Masters of Scale: Rapid Response Transcript – Danny Meyer (August, 2021)

"When you should require vaccinations"

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BOB SAFIAN: That's world-renown restaurateur Danny Meyer, CEO of Union Square Hospitality Group and founder of Shake Shack.

This is the fourth time Danny has been on Rapid Response to talk about how the pandemic is impacting the restaurant business, cities like New York, and entrepreneurs everywhere who have been under the gun.

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 again because, in late summer, he proactively announced that his full-service restaurants would require COVID-19 vaccination for all staff and guests.

Danny's process in making this decision is an instructive lesson in leadership – and in forward-looking business strategy.

Danny's insights about the mindset required during the ups and downs of COVID are also poignant and universal. He knows that his actions, his choices, and his demeanor resonate to his employees and to broader stakeholders in the community.

Challenging times provide an opportunity for impact and influence that ripples broadly. It's a lesson that all business leaders can learn from.

[THEME MUSIC]

SAFIAN: I'm Bob Safian, and I'm here with Danny Meyer, CEO of Union Square Hospitality Group, and founder of Shake Shack. Danny, thanks for joining us again.

MEYER: Well, it's always a pleasure.

SAFIAN: Well, you've appeared three times before on this podcast. First in March of 2020 after COVID forced you to shut the New York City restaurants and lay off 2,000 employees. Then in May of last year as you began experimenting with new models and dine-away. You came on again in January of this year, January 2021, just as a renewed wave of infections had disrupted recovery plans. Now, we're heading into the fall of 2021, you're back over 1,000 employees, you've got a new restaurant launching – not just a reopening, but a launching. But at the same time, the Delta variant is creating another resurgence. So, where is your head at about all of this?

MEYER: My head is in the clouds, and depending on the day it's a rain cloud or it's a cirrus cloud. I feel that during this early part of the summer there was a lot of optimism. We were firing on a lot of cylinders, able to open indoors, able to open outdoors, COVID rates were at a very, very low level in New York City. Truly, the only cloud that we were dealing with, in terms of trying to get back into business was that we couldn't do it any faster. The biggest problem, which you've heard everywhere, which is true, is that there just haven't been enough people in the workforce ready to come back into in-person jobs, and therefore, even with our restaurants that are open, we have not been able to open for lunch service because we just don't have enough people. So that's been a tough thing.

But then we were still saying, "All right, progress is progress," and as somebody said to me once that really resonated with me, it's like the same feeling you have when you're trying to merge eight lanes into the midtown tunnel. You just have to wait until it breaks. When you have so many restaurants and so many retail outlets all hiring at the exact same time, you just can't turn on a light switch, and then all of a sudden have everybody come back.

A lot of the people who used to work in our restaurants probably got other jobs during the last year and a half. Maybe they even left New York City. A huge number of whom are people in the performing arts who couldn't do their art because live performances all shut down, and because they couldn't have the job that helped support their pursuit of the arts, they just left New York. So it's going to take a while to get everybody back.

SAFIAN: One of your colleagues said something to me that if the city responded to the new virus surge by reintroducing restrictions on capacity, if indoor dining were prohibited or restrained, that the business would be done, that you can't go back. Is that true? I mean, you made it through this wave before but why couldn't you again? What is that about?

MEYER: In large part it's about exhaustion. I've spoken to so many restaurateurs, chefs, really, really passionate professionals who love cooking food for the pleasure of other people. Everybody is just exhausted, there are mountains of debt. Many of those dollars are owed to landlords, in some cases there is still a huge amount of debt that goes all the way back to January, February, March of 2020 – for unpaid bills to suppliers.

When restaurants all closed in March of 2020, they didn't have the ongoing revenues with which to pay their back bills. And then if you were one of the restaurants that got funding through the Payroll Protection Plan, that actually in most cases led to even more debt because restaurants could not reopen and rehire within the allocated time during which those loans would've been forgivable. So, I just think restaurateurs are exhausted.

I'll take it a step further. I was walking on 14th Street and Broadway a couple weeks ago and ran into a fantastic chef, a colleague who has his own restaurant here in New York City. We hadn't seen each other since COVID started, and we started asking each other how it's going.

Unexpectedly, he broke into tears. He told me that this latest federal relief program, the Restaurant Relief Fund, which on its face was a great idea because it provided grants for restaurants, independent restaurants. So not a loan like PPP but a grant that would actually fund restaurants to the tune of the delta between your 2019 revenues and your 2020 revenues.

"You guys took it on the chin, you were not permitted to open for all of 2020, so we are going to make you whole." Now, that would have put an enormous number of restaurants back on their feet. So, here's what happened. What happened is that one third of the way into the grant applications, the government ran out of money, leaving two-thirds of all independent restaurants in the cold.

He said unwittingly the federal government has pitted restaurateurs against restaurateurs. Those who got the money are hiring people away from the restaurants that didn't get the grant – for $1 or $2 extra per hour that can be paid by the restaurants that got the grant money.

He said, and he's right, one of the best things that came out of COVID is that our industry, which is a highly competitive industry, colleagues really banded together because we were all in this together, and he said now there's a wedge.

The other thing that he shared, and I get this because this resonates with what we did as well, we were one of the businesses that did everything we could to keep the lights on during 2020, even if it meant losing money by doing just takeout and delivery. He said, "And now we are at a disadvantage because so many of the people who got this grant money just laid off everybody and shut down everything in 2020. So they're getting grant money for not having made the effort to open their doors."

It really hit my heart deeply. So to your question, if we went backwards one more time and had to reduce capacities and/or close our doors, I know for a fact that there are many, many restaurateurs who are just going to fold their hands and say, "I've had it. I've been doing this because I love being in a business that provides pleasure for other people, that employs a lot of people, that buys a lot of products from farmers and fishers. That's it, I'm done."

Now, I will say since the first time you and I spoke in March of 2020, I've had one prevailing belief. Sometimes it looks like you're on the five-yard line, and then you get a penalty, and they set you back 15 or more yards, but my prevailing guiding belief has been that this will not be the thing that ends the world. I know that sounds like a trite thing to say, but if you believe that this is the thing that's going to end the world, then quit. But if you believe that this will be done at some point, then you say, "All right, it's worth doing everything we can to get to the other side."

So a year and a half or whatever this is later, we've lost a couple restaurants, we've lost a jazz club, we've lost a lot of people, but we went basically from 2,200 employees, the low point was 45, and now we're back up to about 1,200. So we're marching in the right direction, and I'll just be damned if we're going to go back again because we've just done too much work to fold our hands now.

SAFIAN: So part of what you've done recently to try to keep the momentum moving and to protect against what a resurgence could do is, you announced that starting in early September, all your employees are going to be vaccinated and that you're going to require your indoor guests to show proof of vaccination. The vaccine mandate scenario has been evolving, moving around all year long. You put yours in place earlier than most others, but the decision was not easy and took a while. What was your thought process before? What changed, prompted you to do this now?

MEYER: Delta made us do it. Throughout this entire experience, we've really tried to have one mantra, and that is, safety. I remember back in March of 2020, we shut down our restaurants almost a week before it was mandated because we saw where the puck was going. You can hope for the best, but you can't hope the puck goes in a different direction than it's actually going, and we saw it. So we shut down, and I'm happy to say that nobody ever got sick and died on our watch during this entire time.

We also shut down probably 10 days before the city was once again mandated to shut down in November of 2020 because we saw where the puck was going. In this case it was the same thing, we just said this is a really, really hard thing because chances are that some of the people who work for us will say, "I don't want to be vaccinated," and they'll look for other jobs, and couldn't come at a worse time because we're already short handed.

I wasn't so worried about our guests because there's a lot of anti-vaccination fervor around the country, but I was talking about our full-service restaurants in Manhattan where I believe something like 70% of adults are vaccinated anyway. I was making a bet that maybe this'll make us a more attractive place to work because more people are vaccinated than not. Maybe this'll make us a more attractive place to dine.

I know that for companies that do business across the country, it was probably going to be a very, very tough thing to require that their employees and their guests be vaccinated, because let's face it, there are states that will fine you for doing that. New York City had made it very, very clear they wanted to see this happen.

If you see that cases are going up where people are not vaccinated, and you say, "I don't want to go backwards again," then you do what you think is the right thing to do. Once again, we preceded what would happen in the city and many other businesses actually, by probably not more than a week or so, but I wanted to take a leadership role and make it clear that this mattered.

SAFIAN: The geographic element of it, I mean you're also the board Chair of Shake Shack, where there hasn't been any vaccine mandate for employees or guests. That's because Shake Shack's a national chain that that calculation is different when you're going across different localities.

MEYER: Yeah, it's different for a lot of reasons. First of all, I founded Shake Shack, and I'm the Chairman of the board, my style as Chairman is I'm not the Executive Chairman. We have an amazing CEO and an amazing team at Shake Shack running the business, and I completely respect them to make the kind of decisions that they think are right. There's absolutely no way Shake Shack could've done this or ever would've done this, because Shake Shack operates not only in the majority of the states in the country, many of which have very, very different rules and laws.

But secondly, Shake Shack, just like every other chain has been struggling to get enough people to staff the restaurants. A smaller percentage of the employee base has been vaccinated. I've spoken with other CEOs of companies that do business across the country. What we all tried to do at the outset was to lead with the carrot.

In my company, Union Square Hospitality Group, we provided for a full day of pay for every shot you got. Shake Shack cared a lot about this to the degree of giving out free french fries for just all you had to do was show your vaccination card. Now, you may say, "What's the big deal?" Well, people like french fries, it turns out.

We are now bringing mobile vaccination units into our restaurants with a nurse translator who speaks Spanish and English to counsel and coach and inform people on our team who have not been vaccinated. We're up in our company right now, to about close to 70% at this point. We've got another two or three weeks before we're going to have to start letting people know, we're not going to be able to pay you if you haven't been vaccinated. But we've been doing everything we can to guide people to do what we think is the way to be as safe as possible, given the Delta variant and the conditions we know to be true.

SAFIAN: You haven't thought about instituting rapid testing for those who come into restaurants? I mean, I know some Wall Street firms are doing that at frequency.

MEYER: No, we can't. Not only can we not afford to do that, but we made a choice that it would set up a really strange culture in our business where you have people who are vaccinated and people who are not vaccinated. The whole point was to make a safe workplace, so no, we're not opting to go in that direction.

SAFIAN: Before the break, we heard restaurateur Danny Meyer explain his thought-process in mandating vaccines for employees and customers. Now Danny talks about some new opportunities, as well as the changed conditions that are forcing him in new directions. He spells out the difference between unpleasant decisions and hard decisions – and he talks about the challenge of leaping in slow motion.

So despite all these complications with the virus, you had some new brand growth at Union Square Hospitality Group. You have two new locations for the Daily Provision concept, if I have that right, right? You have an all-new restaurant concept launching also. It must feel nice to be able to exercise that creativity, embarking on something new in the middle of this?

MEYER: It absolutely does. What I can share is that in each one of those three cases, the two outposts of Daily Provisions, as well as the new full service restaurant, which will be called Ci Siamo, in each of those three cases, they have been gestating for close to three years. So just to be really clear, if someone had asked me anytime in the last year and a half, "Do you want to open a new restaurant?" I likely would've said, "No, thank you," but these were already in the oven baking.

So yeah, it feels good to be able to make a vote of confidence in the future of our city. In the case of our restaurant, Ci Siamo, we didn't name it until a handful of months ago. The design of the restaurant has existed for over two years. We picked a fantastic chef, Hillary Sterling. The name, Ci Siamo, is one of my favorite expressions that you hear in Italy. Whenever someone says it, you smile because it means, we're here, we're finally here, we've arrived, it's all good. That's the sentiment that I'm feeling or hoping to feel right now. I'm really hoping that when the restaurant opens, it will mark that moment for New York because we need it.

SAFIAN: Is it easier now to start a new place versus reopening something that's been closed?

MEYER: Well, I'll tell you after we've done it. I'll tell you that reopening is incredibly hard. It's like the restaurant became a stage set, but it lacked its actors. In some cases, even the play changed.

You want to come back to your favorite restaurant, and you see that the menu has changed, and you see that it's a different maitre-d than the one you always knew, and your favorite waiter moved back home to Kansas City, it feels different. So we're really, really working hard to break these restaurants in and we're doing a pretty good job in most cases, but there are ... we go on losing streaks just like a baseball team does, and it's still going to take a while.

One of the really tough things, and I think this is the case everywhere, all over the country, is that there's also a different mentality that is perceptible amongst restaurant goers, which is a lack of patience. In some cases, a lack of niceness to the people who are doing the cooking and serving. I've seen this on airplanes where passengers are not being civil or polite to the flight attendants. I've seen this in restaurants, where half the staff is green and new, and the restaurant goer is impatient and not treating people nicely. That is going to exacerbate the labor shortage because it's not a way to make more people want to work in the hospitality industry.

One of the great moments in hospitality is what I call the hug of hospitality, which is when I serve you, whether it's a glass of wine or a good plate of food, and you're really happy about it, you're actually hugging me back in the form of the hug I gave you. That makes me love being in this business. When you hire the right kind of people with the right emotional skills, that hospitality hug becomes a self perpetuating reason to love working in our industry and love going to restaurants. So if we break that hug, that's a dangerous time.

SAFIAN: When you mentioned the word hug, it reminds me that you announced you were launching a SPAC back in February, called Hug. Is that dedicated to the hospitality business? What prompted that effort? What are you looking for?

MEYER: Well, the first thing I was looking for when we launched the SPAC was, if you can't be in the real business you're in. I wanted to do something that would make us feel like we were moving ahead in some way. The thing that gets me more excited than anything about coming to work, COVID or not, is a belief that businesses that prioritize their stakeholders, which we call enlightened hospitality. Businesses that believe that when you first are on the side of your own employees, that probably increases the chance that they're going to want to take great care of your second stakeholder, which is your customer. If you do a great job of that, that means you're probably going to have a greater top line revenue, which means you can do more things for your community, which is our third stakeholder.

Then we take great care of our suppliers, and we put our investors, our shareholders, our fifth stakeholder, but it's a virtuous cycle. It's not where the employee's on the very top and the shareholders are on the bottom, it's truly a virtuous cycle where one good thing keeps leading to something even better.

So, I believe in that so much, and I believe we don't have all the best ideas in the world. So if we had the opportunity to create an investment vehicle where we could invest in another business that does this thing incredibly well, irrespective of what sector they're in, that would be fantastic.

So we created this SPAC. Hugs is, handily, an anagram for USHG, Union Square Hospitality Group. We have been using this last handful of months to get to know founders and CEOs of a lot of really interesting businesses. Some have been consumer goods, some have been software companies, some have been e-commerce marketing platforms, some have been in the food business, some have been in the grocery business. But what they all have in common is that they resonate with the notion of what we call enlightened hospitality.

So we're betting on culture even before we're betting on the business itself, and we're betting on leaders. It's a lot of time, it's a lot of thought, but it's a lot of learning. Some of the businesses that we've interviewed have given us really good ideas that we can utilize with the Union Square Hospitality Group.

SAFIAN: As you're talking, I'm thinking about the journey that you've been through in 2021 versus the journey of 2020, and whether you think about those as two different phases. Are there different lessons that you've drawn from this stage of the recovery that either have been reminders or reinforcing?

MEYER: That's such a good question, Bob. The first thing I need to say is, I have lost track of time. When you say 2020 or 2019, 2021, it's like, I don't even know what happened to time.

I think the first year was absolutely survival mode, and what are all the really hard decisions and unpleasant decisions. I always categorize those as two different things because there's the decisions that are actually easy but you don't do them because they're so unpleasant. Then there's a lot of decisions that are truly hard, like, I'm not sure which way to go. Most of the decisions we had to make in 2020 would be under the category of really unpleasant. We knew that we couldn't get across the rickety bridge if we carried all that weight. And some of those decisions like closing restaurants and losing great people from our team, were just incredibly unpleasant decisions, but there really wasn't much of a choice.

I think 2021 has been, all right, we're probably going to survive, at least with most of our restaurants. Now, how do we get back to thriving? How do we get out of this crouched position because our knees are starting to hurt a lot. But how do we get into a point where we can start to leap forward? It's like leaping in the slowest possible motion. Sometimes you lose your balance when you're trying to get from the crouched position into the leap in such a slow way.

People are, on our team, including me, are probably under the mistaken notion that we can outwork this thing or we can outrun this thing. You got to preserve your energy because I think this year has been about pace. It was incredibly frustrating to learn that we would not get the Restaurant Relief funding for any of our full service restaurants, because the government had run out of money. We were counting on those funds to help us with a whole lot of debt that we have in the business. This year's been a constant test of, can you stick with the progress? Can you win the game, despite getting the setbacks here and there?

SAFIAN: When we talked last time I asked you if you were optimistic, and you said well, no, you're hopeful, that the distinction seemed a little bit more cautious. Are you still hopeful now? Are you more optimistic?

MEYER: I'm still hopeful.

SAFIAN: Still hopeful, it's just too hard.

MEYER: Yeah, if you had asked me, I don't think it's probably been more than five weeks. I had never heard of the Delta variant six weeks ago, I had never heard the expression “breakthrough case” five weeks ago. These things that become part of our lexicon and part of our understanding, if you had asked me a month and a half ago, I would've said, "I'm amazingly optimistic because I really think this thing's going to be in our rear view mirror sooner than later.” I had so many reasons I would've said I'm optimistic.

Now, you're starting to see businesses, including ours where we were all set to have everybody come back to work in September, albeit on a, what we call a “two, three, two” schedule, which was acknowledging that we want you to take two days off a week. We love working in person and collaborating, so we want you in the office three days a week, but we're also acknowledging that one of the things we all learned during quarantine is that you can be really productive in places other than the office. So we were all set to have a “two, three, two” requirement of our team starting in September. With the delta variant, like so many other businesses we're saying, "Guess what? If you want to come in, come in. If you think you can be more productive and you believe you would be far safer at home, go do that." So right now I'm back in the camp of hopeful and can't wait to get back to optimism.

SAFIAN: I hear in your comments, I know you were named Chair of the New York City Economic Development Corporation in April, that economic development in New York, driving it forward. New Yorkers are so gritty, and there is this kind of feeling, I feel a little bit in the city, that we can push our way through this, like we're going to get through it. What I'm hearing from you a little bit is like, we have to remember that when it comes to a virus like this, there's just some things that are not in our control that maybe we just can't push it through.

> **MEYER:** Yes and no. Absolutely right that there are many things that we cannot control, but what we can control is what we should be focused on. So for example, we have homecoming week in New York, and we've got a homecoming concert. This was actually an idea that I had when the mayor asked me if I would chair the Economic Development Corporation back in April. He asked if I would serve in this capacity, and I mean, I love this city so much so of course I said yes. I shared this idea I had, and I said the problem right now is that we haven't given people a reason to come back to the city. We need a good homecoming to remind people why they love New York so much. Wouldn't it be great if we could do that and create reasons for people to be with people and remember what a live performance feels like of people?
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> I think the mayor made a great decision to require proof of vaccination to get into the concert. I think there was a great decision to have the concert broadcast internationally on CNN to remind the world that New York is alive and well. So you can do things that remind people why they love New York. If we've learned anything about this virus, it's going to do what it's going to do, but I do believe we've learned as human beings that we can do things to mitigate our risk. We can do things to accelerate economic recovery, I really do.

SAFIAN: I guess accept and embrace the progress that comes even if it may not be the progress that we wanted.

> **MEYER:** Even if it's not linear, and it has not been linear, but it's like the stock market. There will never be and has never been a straight line from day to day, or week to week with the stock market, but you can absolutely look at the trend line, and we are in way better shape today certainly than we were a year ago.

SAFIAN: Well Danny, thank you again for doing this, for talking with me about it. Each time we've talked, we say, "Next time we're going to talk about the triumphant recovery." The world keeps putting obstacles in the way, but I'm hopeful that you'll come back at least one more time when that happens. Hopefully it's soon from now, so thank you so much, again.

> **MEYER:** Thank you, Bob.