

EPISODE 1032

“DP: We were able to quickly come together and save a million dollars total through all of those things, and that doesn’t count the extra hours that people want to work and the extra projects that they want to take on.”

[INTRODUCTION]

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FT: Welcome back to So Money, everybody. I’m your host, Farnoosh Torabi. As CEO of his company, Dan Price, whom you just heard, went from earning \$1 million a year to \$70,000 back in 2015. Today, his salary is zero dollars as his business, Gravity Payments, struggles to stay afloat amidst the current economic crisis. You might remember Dan who joined us here on the show back five years ago to share news of how he was raising the minimum salary at his company to \$70,000, and he himself took a massive pay cut to that amount.

Now, Gravity Payments is facing a 55% drop in revenue. This happened in just a matter of weeks amidst the pandemic and like so many businesses had to make quick financial decisions to avoid bankruptcy. Now, rather than laying off his employees, which many businesses are doing, Dan has managed to keep everybody on staff. How's he doing it? He has a unique strategy that he’s here to share and something I think can be a lesson for many employers.

Here’s Dan Price.

[INTERVIEW]

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FT: Dan Price, welcome back to So Money. How are you?

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DP: Good. Thank you so much for having me, Farnoosh. It's really nice to be back with you.

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FT: Yes. You were here five years ago. I couldn't believe it. I went back in the archives and I was like, "I think Dan was here, what, like two years ago, five years." Basically, I think it was the first year of my podcast. At the time, you were on the show to share a really exciting change at your company, Gravity Payments, raising your company minimum wage to \$70,000 per year. It made news everywhere, and you yourself at that point took a huge pay cut from a million to 70,000 a year.

Now, your story is different, and you're back on the show with a brand new corporate strategy in direct response to the economic crisis, and I want to talk about something that you're doing that I think is quite exemplary. Keeping your employees employed, avoiding layoffs with a very unique strategy. Before we get to it though, let's have you share how the pandemic has impacted your business. What's been the domino effect for Gravity Payments?

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DP: Yeah. Well, thank you for that, and I appreciate you saying all that. Yes, we are – Our revenue is a function of small business revenue, so we make a very small percentage of what small businesses accept in credit card payments, and our whole business is based on charging people less just to get paid with credit cards and also making sure that they have all the technology to be able to compete with Amazon and Starbucks and the big companies. We try to just stick up for the little gallery guy, and that's what we're all about.

Unfortunately, these small businesses that we're passionate about and built our whole business for, they have just been just walloped by this pandemic, by this crisis. Many of them have lost 100% of their revenue, which means we're not making any revenue on those businesses, and all of them have been hit pretty hard. On average, we've lost 55% of our small business revenue in the pandemic, and it started like 10, 15, 20%, and then added another 10, 15, 20%. About three weeks ago, we were at about 55% down, and it's maintained that level for the last three weeks.

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FT: That's understandable. Yeah, I mean, if you don't make money until your clients make money, these small businesses, you're in trouble. Of course, spending is down across so many categories. I understand. I was reading I think in Inc. magazine that a lot of your client base restaurants.

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DP: Yeah. 25% of our clients are restaurants, and restaurants have been hit harder than almost any other industry. On average, our restaurants in Seattle are down 85% right now. But I'll tell you we're rising to the challenge and we're starting to see some glimmers of restaurants doing what they can. Maybe they had to lay off 200 employees but they're fighting to keep those last six or seven employees. They're fighting for every single employee they can. All of a sudden, they're able to do to go food. But Uber Eats is gouging them for up to 20, 30, or even 40% of the bill, and the competitors for Uber Eats are doing the same.

In just a matter of a couple weeks, we launched an online ordering service so that our restaurants can keep 100% of the revenue that they make from their to go food, and we've been operating that just for the last couple weeks. It's really been hard for us, and they are 25% of our customer base these restaurants. So having 25% of your customer base lose almost all their revenue has been very devastating for us. But even more so, our hearts are with these restaurants, because I see several times a day restaurants that are wondering, are they ever going to be able to re-open. These are businesses that employ people that serve their community that the customers love. They really did nothing to deserve this fate, and it's really heartbreaking to see.

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FT: Was Gravity Payments prepared in some respects for a recession, although this is not even – This is unforeseeable. We did not think that this would be what a recession would look like,

although we predicted one. After a 10-year bull market, what do you expect? But how in some ways were you prepared and not prepared?

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DP: Yeah. I know your listeners are some of the top people in terms of thinking about their own personal finances, and this is one of the top podcast for that, so I understand like kind of how and where that question comes from, and we have the same thought. We were thinking we'll prepare for the 2008 recession and we'll just pretend that it's going to start today every day. We've been doing that since 2008. But in 2008, we lost 20% of our revenue, and at the time we made 5 or 6% profit margins. So we went from 5 or 6% in the positive to 10, 15%, 20% in the negative in 2008.

This time, we said, "Okay, we're going to shoot for 10, 11, 12% profit margin and we're going to make sure that we have a line of credit lined up and some other financial cash resources lined up. Because our growth rate is so strong many years, we grow 25%. As long as we have enough money to weather the storm for a year, we'll be able to basically just freeze our expenses and grow out of it, and that would be better than doing any kind of layoffs or doing anything to charge small businesses more."

But this recession has been between two and three times worse, two or three times deeper than the 2008 recession, so we were not anywhere near prepared for what has come here, and it seems like almost nobody has.

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FT: Now, before we get to the strategy, which I want to – I've been teasing this now. It's like how many minutes into the episode, but I'm curious. Do you think that raising your company's minimum wage in some ways put you in a more – In a weaker position for a scenario like today?

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DP: Well, it depends on how you look at it. I think that you could certainly look at it that way. Because prior to raising the minimum wage, I was putting \$1 million a year in my pocket and I became a millionaire in my 20s and my net worth has not increased at all in my 30s. I was just about to turn 30 I think five years ago when we first started talking. Having more money certainly would be beneficial. Having higher profit margins would be beneficial. I think that argument will be made about us. But I'll also make the counterargument, which is the level of license and autonomy that our team has is really fantastic, number one. Number two, the capability that they have, the fact that they can be flexible, the fact that they can invest in their health, invest in their business savvy because they're not just kind of working paycheck to paycheck to make ends meet.

Then I would say our motivation as a company really comes from just trying to help those small businesses succeed. Prior to COVID-19, we would launch two to three new business initiatives aimed at helping small businesses keep up with these huge Goliaths, these huge monopolies per year. Since COVID-19 hit, we've launched five or six of them that have all been taking off, and so the motivation and that kind of pure care that our 200 employees have for our community-based businesses, I think all of that was supported by the 70K. It costs you something like most things in business and it gained you something, and I'll let people out there decide if they feel like it would've helped us more or hurt us more.

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FT: Well, this transitions us well, because I do think that it is helping your strategy, which is in lieu of laying off your employees or furloughing them or just giving them pink slips, your employees came together under your direction to provide you with some advice on how to keep the lights on. Tell us about the strategy very much supported by your staff.

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DP: Yes, absolutely. I want to be very clear that this was not an idea that I came up with or anybody on the executive team. It came from employees that are dealing with our customers every day, and we were just very transparent about how the right thing by the book to do would be to lay off somewhere between 20 and 50% of the employees. That would be 40 to 100

people that would lose their job, number one. Number two, the right thing to do would be to add, because our competitors charge usually a monthly fee in addition to a percentage fee for all their customers. If we did that, we'd still be pricing way below the rest of the market but we could add a \$40 fee to our 20,000 small businesses clients. That would net us \$800,000 a month.

Between those two things, we would be completely in the clear, and it's totally doable. I mean, it would just be gut-wrenching, and it would feel wrong, and I would lose sleep and feel guilty. But from a strict business [inaudible 00:11:18] standpoint, that is what we as CEOs are taught to do in this situation. I laid that out there for the employees. I was just transparent with exactly what the facts were and I said my goal was to avoid layoffs or price increases to clients. I was completely open-minded. If other people thought we should do one of those two things, I wanted to hear from them. But I also promise that I wouldn't make any decisions on it for four or five days because I wanted to speak individually one-on-one with every single employee in the company and get their feedback.

I spent the next 40 hours after that meeting – Well, 40 hours spread out over four days, 10 hours a day, meeting with every employee, getting their feedback, getting their ideas, and there was an amazing amount of unity and harmony. There was the first idea that came up that was really interesting that we didn't end up doing. The first idea that came up that really peak my interest was let's make this a democratic solution and we'll come up – We'll make you – We'll give you suggestions so that you can see what you could propose that we would all vote for. But whatever the solution is, Dan, you come up with it but then we'll vote. If you don't get enough votes, if you don't get 50% or 80% of the company on board, then we won't do it. You'll have to come up with another idea.

I like that idea, but somebody else pointed out that a one-size-fits-all solution in a crisis might not fit, because we have a tremendous amount of diversity at Gravity and a tremendous amount of diversity in terms of how the crisis affected people. For example, one guy raised his hand and said, "Hey, Dan. I want you to know that my wife makes a ton of money way more than I do, and she's in a great job that is actually not harmed at all by the pandemic, so I can go without pay or I can take whatever pay cut you need me to." Then we had another woman who raised her hand and said, "My husband just got laid off, and so we went from two incomes and we had kind set

up our whole life on having two incomes. Now, we only have one income, and so I'm going to work as hard as I can to try to see what I can do to contribute here.”

We also had some people who said, “Hey! I can work extra hours. Now that there's a stay at home order, my social life has been completely fried, and so I'm saving money because I'm not spending money socially, so I can afford to take a pay cut and also I can work a lot more hours. So tell me what you need.” Then we had other people who said the opposite, who said their childcare, their school for their kids, they're single parent. They all of a sudden not only have a professional and financial potential crisis on their hands but also they're trying to figure out how to stand up homeschooling and childcare and all those things in terms of like being able to even focus and work it off.

There was just a huge amount of diversity, and people pointed that out and said, “One-size-fits-all doesn't work very well. It would be really, really hard on some people. Why don't we just open it up to everybody individually rather than having Dan or Tammi, our chief operating officer, make a decision. Why don't we set it up and just have every individual just do whatever they can?” So we've solicited, “Everybody, tell us what you want to do,” and we had 98% of the company asked to cut their pay. All but four people. But what really got me was we had 10 people that said they wanted to go completely without pay, and we had between two and three dozen people say that they wanted to take at least a 50% haircut. I'll admit something a little embarrassing. I was planning on taking a 50% pay cut. But after 10 other people said they were going to go without pay, I realized I needed to do the same thing. So then I announced that I also was going to go without pay.

It's not just the financial aspect though. That's the immediate crisis. It's really about the recovery. We have a gentleman who's been working basically around-the-clock, and lawyers you know still have a lot of work to do. But it's harder for them to get paid if they never see their clients, so he came up with basically a whole software program for lawyers to be able to email an invoice to a client and get paid easily.

I mentioned the restaurant one. We partnered with a company called Joe Coffee, which is a coffee shop app for ordering ahead so that people can do social distancing. We found and identified that partner. This is still early, but I tweeted at Danny Meyer, the famous New York

restaurant entrepreneur [inaudible 00:15:58] and said, “Hey! Why don't we put together some technology products right now,” and so we're just in the early stages of talking to his team about what can we do to help the restaurant industry. The level of innovation that all of a sudden is coming out of this is fantastic. We'll add up enough so that we'll be able to be sustainable before the funds run out. That's what we have to figure out over the coming months.

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FT: Right. It begs the question, what was the net savings through this exercise of having everybody say, “Here's what I can contribute,” and what is the runway now?

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DP: We thought that we were kind of in \$1 million or so gap, but it was a little worse than we thought. It was more like a million and a half, because the sales kept falling afterwards. But we were able to quickly come together and save \$1 million total through all those things, and that doesn't count the extra hours that people want to work and the extra projects that they want to take on. But what's staggering to me is that we did that in less than two weeks. We came up with \$1 million of savings and we cut our loss on a monthly basis from like one and a half million or maybe just a little bit more to a bit more than a half million. We don't have savings but we do have a 5, 6 million dollar line of credit that we can tap into. We think that'll buy us 8, 9, 10 months, but also we don't know that the employees working at Gravity will be able to maintain their pay cuts for that whole period of time. Since it's totally optional, that's a discussion that's still ongoing.

There's a lot of unanswered questions right now, and we're still trying to sift through it and figure out that path forward.

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FT: But it does sound like focusing on the abundance as opposed to the scarcity is what I'm hearing, right? Because I think what the knee-jerk reaction to an environment like this is to immediately think, and it's totally human nature to say, “Okay, I don't have enough, I'm scared,

and I can't take a pay cut." But rather, "What is it that I can actually – What do I have and what's the reality of that and what can I potentially 'sacrifice' but for a higher cause?" I think that's quite brilliant.

16 million people though filed for unemployment benefits in the last three weeks, Dan, and so a lot of businesses are not following your footsteps. But do you think that you have sort of inspired a shift in thinking about how to cost cut in an environment like this? Are you hearing from other business leaders of, "Good idea. I'm going to do this too."?

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DP: Yes, and I've heard it from dozens, so that's been inspiring and heartening. But I learned my lesson in 2015. Because in 2015, I was out there saying I'm taking \$1 million pay cut. We're going to have a more fair system that really doesn't undervalue people so much the way that our system does. I heard from people all over the world that they were going to follow suit, and many of them did to their credit. But what happened in the intervening time was the income inequality got exponentially worse. Even if you look at it from a business standpoint, the world I'm in, it used to be that the top hundred corporations in the United States made 40% of the profit. That was 20 years ago.

Now, 20 years later, even before the pandemic, the top hundred corporations make 86% of the profit, and so the rich are getting richer, and they're starting to translate that money more and more into power in the things like corruption, in the things like maybe even kind of eating at democracy a little bit. So I learned my lesson that we probably need laws. Well, not probably. We do. We need laws, relying on individual business owners to make a decision.

In 2015, I 100% believed that consumer choice and business choices would solve this problem, and we just needed a little bit more time. But we've had that time, and the problem has gotten so bad with 86%, 85% of all new wealth going to the top 1% every year. When you go into a crisis like this, the effects are not equal. If you have a lot of money, if you have a lot of assets, if you have like all those things, then it hurts you a lot. Maybe you're looking at your bank account or your portfolio and feeling the pain but you're not out on the street. You're not wondering if you

can get food or medicine or the medical care that you need, and that's the situation that we're putting more and more people in.

While I do hope that as many business people as possible will follow my lead and will come up with their own solutions that solve this problem, I do think that if we want to protect things like opportunity, things like people's ability to take control of their own personal finances for the next generation, we need to change our laws and have the structure, have the actual system have integrity, rather than relying on a few people to make it out alive.

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FT: I'm with you. I 100% agree. When you look at the future and you look at your company's future, what are some necessary changes that you think Gravity Payments needs to make in order to make up for this current time? Because I understand, I read that you're going to try to make your employees whole in the future. That's going to require increased revenue, and it sounds like you're already doing a lot innovation and accelerating some of the goals that you had been planning. In the future, where do you hope you're going to be getting increased revenue streams from?

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DP: Well, there's absolutely nothing right now that I can indicate that says I can project our ends meeting before we run out of funds. I don't think we can say that right now, because the growth rate that we're historically at just doesn't make up that 55% gap. We would have to basically double at this point to become sustainable, and that's before we even think about paying our employees back. We have 20,000 small businesses that use our service and love working with us. I think we probably need that number to be 40,000, but we've never added more than a few thousand in a year before, and I have no idea how working to do it.

One of our employees did come forward with an idea of there are so many people that are furloughed, that are looking for a little bit of like work that are maybe on unemployment. So we came up with an idea to have a small business champion program where people can connect community-based businesses with our services, and they can earn a \$200 referral fee to do

that. It's not much but it's something to help those furloughed workers to be able to have some type of opportunity.

I have to say, we have the tools to either help businesses cope the best possible that they can with COVID-19, but those same tools are the tools that will help them to market themselves and grow their business in the digital age. It is a time for the ones that have the strength to put some focus into that, to pay attention to that. Also, what we've done for 16 years is we've always charged way less than our competitors just to get paid on a credit card. Businesses need that too. We have a sterling reputation. Our customers love us, but we've never had the budget or the marketing to like really be known for what we can do for small businesses.

Even with the whole 70K story, people kind of brushed under the rug like the main thing that we do, the main way that we make money, which is helping these small businesses. I think we have to find a way to get that word out in a way that we never have before and I'm hopeful. I'm optimistic but I also feel like I'm swimming hard upstream. The only way that I can keep myself going is I just have to remember that I'm in this to make a difference for those small businesses, and I think I can make a bigger difference. I think we at Gravity can make a bigger difference in the next 16 months navigating this really tricky time with those businesses than we have for the last 16 years.

Even if we don't make it, even if we go out of business, I still feel like we'll be able to make a difference all the way until our last day here.

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FT: Wow! Not to get too sad, but if you did – Let's just be hypothetical. If Gravity Payments had to shutter, what's next? Where are you thinking you might pivot?

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DP: I have no idea but I will say that we're going to fight every inch of the way. The reason why I have no idea the answer to that question is I have no time to even think about that. I am 100% just in for those small businesses. I'm not thinking about my career or zooming out and how

does this fit in. I will say that I've been very blessed. My parents didn't go to college, by my – They're very self-educated and started teaching me business when I was very young and started building my company when I was 17. I asked my girlfriend yesterday, "Just tell me everything's going to be okay, because I need my focus on my business, on my employees, on my clients." As soon as I start to feel scared personally for myself, it's not productive, and I really don't need to because I know that I'll be okay. I need to think about those who are in a worse position than I am in this crisis and how to save them. If I can do that, then I can have the pride of not knowing that we survived because many will survive but knowing that we deserve to survive. That's what I'm fighting for. It's not if we do it. It's do we feel good going to bed at night that we deserve to make it. That's what time will tell and we'll find out.

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FT: Well, I'm honored to share your story with our audience. I know that everyone listening so appreciates your efforts, the message. We hope a lot of business leaders are listening, a wonderful modern-day case study in a difficult time. What's really exciting to hear is that this has really pushed innovation within the company, and I do think that ultimately that is what is the silver lining to all of this, right? Similar to what happened in the recession is people had to think outside the box, and a lot of that outside the box thinking became the norm and built new economies and new revenue streams. So I'm hopeful. I'm hopeful.

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DP: I'm with you 100% and I do just – I'm like just trying to enjoy each day, enjoy the journey as much as I can. It's a heartbreaking scenario, but I just try to get a little laughter, a little joy. I would say the same thing for you and everybody that I know who's like, "Let's all look after our health, first and foremost, and then just try to help each other as much as we can."

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FT: Dan Price, thank you so much and best wishes. We would love to stay in touch and know how things go. I know every day is a new day.

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DP: Sounds great. Thank you so much for having me on the show.

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