

Masters of Scale: Rapid Response Transcript – Sallie Krawcheck

[Click here to listen to the full Masters of Scale: Rapid Response episode with Sallie Krawcheck.](#)

SALLIE KRAWCHECK: Going into March, we were pulling together an investment round. The investor pulled away. And so I am looking at this uncertainty knowing that we have a limited amount of runway.

Having discussions and debates at the leadership team saying, “the business may be imploding. Should we lay off 25% of the company or 30% of the company?” I don't think I've ever been lonelier in my life.

We ended up, in the course of the year, taking things back up and avoiding what in hindsight would have been a fatal error for the business.

One thing I just can't believe we're not talking about every minute of every day, sitting here, looking at 2020, is that one in five women have left the workforce this year. What?

Women are recognizing they're getting disproportionately hit. Women are recognizing no one's coming to save us.

We've got a long way to go in terms of getting past venture funding and being a profitable company. But the impact we're having today, given the size of the community and the message we've got is something.

Money's women's number one source of stress. Taking action around it is the number one driver of their confidence in their future. What we're doing is so much bigger than just money, it's really life changing.

BOB SAFIAN: That's Sallie Krawcheck, CEO of Ellevest, a fin-tech platform dedicated to serving women investors.

2020 was harrowing for her, even though her business ultimately performed strongly.

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 Sallie because women have been hit particularly hard by the financial fallout of the pandemic, and no one has a better perspective than her on what it will take to recover from that pain.

Sallie used to work at the very top of Wall Street behemoths like Citi and Bank of America and Merrill Lynch. So she has deep understanding of stock market dynamics and the advantages that big players have over little ones.

But she also believes in the agility of startups and is demonstrating the impact that entrepreneurship can have, for all of us.

[THEME MUSIC]

SAFIAN: I'm Bob Safian, and I'm here with Sallie Krawcheck, the CEO of Ellevest. Sallie is coming to us from her home in Manhattan as I ask my questions from my home in nearby Brooklyn. Sallie, thanks for joining us.

KRAWCHECK: Good to be here. Wish we were in person.

SAFIAN: Yeah. Wow, what a year. It's almost hard to look ahead with all of the challenges and the traumas behind us. We'll get to the future. But first, I want to ask you to take us back. How did 2020 open for you and when did you realize it was going to be a different sort of year?

KRAWCHECK: I remember standing in my kitchen in February. Saturday morning, I was the only one awake in my home. I was sipping that first cup of coffee. And I remember thinking, "Things feel really good."

And I swear to you, Bob, I stopped myself and I thought the last time I had this thought was 2007, right before the financial crisis. And I stopped in my tracks and thought, "Ah, you know that's not going to happen again." And for several months after that, it was all downhill, every day. And there were days in which I missed 2007 and 2008. They felt like such a cakewalk compared to what was happening as a startup CEO in 2020.

SAFIAN: So what was harder about this period than back in 2007, 2008?

KRAWCHECK: A lot. First of all, 2007, 2008, we weren't worried about our health, our children's health, our parents' health, our spouse's health, the people in our company's health, our friend's health.

The stock market correction, which was plenty scary and plenty unprecedented, was just the beginning. And so it was everything that was terrible about 2007, 2008, plus the health. And then the part that I'm really still processing is that in 2008, I was at Citi. And so you could be with people physically, catch somebody in the hall. I was part of a team there of senior leaders, where we were in it together. And so when you lagged a little bit, there was somebody who would pick you up and dust you off and put you back in. And so this one was not only the health fear, but as a startup CEO, the overriding, all encompassing loneliness of the experience.

SAFIAN: Most organizations had a really hard time at the beginning of the pandemic. And then it split. You've got your airlines and your hotels still losing a ton of money. And then you've got other businesses that are thriving, big tech firms and Target and cleaning products like Clorox, right? So where did Ellevest's business fit in that continuum?

KRAWCHECK: Well, the issue was it wasn't clear for a period of time. And maybe for another day, I will tell you about all the ways potential investors, venture capitalists told me that Ellevest would not work, and so they wouldn't invest. One of the reasons for saying no: "Well, you have a lot of millennial women."

And so you can grow when it's a good market. But when it's a bad market, it's going to be bad. If things get bad, they're going to freak out. Yes, Bob, there was the underlying "women get hysterical" message. And so we go into March and April and the markets are crashing and now we sit here and it's hard to remember it, but it was terrifying. And even for me, I've been through many of these downturns.

And so it wasn't clear for a period of time. And in fact, I'll tell you, I didn't even look at our numbers. What was I going to do if the client base, the user base was panicking and taking their money out? There was really nothing different I could do. And so all that I could do was turn the whole company over to a pledge to our community of, "We'll answer any money question you've got. Ask it on Instagram, email us. Send us a note." We'll do Instagram lives. We'll do LinkedIn lives." Of course, there was a complete deluge.

SAFIAN: And did the panic in the questions translate into panic in the business?

KRAWCHECK: Nope.

SAFIAN: So the concerns that the women investors are-

KRAWCHECK: I'll take it one step further. We had net inflows every week this year. So not only did they not pull their money out, part of the way we invest in Ellevest or advise people is a little bit out of every paycheck. And of course there were people who said, "I lost my job. I need to ba-ba." But we also tell them, "It's got to be long-term money. This isn't playing around, right? You should invest with us that which you can have for the long term." And so, yeah, we saw a little bit of an uptick in outflows. But we continue to see the inflows, such that we never missed a beat.

SAFIAN: So are there things then about the business that you run differently now?

KRAWCHECK: We changed the entire business model, Bob, in June. Changed the entire model. We took a step back and we said, "All right, now let's catch our breath for half a second." Now that we've answered most questions that people can think of. What

should be different? I remember calling my head of product, the terrific Alex Stried, and said, "What should we do differently in our product plan going forward?"

And over the next couple of months, we changed almost everything. We went in our digital-side from being investment management only to adding savings and banking, to adding, interestingly, coaching and learning. Within the newer investors, the digital business we said, "She is asking us for a lot more. And so let's break the mold. Let's not be just a financial products company. Let's bring that learning and coaching. Let's change our pricing to a subscription model instead of an asset-based model, in order to support these additional capabilities and provide additional value for her."

SAFIAN: As you describe this shift you made, it reminds me of all the discussion during 2020 about how important it was to be agile. Making the move like what you did with your business to do that at Citi would have taken months, years, right?

KRAWCHECK: Oh, we couldn't have done it. Couldn't have done it. Well, let's add another one, Bob, which is that as we got into June, end of May, June, and there was a renewed impetus for racial justice, we at Ellevest, we've always enabled our investor, our users to invest in advancing women. But we can't be about advancing women investments for those who choose to do so without also being anti-racist. So let's add an anti-racist lens for those users and clients who are looking for it.

And we did that within two or three weeks. It was lightening fast. The advantage startups have is they can move fast. They may have other advantages, may have great ideas, they may have great people, great investors, a lot of things. But one thing for sure that we have over the big guys is we can move fast.

SAFIAN: And yet so many smaller organizations really had a hard time during 2020.

KRAWCHECK: Well, we didn't have an easy time. So let's go back to March. Because I'm talking about this like there was some great clarity. I mean, there was the fog of war, and an advantage big companies have over startups is many of them make a profit. And a lot of degrees of freedom come with making a profit but as a startup, we're investing in the business and so we are cashflow negative. And so going into March, we were pulling together an investment round. We had a lead for it. We had some number of existing investors lined up for it, and then understandably, the investor pulled away, as you and I would have done. And so I am looking at this uncertainty knowing that we have a limited amount of runway.

And so March was easily the longest month of my life. How do you extend the runway? And so the hardest conversations of my life were with my co-founder who brought a proposal for reducing the head count of the company by a third. And having discussions and debates at the leadership team saying, "The business may be imploding. Should we lay off 25% of the company or 30% of the company?" And I don't think I've ever been

lonelier in my life. And by the way, Bob, I've laid off more people than anybody you even know.

I worked in big Wall Street firms. You'd be like, "Oh, we got to lay off 1,000 people." We have 100 employees, around about. The thought of laying off 30 of them and into a pandemic and an uncertain environment? People who had bought into my dream. Bob, if you could see me, the wrinkles on my face that didn't exist the last time we were together are a direct result of that.

SAFIAN: So how did your workforce and recovery plan unfold then during the year?

KRAWCHECK You remember that horrible weekend in Manhattan, March the 13th? You remember that weekend, Bob? It just felt like everything was crumbling in, on each other. What? Tom Hanks has COVID and what? March Madness is canceled? And I mean, it was like one thing after another. And I remember that weekend and my co-founder trying to reach me because he'd had the plan and saying, "We've got to start laying these people off. And I got to start working with people over the weekend." And I remember, Bob, not answering the phone, quite frankly. And just feeling like I just need two minutes to breathe because yes, I see the math here, I just need to breathe. And told him that we weren't going to make any decisions for some number of days.

And then began calling business people who I've worked with or know or trust – people who are outside of Ellevest, investors in Ellevest – and asking them their advice. And I remember getting on the phone with Joe Mansueto, who is the founder of Morningstar and one of the Ellevest investors. And I was really expecting him, given his Wall Street background, to say something that a lot of people were saying at the time, which is cut once, cut deep. He's like, "No. Nobody knows what's going to happen. We have no idea. And so you want to buy time and if you cut people now you're a weaker company on the other side of this."

I mean, there's no doubt, right? The only people who it's worse for when you do a layoff than the people who you laid off are the people who are left. And so we would have taken away our ability to achieve our product plan, which would have directly impacted our ability to raise the next round, directly impacted our results. And you've broken the social covenant with your workforce. And so I got off a couple of those phone calls and said, "We just, we got to buy some time here without damaging the company."

So we're going to lay out the financials, the roadmap, the situation, the environment. Bob, I'm a former research analyst, let's lay out where the S&P was, where it is, where the VIX was, where it is, where the long rates were and where they are, right? Give context, show the business, and then request that people who were making below X amount, no pay cut. People who were not in the leadership team, X pay cut. People on the leadership team, three X pay cut. Me, 100%. Cut me 100%. And promise to then update them every single month about what are the metrics before we take the salaries

back up, what do we need to see? What do we need to accomplish? And so just being super clear with everybody and super vulnerable of this is where we are, this is what we have to see, this is how we're tracking. And we ended up, in the course of the year, taking things back up as it turned out and really avoiding what in hindsight, but even at the time would have been a fatal error for the business.

SAFIAN: And this was not a course that everyone in your leadership team agreed with.

KRAWCHECK: No. No. It wasn't. And that's okay-

SAFIAN: And that was its own challenge, right?

KRAWCHECK: Yeah. But I'm the CEO so I laid it out for them too. And I remember my co-founder saying, "It's not what I would do, but I'm on board and let's go." And so we went, and not everybody in the company agreed. If I'm going to be completely honest with you, there were a few people who were like, "I don't want my pay cut. Why don't you lay off people?" And so I would say, "When you are CEO of your own company, and I help you go out and raise your venture funding, you can make your own decisions. Here's the information I had. And here's the decision that we've made."

[AD BREAK]

SAFIAN: So you mentioned your background as a research analyst. When you look at the state of things today, I'm curious what data you look at today.

KRAWCHECK: There are the numbers I look at on the business every morning. What is the number of new people we're bringing in? How much are they paying us? How much did it cost us to bring in? When I look at the broader world ... Let me back up for a second: One thing I just can't believe we're not talking about every minute of every day, sitting here, looking at 2020 is that one in five women have left the workforce this year. What? We are losing our jobs. Women are losing their jobs at a disproportionate rate. Women, by the way, have been risking their lives at a disproportionate rate because they're a greater share of service and online workers.

Those women who have stayed, who have been privileged enough to work from the home, have lost productivity. Men have gained productivity. Men are like, "Oh my gosh, I'm working out more and I'm getting more done." There's research that shows that male academics, their productivity is soaring. We've all been on a Zoom call where the woman has the kids climbing all over her. As we've gone into the homes, the traditional gender roles have been reinforced big time. Money is women's number one source of stress. Even before the pandemic women had wealth of 30 cents to a man's dollar.

We're always talking about the gender pay gap, 82 cents. Uh-uh, uh-uh (negative). That's how much comes in. The gender wealth gap is how much we keep. It's 30 cents,

and for Black women, one penny, for brown women, one penny, and going backwards before the pandemic. As we come through this year, women are, as we've surveyed our community and professional women more broadly, women are recognizing they're getting disproportionately hit. Women are recognizing no one's coming to save us. We don't even have a mandated paid maternity leave in this country for Christ's sake. Nobody's coming to save us.

We're losing our jobs. It's how can I take care of the money I've got? How can I save it better, get rid of debt, invest it better? When you're talking about stats I look at, it's what's happening to women in this country. There are subtle differences in what motivate women to engage with their money than men. Ellevest is the only one that has put in the thousands of hours to research that and to build it. Then besides that, I look at the stock market. I'm like, "How is the stock market so high given how crappy the economy is? What's up with that?"

SAFIAN: Yeah, so what is up with that? It is counterintuitive, right?

KRAWCHECK: Honey, we've learned so many lessons from 2020. One I hope we've learned is if you try to trade the stock market, just look at 2020. Who in the world would have guessed this? Right? That it did what it did in the spring. What? Exogenous event, here this comes, and that is recovered so well. What are the reasons for it? The reasons for it are the stock market's forward-looking. The other reason is there is no stock market. I've got little air quotes, Bob, right now. There are individual companies. There's a theme in the United States these days, the winners win more. The losers fall farther back.

The K-shaped recovery, where people with money have weathered this pandemic pretty well. People without are getting hurt very badly. Companies that were in strong positions where the trends were already in their favor have done much better. They happen to be big, the big got bigger. That swamps the stock market and the little guys who already were little and losing. The fact that they've gotten littler, well, the big got bigger by quite a bit.

SAFIAN: It's almost like in the long run, this coronavirus pandemic is just going to be a blip. We're going to forget or we're going to move on and we're just going to keep going along the trajectory we were before. Do you think that's true?

KRAWCHECK: Such is life. You and I can sit here all day and all night and talk about problems with capitalism. The stock market is not one of them. The ability of companies in a capitalist society to find growth and have that translate into the stock market is not one of them. Will the coronavirus be a blip? Great depression was sort of a blip too. The great recession, sort of a blip. The crash of 87. That was a blip. Oh, World War One, World War II, the pandemic of 1917, stagflation, inflation. We elected a reality star for president, impeached him. We elected a movie star for president. If you and I saw the

history of the United States of the economy, of the society since 1900 to today, we looked at it we would've been like, "Whew, that stock market isn't going to have gone up much because those are some really bad things."

The stock market finds a way to go up. If you and I in 1900 had put a thousand bucks in the stock market, which was a lot of money in 1900 – all that bad stuff would have happened, we'd left it there, we allowed it to compound – you know how much it would have been worth in 2020? \$58 million. This is what women have been missing out on.

SAFIAN: So the long term impact of the pandemic, if you're an investor and you've stayed in it is going to be noise like all of those other things that you mentioned. It also sounds like there's going to be a long term impact from the pandemic on certain populations, like those women who've lost their jobs.

KRAWCHECK: Absolutely. What we just talked about was wealth begets wealth. We hear that, right? Wealth begets wealth, and it's because of that compounding. The other side of it, Bob, is inequality begets inequality. We see this through the numbers again. What's that difference between that gender pay gap and that gender wealth gap? One, women haven't invested as much as men, so they haven't had the power of that positive compounding. If you're not earning as much, you lose your job, you have more credit card debt – that compounds. Women have more student loan debt than men do.

Not that college cost us more, except that when you don't earn as much, you don't pay it off as quickly. Of course, if you lose your job, the debt increases, but you're also not investing in your 401k, social security, all those things. That's before the cascading negative effect to your children. You're not able to do for them as you otherwise might have. That's why the racial wealth gap and the gender wealth gap are opening even as we close how much we're getting paid, because the head start of the compounding is just so much.

SAFIAN: Given this rising gap, what's at stake in this moment that we're in, as we bridge to 2021 and beyond?

KRAWCHECK: It's probably not too dramatic to say: everything. Bob, I feel like sometimes if we look back, if we read some of these statistics in a history book of the wealth disparities that we've got in this country, you'd say, "This can't sustain itself. This would maybe cause the election of a populist president, perhaps who may be like, 'F all of this. Let's break this.'" We can say more people have been pulled out of poverty than ever, et cetera, et cetera. The macro numbers look good, but if you've lost your job and you're seeing people around you becoming wealthier and wealthier, it hurts.

We also know that when these wealth gaps are closed, society is just fairer. And the economy overall can be stronger as well.

SAFIAN: Yeah. It's such a confusing moment in so many ways, because there are things to be really hopeful about: vaccines coming, as you say, the stock market in better shape. Businesses like yours that are doing much better than we feared they were. And yet this sort of underbelly of continued disparity that could undercut all that progress. And I guess, with Ellevest, you're trying to address some of these challenges for women. Is it frustrating to you that the scale of impact you can have compared to what you had when you were at big Wall Street firms is so much more limited?

KRAWCHECK: I would argue the impact we're having is much greater and can be much greater at a startup. Back in the day: "Oh, how do I get my message out? I don't know. We don't have the money to advertise on CBS or NBC or ABC. Oh gosh, we can't get the newspaper to write about us." Part of the power of Ellevest is the community that we've built.

We have the largest social footprint in U.S. financial services. We have the largest community in U.S. financial services. I look back to when I was in Merrill, and you might say, "Why didn't you build it in Merrill?" Bob, no way I could have."

This business is a successful, vibrant business that does business in a certain way. And so our brand symbol is a bull. So not much feminine about that, Bob. But let's go ahead and take a tech-first approach for a whole new market. We can deliver a high quality service for so much less money, but the revenue is going to be less, the profit's going to be less.

So if we are successful in completely changing our business model and our target market, we're going to earn less. Not a lot of stockholders are like, "Sign me up for that." Obviously, duh, Sally. Innovator's dilemma. So much better to do it from the position of a startup, where you can move fast and where you can have an impact much more quickly, an impact that's much greater than it would have been even 10 years ago, 20 years ago.

We've got a long way to go in terms of getting past venture funding and being a profitable company. But the impact we're having today, given the size of the community and the message we've got is something. I stood in, in the three-and-a-half hour long, early voting on the upper West side. And the woman behind me saw my Ellevest bag and shared with me what we had meant to her. And it actually chokes me up. Because again, money's women's number one source of stress. Taking action around it is the number one driver of their confidence in their future. What we're doing is so much bigger than just money, it's really life changing.

SAFIAN: You like being an entrepreneur, don't you?

KRAWCHECK: I do. I love the creativity to it. I love how all encompassing it is. I love the impact we're having. I'd say the other thing, Bob, I was on the phone yesterday with a

pretty successful woman entrepreneur, a venture-funded business. You know she had reached out to me, and she's like, "I'm trying to think through X and I'm trying to think through Y and I'm trying to think through Z." She was forced to make layoffs back in the spring. And she was the second woman entrepreneur who's talked to me about doing layoffs while having COVID. Just listening to her, it just broke my heart. And the loneliness of having to make that kind of decision, which for her was exactly the right decision, and doing it while she was sick.

And part of me was like, "Why didn't you call me?" And then the other part of me is like, "I'm so glad she didn't call me." Because I was grappling with the same types of problems and issues. I proactively reached out to folks. I was fortunate to have that kind of network, a lot of folks don't. And particularly for women CEOs, there are not very many of us. And so I wondered if, were all the guys talking the whole time and us women, when women only get three, 4% of venture funding, they're just not that many of us, and each of us was dealing with our own issues?

In fact, I recently saw some research that said women, over the past 10 years, got 1% of FinTech venture funding. I don't have my FinTech group of girls, I don't. And maybe the guys are all like, "Hey, I'm doing this. Hey, what are you seeing?" One of the things that I just am really feeling right now is the loneliness of the pandemic. I could have been there for her, others could have been there for her, but when everybody's going through it, then everybody's dealing with their own stuff. And so all of us are isolated in some way.

SAFIAN: Yeah. And it's not easy to see a solution to that other than holding your breath and hoping you can get to the other side.

KRAWCHECK: Well, I keep saying that, back in the spring. It was every morning I would walk into my little work area at home, and I felt like I was getting onto a rollercoaster, and I would strap in and then we'd turn upside down and then we'd go up and we'd go down. And then at the end of the day, I'd get off the rollercoaster. And I'd say, "Did I vomit on myself? I'm good. Back on tomorrow." And the sense of just get on the rollercoaster every day and see if you can make some kind of little progress.

SAFIAN: Well, it's good to see you continuing to make progress, continuing to get on that roller coaster. Hopefully it's not quite as harrowing a journey these days as it was back then. But thank you so much for taking the time to talk with all of us. We really appreciate it.

KRAWCHECK: Thank you Bob, for having me.