



Outliers Podcast

Amit Somani, Managing Partner,
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Pankaj: 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.

I am having a conversation with Amit Somani today. Now, Amit has been veteran in the technology industry. He has worked with Google, IBM, MakeMyTrip and is someone who has worked with the disruptors as well as a legacy company like IBM. He is now a Partner with Prime Venture Partners, works with early stage companies and is considered a voice of wisdom and sanity. Amit, welcome to the podcast.

Amit: Thanks, Pankaj. Glad to be on.

Pankaj: Great. So, Amit before we get into our talk today, give us a sense of where you come from. I remember we spoke very good Hindi with each other a while ago.

Amit: Sure, Pankaj. So, I grew up here in India and actually went to my Under Grad in Banaras so the Hindi comes a little bit from the upbringing here in India. Then, I went abroad to the US for about fourteen years, sort of like a 'Vanvaas'. Came back in 2007 and now I have been back here for a while. So, ya, born and brought up here, like Hindi and hence, the conversation this morning.

Pankaj: Great, Awesome. Now, Amit these are not the best of the times very clearly and a lot of us are caught in making sense of the present and the future. None of imagined we would be in a situation like this. There is lot of anxiety. What do you see around you?

Amit: You know this has been, while it is once in a decade kind of an event, this is not the first time many of us are going through this, neither you nor me. I remember vividly, in the US, being there in the Dotcom Boom in the late 90s, and it felt like literally it was raining gold from the rooftops and Mercedes and BMWs assigning bonuses, to the Y2K1, 9/11 crash. Then back 10 years ago, the 2008-2009 crisis. Lot of the younger folks, who have probably been around the industry for maybe less than 10-12 years, they haven't seen this.

This is the nature of the beast, we will get into few downturns. This of course, as you correctly pointed out, definitely is a black swan or once in a blue moon or once in a decade kind of event, so we have to be appreciative of that and acknowledge it but I think we will get through this. We are in a tough situation. We need to come to terms with it and if I look at the start-ups that we work with or the environment, I would roughly say about 20-30% of them will be "in some sort of trouble". Some will be business as usual, they just have to weather this downturn and some actually will do much better coming out of this situation as and when we come out of it.

It is a little worse, net-net, for people who haven't been through this. You could also be caught on the wrong side of it, I am not dismissing that. So, if you don't have money or you intended today's money or your business model is not so robust, there are some challenges there.

Pankaj: That sets the context very well, Amit. Let's talk about, there are two kinds of start-ups and founders out there as of now. There are ones, like you rightly said, who have been building companies. Hopefully they have some cash to weather the storm. What people are asking is, what will it take to build a company now, in this scenario? What if, you were born as a start-up right in the middle of this? How do you visualise the future when the present is so chaotic that you can't see anything ahead? So, if we sharply focus on this, I think that will be really valuable, Amit.

Amit: Let me paraphrase what you said and actually **I think, that is the best scenario**. If you are starting up now or had just started up which is the typical, two guys and a gal and a dog in the garage, this is the best time and I will tell you why. The reason, it's the best time is, a lot of the folks who are doing sort of entrepreneurial tourism, people who are just sort of doing it because it is a vanity kind of thing, this entrepreneurship, even though it's really hard or because access to capital was much cheaper or there were many clones of the same idea which themselves may not have had merit, all of those people are going to go to the sides here. They are going to get out of the eye of the storm.

So, it's a great time, and there is enough statistics and more about some of the best companies having been built in the downturn or started in the downturn actually, even more precisely, like companies like Airbnb, which is again in the eye of the storm, or even some of our Indian companies like MakeMyTrip went through a major meltdown kind of mode in 2008-2009 and so forth. The bigger challenge, Pankaj is, that if you were already an incumbent and you already had a large cost structure and you already had revenue and more importantly expectations from revenue, those are the ones are more challenged because you were building your business at a certain rate of pace of growth, you had a certain burn rate, you had a certain expectation, now a lot of that is gone away or majorly dented. That is where you need to re-imagine.

If you are starting up now and you are really passionate and you believe that your idea has merit, in spite of, maybe even to some degree because of this whole downturn and new behaviours, this is as good a time to start as any, probably better, in my opinion.

Pankaj: Oh! Wow! Can we break this down, Amit. Can you brick the building blocks to talk about not just the idea itself but the individual founders what do they really need to do?

Amit: The very first thing is that you need to figure out is your problem a 'must-have or a nice-to-have'? and this is something that you will often hear from "VC types" but this is never more critical than right now. If you have a nice-to-have problem which is sort of ok and interesting, maybe some customer would be interested, this is probably the good time to pivot away from that or not even bother or not start up. That's the first thing. Figure out is your problem really critical to solve and that you will only get by partly imagining the future and partly by talking to lots of customers partly maybe by talking to some industry experts.

Second thing is just imagine a pre and a post Covid world. **Has something dramatically changed** preferably, in the spirit of this podcast on resilience and re-imagination, **for the better?** So if there is some tail wind that has made something better, so, I can imagine if you are doing something in, say, online healthcare or online education or any other business, we can look at some of those later and you see a positive tailwind or a genuine new set of problems that customers now have that they didn't have. A very obvious one that everyone is talking about is, almost everybody is now going to go back to having a hybrid workforce where some folks are going to be staying at home and some are going to be working, even as we come out of this downturn. It's a given. Now, **if you can imagine how you deliver your product or service or offering in that environment, because nobody else had imagined it earlier so you have a great opportunity, you are at the same level playing field as everybody else building a new product or service.**

So, two things. One is, just figure out is it a must-have or a nice-to-have and the second is, imagine are there any tail winds or any waves that you can align yourself to which give you the same level playing field as any other

incumbent that was there because they are also going to be starting from scratch now to address that particular tail wind or that trend.

Pankaj: That's interesting. Amit, also in particular, do you see ideas whose time has so called come, in that sense? Do you see large opportunities to build companies in specific areas? What would be some of them?

Amit: I've briefly mentioned earlier. **If I think about online education, if I think about healthcare delivered in a hybrid online-offline fashion, if you think about retail again hybrid online-offline.** Earlier there was just like an Amazon or you could go to a retail store like a Big Bazaar or Shopper's Stop and now you can imagine all kinds of hybrid models that become very-very interesting to imagine, that's another one. **I was just briefly saying, anything around SaaS which helps you work remotely or at least in a hybrid remote fashion because I think this is going to be the new world order,** that's another interesting one. I think some businesses continue to not be affected, for example, there may be certain businesses around FinTech or financial services and so on which from a long-term perspective continue to be attractive. May be they'll go through a little blip now. So, there are lots of different things.

I think you cannot talk at an abstract level or an industry level, Pankaj. You have to look in each industry or in whatever problem statement that the entrepreneur or that company is solving and see what has changes here and is there some way to alleviate that change. So the new set of problems, a very rich, new petri dish of problems has been thrown up and we don't actually all know that either yet, right. Some of these will evolve over the next 3 months - 6 months. Right now we are recording this within the middle of lockdown in India, in the middle of April but you know, say 3 months later or 4 months later when things are slightly better and the economy is recovering, you'll see new behaviours that come up. **So, as an entrepreneur, whether an incumbent or a brand new one that has started something in the last 3-6 months, you need to keep your eyes and ears very close to the ground in terms of what are the changes that are happening that are going to be there for good and you build your new offering around that.** So, I would say less about specific industries beyond may be education, health care, some of these we have talked about, and more around new trends or new sets of thesis around which this is going to be built.

Pankaj: Amit, everything that you are saying, it does make a lot of sense but if I imagine an individual founder, we are all human beings and many times most of our decisions are functions of our existing buyers or a notion or I don't know we pick something from reading a book or listening to someone else. Now, when we are challenged in a situation like this and we are right in the middle of this, what happens to the entrepreneurial, that, you know, whole thing of feeling positive all the time. How do I ensure that I am not biased or I have biases that matter? How do you navigate that? I am not sure if I am making it clear.

Amit: There is a lot of things that you can do to figure it out. I think there is a lot of literature around this. The very first thing I would say just in terms of sleeping more peacefully at night is just to, kind of, **re-assess your situation, right. So, be very brutal.** There is this thing called the '*Stockdale Paradox*', it had been written around people who were long-term prisoners of war and what it states is that people who survive very dire situations, like they were imprisoned in a 6X6 cell or a 6X8 cell for 10 years -12 years -15 years. **The thing that distinguished the ones who survived versus the ones who didn't, is that they confronted their brutal reality and yet had a belief that they would prevail in the end. It's called the '*Stockdale Paradox*'.** So, **very first thing, I would say is just that take a re-assessment, take a reset, re-imagine,** if you need to cut costs, cut costs, if you need to remove marketing, variable costs, do that. If you need to imagine a zero revenue plan or a no revenue plan for 2 months, do that. So, that is a stable stake.

Now, coming to your biases point. Around the biases, there are a few that come to mind, that are quite likely to hit you. One is I would say basically a **resulting bias**. So, what I mean by that is, you have already kind of imagined that the world is going to end and you are going to try to do things on that basis, you are going to cut down everything or vice versa. You imagine that nothing has changed, because, 'hey, there was a downturn 5 years ago or 4 years ago and nothing changed' and, therefore, you do no action. So that is one thing that I could imagine.

Another one is a *blind spot bias* where because you don't have alternate points of view, you are stuck to your kind of view and a very simple example to attack this bias is talk to somebody who is independent, who is not an investor in the company, who is not a board member, who is not a friend and just ask them what is their view of what the economy holds or what the economy holds for that particular sector or that particular idea. So there are a few different things that you can do but lot of it really is going to be about not being fixated on your beliefs.

The only belief that you should be fixated on is that you are going to prevail in the end. That's from the 'Stockdale Paradox' but you know the mental model that you come up with now, you need to not treat that as beliefs to be guarded but instead as beliefs to be or hypothesis to be proved and iterated upon with ever new information that is coming out. So every week or two weeks you are getting new information in terms of the macros, so evaluate it on that basis. So, I think, those are couple of exercises. I have several more, if this of interest. I can talk about which people can do.

Pankaj: Ya, why don't you because I think biases are very important to look at.

Amit: One very-very simple one and this come from Charlie Munger, who is Warren Buffet's co-founder at Berkshire Hathaway, **this is a technique to overcome the bias, which is that, and he calls this technique, 'Invert, always Invert'** and the way I make it real for entrepreneurs is, often times we will do a root-cause analysis after something has gone bad or a post-mortem, as some people might say, instead **do a pre-mortem**. Imagine it's a year from now, April 2021 and your company is "*Dead*" or has not survived the downturn or whatever. Just imagine, why that might be. Ok. And there is going to be really a few things that will come up, I mean the obvious one that we have talked about on this podcast is lack of cash, lack of revenue, changing customer behaviour, whatever. If we imagine it, there'll be a few things and that will be very unique to your business saying this is, three reasons why, I am fast-forwarding a year from now, I have failed. Ok. **Now just don't do anything brilliant. Just do the most common sensical thing of working on those things which are the likely reasons why you might fail a year from now. That's a pre-mortem. It's a very-very simple exercise.** In fact sometimes we will even do this as investors before investing in a company, even outside of this whole virus scenario, where we'll say, hey, there is a positive case for a company to win, which is how will the world be 10x better, what is differentiated, etc but there is also a negative case which really-really good and simple way of evaluating risk, which is, what are the basic things if they were to go wrong, this company or this idea will not succeed. So, I would say do a 'pre-mortem'. Do a 'invert, always invert'. **Go to the end stage and reverse back and not to leave us on a negative thought here, on the positive side, you can also imagine how the world will be dramatically a better place as a result of what you're going to do and what are the parameters.** This is on the time with the tail winds or riding the wave. So there are both ends of the spectrum but let me just stop there.

Pankaj: This is very refreshing, Amit because most of the times we are talking about entrepreneurial optimism but when you bring this kind of a model, how do you ensure that you stay hopeful and positive or I am overthinking it?

Amit: **Entrepreneurs, by definition, are supremely optimistic and supremely confident even in downtime. Entrepreneurship is such a hard journey. My partner, Sanjay says it well, 'out of 365 days in a year, 360 days are no glory, all gut and all blood.'** I don't mean to make this negative. So, they are already into that journey. **They have a passion for a problem that is going to be defining and if they weren't optimistic, if they weren't believing, if they weren't gutsy, they wouldn't do it** and like I said earlier for, your question about people starting up now, who were doing this as entrepreneurial tourism, they are pretty much dead in the water and they should go back to whatever else they were doing if they didn't have that belief.

I think that people are fundamentally optimistic but that said to your point, I think, you need to definitely imagine that you are going to be successful in the future but you need to do whatever you need to do. Since we talked a little bit about '*Hindi*', there is this famous shloka in the Gita, which says, **कर्मण्येवाधिकारस्ते मा फलेषु कदाचन ।** , which is that **you have to do your action, you can't just sit on**

your chair and say, everything is going to be fine, no everything is going to be terrible. Like what are the actions you need to do now, you got to do that, that's the only way to stay alive but at the same time, you wouldn't be an entrepreneur if you weren't fundamentally optimistic and I am pretty optimistic and I don't mean for everything, and all boats will rise with everything and of course there will be some that will not do well and some might sink as well, but the action that you can do is to evaluate that today and if you feel like there's truly no upside that you have, in terms of what the future that you had imagined when you had started off or for your incumbent, then may be its time to either pivot or even shut down. I am not saying it's all hunky dory but you need to kind of do that honest self-assessment with high intellectual integrity.

Pankaj: Well said, Amit. Before I move to the final point Amit, one more thing I wanted to understand from you is that when you are building a company or a product, you were talking about this iterative thinking or we have to keep changing based on new data, in an environment like this, it is very volatile and may be you are getting a new input every other day or every few hours, things like that. Very chaotic. As a product builder or founder, how do you ride through that? How do you ensure that you are focussing on signals and not the noise, because it can become very chaotic?

Amit: Yes, Pankaj so I think that you are absolutely right. This new data, right now it's even more exacerbated, because there are macro things that are outside of your control and, therefore, you don't have a lot of point of view on it on or how it'll change and so forth. However, there are couple of simple things you can do.

I would say have three working plans. A 2 month plan or maybe a 3 month plan, like a quarterly plan. Have a 6 month plan and have a 12 month plan. By and large, the 2 month plan will need to keep evolving as you go along. I think, the 12 month plan should be pretty steady and that is basis there is enough data now out there to have a reasonable scenario analysis of what the world will look like 12 months from now. What is that? Hey, the world has opened up. Ya, there was some negative economic climate, may be some recession, etc. Things have become better, people have started going to work, people have started eating food out, people have started traveling, whatever. It's not hard to imagine. With high probability. That's another thing, by the way, that is very interesting. **We tend to think in zero or one, black or white, true or false, whereas the world itself is actually very probabilistic.**

But, the 12 month plan, back to your question, is largely not going to change on day-to-day or week-to-week basis. Your 12 month plan should be revised on a monthly basis, may be a bi-monthly basis. But the 2 month plan is where you might see a little bit of gyration and that also I don't think is hour-to-hour, day-to-day, maybe it's bi-weekly that you revise it, because let's say lock down was not extended, which was done so yesterday, then you might say, hey, if people are allowed to go back to work, then this is how we are going to operate as a company or this is how we should do sales, or this is how we should do product or whatever it is. So, I would say, that that 2 month and that 12 month will give you stability and not feel like you're being zany or on a roller-coaster all the time and 2 month you revise often and the 12 month largely should be stable.

By the way, **the timelines have changed, it's no different than when you were building a company with a 5 year or a 10 year horizon. You always say, be rigid about your eventual belief or your conviction on how you want to change the world or how you want to change the customers' lives but be flexible on the details.** Now, instead of a 5 year view or a 10 year plan, now that has become 2 months and 1 year. At least for the time being as we go through the peak of this crisis and you'll go back to that whole window become a year and 3 years or a year and 5 years and so forth.

Pankaj: I think that's a good way to break it down. Finally Amit, you have had a long career. You have also watched entrepreneurs very closely, the ones that you have worked with and of course now, you are working as an investor with many entrepreneurial teams. If, I were to look at your survivor's checklist or Noah's ark or whatever you call it, what would be the top 3-5 things that have helped you survive, learn, stay optimistic about the future?

Amit: Like I said, entrepreneurs, for the most part are fundamentally very optimistic, otherwise they wouldn't go through this realm of starting up and dealing with the ups and downs. That is perhaps, may be nature not nurture

but it is what this is. I am the kind who will look at the glass as half full and I think most entrepreneurs are like that. I would say, in addition to what we have already talked about, **which is that confront your most brutal reality, be optimistic about your future. The third one which I will add is be a learning machine. This is to say that, constantly iterate your belief system basis what you are learning from the external environment, people, customers, your fellow colleagues, your investors, whatever it is, right. The best entrepreneurs are voracious and rapidly iterating learning machines.** Constantly revising and iterating their thing and by the way this is true even well outside of a crisis and many of us work in the tech industry, as do you, and in technology as it is we say that, hey everything changes every 10 years. Companies like Facebook, Twitter, Instagram didn't exist 10 years ago. So things change anyways very fast. So, if you are not a learning machine, then that's a problem, any which way.

I would say, in terms of the survivorship bias, these are three traits that seem to work very-very well which is to say that confront the reality, do what you need to do. Secondly, have an insanely optimistic belief about the distant future. Now that distant might have dropped down to a year, year and a half and lastly, be a learning machine. **Do everything to improve the quality of your decision making by taking inputs and even more acutely now when there is so much that is unknown and some that is even unknowable.**

Pankaj: Before I let you go, this is really the final one Amit because, especially because a lot of founders I speak to, they seem concerned about this, which is a lot of decisions that are being taken or will be taken in this period, kind of take a toll on you as an individual. You have to do a lot of uncomfortable conversations with people around you, you have to make decisions that of course doesn't make you feel too good about yourself sometimes. How do you stay sane and how do you stay someone you admire even as you come out of cycles like these?

Amit: Great question Pankaj. I think the best entrepreneurs, or for that matter, even corporate leaders, right, even enterprises and not start-up type of situation, **you need to have both intellectual integrity and transparency. You need to bring people along.** Most people will be grateful with the bitter truth and honesty and transparency than a 'no-no everything is ok, it's all going to be fine, don't worry' and boom suddenly 30% of the workforce has been laid off. So I feel that rather than trying to conjecture, what will people feel or this or that, if you are honest about the situation you're in, if you're honest about the amount of money you have in your bank, if you're honest about the runway that the company has, if you're honest about the prospects that you see and you are constantly talking to people about it. I know some entrepreneurs are doing weekly town halls or bi-weekly town halls online through Zoom or whatever, I think that is one thing that helps and the **second this is really, you know, how do you imagine this at a humanitarian level and how do you imagine this as a CEO or a founder of a company that you are doing. If you are doing the right thing, eventually your responsibility as a founder and a CEO is to make sure that that company survives often even well after yourselves and therefore, it is your responsibility to do the right thing.** Not necessarily the thing that is convenient because that's your duty, that's what you need to do. It's not just for yourself or your investors, it's even for the employees that are there. There are going to be plenty that will survive through this.

As human kind we are pretty resilient. If people are talked to transparently and openly and so forth, I think most people understand because everybody knows what we are going through is not normal. Anyway, that will be my one tip, one word, **be Transparent, have intellectual integrity and take people along, even the ones that are negatively affected, I think will appreciate it.**

Pankaj: Transparency, like you rightly said Amit, it does make a difference. Thank you for having this conversation Amit. I hope all of us come out of this more sane and more resilient.

Amit: Absolutely. Thank you Pankaj for having me and as a final parting word, be resilient and do re-imagine the future. I think it's going to be much better than where we are today. Thank You.

Pankaj: Absolutely, thank you Amit.

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