Masters of Scale: Rapid Response Transcript – Danny Meyer

Ten months of pain and hope, w/Danny Meyer, Union Square Restaurant Group

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> People in our company were getting sick, and it didn't feel safe coming to work. We're losing money while we're being unsafe, while we're not making people happy – that's kind of a triple loss.
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> This industry employs more people in the aggregate than both the auto industry and the airline industry combined. The problem is that, because there are 670,000 independent restaurants in cities and towns all across America, it's a much harder thing for the public and for lawmakers to get their arms around.
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> If we want to see our economy back, I promise you, the restaurants are going to have to be a leading edge of that. This is going to be a really good time for first-time restaurateurs. But it's going to be a really painful time for the restaurants that built out these very expensive stage sets to have to walk away from all that investment, and to walk away from the restaurant communities that they've created.
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> I'm confident that when we do come back, we're going to be a different company. We're going to be a better company. We're going to be a far more diverse company, a far more inclusive company, and we'll be better for all of those reasons.
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> We'll do anything to get back into business.

BOB SAFIAN: That's Danny Meyer, the entrepreneur who created many of New York City's most iconic restaurants, from Union Square Cafe to Gramercy Tavern.

Like restaurateurs around the world, Danny has had to navigate closures and layoffs, periods of hope spawned by outdoor dining and then crushing disappointment as the resurgence of infection rates forced backtracking.

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 Danny because no one has been more creative in dealing with the challenges of the restaurant industry, or more vocal about what it needs.

This is Danny's third appearance on Rapid Response since the pandemic hit, and his story continues to shift. He's pressed Congress for more aid for restaurants, and pushed for new policies from New York Governor Andrew Cuomo.

He's also unspooled a raft of innovations, menu adjustments, testing protocols – and yet still had to permanently close one of his favorite establishments.

The pressure on Danny and his business has been unrelenting, but he continues to look ahead – confident that our human need for in-person experiences will revive restaurant-going and hopeful that he can find a way to steward his enterprise until those better days arrive.

[THEME MUSIC]

SAFIAN: I'm Bob Saffian, and I'm here with Danny Meyer, CEO of Union Square Hospitality Group, founder of Shake Shack. Danny has appeared twice before with me on this podcast. First in March after COVID-19 forced him to shut Union Square Hospitality's New York City restaurants and lay off 2,000 employees. And then again in late May as his restaurants began experimenting with dine-away and other new models. Things got brighter, outdoor and eventually indoor dining restarting, and then infection rates in New York rose anew, and the momentum turned the other way. Danny, thanks once again for joining us.

> **MEYER:** Well, it's good to be back, I think.

SAFIAN: So when we first spoke, none of us foresaw how long and arduous this pandemic period was going to be. You made some very difficult early decisions in hopes that your operation could kind of reboot itself later, that you could rehire and rebuild. And that plan seemed like it was on track, and now you've had to retrench again.

I'd love you to take us through how this rollercoaster has unfolded for you, starting with the hopeful days in May, June, July when we last talked, and the worst of the pandemic seemed to be receding in the city, to where we are today.

> **MEYER:** You describe it really aptly as a rollercoaster. We knew from the beginning that this was going to test every ounce of resilience, and also I think versatility. And I think one of the greatest strengths we've all drawn on in our organization has been a willingness to accept ambiguity, because anyone looking for clarity is just out of luck in the biggest possible way.
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> But you're right, May was the month that we were all looking towards because the only experience that we had was other people's experience. And if you looked at China, it was about nine weeks after the first reported case that you started to see their businesses, and certainly their restaurants, coming back. And so May was what we were all looking towards.

And the city did such a good job throughout the summer of really not only flattening the curve, but keeping the curve down, that we started to get kind of positive and enthusiastic. And our restaurants continued to do takeout and delivery, and starting around July, we started serving on the sidewalks outside of four of our restaurants.

And I was one of a small group of people that was able to persuade Governor Cuomo and his team that New York City was doing so well, it didn't make any sense that we should not be able to have the kind of safety protocols to allow us to serve indoors. And so while our whole restaurant community had hoped to have 50% capacity indoors, the Governor allowed us to open at 25% capacity. So for the entire month of September, we were able to serve 25% indoors, on the sidewalk, and for the first time since March, we actually made $28 in profit – as opposed to losing our shirts.

And the deal, the understanding that we had with the state government was that if New York City continued to have a positivity rate of under 3% as associated with indoor dining, that beginning November 1st, we would be able to advance from 25% indoors to 50% indoors.

And guess what? We did it, we actually did it. But November 1st came and went, November 5th came and went, November 10th came and went, and we hadn't heard anything at all from the state as to whether we could increase from 25%. And meanwhile it's getting colder and colder outside. And so the sidewalk dining was waning, indoor dining was not increasing, and unfortunately this coincided with two really powerful macro trends. And that was the positivity rates throughout America were going up, cities like Los Angeles, and Chicago, and the state of Michigan started to shut down indoor dining. You started to see a big spike happening in Europe. And appropriately, the Governor said there's absolutely no reason and no rationale for increasing indoor dining in New York.

We never got beyond 25%. As we're approaching Thanksgiving, the city started imposing increased guidelines for these outdoor sidewalk dining facilities. And the city said, by the way, if ever there's a forecast for at least X number of inches of snow, you have to take the roof off your outdoor dining shed. You have to line sandbags outside of it so that the snowplows don't hit it. And guess what? With respect to propane heat, you have to have your propane picked up every night by a company and taken away, and then redelivered the next day because it's prohibited to store propane tanks in any building in Manhattan.

So at a certain point in November, way before the city shut us down, I just said, “Guess what guys? We're doing it again. We're shutting down all of our restaurants.” Oh and by the way, Bob, we had about three cases of COVID amongst our staff members, which is the first time I had seen that since back in March. And so I just said, “Enough. We're not going to do outdoors, because how can you staff outdoors when you never know what the weather is going to be? And we're not going to do indoors because it's just not the right time to ask people to come to work."

And so here we are again, and we had actually built our team back up, having cut our team back in March from 2,300 people down to 175. And then another shift all the way down to 75, and another shift all the way down to 45 before rebuilding it back up to 350. Now we're back down to about 100 employees in our company. We're just trying to make it to the other side. The good news is that because of the vaccine, this time we see light at the end of the tunnel. We know that the weather will get warmer again in the spring, which means we will be able to serve outdoors. And we really, really believe that by June enough New Yorkers will have been vaccinated that we should be able to get back into the business.

SAFIAN: As you tell this story, Danny, the month of November sounds almost like it was as difficult as that March-April period was. I mean maybe not as scary health-wise, but for the business, the hope being replaced by another round of having to say, "We just can't do it."

MEYER: Yeah. It was bad, so I'm not trying to be Pollyanna here, but we had experience with this stop and start.

SAFIAN: Were there folks who said, "Why are you doing this preemptively? The city will let you stay open, why not just keep going?"

MEYER: There were, but you know that's my job as a leader, is to constantly communicate reality and hope. And the reality is that I saw the writing on the wall. I saw what was happening across the country, I saw what was happening around the world, and I saw what was happening in our own company. And it was the déjà vu that I had that week. And believe me I was tempted like, can't we just stay open through Thanksgiving?

But the déjà vu that I had was that when people in our company were getting sick and it didn't feel safe coming to work. And you had to quarantine an already very thin team who may have been exposed, even if they all tested negative, which they did. We're losing money, while we're being unsafe, while we're not making people happy – that's kind of a triple loss, and it really was not a tough decision. It was an unpleasant decision, but not a tough decision.

SAFIAN: You mentioned testing. I know you partnered with Clear to create a system around assessing your employees. You had an app and kiosks to get into the premises. It's not something you required for guests. So I'm curious, did you think about testing guests when you think about the next phase?

MEYER: Well, I'm open to it for sure. If you had asked me this question six months ago, I would have said, "I'd like to just have our restaurants put to sleep before I would have staff members serving guests while they're wearing a mask, preventing them from smiling.” Guess what? I gave that up quickly. And I would have said, “And I'll never have a situation where there's a piece of plexiglass between the maître d’ greeting you.” Guess what? Put that one to rest.

And we did a whole lot of things that we just had to do, like no menus. Instead QR codes, so that you would see the menu on your iPhone. Having a kiosk that would take your temperature on the way in. We did implement Health Pass for our staff members, but we did not do it for our guests because it was not connected to a recent test.

Because we couldn't afford to pay for our staff members to get a test once a week at $120 a pop, it basically amounted to the type of deterrent that you see in an airport when you're boarding an international flight and the gate agent says, “Has anyone besides you touched your bags?” And you're expected to tell the truth. That's what we were inputting into Clear. We were not inputting actual test results.

But if those costs come down into the realm of five bucks, as opposed to a hundred and twenty bucks, and instead of two hours, you can get a result in 10 minutes, I'd be very, very open to that – because this has always been about confidence. It's about can you make people feel confident to come to work that they're not going to get sick? And can you make guests feel confident that they can actually have a good time and not have this cloud hanging over their head while they're enjoying their dinner with friends?

SAFIAN: You've always been someone who was prepared to try new things. It sounds like in this period, you're even more open to rethinking new ideas.

MEYER: Yeah, absolutely. We'll do anything to get back into business. I really believe there’s a massive pent-up demand for people wanting to be with people. And I think restaurants, when we can get them open by hook, crook, or whatever technology we come up with, are going to be a really constructive way for people to be with people.

SAFIAN: So I want to ask you about two different decisions at two of your properties. At Marta, which has this sort of signature thin-crust pizza that I guess wasn't traveling that well, particularly in the cold weather, in takeaway, you pivoted to the calzone project. At Blue Smoke, you had to make a pivot to close your original location in Flatiron, along with the jazz club aligned to it. Can you talk to me about those two different ways of dealing with the challenges in this situation?

MEYER: Yeah, absolutely. Let's start with Marta. Marta is one of the restaurants we have that is actually affiliated with a hotel. And we have three restaurants that are connected to hotels. All of those hotels are closed and have remained closed to guests. And none of those hotels has told us when they plan to reopen. And that makes things really, really tough.

At least in the case of Marta, the hotel has permitted us to cook and to serve food. So the very first thing that Marta did was to work with an organization called Rethink Food, which is a fantastic not-for-profit. It allowed us to hire back some of our team for the purpose of cooking food, which Rethink would then distribute to some underserved areas in the South Bronx. And so, that was a start for Marta. And Marta said, “Look, as long as we've got our kitchen going, let's pivot and get into the delivery business.” And Marta was our first restaurant to serve on the sidewalk. Well, guess what? As you just said, the thin-crust pizzas, which are amazing when you have them at Marta, don't retain their heat when they're delivered.

And guess what else? The sidewalk outside of Marta happened to be across the street from a massive construction site. And it was not at all a pleasant place to sit outside and eat, even if the pizza was hot. So we shut down the sidewalk because that wasn't working, and we shut down the pizza delivery. And then it got to be the fall. And I started noticing something happening across America, which is that because online ordering and delivery has had this just massive increase, there has been a growth of virtual restaurant brands, which you've never been to because there was never a brick-and-mortar incarnation of it. So we said to ourselves, “Well, whoever wrote the rule that we can't create our own virtual brand within one of our kitchens?”

And so when we started thinking like that, we said, “Whoever wrote the rule that Marta can't do calzones,” which is basically taking a pizza, folding it in half. It retains all of its heat because it's got extra fillings. And so, our chef started working on that project.

We called it the Calzone Project, and it's taking off. And the cool thing is that when Marta reopens as Marta, which one day it will, we will keep calzone on the menu. And it will probably become a signature dish there. Now, in the case of Blue Smoke, that's one of the saddest parts of this period because Blue Smoke and Jazz Standard, which was the jazz club downstairs from Blue Smoke, both opened in 2002, right after 9/11.

Blue Smoke created an amazing community amongst the entire American barbecue community, because Blue Smoke launched something called the Big Apple Barbecue Block Party, and really helped to put barbecue on the map in New York City. And Jazz Standard tapped into an amazing community of jazz musicians. The depth of sadness that all these different communities felt – including me, I shed tears over this – was kind of moving. I know businesses are not people, but it truly, at times, felt like attending your own memorial service. We held a call with staff members, and anybody who had worked there for the past almost 20 years was invited to attend the Zoom call, and the stories of people meeting their spouse or their partner, with whom some of them have had kids, or people who dealt with alcoholism and it was the community that they worked with that helped them get through that. You don't necessarily realize the impact a restaurant establishment can have until it's no longer there. Thank goodness we have another Blue Smoke. We don't have another Jazz Standard. I hope one day we will.

SAFIAN: As I'm asking you these things, is it uncomfortable for you? Is it helpful? Would you prefer just to look ahead?

> **MEYER:** I'm an optimist at heart. I think if you just kind of stop and dwell in what's challenging about all these choices, you won't be able to move forward. I've thought a lot about where we're going and less about where we've been, just because it doesn't help me, but every now and then I think it is important. It's kind of like when you've been standing in line for a long time to get into the ballpark or order your food at Shake Shack, sometimes it's helpful to look at all the people behind you in line to see how far you've come. And so I think it's useful from time to time for me to stop and have this kind of a talk, but mostly it's not.

SAFIAN: Well, I'm sorry about that, to take you through it. We always wonder, like, are there lessons or is it sort of too soon to be looking for lessons?

> **MEYER:** I think there are so many lessons. I don't want to gloss over one of — probably *the* most important lesson of this entire time for me has had nothing to do with COVID per se, although connected. That is the experience that this country had, and certainly our company had, after the murder of George Floyd.
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> We've done a lot of soul searching ourselves. I think for me, the single biggest lesson is not a business lesson, as much as it is a life lesson, which is that there's a massive difference between being an anti-racist and being non-racist. I've always really a thousand percent believed that I am non-racist. I can also tell you that I've learned that as a company and certainly as a country, we have failed to be anti-racist, and we've done a lot of work with a fantastic outside adviser for our company.
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> Because when we come back, we're accelerating all of our diversity inclusion goals, which were, I felt pretty good about them, trying to hit a diversity number where our company would mirror New York City by 2025. There's no excuse not to do that immediately. It's basically as if we've had an opportunity to take our boat out of the water and be able to examine the underside of it and clean all the barnacles and all the seaweed that's accumulated, and remake it the way we want it to be.
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> I'm confident that when we do come back, we're going to be a different company. We're going to be a better company. We're going to be a far more diverse company, a far more inclusive company, and we'll be better for all of those reasons.

[AD BREAK]

SAFIAN: Where else do you see us going? Not just within your organization, but the restaurant industry.

MEYER: For our industry, we're accelerating things that we needed to do a long time ago. We have always been teetering as a full-service restaurant industry on the edge of bankruptcy. We truly have been. We were founded on two principles that are no longer relevant. One is cheap rents, and the other was cheap labor. Our industry was founded on not paying half of its staff members because the tipping system pays for that half. Our system was based on inexpensive real estate. Well, guess what happens when real estate goes up, and you start to pay people what they're worth?

We've convinced the public to pay up for responsibly raised animals and responsibly grown vegetables, but we still have not persuaded the public to responsibly pay for talent. When you start to see those two major expense areas come way, way up and, there's so much downward pressure on your pricing ability that you can't charge for it, your system's broken. And all it takes is COVID to just knock you out for good. It's going to be a fascinating moment right now. Landlords don't know what has hit them. I can tell you because we've got about 16 different landlords in New York City, we've seen it all. We've seen the kind that are incredibly enlightened, and they're working with us and they realize we've had no revenue and therefore, we can't really pay our rent, and they're working with us.

We've seen the kind that have said, "Tough luck. You're out of here." That's what happened with Blue Smoke. And we've seen the kind that have said, "Look, we will give you some relief for now, and then we'll see what happens for the future," which I think is a rational approach. But let's just acknowledge something: The premise on which restaurants have signed long-term leases is completely irrelevant today. The premise was a city that was full of people, living there, many of whom have now moved. A city that was full of people going to their offices, most of whom are not going to their offices. And a city that was full of business travelers and leisure tourists, not there.

No Broadway, no sports — when you take all that stuff away, there's just no way that the kind of rents that people signed up for can be supported. I think we've all been hopeful for a long time that the federal government was going to come through with some type of relief for our industry. They truly haven't. But now, we all hope with the new administration, that there will be, because this industry employs more people in the aggregate than both the auto industry and the airline industry combined.

The problem is, that because there are 670,000 independent restaurants in cities and towns all across America, it's a much harder thing for the public and for lawmakers to get their arms around than four automakers or four airlines. If I were to say Delta, you would say massive company, and you would think Atlanta. If I were to say GM, you'd say massive company and you'd think Detroit. If I say restaurant, you go, "Okay, I know the guy down the street who makes my favorite roast chicken," but you don't think about millions and millions of employees.

If you look at the U.S. economy, the only sector that has completely lagged in any type of recovery when it comes to employment is the restaurant industry. If we want to see our economy back, I promise you, the restaurants are going to have to be a leading edge of that.

SAFIAN: You describe yourself as an optimist. Are you as optimistic as you were? Is it harder to be as optimistic now?

MEYER: Well, sometimes the word optimism and the word hopeful get confused. There are lots and lots of days where I would describe myself more as being hopeful than as optimistic. Optimism implies a belief that things will work out.

For right now I'm hopeful. I'm hopeful that we will have some sound policy coming out of Washington. I think restaurants need restart capital. PPP loans, which were designed for small businesses around the entire country, were actually somewhat but mostly not helpful for restaurants. They became forgivable loans only if you could rehire your employees. And you couldn't rehire your employees, because you couldn't open.

So, what a lot of restaurants are stuck with now is even more debt. In order to get back into business, what a restaurant needs to do is to pay its debt, right? If I'm the guy that sells you your butter and your milk and your meat and your vegetables and your fish, and you have owed me money since last March, I'm not going to give you credit to reopen until you pay me what you owe me from all those months.

And if I'm your landlord, you owe me money from all those months. Somehow that's where the federal government needs to step in if they want to see this industry survive. And if not, then what you're going to see is a lot of closures. Here's my optimism kicking in, you'll ultimately see green shoots. I'll tell you one thing right now, if I were a first-time restaurateur, I would say this could be the greatest time ever to get into the business.

If I can wait for another six months, what a great time to get into business for the first time. Why? I won't have anyone I have to lay off because I haven't hired anyone yet. I don't owe anyone any money, and, I'll take it a step further, I can actually walk into thousands of prebuilt restaurants and negotiate a rational rent that is actually pegged to today's reality.

This is going to be a really good time for first-time restaurateurs. But it's going to be a really painful time for the restaurants that built out these very expensive stage sets to have to walk away from all that investment, and to walk away from the restaurant communities that they've created.

SAFIAN: The demand for restaurants overall is not something that you're worried will be dissipated, that new habits have taken over, and we're not going to want to go out?

MEYER: No. I know for a fact that people are going to want to go out because I see people shivering with five layers, sitting under electric heaters with icicles coming down their nose while they're trying to enjoy their glass of wine, between putting their mask on and off. I think people cannot wait to get back into restaurants and celebrate love, and life.

SAFIAN: Well, Danny, I want to thank you for taking the time and going through this difficult period with us, and sharing with us your experience. I hope, even though you've been on the show before, that you'll come back again when we're onto the next phase.

MEYER: I can't wait till the next phase, believe me.

SAFIAN: I do remember, there's a point in the fall where it just felt like New York was being New York again. You could just feel it coming to life. I can't wait for that time to come back again, too. Thank you, Danny. Thank you so much.

MEYER: Thank you, Bob.