

MoS Rapid Response Transcript – Neil Blumenthal

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NEIL BLUMENTHAL: Covid has impacted every part of our business – and it's impacted every aspect of every business.

The most challenging thing about the COVID crisis has been the amount of uncertainty. Businesses do not thrive in uncertainty.

The number one priority is the health and safety of your team, and as a leader that's what I care most about. It's interesting that prior to COVID it's rare that you'd ever really talk about health and safety because that was always a given. And now it's just been a lot more front and center because it is so much at risk here.

For a company like Warby Parker, how do we invest through the crisis so that we emerge stronger than ever and capture even greater market share than we would have otherwise?

I'm not stressed about the long-term viability of Warby Parker. I'm not stressed about our ability to overcome this and emerge stronger than ever.

BOB SAFIAN: That was Neil Blumenthal, co-founder and co-CEO of Warby Parker.

Warby has been a poster child for direct-to-consumer startup success, upending the prescription glasses industry. But as Neil acknowledges, the pandemic has impacted every part of their business.

I'm Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response.

I wanted to talk to Neil because Warby Parker straddles two operations facing opposing pressures: a chain of 120 stores that was shuttered by Covid-19 lockdown, and an online retail arm that's thriving.

Neil and his co-CEO, Dave Gilbao, find themselves rethinking everything about the customer and employee experience, online and off, even as they struggle to determine which physical stores to re-open and when.

Neil asserts that this coronavirus crisis will accelerate the adoption of new habits by 3 to 5 years. And he's determined to turn that to his company's advantage.

Let's listen in.

[THEME MUSIC]

SAFIAN: I'm Bob Safian and I'm here with Neil Blumenthal, co-founder and co-CEO of Warby Parker, the retailer of prescription glasses and sunglasses, and more recently contact lenses. In the pandemic many consumers have boosted their alliance on online shopping. Warby Parker's business started as direct to consumer, but now sits on both sides, mixing online and in store. It's always been a tricky dance, but now it's gotten even more so. Neil is coming to us today from Long Island, New York, as I ask my questions from my home in Brooklyn. Neil, thanks for joining us.

BLUMENTHAL: Thanks for having me.

SAFIAN: So tell me how the coronavirus first came to your attention and the initial impact on your business.

BLUMENTHAL: So we started talking about it as a company in November / December and we were looking at it really as a potential disruption to our supply chain. So we created a task force. We were really worried that this was going to impact some of our frame manufacturers in China and Japan and also be problematic from a transportation standpoint. So we actually started to pull up inventory to get it stateside in case there were any issues. Lo and behold, that morphed. The crisis went from a transportation / supply chain issue to a health and safety issue for our employees and our customers, and a potential customer demand issue.

SAFIAN: So when did that shift come to you? Was it abrupt?

BLUMENTHAL: We were monitoring it obviously when it was in China and then as it spread to Japan and Korea, but as it expanded to Europe, that's when we start to really jump into action and fear that this was going to come stateside and be different from SARS or MERS in the past. So it was really end of February and in March that we started putting plans in place like voluntary work from home that quickly morphed into mandatory work from home.

We started to reprioritize resources to our eCommerce channel, for example, and really started to even change our operating protocols in the stores before we closed them. And then in the middle of March, we were one of the first national retailers to close all of our stores. So we have 120 stores across the U.S. and Canada and we quickly closed them. We were certainly the first national optical retailer to do that.

SAFIAN: You didn't close just some stores in some locations, you made the decision to do it throughout. I'm curious why that decision was made and whether that's something you reflect on as you think about reopening.

BLUMENTHAL: Yes, in those early days, it was really Seattle and then New York that started to get hit. Us being in New York we, I think, felt it more acutely and faster than many Americans across the country. But the most challenging thing about the COVID crisis has been the amount of uncertainty.

Businesses do not thrive in uncertainty. If there is a disruption or a problem and you know when it will end, then you can plan around it. When you don't know the scale of a problem, when you don't know when it might end, it becomes really difficult to plan. And one thing that was incredibly clear from the early days of this crisis was that the amount of information and that was coming to us was plentiful but wasn't reliable.

There weren't good facts. There wasn't good data that could help you make a really confident decision. So we felt like we had to err on being conservative. In hindsight it was not a conservative decision at all to quickly close all of our stores, because we knew that this virus was here, that people were infected, that people are going to die, and that we did not have the testing infrastructure to know who was sick. We didn't have the public health surveillance in place to know where there were hotspots and where there weren't. So as a leader we had to make a bold decision, but also frankly, a more of a blunt decision, I would say, in closing all the stores, because we couldn't make precision type decisions because we didn't have the right data to make those types of decisions.

We now have, definitely, have a lot more information. Certainly not as much as I would like, but we now have a clear picture of the number of cases and hospitalizations and fatalities, not just statewide, but county-wide, we have a good sense of how those are trending up or down.

And we are opening up stores in a phased manner based on stuff that we know with certainty, like is a store on a street or in an outdoor center versus an indoor center? What is the size of that store? How can we relay it out to ensure social distancing? Do our team members need to travel through public transportation to get to that store? Same with customers. Then there's sort of, Hey, what is the level of infection in a given geography and is it getting worse? Is it getting better? Is there available care and treatment should someone get sick? So the availability of hospital beds, the availability of ICU beds in particular. And that's helping inform decisions on where and when do we open up stores.

SAFIAN: What are the changes that happened in the store layouts?

BLUMENTHAL: The first thing that we did was institute controls over traffic to ensure that there weren't too many people in the store at any one time. We actually created separate shopping areas and have mandated guided shopping experiences where one of our retail associates will walk with you through the process and literally disinfect every

frame before and after a customer tries it on. We've put vinyl markings on the floor to help guide people and maintain these different sections within the store. We have hand sanitizer widely available.

All of our team members go through daily health screenings, including temperature checks. If the store is full, we've created a text-based waiting list. So that way, our customers don't have to wait or congregate directly outside.

We've introduced contactless experiences like contactless payment, and our eye exams have also gone through a pretty big change where all the intake is done digitally. We're not even providing paper prescriptions; we're just providing them digitally through email. Anything that we can do to reduce incremental communication within the store, incremental interaction in the store.

SAFIAN: So it sounds like you developed almost a checklist for each location?

BLUMENTHAL: Yes, that is right. We've spoken to a bunch of public health experts, infectious disease doctors, chief medical officers at larger companies. We've looked at the frameworks that different governments have used, like New York State. We've spoken to folks at Johns Hopkins and other academic institutions to try and better understand how we should create a framework around this.

Frankly, it's frustrating that business leaders like me that don't have a background in public health or infectious diseases are having to direct teams to create these frameworks as opposed to having governments really lead here. There's no question that there's been a lack of leadership at the federal level that has made it more difficult for businesses to operate and ensure the safety of their teams and their customers.

SAFIAN: These are things it's up to you to decide on your own.

BLUMENTHAL: Exactly. So for example, we have a manufacturing facility, it's an optical lab, in Sloatsburg, New York, about an hour outside the city. We have been operating that facility throughout the COVID crisis. We're considered an essential business in all 50 states in the U.S. because we produce and sell a health product, a much needed product, glasses, that help you function in your daily lives.

One of the first things that we did is implement a screening protocol to enter the facility. So that included a health questionnaire, it included temperature checks – and we've evolved those temperature checks from using handheld infrared thermometers to now thermal cameras that help us do it faster with even greater social distancing. We have to put markers on the floor, instituted mandatory hand washing on the hour, the wearing of masks and gloves. And we even rearranged our entire production line to ensure social

distancing while people are working on the production line. And then we did things like stagger lunches and create a lot more spaces for people to have lunch.

SAFIAN: All of these steps cost money. How do you calculate what that cost is going to be?

BLUMENTHAL: Yes, it's funny it's not something that pops into your head as you're making these decisions. The number one priority is the health and safety of your team and as a leader that's what I care most about. It's what my co-founder Dave cares most about. It's interesting that prior to COVID it's rare that you'd ever really talk about health and safety being a tech enabled brand like Warby Parker because that was always a given. And now it's just been a lot more front and center because it is so much at risk here. So our thought process is how do we make something safe and then figure out, okay, how much is it going to cost? Does this work? How do we make it work?

SAFIAN: Have you been to the optical lab that you guys run upstate?

BLUMENTHAL: Yes, we were having about 40% attendance in the first few weeks operating the optical lab once a national disaster was declared by the federal government and people were scared to come to the facility. So I went to the facility to talk to the team to demonstrate, hey, it is safe to be there. We've taken all of these precautions. And that the work that we do is really important. People need their glasses to function day to day. And we have this duty to provide that even in times of crisis like this. In fact, it's even more important because we're the only top 10 optical retailer in the country that has a robust e-commerce presence. So there are millions of Americans that are depending on us to get their glasses.

SAFIAN: How has that online business been faring?

BLUMENTHAL: It was stable in those first couple of weeks, but I think a lot of people were pretty scared and not doing a lot of shopping, but then has really accelerated over the last few weeks in particular. So we're seeing strong year-over-year growth. And we're finding a higher percentage of our customers are new customers than prior to the crisis. So they're coming to us because they don't have other options.

SAFIAN: In this period, have you guys spent any time thinking about maybe "we should just be doubling down and leaning into the digital business."?

BLUMENTHAL: Yeah. I'll tell you that the more retail stores that a company has, the more painful this crisis has been. Absolutely. But we've always believed in an omnichannel experience. And what crises like these do, they tend to accelerate existing trends. And we think that this will accelerate trends at least three to five years. And what we mean by that is more purchasing of glasses online.

We have by far, the best experience to do that. We built our own virtual try-on, the first of its kind, that's true to scale and true to fit. We built algorithms so that way it fits effectively on your nose. And it's actually the exact same size as it would be in real life because we're using Apple's AR kit to actually take your facial measurements.

So our app has been downloaded in record numbers and being used because of that virtual try-on. And I think we'll start to see more behavior like that, not just to purchase online, but even prior to entering a store.

We already found that the vast majority of the people that shopped in our store pre-COVID had been to our website first and started preparing for their visit. Now that's just going to get to the next level and you know what we're going to do? We're going to encourage people to download our app, to do a virtual try-on so we know exactly what frames we should have waiting for them when they arrive.

SAFIAN: Among the things that are being accelerated, the trends in this time is telehealth. How far along in that are we today and how much is that accelerating as a result of this situation?

BLUMENTHAL: So we're still, we think, only in the first inning here. Prior to COVID we did launch our prescription check app that enables customers to do a simple vision test. Basically you pair your iPhone with a second screen, like a laptop or an iPad, and we serve you up an eye test. You cover one eye. And then we transmit that data to an ophthalmologist and MD who reviews it, presses a button, and sends you a signed prescription.

Adoption of our prescription chip app has increased exponentially since COVID has hit. But one of the things that we've also done is created simple vision consultations using a video chat with our optometrists. Our optometrists, we continue to pay, even though they weren't able to operate out of our exam rooms. So what we did was created a way for customers to chat with them online. And that's been interesting to see that uptick week over week in terms of interest and engagement.

SAFIAN: So how far am I from the point where I could get all of the things that I need about getting my eyes checked virtually by not having to go into a doctor's office? Is that a technological question? Is that a medical industry question?

BLUMENTHAL: It's a little bit of both. So from the regulatory side, there are some special interests that don't want to see telehealth emerge within eyecare. Optometrists make 70% of their income through the sale of glasses. There's been a debate between the optometry lobby and then the ophthalmology lobby, which are the MDs, the ophthalmologists on how frequently does somebody need a comprehensive eye health exam? So what we see as the future of eyecare, in particular leveraging telemedicine, is a better triage folks and using different diagnostic tools based on people's personal

situation. And there are definitely some that can be diagnosed online. But the vast majority of people will be able to be fully treated online.

SAFIAN: So a part of your model is a buy one, get one, right? I think you've donated 7 million pairs to partners. Have there been any complications with that part of the business in the pandemic?

BLUMENTHAL: Absolutely. COVID has impacted every part of our business and it's impacted every aspect of every business. And one of the challenges that we're facing is going into communities to provide glasses to people in need. And our nonprofit partners are operating in places like India and Bangladesh. Number one, some of these countries are having shelter in place and stay at home orders just like in the U.S., so it's not safe to go out and provide glasses, but more importantly, the access to PPE, personal protective equipment, is even less available and accessible in the developing world than it is here in the U.S.

So we've been working with our nonprofit partners to actually transition temporarily our "buy a pair, give a pair" from providing glasses to people in need to providing PPE to frontline healthcare workers. It's masks, it's gloves, eye protection, but also soap because we know that hand washing is one of the first things that we all need to prevent the spread of COVID and any other virus for that matter. So we're working with them, our nonprofit partners, to get the equipment that's needed to help protect frontline health workers around the world.

SAFIAN: You mentioned how difficult it is in these ambiguous times to lead and to run a business. You've been an active supporter of many other startups, particularly in New York City, an active investor. I'm curious what you're hearing from those companies and what that dialogue is like in that community.

BLUMENTHAL: Well, the first thing that almost always comes up is the wild disconnect between the performance of the public markets and the reality that every operator, CEO, executive, founder, entrepreneur sees in the streets and through their Zoom calls every day. There are people that say, "Hey, well, the public markets are really forward looking. So they're looking six to nine months out."

I'll tell you the majority of executives that I speak to and founders aren't particularly optimistic in the long run. Do they think that we'll get through this? Absolutely. But that there'll be pretty lasting damage to the economy and there'll definitely be some big winners – but unfortunately there'll be lots of losers, and that's not good for the country and for the communities where we're working.

The themes that tend to pop up is: How do I protect the jobs of my team? How do I preserve cash and manage cash? Those two things are often in conflict. How do I

protect my supply chain, my ability to provide services and products to customers and coming up with contingency plan after contingency plan? And then it's, how do you lead? One of the things that's most important is to over communicate. You almost need to communicate two to three times more than you were beforehand, and you need to simplify that communication.

An example is my co-founder, Dave and I on a weekly basis pre-COVID, we would have an all-hands meeting and we would record it so that way teams could watch it. We've now moved to two all-hands videos a week and we've shortened them, so they're a little more digestible, but they come out Tuesdays and Thursdays, so the team is engaged. They have the information they need to make informed decisions and they know what's going on because, especially not being in the office you lose all the hallway chatter. You lose all of these informal modes of communication and you need to supplement that with a lot more structured and formal communication.

SAFIAN: A lot of folks who are looking for more funding right now, having a harder time finding it because of the uncertainty in this situation. For you, as someone who's an investor in these, did the conversations become much sharper than they were before?

BLUMENTHAL: They definitely do. Hopefully, they're still calm and friendly and kind, but crises bring out clarity and things that we looked for before or looked at and scrutinized like the capital intensity of a business right now gets looked at with greater scrutiny. You really want to keep a close eye on businesses that require a lot of capital.

Then what are categories that are recession resistant? I do believe that we're going to get through this, but I think that it's unlikely that the economy is going to be as strong as it has been the last few years. It's funny, every company that I've spoken to had their best months January and February, right? Like the economy was roaring, every company was doing incredibly well and then this hits. So right, what are categories that are countercyclical? The great thing about glasses is that people always need them. SaaS businesses and software businesses, what's great is that they can scale. Sometimes they're not that capital-intensive.

SAFIAN: Your wife is also an entrepreneur. She has a clothes startup, the *Wall Street Journal* reported recently that they've had to lay off a bunch of folks, which must be hard to go through together. Are layoffs an option at Warby Parker?

BLUMENTHAL: Layoffs are not on the table at Warby Parker. We've been able to, over the course of the business, always have a really strong balance sheet in case of an emergency. We also, again, have – because of our e-commerce heritage and the technology side of what we do – have been able to maintain sort of a strong business, but we're also committed to do whatever it takes to ensure that our employees are financially secure. After five weeks of store closures, we did furlough some of our store

team members. However, we committed to make them whole once we brought them back.

So in situations where unemployment insurance plus the federal supplement from the CARES Act didn't make people whole, we committed that we would do that through June. So we'll stand by that and we don't anticipate any layoffs. In fact, we're still continuing to hire some roles at headquarters that are helping us to continue to scale our eCommerce business in particular.

SAFIAN: But headquarters is still remote at this point.

BLUMENTHAL: That's another thing about uncertainty, right? It's like how do you plan and tell your team when they can expect to be back in the office? We're telling our team that at the earliest, it will be after Labor Day and we don't even know if that's going to be the case. We have an office in New York and Nashville, those may open at different times.

We had our in-house architecture team that works on store design, primarily, take a look at our office in New York and what would be our capacity if we implemented social distancing, and it would be 25% of our pre-COVID capacity. At this point, it just doesn't make sense to have team members come in for one week out of the month, right? That's actually more disruptive than having everybody work from home.

SAFIAN: Interesting. Might you have fewer stores when you come out of this?

BLUMENTHAL: We still have drastically fewer stores than other top 10 optical retailers in the U.S. that literally have over a thousand locations each. We will continue to open up stores. We think there's hundreds more that we could open, whether that was pre-COVID or post-COVID. So you'll see us continue to open up stores.

SAFIAN: Is there more leverage on rents?

BLUMENTHAL: Yea, we anticipate over the next 12 to 18 months in particular there being lots of vacancies, retail rents coming in and for a company like Warby Parker, yeah, how do we invest through the crisis so that way we emerge stronger than ever and capture even greater market share than we would have otherwise?

SAFIAN: Are you rethinking the design of those new stores too?

BLUMENTHAL: Yeah, I think, well, one of the first things is how do you design for flexibility? Because you never know when a pandemic may hit. We couldn't have predicted this in a million years. But we did predict that things would change over time.

Now, when we're looking at new locations we're paying even closer attention to the width of the store and how we can separate customers within the store. I can tell you that our construction team has now become experts in construction standards for hospitals, for ambulatory surgery centers, and in particular what are the ventilation needs of institutions like that, that have HEPA filters. We already over-indexed on fresh air intake for example. But it's interesting what we all need to sort of learn and be looking at that is very different from just a few months ago.

SAFIAN: Absolutely. There's a lot of change in all of this. Are you stressed by all this?

BLUMENTHAL: I think I would be lying if I said I wasn't. This is definitely an intense period.

It's just like getting hit in the face over and over and over again. As soon as we felt like our supply chain was secure, then it was worrying about domestic fulfillment centers. Then it was worrying about the offices and the stores. And then it was trying to figure out unemployment benefits if we were to furlough folks. Then it was trying to figure out, what do we do with 120 retail leases? And do you pay rent when your stores are closed? And reaching out and having those conversations with the landlords, which are not fun conversations. And how do you keep your board informed? All the while maintaining team cohesion and constantly reprioritizing different work streams? The work swings and the changing of priorities can be pretty drastic.

I'm lucky I have a lot of support at home. Number one, my wife, Rachel, we're both going through a lot of the same things, so we can empathize with one another. My parents are living with us, so I don't have to worry about them being safe. But they're also chipping in with our four year-old and our nine year-old and helping with some of their remote learning that enables me to spend every waking hour working. But I'm not stressed about the long term viability of Warby Parker. I'm not stressed about our ability to overcome this and emerge stronger than ever. But I do have some, certainly some stressful days.

SAFIAN: Do you have any advice for others who are in similar situations, trying to juggle all of these different things at once?

BLUMENTHAL: I think maybe just as leaders and as colleagues and as friends, we all just need to reach out and check in on one another, and that's even more important in a situation where you can't do that physically. And a text, how are you?, is better than no text at all. A more specific text, like how are you on a scale of zero to five?, is even better. And I'm going to steal that from my good friend, Nancy Lublin, who is the CEO and founder of Crisis Text Line. And those interactions, they mean something to everybody, and I know that it means a lot to me when my friends and colleagues reach out to me.

SAFIAN: Well, I appreciate you taking your time Neil to share all your experiences and your thoughts with us. Thanks very much.

BLUMENTHAL: Thank you for having me. Always great catching up.