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Stressing customer obsession: A conversation with Sequoia Capital's Pieter Kemps

Start-ups fail for all sorts of reasons, but those that succeed constantly think about the customer journey, use technology to remove friction, and find new ways to delight their customers, according to an investor with a legendary venture-capital firm.

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In this episode of *The Venture*, we share a conversation with Pieter Kemps of Sequoia Capital, where he works out of the venture-capital firm's Singapore office. Kemps discusses with McKinsey's Andrew Roth why it sometimes makes sense to delay monetization to focus on growth, the difference between "type one" and "type two" decisions, and the importance of always being customer obsessed.

At the close of the interview, McKinsey's Anand Swaminathan offers his insights on ways incumbents are shifting toward a growth mindset. An edited transcript of the podcast follows.

Podcast transcript

Andrew Roth: From Leap by McKinsey, our business-building practice, I'm Andrew Roth. Welcome to *The Venture*, a series featuring conversations with legendary venture builders in Asia about how to design, launch, and scale new businesses. In each episode, we cut through the noise to bring practical advice on how leaders can build successful businesses from scratch.

I'm excited to welcome Pieter Kemps from Sequoia Capital. Sequoia is one of the world's most prolific venture-capital (VC) firms, with investments across the Americas, China, India, Israel, and Southeast Asia. The technology-focused companies Sequoia has backed account for more than 20 percent of the NASDAQ's total value. Pieter is a principal and investor at Surge, Sequoia's accelerator for early-stage start-ups in Southeast Asia and India. There's a lot to cover. Welcome, Pieter. Great to have you on the show.

Pieter Kemps: Hi, Andrew. Great to be here.

Andrew Roth: I work with a lot of incumbents, and I'm often asked, what does a VC actually do? And what's their strategic value beyond the capital? In my experience, a strategic investor provides access to their network, to other founders, and to data. So it's more than just capital; it's also a relationship with the founder. Can you take us through the relationship-building process?

Pieter Kemps: It might be true for some types of investors that the relationship is primarily monetary, simply providing capital. But the reality for many folks in the ecosystem and many founders is that the relationship starts very early.

That's one of the things that we've been emphasizing for the past year or so, through what we call "coffee with Sequoia," where we randomly meet folks without a pitch, purely to chat. And very often, folks that might not be ready to take capital come to just brainstorm.

We often build very long-term relationships, and there're quite a few companies we've worked with where I've known the founders for two to three years. Sometimes I know them from previous gigs, and sometimes I'm just helping them and hoping to add value here or there. Then at some stage, when the time is right, you end up partnering and investing, formalizing a relationship that already exists.

So the relationship can start in multiple ways, and sometimes, a cold email and a sudden burst of activity can lead to a term sheet and then an investment. And very often, it's a long and ongoing relationship.

Andrew Roth: Are there any particular actions you do to initiate trust?

Pieter Kemps: I think it depends on what stage you first interact. Imagine you do a growth round in a company and invest $40 million. If there's already a well-formed board of directors and a lot of investors who have been there from day one, your relationship with that founder is going to be different. Normally, there'll be a more professional team in place, so you'll probably be interacting slightly less and focusing much more on the strategic items.

Many of us at Sequoia have been partnering with founders very early on, from pre-launch or pre-revenue, what we call the “seed stage.”

What happens then is that you become super involved. So if there’s a question about marketing and there’s no marketing manager yet, they ping you. If there’s a question around hiring talent, they ping you. If there’s a question about stock options, they ping you. You become almost like a cofounder.

That’s the nature of these early relationships. They also evolve over time as they build out their teams at series A and B funding, and even as they bring in new investors, those relationships tend to hold.

Andrew Roth: I think what would be very interesting for our listeners trying to build businesses with an incumbent is for you to explain what goes on inside the boardroom of your portfolio companies and to compare the challenges they each face.

Pieter Kemps: One thing we sometimes jokingly say is that incumbents struggle because they have everything, and start-ups struggle because they have nothing.

Challenges for incumbents include having to deal with large teams, managing stakeholders, and handling processes around budgeting. Start-ups face none of that, which sets them free in a way. But it also means they have to do a lot with very little. They can’t rely on an existing customer base or engineering teams, since everything needs to be built from scratch. And that drives a very different mindset than what you would see in an incumbent.

It also means that start-ups are asked to do things very differently, in ways that are sometimes counterintuitive to the incumbents. When we give guidance to start-ups, what we must consider is their differing long-term versus short-term perspectives.

The speed at which start-ups operate is very fast, with weekly or monthly reporting, updates, and product launches. They just move much faster than larger companies. But at the same time, there’s also a lot of long-term thinking about revenue, financial performance, free cash flow, and things like that, these very long-term objectives that are lagging indicators.

The leading indicators, on the other hand, are very different and are much more about operational metrics. So if you think about a marketplace, for example, the focus is not on your free cash flow or your profit. It might be things like: How quickly are you bringing supply onto the platform? How quickly are you building demand on the platform? How are transactions trending? How is gross merchandise value trending?

None of those translate into revenue right away, but companies that invest a lot in the operating metrics and growth believe in the future potential for monetization and revenue.

Andrew Roth: Pieter, you’re hitting on growth, the leading indicators for growth, and speed in the short term. That triggers this debate around growth versus monetization. The start-up is going after a large valuation, while the incumbent still must answer questions around profit and loss (P&L).

Pieter Kemps: Even though the companies we look at are very young, there’s often more data than one might think. It won’t be ten-, 20-, or 30-year financial statements, but there’s lots of data in many of these companies, where they measure, report, and track things on a very granular level.

Take a marketplace, for example. The key thing that people focus on is gross merchandise value, which can include the flow of transactions, the growth of listings on the platform, the growth in supply and demand, or the number of transactions.

But all that may just be growth, so we also look at the counter metrics. You can drive insane growth, but if you’re spending millions to do that, that might not be the sign of a very healthy business.

So you look at unit economics like customer acquisition costs as well. One of the main things we look at in the early days is customer love. If you just have a product that is insanely good or viral, then that's amazing. Sometimes you can track that in a monetary fashion by measuring the net promoter score or the app rating.

But we also look at it from a data point of view and do a lot of cohort analysis, examining things like retention, frequency of purchase, time spent on the site, the number of log-ins, and comparing monthly average users versus daily average users.

So there's a lot of engagement and retention metrics that we look at before saying, "Hey, this company might not be generating revenue yet, but look at the top-line growth, look at how customers love it and how often they come back, look at how much of the growth is organic and comes from word of mouth and referral versus paid acquisition."

Andrew Roth: I think that's a key point. Because even though you're not pushing the portfolio company on their revenue, you are looking at the economics of growth.

Pieter Kemps: That's correct. And it has to be said that there is a trade-off and a strategic perspective there. We have a lot of companies where we know what the monetization lever is going to be, but at the board level, there's sometimes a conscious decision to delay that and say, "Hey, let's continue to focus on growth. We think we're doing well on growing some of these leading indicators." And we'll wait. We'll delay that gratification of revenue and consciously decide when to switch that on.

And very often in these markets, it's very important for an investing business to quickly build supply or demand and go for some sort of market-share grab. This might mean delaying revenue a bit longer than normal, but many examples inside and outside our portfolio have proven that it's a good strategy.

But you need be cautious and look at these underlying metrics. If there's no customer love, if the retention isn't there, if customer acquisition costs are high, and if you can't retain customers because the product isn't good, then you have a different problem.

Andrew Roth: Some of those levers you're describing seem to be the sort you would use to define product market fit, which is a term I think often creates confusion because there's no single definition.

Pieter Kemps: Product market fit isn't always based on revenue. If you think about an online marketplace like Singapore's Carousell in the early days, the growth in supply and demand in transactions was just huge. There was no monetization. And many times during board meetings, we discussed whether it was the right time to start monetizing, and we always said, "No, not yet."

The product market fit was purely from a largely organic acquisition, with people just flocking to the platform and using it without lots of spend. And in a way, that was a sign of product market fit.

We recently experienced this with a company called Khatabook that was selling a ledger app to micro, small, and medium-sized businesses in India. And it quickly went from nothing to 50,000 businesses on the platform, and then within the next six or nine months, it shot up to ten million.

And it did this with very efficient customer acquisition, driving adoption, high retention, and a very clear strategy from a monetization point of view. But product market fit was proven before that.

And the reality is that very often, you don't know, right? You need to gamble on a start-up, and we're trying to use as much of our tribal knowledge that we've built up over time to be smart in how we make decisions, where we invest, and where we don't.

But obviously, it's a very high-risk, high-reward type of environment. And that's another principle we see a lot in the boardroom, this balance of certainty versus ambiguity. And in a legacy environment, there's this very high need for certainty, for being comfortable in knowing everything. But in our environment, we just know that we don't know everything and must make a lot of decisions in an absolute state of ambiguity.

Jeff Bezos, the founder of Amazon, actually talks about "type one" and "type two" decisions. Type one decisions are those that are not reversible. You have to be very careful making them, since you're betting the business. So, you open a door, go into the room, and once you're in, you can't leave. Type two decisions allow you to walk through a door and take a look at the room. If you like it, you stay; if you don't, you leave. They're reversible.

Within a lot of large companies, every decision is treated as if it's a type one decision. But in reality, 90 percent or more of these decisions are actually type two decisions. Start-ups often realize that and are more comfortable increasing the rate of experimentation, increasing the rate of fail fast and move forward. Sometimes you open the door, and it doesn't work. All right, we tried, we learned, we move on, and that's OK.

Andrew Roth: Can you cite any examples from the boardroom?

Pieter Kemps: I recently spoke with one of our companies and the board to decide on an acquisition. The certainty we have is that if the acquisition gets made, the existing shareholders dilute because it will largely be done with stock.

The uncertainty surrounds how it plays out. Will the integration happen in the right way? Once the acquisition is part of our portfolio company, will it continue to grow? We don't know. So there's lots of uncertainty.

Also, if the evaluation differential between the two companies is such that you have to give up half your existing company, then it's a type one decision, right?

In this case, it's a smaller acquisition and might represent 10 percent of the business. And because we're not betting the business, we think it makes sense.

We need to think as founders, but also as investors, and it's often about risk and reward. And we think in this case that the risk and reward profile is such that it's OK to take the risk. If it doesn't work, we'll feel pain, but we won't lose the business. But if we get rewards, they might be very high.

Andrew Roth: What's the timeline with this particular acquisition? Is it weeks, months, or years?

Pieter Kemps: It's a few weeks. That happens a lot with very hot deals on the venture side, if you want to invest in a company that's completely breaking out and other people are starting to find out. It means moving very fast while building that relationship with the founder, getting on the same page, and hopefully winning the founder's trust.

And with this acquisition, all that also applies when the company receives term sheets. Either they're going to go with an acquisition offer from one of our portfolio companies, or they're going to decide to go with someone else. So when these things happen, you have to move fast and be very decisive—and that's not always easy.

Andrew Roth: In previous conversations, you've said the single common factor across many of your high-growth portfolio companies is that they're customer obsessed. Any examples you can share about what that looks like?

Pieter Kemps: The term "customer obsessed," by the way, is often used as one of the main leadership principles at Amazon, where I worked before joining Sequoia.

In the first sales kickoff meeting for Amazon Web Services (AWS), the global head of AWS went in front of a large group of sales leaders, and the first thing he said was, "Don't focus on revenue." Mouths literally fell to the ground. Normally what you hear in a sales kickoff is, "Let's go for revenue." It's always all about revenue. And he continued, saying, "Revenue will come if you do all other things well, so focus on the things that you can do well."

That ties back to this focus on customer obsession and all the little things you can do to do what's right for the customer.

I've seen it at Amazon, where at 7:30 in the morning I'd be pinged by one of the top global leaders in the company, who was manning the sales queue on the website and seeing what requests were coming in and acting on them. They never felt that was beneath them, because that was how they maintained a deep and close connection to customers and requests from the market. And they would do that on an ongoing basis just to be closer to the customer.

That's obviously easier in start-ups where you're closer to the customer, with fewer layers of hierarchy and organizational complexity. But you still have to constantly think about the customer journey, identifying and removing any friction and finding ways to delight them. And customers are becoming more and more demanding.

When Sequoia did the seed investment in Dropbox, the founder told VCs about his app that allowed you to store content everywhere and access it from any device. And the standard question from VCs was always, "But there are hundreds of them out there already, right?" And he would counter by asking how much we were using them, and the answer was usually, "not at all." Why not? Because of friction. There was just too much friction going on, and Dropbox removed that.

Andrew Roth: I love that anecdote, because you don't have to think of some breakthrough business model. You can just look at a market, identify the high-friction points, and remove them.

Pieter Kemps: Absolutely. And some companies in our portfolio take that even further. For example, Sequoia recently invested in a company called Qoala, a digital insurance player in Indonesia.

Imagine we're all traveling again, and your flight is delayed for four hours. That's frustrating because of the delay and the fact that you need to find and fill out forms to request a rebate from your flight insurance, which can be a very painful process.

Qoala came along and said, "Flight times are all public data. We can easily access them, so what if we offer a service where as soon as a flight is delayed, money is transferred to you in two days? You don't have to do anything. Why? Because we know the data, we know who you are, and we know you were on that flight if you are insured with us, so we'll do it all automatically."

Qoala also knows that customers find *any* slight delay annoying so they give rebates or some kind of gift even with shorter delays, because they have that information. So they're delighting customers by making everything seamless.

That's what start-ups are constantly doing. They're not taking the status quo for granted. Whereas with a lot of legacy providers, we see attitudes like "That's just the way it is," or "We can't do it."

I had a conversation about digital transformation with the leadership of one of the large banks in the region recently, and there was just a level of defensiveness about the current situation, particular failures, and friction with their products or the market.

There was also a certain dismissiveness and a condescending tone toward start-ups. They told me, "Oh, they don't make money, and they won't be here to stay," rather than saying, "All the big companies right now used to be start-ups and grew because they had customer love, removed friction, and were ten times better than the incumbents."

And I think that is a key thing, circling back to customer obsession. You have to constantly put yourself in the shoes of your customer, thinking about what they're expecting in this day and age. You also need to think about what more technology-driven companies are offering in terms of seamless experiences and customer delight.

Andrew Roth: Some people may think eliminating the need to fill out forms and reducing the amount of time to get your benefit is a small thing, but that's huge. Would you say creating delight by getting instant gratification when your flight is delayed is the key feature, or one of many points of delight?

Pieter Kemps: One of many. I think what's interesting with Qoala is that they work with many larger platforms that have a lot of customers, and they look specifically for new use cases. For instance, you can now insure yourself for a ride-hailing service on Gojek or Grab in Jakarta or for e-commerce returns.

They're often micro use cases, but they become embedded in the checkout process with one tick of the box, and 50 cents or whatever is added to your bill, and that's it. So it's about novel products, seamlessly embedded in an existing digital experience, with a fully automated digital claims process.

Andrew Roth: Who owns the customer experience in most of your portfolio companies? Is it a specific role?

Pieter Kemps: I don't think so. In most cases, there's none. What's interesting is that most people are of two minds about this. Some think it's enough to have a chief customer officer or a chief innovation officer, while others opt for an innovation team.

So you're saying innovation is the responsibility of this team, not my team, not me. But the reality is that the entire organization is sales. The entire organization is innovation. The entire organization needs to work toward the customer.

And what you see with Qoala and many of the companies in our portfolio is that they're offering something on the back of technology, on the back of data. We're pulling application programming interfaces from public data sources, automatically putting them in our risk-management and customer-data engine.

All of that requires some level of innovation, some level of technology, some level of data on the back end. So when we meet a start-up, we never ask how many people are on their team. We want to know the breakdown. The higher the ratio of product-engineering people to the overall team, the bigger the green flag. If someone says they have 40 people doing only tech, that's a massive red flag. Why? It's operationally intensive. They're moving stuff around versus automating it by using intelligence and data.

Andrew Roth: So everyone owns being customer obsessed?

Pieter Kemps: Definitely. Everyone is working for the customer.

Andrew Roth: So, Pieter, now we're going to transition to rapid-fire questions, and I'm going to rattle off about five of them. Ready?

Pieter Kemps: Yeah, bring it on.

Andrew Roth: In a world without Sequoia, what start-up or company would you want to work for?

Pieter Kemps: Amazon, in 1998.

Andrew Roth: Me too. What does success at Sequoia mean for you personally?

Pieter Kemps: At Sequoia, we work for two customers, our limited partners (LPs) and the founders. Success is delivering strong returns for LPs, which are primarily charities and non-profits. So, if we do well, then we do good. And when founders treat you like a second cofounder, or you're the first port of call in times of trouble, that's what we work for.

Andrew Roth: What's the most important trait you look for in a founder?

Pieter Kemps: Tenacity.

Andrew Roth: Last one, what's your favorite metric to diagnose the health of a start-up?

Pieter Kemps: Gross margin.

Andrew Roth: Pieter, thanks so much for this conversation.

Pieter Kemps: Thank you so much, Andrew. It was a pleasure.

Andrew Roth: Now comes a segment where we invite founders and experts from McKinsey to provide more context and to draw practical insights. I'm joined by Anand Swaminathan, a senior partner and the leader of McKinsey Digital in Asia. Anand, thanks for joining us today.

Anand Swaminathan: Thanks, Andrew. Thanks for having me here today.

Andrew Roth: In this conversation with Pieter, we spoke a lot about the boardroom and how he manages his portfolio companies and the principles that guide him through advising a start-up. We talked about growth versus monetization, long-term versus short-term metrics, and being comfortable with ambiguity.

A lot of incumbents don't have the luxury of just going after meteoric growth around new-customer acquisition. They're often pulled more onto the P&L side because of the way they're governed. What are some of the ways you've seen some incumbents shift more toward the start-up mindset or the growth mindset?

Anand Swaminathan: This is such an important point because incumbents fundamentally understand and operate toward a P&L. They feel that's the way they're going to be measured and that's the way they need every part of the company to operate. But I've seen a few incumbents shifting toward a growth mindset, using a few tactics.

The first one is how you think about setting budgets and investing in priorities. The traditional P&L mindset is, "We've got to think about an annual or multiyear budget cycle and then assign that budget and investment moving forward."

The more growth-minded organizations say, "How do I do micro funding? How do I do investments that are stage-gated and phased over time?" And they're released in tranches on perhaps a bimonthly or quarterly basis.

This fosters that agility in how they operate and allows them to think very differently and say, "How do I need to pivot? Where do I need accelerated investments?" because a particular area may be moving very fast versus another area that's no longer a priority where they can slow down investments.

So the shift from long-term budget planning and investment cycles to short-term micro funding on a quarterly basis or something like that is one of the shifts incumbents have made.

The second thing incumbents are doing is thinking about their double-down opportunities. What are the specific initiatives that really drive growth or really drive a change in how they interact with customers?

So they've started diverting disproportionate amounts of investments to those areas that are clearly going to be the future of their business. They're saying, "Let's double down there, and we'll look at P&L over a different time frame."

Of course, that means you might need to optimize other parts of the businesses a bit differently, but this changes that growth mindset for these incumbents.

Andrew Roth: This doubling down, different capital strategies, and shorter-term access to budget imply an incumbent that's launching lots of new businesses outside their core businesses. And I think that's a key point. It's another part of the capital strategy, right?

Anand Swaminathan: That's exactly right. They can't think, "I've got two or three priorities, and that's it. That's where I'm going to focus, and I'm off to the races, with maybe a few pilots here and there, maybe a few minimum viable products (MVPs)."

It can't operate like that anymore. Instead, these incumbents have to say, "What is my portfolio of initiatives that will fundamentally move the needle from a growth perspective, customer perspective, employee perspective? What do those look like, and how am I going to optimize for those?"

That portfolio mindset also allows them to be more agile, make quicker decisions, and distribute the growth vectors. So now there's not just one vector they may be looking at but a few vectors that'll make the difference.

Andrew Roth: We spoke a lot about being customer obsessed, and we heard a few examples. And a lot has been invested in the past few years by incumbents in customer experience and design thinking, but it's often just a phase. Where are you seeing incumbents make design or being customer obsessed a capability?

Anand Swaminathan: I think this concept of design for the sake of design, or even technology for the sake of technology, doesn't work in the long run. There are too many organizations that say, "Great, let's have a design session or tech hackathon," and then they move on and forget about it.

But on the other hand, for example, there's one medtech player with thousands of employees around the world. They asked themselves, "How do I bring the voice of the customer into my product design in terms of how we service them and actually drive toward an outcome?"

This company is an incumbent with many decades' worth of incredible achievements throughout the world. But they knew they had to pivot and make design prevalent throughout their product-development capability and engineering capability.

They told themselves, "We have to reimagine what the purpose of design really is inside our company, so how do we infuse it in every piece of what we do?"

So it's not just a design session or design hackathon. It's design throughout the product-development cycle.

The second dimension of this process is bringing the voice of the customer right into their product-development capabilities. So instead of doing a customer-satisfaction survey at the end of the year, they're bringing customers into their labs and R&D facilities and saying, "This is where we're going. Would that work for you? Is this going to be valuable for what you're trying to solve?"

They're doing this on a quarterly basis, continuously refining their approach to being engaged with that customer. And what it's done is fundamentally change this incumbent's relationship with their customers. But it's also changed the design of their products and services.

Andrew Roth: I would imagine you've seen examples where incumbents use different types of data metrics to measure the impact of being customer obsessed. How are incumbents leveraging data?

Anand Swaminathan: On the data side, there are two dimensions. There's a data side that requires thinking about the customer metrics that matter most to understanding how they are feeling, sensing, using, and experiencing your products and services.

But there's also a second part of metrics, which is really around the service dimension. You may understand what's happening with the customer, but do you understand the level of service you offer?

So you need to ask yourself about the cost to serve, what the right areas are to measure, and how you think about every dimension of the service workflow.

Examples of customer metrics include questions like, "How often do you engage with our product? How often do you actually feel that the product is delivering the outcome that you wanted? Do you engage frequently, or do you see this as something you just have to do at some point in time?"

Apart from common customer-satisfaction metrics, there are also customer-evolution metrics, which measure whether your product or service attracted new customers or managed to change the demographics. This way you can be customer obsessed with very clear sets of metrics to determine whether you're making progress.

On the service side, it's about using data and analytics to fundamentally ask what is happening with your products in the hands of your customers.

The other aspect of service metrics involves figuring out ways to move faster by asking yourself, "Where are the ways in which we can speed up the outcome for our customers, and how can we measure that speed to outcome through the services that we offer?"

So data and analytics play a core role in determining the ways you will serve your customers and deliver the best services to them.

Andrew Roth: You have been listening to *The Venture* with me, Andrew Roth. If you like what you've heard, subscribe to our show on Apple Podcasts, Spotify, or wherever you listen.

Andrew Roth is an associate partner in McKinsey's Singapore office, where **Anand Swaminathan** is a senior partner. **Pieter Kemps** is a principal and investor at Surge, Sequoia Capital's accelerator for early-stage start-ups in Southeast Asia and India.