's a good day.

So now imagine restaurants that are on a 5% margin or a 3% margin. Once this crisis hit, revenues went poof – but you still have fixed costs. So even if you lay off 100% of your team – which is horrible because now how do we get back in business and how do we know that the government is going to take care of the people who got laid off – what about your other obligations? The landlord didn't stop charging rent. The utility companies have not stopped charging for utilities. The bank has not stopped charging us for loans.

Interestingly, literally at the 11th hour, when our big monthly sales tax bill came due for New York State, at the 11th hour, right as we were handing the check to the government, the government said, Governor Cuomo said, "Guess what? Good news. Three month delay on paying that tax." But it's literally a day-to-day penny decision that companies are making. And I wish I could put it more clearly than this, but what we need to get to the end of this is money in the bank – and we're also going to need our talent. And so this notion of laying off your talent in order to have money in the bank, something's got to give because that equation ultimately is not going to get us where we all need to get to.

SAFIAN: Do you have any clarity or insight about what the implications of all of this are for Shake Shack? This is a business that you helped to found, obviously, and it's got all the same kinds of financial dynamics that you describe for Union Square Hospitality.

MEYER: I think restaurants are restaurants. Shake Shack has an exceptional leadership team and is making the exact same kind of decisions that every other restaurant makes. Except that I would say that as a business that grew out of Union Square Hospitality Group before it became a separate public company, the value system is exactly the same. And Shake Shack is making decisions with the exact same stakeholder model. Shake Shack has a strong balance sheet and I trust that with some really tough decisions along the way, Shake Shack will prevail.

You got to stay both realistic and optimistic at the same time. Reality at this moment in time is not fun to contend with. But if you believe that you will be in business on the other end, then every decision you make starts to take on a slightly different framework. In

other words, how does this decision today increase our odds not only of surviving, but of being in an even better position when this comes out?

Let's face it, there will be a number of businesses that don't come back after this. I would say in our industry, perhaps the percentage will be greater than many, many other industries, because once we lose a day of revenue, it's just gone. How can I say this? If I were about to buy a new car today and I go, "Now's not a great time to buy a new car." Well, when this is done, I'm probably going to buy a car. I'm probably going to buy that car. I'm not going to buy a car every four years, but the car manufacturer in a certain way – or the car company – is delaying revenues and profits. We just lose it. It's just gone.

SAFIAN: If you don't have that dinner, you're not going to have that Tuesday night dinner three months from now, you're going to have that Tuesday night dinner.

MEYER: Yeah, not at my restaurant you're not. You may cook it from the grocery store or whatever, but we're just looking at the other side and saying, "When this is done, we will have some opportunities, if we're really smart, to reverse..."

Some of the hardest things, over the past four years, have been recruiting great talent because unemployment has been so amazingly low. It's been hard to recruit great talent. I'm actually looking forward to the day, if we get to the other side – and I'm being as humble as I can because you and I could be having a whole different talk Sunday, which I would like not to have about how this didn't work – but if we're fortunate enough to get to the other side, I'd like to be in a position to hire even more people and really think positively about what did we learn in our industry that could make us an even more effective and efficient business model than we are right now.

SAFIAN: You mentioned New York state, Governor Cuomo, deferring the payment of the taxes. When you think about the plans for the future, do you plan on, anticipate, any certain kinds of government support or help? Do you think that should be there or do you just have to make your plans/decisions based on that you're going to be on your own?

MEYER: Well, that's a great question. We're planning as if nothing will happen and hoping that a lot will happen. We're planning as if... I think we're planning all kinds of different models. You and I don't know when this is going to be done. When are ballparks going to be safe to go to again? We're in a lot of ballparks. I don't know. When is it going to be safe to host your family reunion that you canceled because it didn't feel safe because Aunt Tilly is older than 65 years old? We're planning models where life, that our revenues don't regain their former levels till June, July, August, September, October.

Try to ask ourselves if the government did nothing, where would we be? I'll say one thing, if the government doesn't take care of people, the people who have been laid off,

the massive numbers of people, and I'm hearing numbers that are in the millions... My 2,000 people multiplied by... Not all of the 660,000 restaurants in America employ as many people as we do. Let's say on average they each employed only 50 people. You can do the math right there.

SAFIAN: It's a lot of people.

MEYER: It's a ton of people. What I hope more than anything is that those people have a roof over their heads and food on their plate and they're healthy, because we're going to need them back in the workforce. If they're not well, all bets are off. As far as the businesses are concerned, I just wish that there were a way to freeze our cost structure exactly where it is.

There's a couple of ways to do it. Number one is reimburse us for everybody that stays on our payroll, because if they're off our payroll... I'd rather be paying them to do something productive than to have them not be able to work. Number two, I think if the government could freeze all of our other fixed costs during this time – so long as we commit to hiring people back and getting into business – that would really help a lot.

SAFIAN: [When you were on Masters of Scale earlier](#), one of the conversation topics was about your dad and the experience you had of him going through bankruptcies. I'm curious whether in this climate that occurs to you? Whether the idea of bankruptcy, not necessarily for Union Square Hospitality Group, because obviously you're trying to avoid anything like that, but whether there's stigma around that, that would be different; whether there are laws around that that would be different. I don't know if you've thought about, reflected on that experience at all.

MEYER: I haven't thought for a second about laws or stigma, but what I have thought about is my dad. I've thought about how I've really worked hard over many, many years to try to learn from the good stuff he did and learn from some of the mistakes he made.

The good stuff has served me really, really well. I think he cared deeply about serving people in his business. He was a great entrepreneur. He came up with interesting ideas that other people hadn't thought of. I think that his businesses were all connected to hospitality and travel. I learned a lot from him there.

But I also learned a couple things not to do. Mostly that had to do with scaling with the wrong team.

I will say that I have thought about the implications. When I talk about an enormous number of businesses in our industry that will probably not be in business, as I said earlier, I don't have the hubris to say that it couldn't be us. It could be us. I really don't believe that. But I'd say if anything I'm going into triple, quadruple overtime trying to learn

the lessons about what not to do that my dad did because I don't want to go down that path.

I saw what that felt like as his son and I saw what it felt like as his family. I saw what it felt like for the people who worked for him. This gets back to the first thing we said, the trying to reconcile laying people off for the purpose of making sure their job is there, it's a weird equation but it's the bitter medicine that we're taking right now. I will certainly do everything I can to make sure we're there on the other side of this – and that we thrive.

SAFIAN: Yeah. It is painful and I know in some ways counterintuitive about it, but if you want to be around tomorrow... A lot of executives I think are faced with this challenge. How do I balance my burn rate with my human obligations?

MEYER: I'd like to just say a couple of very, very hopeful and positive things. What this has provoked in a lot of people is love, this whole thing. I've had, and I'm sure you have and your listeners have as well, so many people who are reaching out – maybe it's a quick text or maybe it's an email or maybe it's a phone call. I only wish I had time to be more thoughtful in all of my responses.

But the number of people who say, "I'm just thinking about you." It feels really, really good that this is reminding us of, that even though this is a time when we are being told not to come together, we are finding ways to join together.

One of the many emails that I was heartened by was the CEO of Hertz Rent-A-Car saying, "How could our cars be helpful to your desire to feed people?" And I mean, that's one of many examples, but that's a really touching kind of thing.

People who have an abundance of something are writing with opportunities to help. A lot of people believe it or not have an abundance of jobs to offer right now and so we're able to post on our company intranet where those jobs are.

It's amazing that there are some businesses right now that are actually doing quite well and they need help. And so I just love the opportunity to match their need with the needs that some of our laid off employees may have right now.

SAFIAN: Listen, the thing that I hear over and over mostly is that people want to know what they can do to help. They don't always know what they can do, but they want to be available. And it's great that they're coming to reveal themselves or to help out some of your employees in this time. All right. I'm going to ask you one, it's a very different topic, whether you're worried at all about supply chain shortages in food business and whether there are any things that you think entrepreneurial ideas in agriculture could do to help that?

MEYER: Well, I think to a degree we're concerned about a lot of our suppliers because while some of them are able to turn on a dime and whatever they're not selling to us they might be selling to a grocery store or to an online grocer or something like that, but there's a lot of small artisans that are not selling nearly as much right now. The fishermen, for example, the dock to table fishermen who go out and fish for things just for our restaurants. They don't have contracts with Whole Foods, let's say. And so yeah, I'm concerned about them.

What I would love to do is to say this country was smart enough to beat the disease or the virus and this country was smart enough to beat the economic mess that it cost. And so in order to beat the virus, I think we all know that we have to change our behavior in ways that we never thought we would, mostly having to do with people being with people. In order to get the economy jump started, I would take any day, a sacrifice that said, my behavior changed about being with people, but my willingness to forego profits for however long this takes is exactly what I should be contributing to the economic recovery.

The only thing is I just don't think it'll help our economic recovery if I go out of business – and I'm speaking now for every business. So if we come out on the other side saying, "Okay, that was a crappy year for profits, but here we are and we've got a workforce and we've got a business." That would be a great outcome.

SAFIAN: And that patience on the part of investors as well, to recognize that just because things don't look good right now, it doesn't necessarily mean that that business is no longer worth supporting.

MEYER: Yeah, exactly right.

SAFIAN: It is clear how wrenching this decision and this time is for you. Have you heard back from specific employees about how they feel about this? Do they get the sort of difficult trade off that you're trying to work through?

MEYER: I think so. I've had a small handful of people who have actually written me and say, which kind of blew my mind, "I'm actually concerned about you Danny." And it's like, no, this is what I'm here to do. And this is a moment for leadership for sure.

I miss our team. That's my overwhelming and prevailing feeling. Most of us who felt a calling to this business did so because we liked being with people and we like doing things that make people feel better. And so I can't wait to be able to... There will be a day – and I cannot wait for it – where the email goes out saying, "We need you, come back, please." Cannot wait for that.

SAFIAN: Well I can't wait for it either, Danny, and I can't wait to be back eating at your restaurant. So thank you.