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Context to the nugget

The first 30-60 days in any profession are often quite tricky. Hairline cracks can quickly turn into fractures if not handled carefully. Karthik talks about how he works with the incoming members and thinks about the early passage of play in the organization. He also talks about how he pre-empts the derailment risk by suggesting to interested individuals to seek certain prior experiences before venturing into Venture Investing.

Transcription

Deepak Jayaraman (DJ): I am curious about the early few months whenever somebody joins a new place, whether it's a new industry or a new company or a new culture and specifically in the VC industry. What I find interesting is that it takes a while before you get a sense of how you are doing as an investor. So, what's your experience or what's your advice to people to deal with the first passage of play till the real feedback starts kicking in?

Karthik Reddy (KR): So, I think, if they've already joined, it's too late for one part of the advice, which is what we give to a lot of people who come knocking on our door, which is saying, find any avenue which allows you to work with start-ups as much as possible before formally enlisting as a VC. If you are not ready for a 10–15-year journey, it's a nonstarter. The economics are that way, leave alone just actually going through the success part, even the economics are pretty back ended. So, why're you joining if you don't believe in a journey that long? It's almost like committing to a 15–20-year journey/relationships, set of relationships, even with the people who run that firm, the philosophy of that firm, etcetera, and saying, I am smart enough, give me the job. So, we encourage a lot now given the variety of portfolio that we have. So, go join one of our portfolio companies. How can VC start-up experience hurt? It is fantastic. You will learn so much and depending on what your skillset is, even though you might be a mature 35–40-year-old, advice is always go as early as possible. If you want to sign up as a co-founder and you fall in love with an idea, even better! Go try out the journey. If you are successful, you will make a lot of money. Otherwise, you have done exactly what we asked you to do. It's like a mini-MBA without the additional cost.

DJ: The opportunity cost of time being the cost.

KR: That's the only cost, but you learn so much. Because we have portfolio choices today, we tell them, you pick a city, you pick a sector, and I will give you three. Now what's interesting — and this is actually true of what happens post them joining as well — is, for the first time, they realize how much they're respected by the entrepreneur and why is it any different if you already have a VC visiting card versus actually being outside pitching to that entrepreneur. It's exactly the same. Why would an entrepreneur, once he has taken your money, why would he respect you for anything

other than what value you can add to him? So, if you are sitting on the outside and you don't have that agenda, you've still got to convince the guy that you are good enough to be in the firm.

And if you actually have become the VCs, so let's say this path ended in both of us agreeing that he is a good candidate and he came on board. And on day one, what locus stand does he have in the firm? Nothing. I probably trust him. The entrepreneur knows his skill, he might be six years younger than my colleague but he'll say, who is this guy? What does he know? My relationship is with you. So, we had this challenge in fund one. We picked a lot of the portfolio and then we parachuted in two-three guys and the guys only want to talk to us. So, they get habituated. Which means, now the job goes back to some of the characteristics I explained 30 minutes ago. If you are not able to win over the entrepreneur by the value you can add to them, the difference you can make to their day-to-day, he is going to say I will see you as little as possible and not as much as possible. And if you're not seeing the entrepreneur as much as possible, you're not learning.

So, first six months, 12 months, clearly forget about dreaming anything bigger than just learning. Maximize the number of meetings you can go to, track the partner, track your colleague, join in for other meetings, volunteer to help where you are not asked, and win your way through because that's life for the next 20. Why would he pick your money for 500K when he has 20 other choices? It's exactly the same conundrum. Just because I have a tag called Blume, you are not necessarily a slam dunk. You have to go win over why he wants to work with you or she wants to work with you.

DJ: My colleague in my previous firm, Egon Zehnder, would say, people pick the photographer not the camera. At the end of the day, are you the person delivering the value?

KR: Which is also, by the way — though you didn't ask, I will disclose it — is the secret sauce in venture capital. The greatest VC firms are built on the back of a reputation that they have the ability to make the founders, arguably, successful or feel good about the journey, some of those attributes. So, they want to work with the best VCs for that reason. So, the trick of the trade is actually, it's not about you saying I know how to pick well, it's whether the best entrepreneur wants to pick you. In the US, it's truer because there is a dearth of...

DJ: Supply-demand equations are different I guess.

KR: Very different. Here, arguably, wherever you get the money from, you will work with it. It's a very compromise-oriented marriage. There, you can actually choose your partner if you're really good. So, may be not that true in India but this is valid if you want to be a great VC irrespective. That's my point. So, even if the guy is being an asshole about it and you have 10 such founder relationships, I'm sure you're not going to get great companies the next cycle working with you. So, that's the learning basically. You have to be humble about the fact that that it's all learning for the first few days.

DJ: What surprises people the most?

KR: Obviously, the classic stereo types. People think this is a flashy, very cool business, spotting cool technology, cool founders, and cutting cheques and the fact that you're empowered to cut cheques eventually, if not in the first year, in the third year. Even in our case, for the first two years they don't feel the pain. Third year, when you say that your incentives are aligned to how your sub-portfolio performs, you are responsible for that 500K, that's when it dawns on them for the first time that they're actually responsible to someone. Now, I have to educate them and instil in them that it's not my money, it's not your money, it's somebody's money, and I have gone and put my name, my brand's name and reputation on. So, if you screw up, it's okay. I will take some of it as learning cost

so that you become a better VC in the next cycle, but then don't ask for rewards and don't ask for, arguably, sticking around.

So, that's when it dawns on them that oh my god, this is about process discipline in picking, in learning what's out there. Then, cutting the cheque is the easiest part of the job. You have to actually nurture and watch this investment. And 90% of this country still hasn't figured out how to systematically exit. So, that conundrum is still in everybody's head. What have we done in the last 10 years? Have we figured out the entire cycle? So, all the sexy part is fine. And people used to rebel at oh my company got a 10-million-dollar round. What does that mean? Just means there's four more years of the journey. Then, there's more grind, there are different sets of problems. Everything is a sub journey and you feel like oh, I set a milestone but is that the end state? Is it the finish line in terms of a grand exit? It's not. It's a stage one, stage two, stage three kind of a thing.

So, initially, you used to think our job is to get it to stage one's end. And then you get it there, and you realize it's an entirely different set of problems. It's like that video game where the obstacle courses change and you don't know what they are like and you don't know your players' skills versus what the challenges of that particular market are. It's not apples to apples ever. One guy is building something which is competing against Paytm, one guy is building something which is competing against a global marketing tech company. And that's when humility dawns, and you will be saying, I have to start focusing, I have to start understanding what I am good at. That could be sector, it could be geography, it could be the type of founders, and it could be the stage of risk I am ready to take. And that's when the penny drops, I think. So, all the glamorous stuff goes away.

Reflections from Deepak Jayaraman

DJ: Couple of takeaways here. 1) When you are transitioning careers, it is imperative to have a nuanced sense of what you are getting into. Karthik talks about working in a start-up before joining a VC. Sometimes that may not be an option. Next best is to shadow a professional in that space before taking the plunge. One of my previous guests, Atul Kasbekar who transitioned from Engineering to Photography spoke about how he shadowed one of the photographers to get a realistic sense of the profession and then with that grounded understanding, took the plunge. Too many people make career transitions based on Search Consultant and Board room conversations without adequate reflection on the ground realities of the business. 2) In any new profession, it is critical to calibrate on what the success metrics are in 3 months, 6 months, 1 year and 2 years. Often people don't have these conversations explicitly and there can be a disconnect between expectations and performance. This is particularly pronounced when a company hires a leader based on potential (not so much based on prior industry knowledge). It is the job of the hiring manager to set the leader up for success and align expectations with the incoming leader and wider organization.

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End of nugget transcription

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Karthik Reddy - Nuggets

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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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