



The banner features the 'play to potential' logo on the left. To its right are contact details: a WhatsApp icon with the number '+91 85914 52129\*', a Twitter icon with the handle '@PlayToPotential', and a globe icon with the website 'playtopotential.com'. Further right, under the heading 'Also available on:', are icons for Spotify, Apple Podcasts, and Google Podcasts. On the far right is a portrait of the host, Deepak Jayaraman, with the text 'Podcast Host Deepak Jayaraman' below it. A small note at the bottom left reads: '\*Just send us a Whatsapp with your name, number and email and we will add you to our distribution list.'

## Context to the nugget

Organizations often outgrow the entrepreneur very quickly. Unless the entrepreneur is proactively thinking about scaling up himself/herself and proactively getting the right people who can drive scale, the start-up can very quickly taper off. While 1 out of 10 start-ups succeed at a Venture stage, he talks about the patterns from the other 9 that don't "make it"

## Transcription

\*\*\*\*\*

Deepak Jayaraman (DJ): As a start-up grows, what have been your observations around inflection points, where the organization begins to overtake the entrepreneur in terms of the leadership required? I guess in a lot of these situations, since you are betting on an exponential growth, there is risk of the business or the organization becoming too big for the person at the driving seat. Is there a pattern around when that discontinuity starts getting amplified?

Karthik Reddy (KR): Again, unfortunately, I think there are too many schools of thought. So, I wish I could slot things and put a formula around it. I honestly still am struggling for it. There are legendary stories, whether that's a Steve Jobs or an equivalent. If you look at actually Elon Musk's ventures, he's only built one from scratch. All the others, he has actually gone in as that guy who needs to be parachuted to take the idea to greatness. Even Travis [Kalanick], for that matter, with an Uber idea you're not the original, original guy who thought of it; the idea was someone else's. So, therefore, there are examples on all sides is what I'm trying to say. And then you take a Jobs who was a college dropout and then he got conflicted. He had a management style he was never willing to reform. And then the guy will say, boss, you own x percentage of the company, the board runs the business, I'll tell you how it should be run and kicks him out. So, where's the playbook here? There's no playbook.

I think, what a good founder and good investors/boards should constantly educate and monitor is, should we keep looking for good people, even ahead of their time. So, you don't wait for inflection points to perfection. Then, it always becomes contentious, is my view. And so, your point, is it around the funding milestones, is it around revenue milestones? I wish it was so predictable only because the path of the start-up itself is not predictable in India. So, then trying to build predictability around any of these is very, very difficult. So, I am not joking, I have noticed a lot of firms which go either a funding or a revenue or a growth spike and then actually flatten out for a bit because they're figuring all this out.

DJ: At some stage you say, maybe I should take care of the shop, look inward...

KR: So, the boards start saying, what's going on? Who's fixing this? Then, suddenly you get a sales head and realize that the co-founder is a great one-off selling, terrible sales process guy. And so

suddenly you realize that sales, just by fixing it with one guy and bringing process, it went 2x next year. Something as subtle as that. But that's a lot of work. It took one year and six board meetings to convince the co-founder that he is just not cutting it.

So, my point is, there's no milestone, it's a continuum, as long as you have capital, can afford it. That's the start-up challenge, how much money do you have in the bank? Which kind of resources are you likely to pull? Who in the market is interested in joining you? Is such talent even available? And they play the playbook that you are giving them to try and solve the playbook. So, all of this is evolving as we speak. In 2011, these were like what are we talking about, boss, let's just get to the next stage. In 2015, we were saying, guys; XYZ Fresh desk has a play book in this. Dhruva has a playbook in this, enterprise; in consumer, three guys have built massive 100x scale in three years, Shopclues, Delivery, whatever, let's go and talk to them. So, we have a company called Dunzo. Arguably, it's like a pre-A company. They've raised about 2 million but it's very tiny. What is 2 million? Their hire is from Uber. Where was this guy five years ago? You would learn the job on your own.

So, I think, it's a combination of the founders themselves scaling and recognizing where they are not able to scale, point a. And then, the ecosystem giving you enough resources both in terms of capital and people and then the choice sets all come together, the answers emerge. If the board and the driver and the founders are sleeping on the wheel, somebody will overtake you or you'll miss the growth, the boost that you could have got. That's the trade-off. So, that's what I am saying. Now we have begun to realize that, you are going to be so damn conscious of this well in advance. So, I'm seeing that in one company recently. I introduced them to somebody who can be a powerhouse. That guy may not join them but I am opening five conversational paths. So, if you don't do it now, we won't be able to find the right person one year from now. That guy might join in three months and we might be home, but that's like asking for miracles.

DJ: You're right and it's just like how you spoke about hiring for Blume. It's a journey, it's never a transaction over three months. It's a journey of engagement and chemistry.

KR: We have a company called Belong, where Vijay is like obsessed about culture and fit and all of that. And that fellow will do like due diligence for everybody, on every guy, on every employee, on every investor, because it's a dream; it may or may not be as relevant in the end state but in his mind, that's the journey. So, I wish everybody thought that way. It's not about filling spots. If you want to build a truly, truly great company, the more of these ingredients I'll place, the higher the probability. Somebody can turn around and say, no, no, I did it without all this bullshit, but the point is you're reducing the odds and that's all we're trying to do. Always, increase the odds.

DJ: We spoke about risk reward and it's a portfolio approach, where if you make 10 investments, maybe a small fraction of them goes on to give you the returns, disruptive returns. If you look at the ones that don't, let's say two out of 10 grow to give you disruptive return, if you focus on the eight, are there any patterns around what the bottlenecks are, which come in the way of them meeting these returns? We can focus our attentions on the one and two and what worked well there but sometimes there are lessons in the other eight as well, in terms of what didn't go well.

KR: I think, all our learning comes from there. I mean it's not objective that you go and say, I'm a hedge fund, I can run this strategy and I can replicate the success. You can sit in the corner room and replicate that model. In this case, it's not. Replicating the same damn success in Delhi versus Bangalore is different, leave alone Valley here. So, you've to build a very different organization to build that same level of success. So, I think that's lost on people. Therefore, only the failures teach you very well, because you know, we've seen this pattern on three cases. What went wrong? They

hired the wrong person or wrong co-founder fit or wrong investor or wrong allocation of capital, blew up money too fast. Then, you get to the business side and you say, marketplaces where you subsidize one side is OK, subsidize two sides is not. So, you pick up a lot of nuanced learnings. And what, I think, we collectively do is, we all learn from it, we all discuss it in smaller teams, we don't publish as much and this isn't the time to. We are not building in the '70s like the Valley was. In the '70s, if you learnt it, how would you even talk about it? Probably in a club dinner, literally would have to say first Saturdays, let's gather and chat, look at the choices you have. And people seem to be afraid, people seem to be hesitant. It's changing. There are people who blog about it, there are people who talk about it, very early days. So, a healthy debate is the best way the ecosystem as a whole will learn and it's not a bad thing because the entrepreneur has to be conscious of this before getting into the journey. Half of them are repeating the same mistakes which you've done five years ago. This is embarrassing. That means we are not evolving and all of us need to evolve.

**DJ: If you look at the pie-chart of eight failures, just to push that further, are there any predictable patterns in terms of what that breaks into?**

KR: It's broadly the same three buckets, which are selection criteria buckets. That's where it breaks. It can't be different from that. Selection criteria buckets are three-pronged: market opportunity, founders plus team, and in India they changed it from the idea/product — it has a role but I would put that into the team bucket, let's say, do they have the capability to build a great product and leave it there. The third bucket — interestingly, the market opportunity for the business is one thing, the structure of the venture capital market dictates success-failure too, and we put a healthy 20% weightage on that. It's 40-40-20. So, if you look at failures, it's arguably disproportionately in that venture capital bucket because you fund a niche here, you won't get funded the next round. If you build a sub-optimal 50-million-dollar business which in the US would have got acquired for 50 million, in India somebody will pay five for it. So, you can claim that it failed, but the reality might be it was a good product, limited base, was successful but it was not viable to bootstrap itself to a 50-million-dollar level, either because it's a consumer business which wasn't making money or the founders got tired because they were waiting for four years and they got to million dollars as revenue, nobody was giving them the money, they were tired of bootstrapping. So, when you look at the reasons, it will always fall in one these three buckets; within them, there will be five–six sub-variants.

## Reflections from Deepak Jayaraman

DJ: The point Karthik makes about hiring ahead of the curve is an interesting one. I remember reading about how Mark Zuckerberg hired Sheryl Sandberg into Facebook. They met socially sometime in 2007 and then they met for a series of dinners for weeks (sometimes once or twice a week) till they decided to join forces. In my work, I find the great leaders to be in the flow of good people. One of the leaders I worked with would have regular breakfasts with good talent that is doing well wherever they are and get to know them. When they hit a turbulent patch, he would get them on board. It is very similar to having a nuanced view on a stock and when the market undervalues the stock temporarily, you move in for the kill. Great leaders, I find, are able to think ahead of the curve and invest in these conversations to enlist other great leaders on their journey.

Thank you for listening. For more please visit [playtopotential.com](http://playtopotential.com).

## End of nugget transcription

\*\*\*\*\*

### RELATED PLAYLISTS YOU MIGHT LIKE

**Leadership Development:** “How do I grow” is a question that all of us grapple with. The recipe for success is also changing as we move from an Industrial paradigm to a Digital paradigm. This is all the more pronounced in a start-up context where the job outgrows you very quickly. Successful leaders talk about the role of mentors, coaching, listening and more in scaling up one’s capability. You can access the playlist [here](#).

**Inflection points:** Inflection points are when the notion of “what got you here won’t get you there” hold. Whether it is a company moving from a start-up to a scale-up or a leader moving from a CXO to a CEO role, these passages of play have to be navigated carefully as there is a high risk of derailment. You can access the playlist [here](#).

### SIGN UP TO OUR COMMUNICATION

**Podcast Newsletter:** Join 1000s of leaders who benefit from the Podcast newsletter. Not more than 1-2 emails a month including keeping you posted on the new content that comes up at the podcast. High on signal, low on noise. Sign up for the podcast newsletter [here](#).

**Nuggets on Whatsapp:** We also have a **Podcast Whatsapp distribution group (+91 85914 52129)** where we share 2-3 nuggets a week from the Podcast archives to provoke reflection. If that is of interest, please click [here](#) and send a message stating “INTERESTED”. Do also add this number to your Phone Contacts so that we can broadcast our messages to you when we share a nugget.

\*\*\*\*\*

### Karthik Reddy - Nuggets

- 13.00 Karthik Reddy - The Full Conversation
- 13.01 Karthik Reddy - IIM-B, Wharton, and path to venture investing
- 13.02 Karthik Reddy - Articulating culture and hiring for it
- 13.03 Karthik Reddy - Pie-chart of time in venture investing
- 13.04 Karthik Reddy - Venture investing — What does it take
- 13.05 Karthik Reddy - Transition pitfalls — Banking, consulting to VC
- 13.06 Karthik Reddy - Settling effectively into venture investing
- 13.07 Karthik Reddy - Picking founders effectively
- 13.08 Karthik Reddy - Dealing with hyper-growth and scale-up
- 13.09 Karthik Reddy - Scaling up the leadership muscle
- 13.10 Karthik Reddy - What they don’t teach you at B-school
- 13.11 Karthik Reddy - In Summary - Playing to Potential

### **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](#).

### **Disclaimer and clarification of intent behind the transcripts**

This written transcript of the conversation is being made available to make it easier for some people to digest the content in the podcast. Several listeners felt that the written format would be helpful. This may not make sense as an independent document. Very often spoken word does not necessarily read well. Several of the guests have published books and the language in their books might be quite different from the way they speak. We request the readers to appreciate that this transcript is being offered as a service to derive greater value from the podcast content. We request you not to apply journalistic standards to this document.

This document is a transcription obtained through a third party/voice recognition software. There is no claim to accuracy on the content provided in this document, and occasional divergence from the audio file are to be expected. As a transcription, this is not a legal document in itself, and should not be considered binding to advice intelligence, but merely a convenience for reference.

The tags that are used to organize the nuggets in the podcast are evolving and work in progress. You might find that there could be a discrepancy between the nuggets as referenced here and in the actual podcast given this is a static document.

All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, or stored in any retrieval system of any nature without prior written permission.