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Context to the nugget

In Venture Investing, several years can pass before you realize the returns on your initial investment. Avnish talks about how investors can create a feedback loop in the interim and learn from the journey without having to wait for that long.

Transcription

Deepak Jayaraman (DJ): The other piece I am always curious about in investing is, somewhere, the lead time for feedback is also long. So, how do you calibrate if you're doing right, if you're investing right? Let's say, for somebody who comes in from the outside, till you have done your first exit and you have showcased, let's say, the cross-cycle success.

Avnish Bajaj (AB): So, there are lots of early indicators. There are enough early indicators and again, like I said, you have to have that self-learning loop, because if you have to wait till exit or write-off before factoring in those new learnings in your next investment. Warren Buffett, I was just reading from this Omaha thing; it was been covered in a number of papers I mean, him and Charlie Munger. Charlie is, I think, 93, and this guy is whatever 86 or 90. They still say they make mistakes and they learn. And I have seen enough 28-year-olds in this business who think that they know everything and I am not talking about Matrix because if they hear it, they will think it's them but I have seen enough of that. So, I think, it comes back to are you taking that learning loop?

So how do I look at it? One of the early indicators of the success of a company, again, assuming it's a great founder, but how do you determine whether it's a great founder. I would say, the best people meet or beat their commitment consistently. Now, in early stage, that doesn't mean that you have to hit every quarter. It's impossible. There is an element, I would say, in life, in success, in businesses which are more ambiguous, which is investing as well as start-ups. I don't know if you have read this book 'Super Forecasting'. It's a great book. You should read it. It talks about anticipating issues and then taking actions. And then lo and behold, everybody says, wow, this guy is such a visionary, figured it out. But they are able to match patterns and do that. So, how does that manifest itself? What they say will happen, happens. If they say, I am going to meet this number in this quarter, it will happen. Now, given how hard and uncertain it is, it has to be like three or four strikes before you are out. So, the way I see it is, a very early indicator for me in companies is, is the founder doing what he committed he will do. And over a six-quarter timeframe, if that is generally happening, that will be a great result. Then, I will take the feedback loop for myself saying, what I was backing in this guy and how that is playing out. And, let's say, if it was the other way around, then one would say, what did I think I backed in this guy and where did I go wrong. What could I have done differently? That's how you have to measure yourself.

Now there are other markers that come in. In our business, there are things like mark-ups. Now, mark-ups matter because when other investors are looking and assuming that they are smart investors; most of them are, by the way so if they are marking your company up, they are also seeing something that you saw. There is a validation, because ultimately when a company has to exit, it exits either as an IPO or an M&A. In either case, a lot of other people are seeing what you see and you get markers of that along the way, VR mark-ups and stuff like that, which, to me, are also indicators whether you are doing well or not.

Reflections from Deepak Jayaraman

DJ: Talking about self-learning loops. I remember reading one of Jack Welch's books where he talks about keeping track of the recruiting run rate. He says something to the effect of keeping track of who said what at the time of making a hire and then after some time has elapsed, he sees how the hire or the leader has performed and goes back to the opinions of the time of making the decision and closes the loop on who said what and therefore who's got a better sense of judgment. Just architecting an experiment to ensure that you track the different decisions you make and then you sort of go back to the outcomes when they play out whether it's six months later or two years later, but remembering to link it back to what you thought at the time of making a decision can be such a rich learning experience, but it's just that when that time comes, we are so consumed by the here and now that we forget to apply that learning loop. Thank you for listening. For more, please visit audioboom.com and look for Play to Potential or subscribe in iTunes.

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- 10.02 Avnish Bajaj - Starting Baazee.com
- 10.03 Avnish Bajaj - Entrepreneurial resilience
- 10.04 Avnish Bajaj - Taking stock of life after Baazee sale
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- 10.08 Avnish Bajaj - Evolving as a leader
- 10.09 Avnish Bajaj - Backing the best founders
- 10.10 Avnish Bajaj - Harsh realities of entrepreneurship
- 10.11 Avnish Bajaj - What they don't teach you at HBS

About Deepak Jayaraman

Deepak seeks to unlock human potential of senior executive's / leadership teams by working with them as an Executive Coach / Sounding Board / Transition Advisor. You can know more about his work [here](#).

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