

## Masters of Scale: Rapid Response Transcript – Shelli Taylor

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**SHELLI TAYLOR:** How do we survive? We're six months in now without any meaningful revenue. And that's an equation no one's ever had to deal with. No revenue is a weird place to be.

The real cost is how do you support your people, and your landlords, and your vendors, and everyone that's hoping to get paid and that you had paid reliably and been a great partner to? That cost is financially and emotionally difficult. And that's the cost I worry the most about.

There's the magic of the theater. We're social beings, and we need the magic of community. And community comes in different forms, and the community that we create is the curated films that bring people together for a common purpose, to come in and have a great movie experience. Big theater, big sound, great story, you get to laugh, cry, gasp. People are hungry for it, and we want to continue to provide that magic.

It will end, so what do we need to do today? Not next week, not next month. If there's ever a time that you're living in the moment, it is right now.

**BOB SAFIAN:** That's Shelli Taylor, CEO of Alamo DraftHouse, the chain of stylish movie theaters known for serving food and drinks during the show.

In 2020, that business has been crushed by Covid-19 lockdowns and delayed movie releases. 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 with Shelli, because as other, bigger movie chains have shut down, She's been working to keep as many of her theaters open as possible. She's negotiating daily with landlords and banks, creatively seeking a new model that can keep the business afloat today, and set a foundation for tomorrow. Will there be a storybook ending? Nothing is assured but Shellie isn't daunted.

Let's listen in.

**[THEME MUSIC]**

**SAFIAN:** I'm Bob Safian and I'm here with Shelli Taylor, CEO of Alamo Drafthouse. Shelli is joining us from her home in Austin, Texas, as I asked my questions from my home in Brooklyn, New York. Shelli, thanks for joining us.

**TAYLOR:** Oh my pleasure, Bob. Thanks for having me.

**SAFIAN:** When 2020 began, you weren't working at Alamo Drafthouse. You were at Planet Fitness, which is an industry that became in the crosshairs when lockdown and social distancing rolled through due to COVID-19. And so then in April, you took on a new job as CEO, but in the movie business at Alamo. It's a little bit like moving from the frying pan into the fire. How did all this come about?

**TAYLOR:** Yeah, that's such a good question. I was with the largest franchisee within Planet Fitness, United PF Partners, and we sold at Christmastime. And so it just seemed to make sense to move on. I love Alamo, was an avid fan, and just seemed like such a cool brand to join and figure out how to scale and retain the soul. So at that time – no idea that this would happen, but we had already made that decision, and so we just kept going with it. But it is the frying pan, to say the least.

**SAFIAN:** Yeah. You come in April, and I'm sure you had a whole series of ideas of things that you wanted to do at Alamo and that maybe not all of that was possible. What became the priorities? How long did it take to come up with a new plan? Are you still having to sort of figure it out as you go along even now, six months later?

**TAYLOR:** Yeah, so probably a little of both, right? I mean, the priority was immediate. Our theaters had shut down. And so the immediate priority was how do you take care of your people? How do you conserve cash? And what do you do in that downtime? How do you best utilize your time?

And we used that time to figure out how we could make our theaters as safe as possible so that we could re-welcome our guests back in a way that would feel great to the Alamo, feel great to our guests. Our priorities haven't changed, it's how do we survive? We're six months in now without any meaningful revenue. And that's an equation no one's ever had to deal with. No revenue is a weird place to be.

**SAFIAN:** And at the same time there's no revenue, your costs have gone up: seat buffers, leaving open seats, and more frequent and extensive cleaning and sanitizing, none of that is good for the business model, if it stays that way.

**TAYLOR:** No. I mean, it's an unfortunate time to take extra costs on, and this does. We've changed out HVAC filters, some MERV 13, and we've done all sorts of things that are very costly. For the long run, the practices make sense. Not buffering seats and 50% or less capacity, that needs to go back to normal. But the actual sanitation, I think is one of those things that is a positive change amongst all this. But it is hard to take on extra costs right now.

The real cost is how do you support your people, and your landlords, and your vendors, and everyone that's hoping to get paid and that you had paid reliably and been a great partner to? That cost is financially and emotionally difficult. And that's the cost I worry the most about.

**SAFIAN:** And so how do you have those conversations when you don't really know when the revenue is going to be meaningful?

**TAYLOR:** Honestly, we've, in some ways, done a really great job, and then in some ways I've stumbled, finding that balance of being as direct and transparent and having conversations with everyone as frequently as possible, and then sometimes maybe oversharing or maybe being overconfident. Early on my biggest learning actually is that we don't control the product. You really can't control those movies coming out from the studios.

For the team, I was way too confident in June, because, "We're going to open because Tenant was coming in July." And I was like, "Here we go. It's going to be great." And going back and saying, "Hey, we were overly confident and we needed to take it back. We are going to slow down, and we don't know." So just as honest as possible.

**SAFIAN:** Recently Regal Cinema, a huge player in your industry, announced it was shutting all of its theaters. Are there implications of that decision for you, for Alamo Drafthouse? Can you stay open, when they can't?

**TAYLOR:** I respect their decision. I understand. I think that it hurts all of us, because it's that chicken or egg scenario for the studios. They've put hundreds of millions of dollars into producing incredible stories, and for them to release them and not be able to get their ROI, it's crazy. And we get that. So it's difficult to see that transpire.

We're staying open because we're trying to prove and help – particularly our landlords – but our team remain confident that we're going to be here when this is said and done, and we're going to be better than ever. It's the decision they've made. It's one that we're not going to make at this point in time.

**SAFIAN:** And so by staying open, do you generate enough revenue to extend the runway that you have, or does it shorten the runway?

**TAYLOR:** It does. It shortens the runway. We're right now somewhere between 6 and 20% of last year's sales on average. So that means that we break even before EBITDA. Rent and overhead, all of that's not part of it. So we are burning cash. But we've minimized that as much as possible. Again it's, if you close down, part of our secret sauce is our people and our talent, and our guests. And closing down is not the right signal. We want to keep people engaged and the spirit alive, so that when we do reopen

fully – meaning the country and the industry – we're ready to go. And so at this point, we're taking that risk.

**SAFIAN:** Do you have a sense about how much of the uncertainty that your customers have about coming into the theaters, how much of that is well-placed concern about safety versus just confidence about that it's safe? How do you think about the product or the experience you're delivering versus the confidence in that experience?

**TAYLOR:** We started with the mantra: safer than a supermarket or a grocery store. And so we've thought through the whole process. In our kitchens, we've reduced our menu so that we have fewer people inside the kitchen, so that we're social distance there. We take our great food into to-go product packaging, so everything's covered, so no one's breathing on it. And then you have the social distancing inside the theater. So we've really thought through all the steps.

I think it's, within the industry, not just for Alamo, how do we get people to know that theaters are actually back open, that everyone has done a good job, it's worth coming back and trying it out, and those that have, have been really happy to come back. Our feedback really, I mean, I read it every single morning, every single comment has been phenomenal, thanks to the team.

**SAFIAN:** I guess the publicity that things like Regal shutting theaters makes that a little bit harder, and the publicity that goes towards the streaming release of films, all that stuff makes it harder, and yet you kind of know, or have confidence, that in the long run, it will come back. So there's this uncertain water you have to traverse to get to that other side.

**TAYLOR:** Well, there's the magic of the theater. We're sick and tired of being at home. We're social beings and we need the magic of community. And community comes in different forms, and the community that we create is the curated films that bring people together for a common purpose, to come in and have a great movie experience. Big theater, big sound, great story, you get to laugh, cry, gasp together. It's just phenomenal. There's nothing like it. And then as everyone's either not leaving the theater, because nobody wants to leave, or leaving and talking about the movie, people want that. That's not going to go out of style. I think it's going to be even more in style after all of this self-isolation. People are hungry for it, and we want to continue to provide that magic.

**SAFIAN:** You spent a bunch of time in China, working for Starbucks and Disney. I think you were there when H1N1 rolled through in 2009. I didn't know whether you had any experiences from that, or any contacts in China where the lockdown seems to be a little further along, that indicates anything about how your business might move in the future?

**TAYLOR:** Well, I think just having been through that experience and having friends over there now, we just reacted really quickly. I mean, before everyone else was, we were ordering masks, we were ordering different types of product and gloves and everything,

so we got ahead of the curve. There's a bigger question than Alamo. This is a societal question.

People in China have been through this and are willing to participate in a government plan. And quite frankly, right now we need a government plan, and it can't be different every day. It's okay to evolve and change, but we need a government plan that says, "This is what you need to do as citizens. This is what you need to do as businesses. And this is what we're doing as the government. And we're all going to stick to this and play this way." And to me, that is the biggest difference. And it's really unfortunate that we have failed to coordinate a plan, and to be able to now look at China, which is fairly open and moving forward, and yet we're still stuck. And I don't see that we have the same runway they do. Really unfortunate.

**SAFIAN:** As a CEO, you're sort of forced to independently make the decisions about the protocols and the systems that you're going to have. Are you talking to other CEOs, other business owners to try to collaborate across, or are you, just on your own, sort of making your best choice and you kind of see where it lands?

**TAYLOR:** Oh, no. NATO, John Fithian have been fantastic at bringing the theatre industry, the theaters, together, as well as getting feedback from studios and the whole industry. So they've been fantastic at coordinating that. We obviously have had our own path following that, but we've participated heavily. So I feel like there's a lot of support within our industry.

I think it just comes back to the government. Just think about masks and the early days of whether you should or shouldn't. We took the stance immediately, "We're going to require masks for everybody," partly for our own team's safety, that was our first driving factor, but for our guests – and that was unpopular in the beginning. Well, now it's mandated, and NATO has been right there with us.

**SAFIAN:** You've launched some other services, like trick or treat movies for kids with discounted free candy, or full-theater rentals for groups, or even an at-home video on demand service. How are those going? Is that helping to fill the gap, or is that more helping to maintain the connection with your customers?

**TAYLOR:** Mainly maintain the connection. I mean, My Private Alamo, the private theater, that definitely is helping us fill the gap. For those that don't necessarily want to come back with strangers into the theater, they can get a group of people, and for \$150 rental, plus some food and beverage and tickets, they can have a fantastic experience with their pod, their curated friends and family.

The trick-or-treat cinema has been super fun. It was on our strategy before, and then COVID, we just didn't get to launch this program. We found for our families, it's just been

a welcome relief in the mornings to come out with their kids and still have Halloween, but not necessarily have to do it the way they've done it in the past.

Alamo on Demand is really fun. That was a long-term strategy that we pulled forward and stood up in three or four weeks, which speaks to just the partnerships we have and our team. That is not necessarily filling in the gap, but what it does do is it helps us better partner with studios in the industry and filmmakers from the beginning of the life of a film, from the beginning to the end.

So we have Fantastic Fest, which is our film festival, where we really give a great platform to emerging voices, emerging filmmakers, especially diverse filmmakers. We had 36 shorts during Fantastic Fest. Over 50% were directed by women. So really cool what we're able to do in that space and help people come up. Alamo on Demand fits at the far end, right? We've got movies on there that nobody else has in the world, and they're curated for our guests. So I'm really proud of that, but it's not meant to compete with the streaming platforms. It's meant to kind of fulfill the life of a film and meet the needs of our guests.

**SAFIAN:** You have theaters in a variety of locations across the country. COVID rises and falls in different of those places at different times. Do you take a regional approach to what you're doing in the theaters and what you have open, or is it national? How do you think about managing the things that are happening in different locations?

**TAYLOR:** Honestly, we're looking at each theater one by one. So we always watch and see what that state, city, local government is requiring or requesting of businesses, and we want to stay as good or better than that. Then we watch the numbers ourselves, and we were very thoughtful and cautious about where we open. So so far, knock on wood. We haven't had a spike that's required us to reclose or reshutter. Hopefully we won't, but we will if we need to, and we literally look at this almost every day.

**SAFIAN:** Yeah, testing. You test your employees? Do you test your customers? How do you go about tracking your own crews?

**TAYLOR:** So testing is a broad question, right? We're not doing rapid tests, and we'd love to see some sort of coordinated effort, again, from the government in support of how do you do that effectively and in a cost-effective way. What we do is we take temperatures of everybody before they come into the theater, both our teammates as well as the guests, and we'd love to see the government come forth with a real testing and tracing strategy for the nation that we could follow.

**SAFIAN:** But without that, it doesn't make sense for you to do? It's too expensive? You're not sure which test to use?

**TAYLOR:** It's very expensive. It's difficult. We're seeing others and trying to learn from them of the approach that they're taking, but it's not been an easy process to try to figure out.

**SAFIAN:** Do you go to the theaters yourself?

**TAYLOR:** Oh, yeah. Oh, yeah. I have worked shifts in our theater. That's been the hardest part about COVID, is that when I started, we were remote, and I didn't get to go see every theater and meet everybody. Then I've gone to the theater a number of times. In fact, we're probably going to go tomorrow. We will split up. My 16-year old wants to see "Possessor," and I'll probably see "On the Rocks." But yeah, that's our plan. Again, I feel really ... That was the test. I needed to be able to go in my own theaters and say, "Hey, I feel great here." Otherwise, we didn't get it right. I do, actually. I feel great.

We crave people, because energy begets energy, and our guests are part of that energy equation for a great magical experience. So on a Friday or Saturday night, when we've sold a good portion of the tickets, we're not always at 50%, but when we are, it's fantastic.

**SAFIAN:** During all this COVID stuff, there's also been a bubbling up of more social action. I'm curious if there's anything that you guys have done in those regards.

**TAYLOR:** What I'd say is just not enough yet. We're completely committed to it. We're continuing to bring a really diverse voice into our film festivals. We've worked with the League of Women Voters. We were drive-through registration locations for voting in the state of Texas, which is critical. Then we're a voting poll location where we can be. We're doing every little bit we can, but clearly not... We want to do more.

**SAFIAN:** Brand is so distinctive for Alamo. How do you preserve or even strengthen that brand in a time like this?

**TAYLOR:** We found really fun ways to not lose the fun. So Fantastic Fest, we've just finished it, and now it's moving into some cool things with Alamo Dismember and secret screening of films. So we've just gone virtual, right? We haven't taken the fun away. We've just gone virtual with the fun. Again, though, it's difficult. For us, it's that desire to get reopened, because it's the in-person that really is what people are seeking.

**SAFIAN:** Are you stressed? How do you manage... Does that laugh mean yes? You are? Like, yes? You're nodding.

**TAYLOR:** Yeah. I mean, I'm in a new industry, first time as a CEO, and we're in crisis. And so, to not be stressed would be crazy, but we're just trying to keep it real because if you live in a constant threat state, you make decisions that aren't healthy for you, your team, your business. And so every day is just about, you know what? Just stay calm,

focus on what we can control. A lot of this is out of our control, and just keep laughing. Part of the way we laugh is we bring great content to people.

**SAFIAN:** Are there things you do to try to center yourself to manage that stress? Do you have any advice for our listeners who may be feeling some of this themselves?

**TAYLOR:** Yeah. I have two pieces of advice that work for me. One is that I sit up in bed, put my feet flat on the ground and every morning I get a big smile and I'm like, "This too shall pass." And I just start my day with, "This isn't forever." Because it's easy to get trapped in how long or this will never end. So, staying focused on: "It will end, so what do we need to do today? Not next week, not next month." If there's ever a time that you're living in the moment, it is right now.

And then the second is I hope everybody has some kind of athletic fitness outlet, right? I row. I'm on a crew team, and while we're mainly in singles right now, but I get out on the lake every single morning, I'm out there by 6 a.m., good hour of fitness in, and get your mind and body reconnected. And then you can come back in a place to be a servant leader to your people and your guests, and quite frankly, the industry.

**SAFIAN:** How do you spend each day? You get up in the morning, you go, you do your exercise, you get those endorphins moving, and then what? Do you have a regimen about how you spend each day?

**TAYLOR:** Which is kind of funny, but we have a standup every day, and we're 30 minutes and what do we need to do? How are theaters operating? What support do they need? How's the marketing going?

And then after that, it just really changes. And quite frankly, right now, we're talking to our banks, how do we restructure our debt in a way that makes sense? We talk to our landlords almost every day. How do we work with them? They don't like the word abatement. And I understand that, but at the same time, burden sharing is really important. Not just for our business, but all businesses that have been closed down the way that we have.

It's nobody's fault, but it's impossible for the business to be expected to take all of the burden of this kind of lightning strike – that keeps striking – and that the banks aren't going to help out, and the landlords and the vendors. It's unfortunate, but we all have to take a haircut. There's just a lot of conversations about that.

And then I'm on my own learning journey. I'm trying to meet people within the industry, my own team, and so I spend a lot of time just in conversations, trying to learn. Not what I expected for this job, but that's okay. It will pass, and we'll get to the good stuff again, where we're talking about scaling and growing and how do we get more screens out there in the right places that are underserved, so that we really can support this industry.

**SAFIAN:** Are there things you've learned in the dialogues with, say, landlords, that might change the relationship you have in the long run?

**TAYLOR:** For the most part, our landlords have been fantastic. Some better than others, some don't want to give us any support, and we're working through that. But those that have, and we're looking at percentage rent for the first 12 months coming out of this when we're actually open again to give us relief. And then we're participating in some ways adding term length or looking at different ways to make it worth it for them as well.

And that space for them, unfortunately, as a theater, it's not reusable, right? That's not an easy conversion, so we're trying to find the win-win.

**SAFIAN:** And percentage rent, do you mean they'll get a percentage of rent based on what your percentage of revenue is? That you're more partnered on what the scale of the business is?

**TAYLOR:** Yeah. Percentage rent, and to all of our landlords, if you're listening, thank you. So by giving us a break and giving us low percentage rent, we're able to pay something, participate in this, but we're also able to get back on our feet, and that's going to be critical for us to pull out of this. Everyone who's been closed with little revenue has a big hole that keeps getting deeper, and the nation doesn't need everyone to go bankrupt, not healthy companies. We need to find a way to dig out.

**SAFIAN:** What do you feel like is at stake in this moment for your business?

**TAYLOR:** We're at stake. I mean, it would be hubris to say otherwise, but I do feel confident that we're going to make it. And I feel like for the industry, studios need the theaters to survive. Theaters need studios to survive. It's a really integrated ecosystem that's highly dependent and intertwined. And so, my biggest hope is that we can not look at each other as competitors or whatever, and we can look at each other as partners in survival through a very odd time and figure out how to bear hug each other and get together, and work through this as a coordinated team. That's missing right now, quite honestly. It's getting better, but there's more that needs to happen.

We're hat in hand, looking for real partnership and coordination, and we need the studios to coordinate. If we could just all get in a room and say, "What is a tolerable risk for everyone?" Understanding everyone's finances and that everyone has to be able to make this work, what could we do?

If we could all get in a room, not worry about who we represent, and just say, how do we help this industry survive, and what does it look like, and let's commit to it. That would be my ask. And I would do anything to be a part of that conversation.

People need a series of films and product available to keep them coming back. And then when people pulled back, that scared our guests, right? It scared the industry. And so

then it's just this domino effect. We either all need to be in, or we all need to be out. But right now we're halfway, and halfway is killing everybody.

**SAFIAN:** It's interesting. I mean, the question I'd love to ask some of the studio people is like, do they think going into a theater is unsafe? Or are they just following the dollars and saying... "Oh, we don't want to draw our customers into a theater because it's not safe to be there?" Or is it like, "Nah, we've put too much money into this and we can't." Because their pipelines are just stalled. Everything's stalled.

**TAYLOR:** Well, and it's both, right? I do think the studios and talent are facing that moral dilemma. And then there's the financials. And I understand that, I respect it immensely. If you've got a couple hundred million dollar film, that's a big budget you've got to recover. And I'm not convinced that they're recovering it through PVOD. What I know for sure is that people are going to still want to see it in the theater.

And again, we see it as the life of a film. We see it as partnership with the studios. We don't see ourselves as adversarial. It becomes, I guess, adversarial when we get cut out of the equation.

I think that the windows and PVOD and all of that, it's just another opportunity for guests and consumption. And there's no reason theaters will not be extremely successful under whatever model, but it does have to be a dialogue and a partnership. And we do need to be included in that model.

**SAFIAN:** Well, thank you, Shelli. Thanks. Thanks for doing this with us.

**TAYLOR:** Well, thank you. This has been fun.