



**FACTOR
DAILY**

Outliers Podcast

Sridhar Vembu, Founder & CEO, Zoho

Hi Everyone, welcome back to the Outliers podcast. I'm your host Pankaj Mishra and we are back with a new season of Outliers, called the season of resilience. These are uncertain times and everyone is trying to cope with uncertainty, anxiety and so many unanswered questions. We thought, we could be useful to all of you by doing a series of conversations with Outliers and some new guests. Please stay safe and I really hope all of us get out of this stronger and more resilient.

Pankaj: I'm having this conversation with Sridhar Vembu, the founder of Zoho, and someone who is really admired for the way he has been building Zoho, for being the voice of sanity and wisdom. Sridhar, thanks for joining this conversation.

Sridhar: Happy to be here, Pankaj and we are all at home, working from home and ***this is a time to reflect and think about the long term. That's what I am doing.***

Pankaj: Just to kick the conversation, Sridhar. You know, there's a lot of anxiety and stress among the founders and everyone, because of the on-going situation and this is how it seems to be ahead for us. How do you read all this?

Sridhar: See, ***one must not panic but at the same time one must have rational fear, that's what I call it. That is, if you see something genuinely that is a scary thing, we must be rationally afraid of it. The world situation right now is one of genuine rational fear and I have that fear too. The fear is, what lies ahead.*** What does the future going to be like?

There is a pandemic and the pandemic can itself go on for some months but there is also the world beyond, I mean after this, what happens? What is the world like? And these are legitimate things to be worried about that these kind of things are happening, ***so I would advise people that don't listen to people who say don't fear about anything, everything will come back to normal. That's not what I believe. I actually believe that we should be concerned but at the same time we should process all this in a rational way where we look at the danger but we don't lose our rational faculties. That is how I process it.***

Pankaj: Sridhar, you know, you have had over 2 decades of building Zoho and I am sure you have seen these cycles, you know economic slow-down and maybe other crisis. Any particular lessons that you have picked and applied on this journey that you can share with us.

Sridhar: The first thing, the hardest downturn we face, was the one in 2001/02/03 and the 2008-09 global financial crisis was a big one but by that time we had actually already had a diversified business. But in 2000-01, we were still exposed to one market and it turned out that market just completely collapsed on us. So, I can actually empathise with people who are in the situation where the whole market seemingly vanishes overnight and the rug has been pulled and we were, just narrating that, particular history because it was relevant to our times.

In the year 2000, our revenue tripled actually. We grew by more than 200% actually that year and then 2001 came and post 9/11 attacks, our revenue essentially collapsed. Not only that, actually, if we look

back, the customers that we were serving at that point , we were predominantly serving the optical communication networking companies and we had about 300-400 such start-ups and 99% of them ended up collapsing.....99%. I am not making it up. By the end of it, if you look at it today, 3 or 4 companies of that vintage, even exist. And the world actually got completely wired up with fibre, everywhere. Fibre is reaching the remotest corner of India. So the fibre-optical communication revolution actually happened but the 99% of the companies that were going to usher in that revolution, vanished.

And this kind of things has happened before in bubbles where people get overly optimistic about a particular field and too many people jump in and even if the field itself does well and fulfils its promise, most companies don't make it. Yesterday, there was a story about electric vehicles' start-ups in China, how there are too many of them and so many of them are struggling now. So, electric vehicles are absolutely the future. In 5-10 years, we will all be travelling electric scooters, electric auto-rickshaws, electric cars, electric buses, everything, electric tractors. But that doesn't mean that most companies that are focused on electric today will survive. That's the sad truth here, right.

Because there is such a thing as over-capacity in a particular segment and that is what we faced in 2000-01-02 where we suddenly realised that we were serving an industry where the bottom has fallen out and most companies will not survive, even if technology revolution itself will happen, and it happened. I was optimistic that the optical revolution will happen, the wireless revolution would happen and it happened but most companies that believed in that market, that were serving the market, did not survive. So that is the experience that most correlates with the present circumstance.

So what did we do? Actually we had to re-group, figure out a new game, what else could we do with our talents? And that's what I would advise founders. ***You have to first, get rid of the assumption that somehow the world is going to come back to the old normal, anytime soon. Because often we cling to that illusion, that somehow, the state of the world as of November or December 2019 or January 2019 will come back and by September we will be in that world. I would not bet on it. I mean, it might happen but as of April 1, 2020 that would not be my, the odds are, that's not the way I would bet, for sure.***

That we are not going to have, for example, I don't believe that the global travel is going to be as easy in October 2020 as it was in November or December of 2019. As an example. Lot of restrictions would remain. So that would be the way to project right now and even if I am wrong, this is a kind of an insurance policy on how to do this and so if that is true that the world is not going to come back to that state, then we have to evaluate it in the context of our business, each of our businesses. ***I look at our own product line and look at which products are dependent on the world being in the 2019 state, which products are well adapted to the new state and which products need to be repurposed, re-fashioned. So, that is the exercise I am doing right now.*** Ok. Which products we will love to be emphasized. For example, we launched Zoho remotely. This is remote work. In fact, the product we are recording this on, we have similar products that are doing very well right now. So, that is one example. That is our remote work tool that is doing very well right now. For example, we have Zoho expense product which is very focussed on travel and expense management and one thing people are not doing much of is travel and eating out, you know. So, it's not, maybe not the best product to have right now. It has other use cases but travel and expense is a big one. So, this is an example where we have to focus more on the remote tools and re-purpose some of these and that would be an example of what you do.

This could be sort of the smaller changes that you make but in some companies, start-ups in particular, your entire existence might be threatened. That was actually a case for us, at least in 2001-2002, where it was an existential crisis I would say, that the whole market, optical communications was gone and what

do we do now. And that is when, I actually, this is the thing that I, November 2001, this was months after the 9/11 attacks, I made a presentation for our co-founders and our team and I said, ***“world has completely changed, we need an entirely new strategy, entirely new product line and we have to now do it from scratch. It is sort of like we are re-starting this business”***, that’s what I said. We are going to re-launch our start-up in a way. ***And I would actually encourage founders to think in that way now that we are going to re-launch our business. That would be a good way to think particularly for those companies that face this existential threat, ok. You know, sometimes you have to hold the bull by the horn. If you accept it, that the world has completely changed, our old business might be completely dead right now, if we accept it then the fear goes away. You have already accepted it, you have processed it. Now you plan on what is next. But often we tend to cling to our illusion that maybe it will get better, maybe next week, maybe a month later, maybe once these things are alright, it’ll get better. That is the most difficult way to live, at least for me, because we have not then processed, or mentally accepted the reality.***

And once I said it, what I said it, in November, it was actually mentally liberating for me to make that presentation because it said that world we were in, that market we were in, it’s over, its finished and we have to come up with a new act. We are all young, at that time at least, right and we all have the energy, we can write code, let’s figure out a new act. That’s what I said and that is what I recommend to many founders caught in this situation, ***let’s figure out a new act. What can work now.*** Ok. And that is there, what next.

Pankaj: This is very well articulated, actually. Now, there is also going to be need of having some very uncomfortable conversations. Now, if you are a founder, you have to talk to the employees, other stakeholders. If you are a funded company, you have to have those conversations with investors and you have to have conversations with you and your family. You know, it would be really great, Sridhar, if you could break this down for us, how to have these uncomfortable conversations and you would have had this over a career, like you are saying, you have learned from these experiences. So, what is your advice?

Sridhar: ***The hardest one of course is to let people go. A lay off is the hardest-hardest one.*** We had to do that in 2001 and only twice we did it during that period. We had to do it twice because we actually, the business got worse, even worse after that. So that’s hard, that’s really hard. I actually remember crying having to do it and I couldn’t mentally manage it. The truth is I didn’t, honestly, I couldn’t even bring myself do it and one of my co-founders actually helped me out in this, Tony Thomas. He helped because it was very-very hard to process that. So, that could be the hardest part is letting people go. People who have believed in this company, people who believed all that, that is the hardest part and you may have no option if you have to, you are bleeding and you have no money coming, what will you do? Right. ***This is the tough part of being a founder of a company that they don’t, never actually, learn this except by going through that experience, unfortunately.*** Right. ***You have to do it in the most humane way possible.***

I remember we actually did three month severance at that time and, this is 2001, and many of the people actually land on their feet, most of them actually found something to do with that. I mean with a 3 months’ pay cheque they would have actually been able to survive 6-7 months if they were frugal and within that period they found something but it was really hard to do still. So, that’s the hardest one you ought to be prepared for if your financial or all that situation is of the kind where you cannot meet payroll and all that.

The investors part I can actually not give you advice because I have not had investors so I have never had to so, I don't have much to say because unless you have experienced it you cannot give advice in the matters.

The family, also, see the way we had conducted affairs was that I never ever borrowed money put into the company and I was always averse to debt so there was never a situation where I won't be able to pay the mortgage or whatever overrun because I never put myself in that situation, right.

I live frugally. In fact, even in 2001, my expense levels were so modest that it wouldn't have mattered if I didn't have income for several months. I mean my affairs were managed so frugally. So, that part, is I'd say ***if you have a high expense rate, in your personal life, it might be a good time to cut the expense rate because that's not sustainable now. Particularly, if you have to let go of people, you have to take some hardships yourself too. So, that would be my advice.*** So, some founders, regrettably, also have taken personal loans and put it in the business. I actually have come across a few. ***I always advice people, caution people against it. But, still I am sure a lot of people still do this.*** Even if, how many times you caution people but they do it anyway and those are the people who have to have a very honest conversation with their own families on what this implies now because the problem is at this particular moment when business is in deep doldrums there won't be any financing available, pretty much, except some kind of a government bailout which is not easy to get for a small business anyway. It's not very easy to find financing, in fact it's not easy to find financing in the best of times, but it becomes practically impossible. No VC, all the VCs, everything is probably completely shut right now. Particularly, for a struggling company, that needs a lifeline right now. So, that is when they out on this personal loan and all that and the good news in India is that all the EMI and all that has been suspended for three months which is loan wise strong because it's the right time to do that where the government has frozen the, basically stopped the clock on this game, we call the economy, stopped the clock so that we can resume the clock in three months. That is a good idea.

You have some time to figure out if your personal loan situation all that, you don't have an EMI, you don't have all this, now at least postpone it, have some time to figure out but ***you have to cut your burn rate dramatically. You cannot be burning cash.*** Before, if you were burning cash, that is something to cut. A good thing to do even if you are a healthy business and your income is not matching the expense, you ought to have an honest conversation with all the employees.

For example, I have had this is Zoho where I said that, we are actually reasonably well right now, better than I would have actually feared, but I have already told our employees, all 8000 of us, I've said that, ***“if it gets really bad this the sequence of things that will happen. We might have a pay cut at some point if it gets very bad. I will take the biggest pay cut but everyone will have to share in the pain somewhat. We will try to avoid layoffs as much as possible. I don't anticipate it in our current scenario, but nobody can say, never.”***

This is the conversation I have had within Zoho and it is best to prepare that within your own company to say these are the measures we have to take and if you are not profitable and if you still have revenue but not profitable, I would suggest bringing it back to cash flow zero at least. You cannot be profitable easily, but at least cash flow zero on, that would mean, for example, cutting marketing spending, cutting pay cheques, and you have to start with the highest paid people first and that means the CEO, and so on.

So those are the measures that I would recommend and ***if you share the pain fairly, meaning my own formula is that the lowest paid people have the smallest percentage cut in pay, the highest paid people***

have the highest percentage cut in pay, that would go down, you know, people will accept that this is fair and that's how I would do it in this environment.

Pankaj: Final couple of questions, Sridhar. You know you talked about how taking the bull by the horn and you know, getting rid of illusion is liberating in that sense. Now, one of the things is your model itself which is bootstrapped and you often talk about why you haven't brought investors in your company and so on. A lot of companies will look up to you and believe in bootstrapping. You think it has deep connections with this feeling of liberation?

Sridhar: Ya, it does, because see we had to always, even in good times, we had to pave our own way. There was no other external source of money and that often feels like you know, you are losing in good times because other guys who took money are growing faster or dominate the market and all of those kinds of things arise, right, but ***I always thought that I prefer the freedom to winning the market with spending big.*** I wasn't comfortable with that. That's a personal preference, I mean, some other people may choose differently. For example, it worked out great for Flipkart but you know, if you are Flipkart and if you are not sold then and you are waiting now, things might be different now, right. The valuations and all that would be tougher now. So, that's an example of how you ***have to time it right*** and all that.

But, I was never comfortable with it because I also was never going to sell the business then what is the point, I am not going to time it. If I am not going to time it, then you cannot actually, you are spending more than you are taking in, was never going to be a good idea because in a downturn, when you have to have this difficult conversation, as you said, with your investors, so, we going in to a recession we were always making money. It's just that sometimes the recession will cut the revenue deeply, as it happened in 2001-2002, then you have to cut back your expenses even more and to bring it back in alignment and that is to me, the idea of even in a downturn you're able to somehow manage your affairs, pave your own way, the Ramen profitable kind of notion, is actually liberating.

That you are able to survive in a serious downturn, then you actually will do reasonably well even in good times you will do well and if you are able to survive a downturn, you will actually do well and during only bubble times, like what happened in the last few years, that would you sacrifice growth because you didn't take someone else's hundreds of millions or billions and pour it into the business and that is the only case where people would regret not doing it, some founders would regret it because they see the other people who have taken the money, grow fast.

Those are not the times now, anymore, at least for the next few years, I don't expect the easy money for start-ups to return anytime soon. So, ***it might be a good time to learn some old-fashioned rituals like, you know, trying to bring the spending and revenue in balance and that is liberating because at that time you are in control of your own destiny.*** That's the most important thing to me. You know, ***it's worth asking, why am I in business? I always said that I am in business to have freedom of thought and action. That's the reason I'd give.*** Freedom of thought and action.

To be honest I have never owned a luxury car and I don't care to own anymore. I would not own. You can be guaranteed that I will never buy one. I will never buy a private jet ever. Doesn't matter how many zeroes are attached to my name. So those are not important to me. I am happy to take a passenger train here because that's how I grew up in childhood and I am happy with it. ***But the freedom of thought and action is more important to me and that is liberating. That is liberating. In fact I've never conducted my life to satisfy other people's expectations of how I should act. I've conducted my life according to***

my own inner feeling of how I should act and that is liberating. So that is what I would advise people to discover in this time, how liberating it can be to actually be truly in charge of your destiny.

Pankaj: That's very-very well said, Sridhar. You know on a more final note, Sridhar. Now, staying sane in these times is tough because there is so much happening around us. Now, for founders, even for individuals to keep going through these cycles of crisis and emerging on the other side as sane or unstable, right, how do you do that ? How do you stay sane and how do you stay hopeful, when everything around you is hopeless ?

Sridhar: You know, ***our happiness is actually mostly determined by our immediate surroundings: who are the people we surround ourselves with, who are we talking to on a daily basis, what are our interactions with the rest of, the other human beings around us, and what are our physical surroundings. I think those have a lot more influence on our happiness than the grand factors of what is going on in Japan right now or what is going on in the US right now, all of those are macro issues.***

So, the way I try to stay sane, for example, right now, I am in a village, I am surrounded by essentially agricultural workers, some of them own some land, maybe an acre – two acres, some of them don't even own any land, some of them drive an auto-rickshaw and all of these. These people come from a very humble economic strata but they are genuinely happy, they are loving and they are kind people and I am surrounded by them and I actually have learnt to understand their world, where they come from then my own problems look trivial. I mean, you are talking to a guy, who actually has maybe one week worth of cash in his thing and then next week he does not have any plans of how is he going to ever make money because auto-rickshaws run nothing. So you realise that my problems are nothing as compared to him. Then I actually start thinking how do I help this guy? I am not worried about me. How do I help this guy? Then our own problems go away. This is actually what religious gurus, spiritual gurus always tell you.

There may not be any solution to your own problem, but if you think about somebody else's problem, try to solve them, maybe your problem kind of goes away. That I've known from personal experience.

If I think about some of the landless worker's problems here, my own problems actually tend to go away. I don't actually care about them anymore. So, that's how I keep myself sane.

Pankaj: Again, very-very well said, Sridhar and it is quite inspiring. I will end this recording on this note. Thanks so much for staying the way you are Sridhar.

Sridhar: Thank You, Pankaj. I wish everyone best of luck. These are tough times but we will come through it. If anybody wants to reach out to me, to chat, I will be happy, I am available and I am on twitter and people can reach out to me.

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