



*Outliers Podcast*  
*Rajan Anandan, Managing Director,*  
*Sequoia Capital*

**Pankaj:** Welcome to Outlier's Season of Resilience, this is a special series and I am going to have a conversation with Rajan Anandan, who is the Managing Director of Sequoia Capital and someone who has played a very important role in creating those building blocks of the Indian start-up ecosystem because I have been meeting a lot of entrepreneurs, Rajan from, you know, so many of them, they all talk about your role as an angel investor and wherever you have been, you've been an ecosystem builder. More power to you and thanks for joining us today.

**Rajan:** Thank you, Pankaj for having me. It's great to be here.

**Pankaj:** I really wish these were better times when we would be having this conversation Rajan but these are tough times and there's a lot of anxiety and stress among founders. We don't know how the world is going to change in the next few weeks, months and years. You've been working with so many entrepreneurs Rajan over years, how do you read all this?

**Rajan:** As you said, it's an incredibly difficult time. It's a difficult time for the world, it's a difficult time for humanity, it's a difficult time for every single country in the world and clearly it's an extraordinarily difficult time for start-up founders. Maybe, this has been said, many-many different times, but in terms of how difficult it is and why is it so different from anything else that we've seen in a very long time.

**First and foremost, this is a global healthcare crisis and a humanitarian crisis and it's of a scale and global proportion that we haven't seen in a 100 years. So the first thing to keep in mind is we haven't seen anything like this in over a 100 years.** The last time we saw something like this was the Spanish Influenza in 1918.

**The second thing is the level of uncertainty that is tied to this crisis because it is a healthcare crisis, is something that we haven't seen before.** So, how long does a country need to be locked down to really get the spread under control, we know there is one model in China which is Wuhan was completely shut down for 2 months and then slowly they are opening it back up but that is China. Very few countries can do what China can do at that level of rigour and intensity. We don't know whether there'll be a second and a third wave. We don't know how long it's going to take to get a vaccine that works.

So, all of that creates a lot of uncertainty, right. What we do know is, the only one thing we know is, if countries are not able to get this under control, it just reads to massive catastrophes and we've seen that in a few countries around the world already. So that's what we do know. First and foremost, there are lots of things we don't know but there are a few things that we do know, which is how to actually take control of the healthcare crisis. That's the first thing.

The second thing is that **the economic impact of COVID-19 is going to be more severe than we think, than anything else seen in a very long time.** It is going to be much more severe than the global financial crisis of 2008 or even going back to '87. So, we can go back to the financial crisis that we've

had for the last 3-4 decades. This one is going to be more severe, it's going to be deeper than those. So, that creates another set of challenges.

And the third one is, **it's requiring everybody to operate in a very-very different way.** I mean, firstly there are a lot of countries in lockdown. I just saw some data yesterday **that said that there are 2.3 billion people in the world today, so there are 7.3 billion people in the world, there are 2.3 billion people that are now locked down, full lock down. So, that's unprecedented.** Almost every country in the world has shut borders and so on and so forth. So all of this essentially is the context and I think the first thing that founders should keep in mind is nobody, and I mean nobody that is alive today, maybe there are few, who are alive and, you would have to be just been born or a 102 years old to kind of experience anything of that scale and even the Spanish Influenza, let's hope we don't even get to that level of impact globally. **So you're not alone and nobody has done it.**

So, the first thing as a founder that you should keep in mind is, this is not something that the world has seen for over a 100 years and everybody else is trying to sort through this much like you and your team are and that's very-very important to keep in mind and that being said, there are, for those of you that have been following what the industry, the venture capital industry, broadly has been talking about, I think, there are certain set of things that we think are critical for founders to do and we can talk about that.

**Pankaj:** Sure, so let's do a couple of things Rajan here. One is, you have had a long career and more importantly you have also had a long career in working with founders, almost like having the front row seat or many times on the stage with founders, right. What would be a war room like and what would be your survivors' checklist?

**Rajan:** The first thing is, because this is a healthcare crisis and a humanitarian crisis, **safety and employee engagement** which were always, I mean, employee engagement has always been important, right but that is a new dimension to this crisis. Now, one part of that, if you are a founder in India, the government thankfully has taken care of, which is mandating that everybody works from home because offices are shut, with the exception of obviously our critical roles in healthcare and logistics and so on. The work from home part, which was actually the most important for social distancing, that's been taken care of. But I would say, really doubling down on safety and also employee engagement are very important and that's a new dimension this crisis has brought about to founders and CEOs that, prior crisis, engagement was very important, communication was very important but the fact that now you have several billion people that are working from home, brings a level of complexity to how you run your business that we haven't had before, right.

In previous crisis, if I go back to 2008, I joined Microsoft India September 1<sup>st</sup>, 2008 and by the level that the Lehman crisis, I had to close my quarter, my first quarter when I had been there for a month at the end of September, you can imagine what that was like and 18 months from there on, things were pretty bad. Constant communication, engaging your teams and you employees was very-very important in that crisis and in every other crisis. I would say, **in this crisis, employee engagement and worrying about employees' wellbeing and safety is 10 times more important than it has been before.**

So, if you are a founder, **you should be talking to your entire team at least once a day and each of your leaders, respective leaders, should be talking to their teams, at least once a day if not multiple times a day and very transparent in your communication, being very empathetic with your teams is going to be very-very important** because keep in mind that what most people are worried about today is actually their health. They are also worried about the fact that the economy and their jobs and so

on and so forth. **Empathy**, which is quite hard for some founders, this is the time to actually have empathy, to really care. So, that is the first thing.

The second thing is, look, **being very realistic about how this could play out. Nobody can predict**, is it going to be a U-shaped recovery, is it going to be a L-shaped recovery, is India going to be shut down for only 3 weeks, will we have longer shut down, there are a lot of uncertainties here. So, the second thing I would say is, **model out a set of scenarios for your business**. For instance, if you are in international travel, you have an extreme impact set of scenarios, whereas if you are in the online education space, an edutech company, then you are actually seeing some tail wind. So model out a set of scenarios that are applicable to your business that you are in, the industry that you are in and then what I have always found useful is to **assume a worst case set of scenarios and then figure out how will your business plan change in your worst case set of scenarios**.

**If you are a start-up, if there is one most important thing, it's called runway, cash runway**. You have got to figure out in your worst case set of scenarios, how you can significantly extend your runway. So, if you have 3 months of runway, figure out how you can get to 6 months, if you have 6 months, figure out how you can get to 12 months, if you have 12 months, figure out how you can get to 18 months, because we don't know how long this is going to last and in a worst case scenario, obviously, this is going to last a long time and that's the number two thing and I find that **even today, too many founders are being too optimistic and I actually think it's being unrealistic about how long this is going to last and what the impact on their business and their industry are going to be**. So, that's number two.

The third thing is once you've got a set of scenarios that you think are what you want to build your plan around, **build that plan and be decisive**. For instance, cost reduction. I believe that **in the current environment and similar environments in the past, there is no such thing as fixed cost, whether it's rents, whether it's contracts that you have, whether it's software licensing, marketing, for instance**. You know, it's very interesting Pankaj, yesterday I was on Instagram, I am still seeing ads from non-essential brand categories, brands in non-essential categories, that are trying to get me to buy things in India. I mean what bag will you spend at, seriously!! I mean, even if I wanted to buy and I clicked on it, you can't deliver it to me so what am I going to do, I am going to go and rate you badly. It's shocking me, what are we, we are at day 10 of the lockdown and brands that are, so I mean, marketing should be, I mean marketing that makes you, tries to get customers to buy things, probably something you shouldn't do. And then you keep going through all the costs line items. **Re-negotiate your leases, re-negotiate your contracts, really optimise, if not some of your spends like marketing to zero and then you kind of get to other aspects of costs that are harder to tackle, which are like people costs. You got to look at this entire cost bucket and say, 'how are you going to reduce cost?' to a level where you are going to double or triple your runway and I think that is super important**. For instance, even at Microsoft, where, it was a very large company about 12 years ago, and Microsoft India was a massive, largest software business even then, did massive business, many thousands of crores of revenue and very profitable, we took very aggressive cost actions even at Microsoft. So, if you are a start-up, you know, you should be thinking, much beyond that. That's the third thing.

The fourth one is, it's been very important in the other crisis, now remember the other crisis for instance, that I've been through and led businesses through, have been financial crises, they've all been financial crises. The Asian financial crisis, the dotcom bust, the bubble, the global financial crisis, they were all financial crises. This one is very different as we talked about because it's a healthcare crisis first and foremost. **Customer engagement has always been important but it's even more important now**

because staying very close to your customers, so if you are a B2B business, let's say you are an enterprise focussed B2B company, right, **you should be talking to your customers much more than you were before but you should not be selling.** Sales teams are built to sell. But **this is the last thing you should be doing right now which is trying to sell to your customers. Again, be empathetic to your customers.** Keep in mind, what are they most worried about? They are most worried about their health and their family's health. They are most worried about, are they going to have a job or not. They are most worried about the health of their company and so on and so forth. You can imagine, so let's say you are selling to financial services companies in New York, you are a SaaS company. What do you think people in New York are worried about right now? Not buying some SaaS product that's going to do some amazing things. **You should be in touch with your customers but be there for them, be empathetic and also listen** because listening to your customers and trying to understand, because every company has changed their priorities. **I mean a 100% of companies have changed their priorities. 100%. It's not 98%, it's not 99%. 100% of companies have changed their priorities and you got to understand what are their new priorities.** If you are, let's say, in a consumer internet business, you should be finding ways to drive much more engagement but empathetic engagement. **This is the era of empathy. Companies that survive are going to be companies that really, are genuinely, going to be empathetic in what they do, in what they say, how they act, those kinds of things.** So, customer engagement I think is much more important than it's been in the previous crisis.

And then, the last one is, look I'll say there are two more things, there are always things that you've always wanted to do in your business, like on product, there are a whole set of things that you want to add to the product but you never could because you were growing like crazy. You always wanted to, for instance, get profitable, now there is no choice you have to get profitable. I think the era of negative unit economics basically died in India 10 days ago. You got to have positive unit economics. First of all, right now, you have no unit economics in most industries because you can't ship any product anyway but the interesting thing Pankaj is in businesses that were losing money on every order and there are still quite a number of them, not having any orders is a good thing no, because you extend your runway. In every order than you shipped you lost money. So, I think, **figure out those things that you always wanted to do whether it's in products, whether it's in financials of your business, whether it's in how you run engineering, whether it's in fixing your core and take the time to really do that because one of things that we are seeing across companies is that they are doing the hard things that they never really had the time for but be smart about it.** For instance, the next 2 years are going to be about must-have and not nice-to-have. So if you think about those set of features that you want to add to your product, **think about the must have features.** Don't add nice-to-have features and in fact it's probably the time to de-feature the product because user behaviour is going to be quite different.

The last thing I would say is, **is narrative. What is the narrative of your company?** I think every successful company, over the next 2 years, will either slightly or significantly change their narratives. And I will give you again an example from the 2008 crisis. Microsoft, pre 2008 Lehman Brothers crisis, was all about collaboration and productivity but for 2 years, after September of 2008, I would say for a full 2 years, the entire business, both in India that I led but also globally in most countries, we completely changed the narrative on how Microsoft can help enterprises save costs. Nobody in 2008 wanted to talk about collaboration and productivity. They wanted to talk about costs. They wanted to figure out how to take their software and hardware bill and cut it by 20-30% and Microsoft, given the extensive SPAC of products actually had a very compelling proposition. So, literally, it took us about 30 days to figure out what our new narrative should be and by the way, **the way we figured out our new narrative, Pankaj is we talked to a lot of customers, lot of customers and then we figured out what**

**was important to them** and they quickly became, look, every single enterprise in the world at the time wanted to actually reduce cost. So, let's figure how we can reduce cost. Another narrative that I think is very relevant today especially for our B2B companies is work from home and team collaboration. I mean no company in the world has actually tried to do what every company in the world is trying to do now, which is have the entire team work from home, right. So, I don't know what the new narrative for your company should be but figure out what your new narrative should be and you should figure it out not by talking to yourselves but by really engaging with your consumers and figuring out what's really important. For instance, if you are a consumer brand, the next 12-18 months, consumers are going to think very differently about their lives, are going to think very differently about their needs, so again trying to sort of understand where they are at, being there with them but then figuring out how you should think about it.

**The last one, is look on funding especially if you are a start-up. The reality is, the next several quarters are going to be very-very slow on funding and it's for a couple of reasons.** One, a lot of venture firms are going to focus disproportionate amounts of their time as well as their capital they have in their reserves, for existing companies, naturally. You invested in a number of companies, being there for those companies, helping them through this transition is priority, are 1, 2 & 3 right. Second thing is it's **very difficult to predict demand.** How is demand going to evolve? We don't know if this is 3 months, 6 months, 9 months, 12 months or 18 months. Each of those scenarios has a very different implication of a company's trajectory. So, at this point it's very difficult so that's a very practical reality. And the third thing is, right now, you can't travel anyway. You can do investments on Zoom, especially if you know the founders well or it's a smaller cheque you are talking about but if you want to write a very large cheque to a founder you have never met. You can really get to know them over Zoom but can you really get that done? So there are some practical realities of logistics and being able to meet people. What does all of that mean? **First thing it means is, if you've got 'x' months of runway, double it or triple it by doing the things you can control. Second thing is, obviously if you have existing investors, try to see if they can step up to actually provide you more runway. And third thing is be thoughtful about it, you know, you can spend all your time trying to fund raise but if you spend that time trying to extend your runway, that might be better.**

All that being said, by the way, as you may know, our new cohort of search actually starts very soon. We'll let you guys know, in the next couple of days and we've got an incredible set of companies. In fact we have already started investing, selecting companies for our fourth cohort of search which is going to start in November. What I am saying is, some set of firms will continue to invest. So at Sequoia, we are really open for business. In fact every Monday, this Monday we spent more time talking about our companies that have specific investment or partnership opportunities than we normally do. But, keep in mind that there will be a few firms that will continue to be very active but by and large, as an ecosystem, there will be a slowdown in fundraising and being realistic.

I'd say, those are the set of things that I have practiced in some of the prior downturns. Those are the set of tips and thoughts we are sharing with our portfolio companies and I would say, **the founders who are going to make it through, the next 6-12-18 months are going to be very thoughtful, they are going to be extremely decisive and they are going to be amazingly empathetic.** Those 3 things, **without those 3 things, you will not make it through.**

**Pankaj:** This is very well articulated, Rajan. Final thing I wanted to discuss with you Rajan is you have watched, again I am going back to the same thing, you have watched a lot of founders go through different cycles. You have seen them cross the valleys of death and so on. Now, when you are thinking

of coming out on the other side, both companies and founders, what do you think is going to matter the most. In terms of resilience or any particular traits, because how can you stay sane as an individual founder or as a company because the DNA, the culture, all of that goes through massive changes because of potentially tough decisions, uncomfortable conversations and so on. What does it take to get out sane, both for companies and individuals?

**Rajan:** I think it's a great question. I'll go back to what I started with, nobody has been through a situation like this before.

First thing to keep in mind is, **every founder in the world should know that every other founder is trying to think through the same set of questions that you are trying to think through** because nobody has actually been through this, that's the first thing.

Second thing, **wait and see is not a strategy in an environment like this**, when you have this much uncertainty, when you have this much disruption. So, being deeply thoughtful and I mean thinking through scenarios, thinking through 5 levels of depth along each of these scenarios and what actions you can take, that's being thoughtful. And second is **being decisive**, after you've been deeply thoughtful, don't then decide to wait and see. **Waiting and seeing is not a decision, that's a delay** and what will happen is if you wait, what will happen is that you will start making incremental cuts, many incremental cuts over several months and that is an incredibly debilitating thing for your start-up. **So, be very thoughtful and be very decisive.**

The last thing is to **communicate in a very transparent, authentic way**. As human beings if you don't hear anything, whether it's from your family, whether it's from your friends, whether it's from the founders of a start-up and employees are not hearing from you, they are going to assume the worst, Pankaj. Think about it, when you are not hearing things, you are assuming the worst. You should keep in mind that if you are not being transparent, authentic and over-communicating, your teams are going to assume the worst, so be transparent. I'm very proud of several companies that I work with very closely because they are being just very transparent, in terms of what actions they are taking, why they are taking them, how much runway do they have, what they are taking to that runway and you'll be amazed that **employees then come along with you**, so that's very-very important.

Last thing is that you have to **take care of yourself**, this is going to be a long journey, this is not a 2 week, 4 week, 6 week, 8 week phenomena, **the next 6, 12, 18 months are probably, not probably, will be the toughest period you've faced as a founder and when you are in a period like that you have to take care of yourself**. Make sure you are taking care of your health, make sure you are **taking care of your mental wellness and stay positive**. One thing I've found to stay positive is, **have a circle of trust**, these are people that you trust, that you can stay close to because people that you trust, number one, they'll be very honest with you and you can be comfortable sharing your deepest fears. My younger brother by the way, Rajesh Anand, lives in New York and is a founder of a company called UltraKnox, so he published a blog last week where he said "founders and CEOs should be very transparent about the fears that they have" and it's very true because again it's about being authentic with you team and being transparent. Every single human being today is afraid of this crisis, for various reasons. Either you are worried about what's going to happen to your parents, you are worried about what might happen to your family, a lot of people are obviously worried about access to basic essentials, a lot of people are worried about whether their companies are going to be around or not and so on and so forth.

So, again being transparent about everything is a good thing and I find that there are too many founders who are not doing that. **The last thing you should do is go into a shell**, you know, just go into a shell,

your teams will basically assume the worst so just be transparent. I'm amazed to see how teams step up **when you are transparent, when you are authentic, teams step up**. I was talking to a founder two days ago and he said, his entire senior leadership team a week and half ago came to him and said we want to reduce the senior leadership team collectively by 50%, it was their idea, it wasn't the founders idea. Now of course the founder had said, he's not going to take a salary for the next year, the founder had said they are not going to. So, take care of yourself, be positive, this is going to be really-really hard.

The last thing I would say is, I've always believed that one you get into a situation like this Pankaj, **focus on the things you can control. There are many things that you cannot control, don't focus on them**, because you spend every single waking minute watching NDTV or CNN or CNBC or Al-Jazeera or whatever favourite that you have or reading Economic Times and following the minute by minute increases in cases in India or the world or the state that you are in or the city that you are in, you know what I mean, you could do all of that and you could worry about all these things but, there are a lot of things you cannot control. Obviously, we are seeing a lot of founders set up and contribute to the nation, in terms of driving initiative, so that is something that you can do something about. I've always believed in general, not just in crisis, focus on things that you can control. **If you focus on things you can control and stay positive, you're going to have good outcomes**. The last thing I'll say is, **keep in mind that this will also pass. The human race has overcome every single challenge that has come our way for 5000 years, every single challenge, so this will also pass**. What we don't know Pankaj, is how long it's going to take. What we do know is that when it's over the start-ups that are still around, I say still around because there is going to be consolidation and that's the reality but, **the start-ups that are going to be still around and I'm really hopeful it will be a large number of them are going to be 10x better**. Why are they going to be 10 better? Because the management team are 10x better, they came together much more, all the frivolous stuff is gone out the window, unit economics are going to be seriously positive, these companies are going to execute so much better and the **founders themselves would have essentially taken 10 years of learning that they would have building their companies and they would have gotten in 12 months**. They would have had to be decisive, they would have had to focus on things, they would have had to zone out on things that they can't control and focus on what they can control, they would have learned how to be empathetic. So, the positive light out of this, if there was one, is that whenever we get across this whether it's 6 months, 12 months or 18 months, more likely the latter two categories. **Your company is going to be in a much-much better place, you as a founder are going to be in a much-much better place. By the way, you would have done a whole set of things that you wish you would not have done but, remember if you don't do those things you would not have a company**.

*Pankaj:* So, more built to last companies.

*Rajan:* I'm telling you Pankaj, I can tell you one thing that **by December 31st, 2021, which is 18-19 months from now, the start-ups in India are going to be in so much of a stronger position than today**. If you think about 2018 it was growth-growth-growth-growth at any cost, we built some awesome companies but very few of them make any money and the unit economics were deeply negative. In 2019, we had two halves, the first half was same-same, growth-growth-growth, then the second half became, 'oh ya, we should focus on some unit economics'. **I think now we are entering an era that says build a viable, economic model, create real economic value and I think at the end of 2021 we'll look back and say 'wow, the companies that are there are just so strong'**. Their economics are strong, they have a viable economic model, their management teams came together. **Look, it's almost like saying, when you have a team, the strongest bonded teams are teams that go in a battle**. Those are the strongest bonded team and you and your team are in battle now, you are not

going into battle, you are in battle as we speak and that team when you make it past and you make it through and when you make it home, whether it's 12 to 18 months from now you are going to be in an extraordinarily better position.

**Pankaj:** Very well said. Before I let you go Rajan, one more thing, a lot of founders are asking this question, if this is the time they should throw in the towel. The question about should I keep doing my start-up or should I stop it, is going to bite them even more during this period. What's that litmus test? What are the signals to know if you should do it or you should not do it?

**Rajan:** I don't think there is an answer to that. At the end of the day it's a very individual, a very personal thing. I would say there are a few factors, like for instance if you are out of cash runway and once we get past the lockdown which could be in 2 weeks depending on how long India goes in lockdown, let's say you are out of cash completely. Let's take one end of the spectrum, you are out of cash completely and you cannot make April payroll and let's say if the lockdown opens up on April 14th or May 1st, even after the lockdown opens up and you don't have a business that's going to generate positive cash and you don't have an existing set of investors who are willing to step up, that might be really difficult, right. If you've built something valuable, let say some tech or some product that's valuable, then you should try to see if you can find a home for it, do an acquihire or so on or so forth. So, that is sort of what I've described to you is a very-very difficult situation but, I do think there quite a number of companies in that bucket.

The reason by the way, the challenge if you will, for that set of companies is one of the things that I mentioned. **Which is when things open up, do you have a business maybe not on day 1 but, on day 10 after opening up will actually generate some cash flow?** If you are out of cash and you can't raise money, you can't live on it. Outside of that, my view is, even if you have 6 weeks of cash left, take a set of actions that will make 6 weeks into 12 weeks and use the next 2-3 weeks to really figure out how are you going to make a set of changes.

**I'm amazed to see how agile many of our start-ups are** Pankaj, some of them are going to come out of this in 2-3 weeks with very different products, because they are saying *'we've learnt a lot during this period about what customers want and what customers don't'*. **The next two years are going to be the era of must-have and not nice-to-have.** So, if you have a nice-to-have product that's probably not where you want to be but, you can use this time to actually figure out the must-have product that you want to have. I obviously have been an angel investor before Sequoia, investing in founders for a very long time but, for the last 7 months Pankaj, I spent every single waking minute with founders. One of my biggest takeaways is that this is by far the most difficult job in the world, to be a founder and you would agree since you are a founder.

Look, you signed up to be a founder knowing it's going to be extremely difficult, and guess what, now is the real test. **So either you can stay and fight or you can give up and leave and I really do hope that founders stay and fight. Remember, fight thoughtfully.** Even at war you need a strategy, I think this is the test, right. **This is why founders become founders right, to do the absolute impossible.** Unfortunately the entire world has been dealt this card which makes it very-very difficult, so I would say be very-very thoughtful. I find that entrepreneurs can be so resilient, so adaptive and they can make it through. What's the worst thing, go back to the original team, go back to the drawing board, the original team. It's hard to do, especially if you've been at it for a couple of years and you might think 'how do we go back to the original team?'. Well you can, that is being called decisive and then build from there. I will say Pankaj, **it's a very-very difficult time and all the founders should know that they are not**



**alone and everybody is going through the same thing and they should reach out. They should reach out and make sure their circle of trust and others who can help can be there to help.**

*Pankaj:* Absolutely, Rajan and thank you so much for your time. I know you have battles to fight and founders to back. Please stay safe and stay resilient.

*Rajan:* Thank you, thank you Pankaj. Same to you and stay safe.

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