

Daniel Newman: Vijay, welcome to the Six Five Summit. I'm so pleased. We are so happy to have you here. We're happy that Zoho was able to participate. How are you doing today?

Vijay Sundaram: I'm doing great. Thank you. Thank you for reaching out. I'm happy to participate in your event.

Daniel Newman: Yeah. I have a lot of questions for you. It's been great to spend some time researching your work and Zoho and the company, some big topics. I'm going to definitely ask you some questions that are going to make it, hopefully make you think and hopefully introduce our whole audience, those that are aware, those that are not aware. I always like the chance to break new enterprises and Zoho is a, it's a real success story. And it's a company we've been tracking, a company we've been watching develop, a huge library of applications and tools, services, and a great story.

And so from all the things I researched about the company, I kind of I came up with three things. And so I'm just going to hit these one at a time for you. The first thing I want to talk a little bit about is the company's overall approach to its portfolio. I see it, the company is taking a really unique approach, vertical, backward integration is led to a huge set of solutions, applications, tools, services. I'd love to better understand the approach that you've taken to get into this position. Why Zoho is so committed to this backward and vertical integration when it comes to delivering its offerings.

Vijay Sundaram: Thank you. First of all, thanks a lot for those kind words about us. I think a lot of people may not know that we've been around for a quarter century now and have been serving more than 15 million users across the globe. So thanks for that. Yeah, over the years, we've developed a sort of strategy that stands on its own. It's not something that's usually what a VC might tell you to do, or what you might read about in business school. It's something we've cultivated on our own. And at the top of that, what the customer sees is a very broad set of products. We have over almost 50 products today, business process products very distinct from marketing to sales, to finance, to accounting, to business process automation, to analytics and so on. So very broad set of products.

And that was a strategy conceived in the early days, but obviously executed over the decades. So it takes a certain amount of vision and a certain amount of patience to make that happen. So to underpin a strategy like that, you also needed what you refer to as this vertical of a strategy of vertical integration, or as they would say in the technology world, a full-stack type of approach in a sense that you own every stage in the of production. So for example, you're involved in the design, you're involved in the manufacturing, in a classic case of an industry you're involved in the production, you're involved in the distribution, you're involved in the service. You take part in the entire chain, right? So if you translate that to a technology company, that's when they use the analogy of the stack, especially in the world of the cloud, it's you own everything.

What the customer sees is the stuff on the top from the technologist viewpoint, which has all the beautiful applications of the UIs and everything else and underlying that is layers and layers of technology. So starting right at the bottom would be a data center, right? And that's the equivalent of what used to be hardware in the on-premise type of world. So the choice then for the vendor is which of the portions of the stack do you own and which are the ones do you want to outsource to others? So we made a decision very early on that we wanted to own every element of the stack. So for example, we run our own data centers all across the globe. And that's not a common strategy. A lot of companies, even companies the size of a Netflix have decided to outsource that kind of capability.

So we took it upon ourselves for a number of reasons. The first is, it builds skills. It builds capabilities and technology that we know will stand us instead 10 years from now, especially when you take that long-term approach. It allows us to remain independent and not dependent on somebody else's strategy that might crossroads or cross paths with us as we've seen several examples in the marketplace of that. It also allows us to be able to provide a tighter view to the customer. Once we start to own all the intervening technologists, so it takes something in the middle. It could be a directory services, or it could be messaging capabilities. Now, each of these manifests itself in multiple products in, or in all of these products. So when we actually present our capabilities to the customer, it's more tightly integrated. It looks like it came from one place. It looks like it was stitched together by the same cobbler. So that's part of the strategy of being completely vertically integrated. And that's the way we've taken it.

Daniel Newman: Yeah, it's been really fun to watch and it's ended up with a whole subset of products in the Zoho One, I think you guys call it the Operating System or for business and across the stack at whether it's a sign, a document signing tool, a web meeting tool, or more traditional systems records like ERP and CRM, you guys have deployed. I think you're building your own AI. You're not borrowing that nor frameworks. You're really truly growing that in-house. I even remember talking to one of your exec said at a recent analyst summit, recent, as in recent, as we traveled, about you having some a second chip development that you're doing. So it's not like, hey, we happen to keep our servers co-located and are running in a cloud-like environment that's owned by us. You really are building everything from the ground up. And that's pretty cool. And then and that is pretty unique.

Vijay Sundaram: Yeah, absolutely. And that is part of the strategy. It's almost can think visualize us as a T. On the top, you have this breadth of applications that the customer sees, and then you have that vertical limit has all the technology stacked upon each other, each of which we own control and innovating. So, why does this matter to the customer? Maybe that's the way to ask this, right? Why do they really care? So let me give you a couple of examples. Take one from the notion of, from what you mentioned AI, right? So one of the things we want to do is we want to provide the ability for customers to find stuff. The core thing that people try to

do is search, right? They find stuff. We know that in the consumer world, we've come to compromise that in the business world.

So you want to find something about a customer, you want to know everything about that. You want to know maybe the emails that have been traded with the customers, messages, community come out from communications, look at the analytics on the customer, look at their sales record, look at the invoicing, look if they've been delinquent on payments. All of this kind of stuff, all of which leads to better information to whoever's handling that customer at that point. It might be a support rep, it might be a sales person, it might be an account manager, but when they see that full view of the customer and they're able to find out how this customer actually engaged six months ago, and they brought in this large number of set of users two months ago, that gives you a better set of information to work with the customer.

So that is enabled by building your own AI, tying it into all your applications so that when you actually search for something from the customer, the AI knows contextually I'm working with the support person, I better go and bring all the stuff that is related. Obviously they have access to support information, tickets. Well, let me go get invoicing information because that might be useful in answering these tickets, so the AI goes and gets that. So that's an example of integrating this AI technology deeply across all deep into our stack and across all the applications on the top so it gives the customer a better experience.

Daniel Newman:

Absolutely. Tons of investment these days in CDPs, identification management tools. And essentially when you have a single operating system that's running 40, 50, 60 different apps that are all the apps that a employee uses to interact with customers and interact internally, there are a lot of logical connections to make all that data accessible by all the apps. And that's something that actually pretty universally, those that are tuning in here to the event right now, we'll hear from a lot of the execs across the Six Five Summit in the application space. That's the goal, that's the objective. And it seems by going with that backward integration, you've built the system to really accommodate that from day one. I got to move on because I got a few more things I want to talk to you about Vijay, but let's talk about the approach.

So the approach to market. Okay, big enterprise tends to get all the attention. But as I've read and as a small business and entrepreneur myself, I have a lot of appreciation for the rise of the mid-market, small businesses. A lot of people are in put, I think it's more than 90% of companies are not big enterprises. That seems to be where a lot of your attention is, the entire operating system for business that I mentioned has been really built with that mid-market, large, small business, and sometimes small, large business in mind. Was this an accident? How did the company end up being kind of really well? Because you mentioned, I think you said 15 million or so customers are running on your systems and tools.

Vijay Sundaram:

It's actually 15 million users. Yeah.

Daniel Newman: Yeah. So, that's a huge number of customers. Like you said, maybe a few have heard of Zoho, maybe they haven't, but it does tend to be in that middle of the market from the kind of large, small to the small, large, and right in between. Was this intentional? And are you growing? Are you growing up? Are you growing down?

Vijay Sundaram: Yeah, it's a great question. We started as a small business company. That's our roots and in fact, it's built into even the name of the company. So we started with really small companies and across the globe, all the markets that we operated in. And over time, you see how things start to evolve, right? Your products get more advanced, your products build deeper capabilities. You build a deeper reputation. You start to be able to be more agile than some of the players that have been in the market. All of that begins to catch the attention of people of the larger companies, people further down the stream in terms of company size. So that's a natural evolution. It happens to many companies. So what do companies typically do? And this is specifically true with companies that have a lot of investor influence.

They tend to migrate towards the top end of the market, because that's where, so you see all strategies start to converge on that side. You go into the top 5,000 companies or the top few percent of the market in terms of companies because that's where the so-called big bucks are, right? But the story that's missing is this middle part of the market. So again, you can define this many people with different definitions. I'll lay one out for you, Dun & Bradstreet causes companies between 10 million in revenue to about a billion in revenue, right? So that's how they call it. Everyone has their own definition. So if you look at these, the other side of it is the real small companies and on the other side of it has the real large companies. I'd say little more than the Fortune 500.

So few, 3 to 4 billion is, would be the smallest in revenue. This middle market actually represents about one third of all the revenues generated by all companies. In fact, it's very neatly in the US broken up one third, one third and one third. So if you take the revenues of all companies, you're probably in the order of about \$35 trillion, that's with a T. And the middle market is about a third of that, so a little over \$10 trillion. So there's a big, big market there. So for us, it was a natural progression to get there. But we did this in a couple of ways. The first is, we did not abandon the base of small customers because that's often a strategy that happens. Companies that move upstream decide to give this up. And then they keep moving upstream in terms of customer size and they develop a culture, a cost structure, and an operation model that no longer can serve the small companies, right?

Because it's long sale cycles, expensive sales teams, all of that kind of stuff. And we've not done that. So we continue to serve small businesses. A lot of them on an inbound strategy, people just discover us and come to us. And then we have a middle market where we can mix our strategies, where people can be inbound, and we can go outbound in a more cost effective way in not the typical sales approach of wine and dine kind of big sales, long sales cycles and kind of

approach. So in the middle market itself, what's interesting for us is, and what's interesting about the middle market is, this market has evolved a lot especially over the last decade or so with the advent of the cloud era. So you have companies here that are medium-sized, but they are very influential. They are global companies.

Many of them actually dominate that space. In fact, in some countries like Germany and Italy, they dominate the entire economy. These are the companies that make up the economy. They are the biggest exporters. And these are mid-size companies. They have as much, if not more, sophistication in their business than some of the largest companies simply because many of them work across geographies, they are exporters, they import and all this kind of stuff. So they have very sophisticated business needs. And they're typically run by people who are somewhat younger. These may be people who are multi-generational families, or they are people probably in their 30s who have never gone and asked and who've never made this decision to ask Gartner whether they should buy IBM or Oracle. So these are people who grew up in a different world. They grew up in the cloud world. They're looking for technology that is much more agile.

They're looking for systems that innovate more rapidly. They're looking for user interfaces that are much more modern and consumer like, and they're looking for companies that were born in that era. So in some ways I think we are a natural fit because we ourselves are a mid-market company and we ourselves have some of those traits. We look long-termism as part of what we do. Because we are private, we take a very long-term bill. We can afford to put in capital and patiently wait for it before we see the ROI next year and have to answer to a market or to an investor. We have the cultural aspect of what we do, building smaller teams, working in local regions, building local economies. And all of that is in tune with what the values of the mid-market companies are. So it's a natural fit for us, both from a product perspective and from a cultural perspective. And that's where we see ourselves going in the future, even though we will continue to serve the smallest of customers.

Daniel Newman:

Yeah. I love that you talked about that born on cloud exec, those younger execs. I was one of them last week. I'm no longer now that I'm 40. I am going to immediately begin to ask for permission to buy Big Tech. But no, in all serious, I enjoyed that response but I wanted to lean into that a little bit more. We don't have a ton of time, but I just want to take a minute. And one of the things that as you were talking kind of occurred to me is, there's a lot of brilliance in the idea of getting that smaller business before they're big. And what do I mean by that? Well, you guys have really taken this kind of approach of having the full-stack of applications. Every application that a smaller mid-size company could need to run the business, CRM, ERP, Collaboration, all kinds of different applications for identity and customer management.

And it's over what 50 apps now? So it's a huge set. And of course, some of your customers may use all of them, some may mix and match so we're not going to

say everybody that... But smaller companies grow up and become big companies. And part of me just says, is that something you guys have regularly experienced by putting a little bit more of that focus on those early enterprises? And of course some startups are worth a billion before they ever sell anything. But I'm really talking about what you mentioned, exporters, manufacturers, service and consulting firms that are today a hundred or a thousand employees, but some point they become 1,000 or 10,000 employees. And I imagine there's a lot of net revenue expansion that you get because of the fact that you're there with them when they're young and they grow up. And eventually that might mean your larger enterprise business will actually almost be born out of your commitment to the middle of the market.

Vijay Sundaram:

That is actually an excellent point. And that is reflected in actually the way we measure our business too. We have the notion of how we build out seats within existing customers. So the notion of upgrades and the notion of cross-sell tells us how deeply we get embedded in the customer and sort of upsells tells us how the customer grows over time. So we absolutely see that. So I would say there're two sources of business for us in that middle market. One of them is definitely customers that have grown with us, that have invested in us, that see that they can fill in their needs because we just offer them that bigger suitcase of tools and they can put them together in ways they want. And that's one source of business. The other one of course, is middle market customers discovering us because they've learned from their peers and others, and maybe talking to people like yourself, or listening to podcasts like this, that there is a company here that could serve our needs and so they come and find us. So both of those models work.

And what they're looking for is, again, in keeping with that modern way of approaching things from younger people, they're looking for quickness, for agility, for customized approaches, for us to be able to give them attention and not just reserve that for the largest of companies, all that is a cultural attitude. And it's very difficult if you are not born with that to try and swerve and take that on. It has to be part of your innate DNA. So that's what I think we've managed to build over time and allows us to serve that segment fairly effectively.

Daniel Newman:

Yeah. I sometimes think that smaller business wants to feel understood and empathy has always been a great enabler of sales and growth. And by the way, good relationships and connections to society. And that's where I want to end Vijay. I'm going to talk last about ESG. I still remember early interactions I had with Zoho hearing from Sridhar Vembu, your CEO, talks a lot about... Does a lot in India. I know he's been awarded some pretty high civilian awards in India, made huge commitments to things like sustainability, sustainable farming and food, gives a lot back. And maybe more interesting to me than anything was in 2020, the pandemic being at home, we became super aware of a lot of social issues, became very common to hear more enterprise execs and CEOs speaking up and talking about ESG.

We certainly know the world is expecting to hear from Big Tech about contributions, but perhaps more interesting was this was something that Zoho was doing long before. It's been really, like I said, almost in the DNA of the company. Sridhar was talking about this when you weren't hearing a lot about it. I still remember kind of listening to some of his presentations at analyst days going, wow, he's been a lot of time talking about not products. And he spent almost the entire time talking about farming, vertical and sustainable. And now that I've fast-forwarded, it was almost like he was seeing the future, which is pretty cool. ESG, talk a little bit about Zoho thoughts about ESG, the company how it fits strategically and where you see it going.

Vijay Sundaram:

Yeah. Thank you for that question. This is a very close issue to our hearts and what we consider an essential part of our culture. What is it we do in the world? What is our role and how does it go beyond building software and technology for people? I'd probably look at a couple of approaches to this. You have companies that deal with this as a sort of an innate business model. It's woven into the fabric of their culture, into how they do business. They practice what they preach. And then you have companies that do this because it's either, it's the cool thing to do now or you have pressure from your board to do something in this regard. And not to undermine that work, but it evolved that way.

They might still be doing good stuff, but it evolved that way. And it's putting aside a certain percentage, a 1% of my profits go to something. So you still run your business. And then you have this notion of doing that you need to do that sort of sits aside from it. So you'd even see it represented on a website. There'll be a separate section, there'll be a director of a foundation, whatever it is, right? And the approach we've taken is something that's more intrinsic. It's woven into the fabric of how we do business and it impacts us in ways that we have to have patience for. So let me tell you an example, talk about investing in people. That's a good example, right? So we many, many years ago, we made the decision that we will invest in people who don't necessarily come with credentials.

So these are not people coming with fancy degrees from tier one, or even tier two institutions, who have trappings that allow them to hop from company to company. We decided we are going to invest in people who can't do that. Who might even be in areas, non-urban areas where they can't have exposure to this, and we will go and invest there. 16 years ago, we started this notion of Zoho University, where we went into high school since we started this in India. We went to high schools and typically they were underprivileged high schools and started picking up kids, training them on our dime, that was Zoho University, but with a focus on what they need to be productive on the job. Because of the two things going on here, one is the socio-economic aspect of going into communities that are underserved and underprivileged.

The second part of it is a recognition that universities are sometimes failing us and not providing us with the right skills and talent to their charges, their students to come out and be competitive in the workforce. So we brought both those things together. Teach them the tools in an apprenticeship type of model,

low-risk ability to make several mistakes and go into underprivileged regions, right? So often those tend to be rural or smaller cities. Today we have over a thousand people in the company that have been hired that way through this. And now we've extended that to go beyond technical, we're teaching other skills. Now we're teaching design, stuff like that, because we've built these competencies now. 16 years ago, all we knew was engineering and now we know a lot of stuff. So we've built all this stuff and now that's gone back into Zoho Schools of Learning.

So that's an example of development in people, right? So the other example of this was where do we develop? Again, most companies would do things, would go to the standard population centers where talent is supposed to exist. In our minds, talent exists everywhere. You just have to go there and find it, and you have to make the investment to grow it and develop it rather than poach it from somebody else, or take it off the market because it's served to you on a plate. Go and develop it, build this up. So that means you can go into regional areas. How much does it take if you want to build a team of 25 people, is it so hard to do an almost any second or third tier city can you not find 30 people to actually build out a team?

And so that's the kind of rationale that we apply to it. So a lot of what we've done is built into the practices of what we do. That is how we hire people, where the regions that we invest, the qualities that we go into. And now we've started this in the US. We've gone into second tier towns. We have a headquarters in Austin, and we've grown fond into a number of smaller towns in Texas and we're hiring smaller local offices there. And the idea is we don't want people to displace people and move them there, or move people into cities. This is the idea is to bring that opportunity to people who live there. So we will invest in the office. We will invest in local recreational level capabilities, whatever it takes so we can build that community. So there's a cultural aspect to it beyond just corporate intent.

Daniel Newman:

It's a great story and decades in the making. It's hard to argue any more that being in Austin is taking a risk or moving to a small town. It's where I'm moving because of techs migration. But when you decided that, it was a different story. I think that's kind of the key it's identifying and then helping actually provide the infrastructure for more growth and more expansion. And I love the fact that there have been some other companies, others that are participating in our event that have decided let's put a headquarters elsewhere, let's create regional headquarters and in markets that have abundance of talent but don't necessarily make the first on the list for tech or regional office placements. And I think that's a great story. So Vijay, there's so much there, so much to unpack, but it's really interesting.

And hopefully for everybody out there that spent some time here listening to the session, to just hear about where ESG was sort of born out of for Zoho and how it really does align with so much of what we're hearing now from the entire industry and whatever it takes to get it there, I think it's great. I think it's great

that more companies are paying more attention and doing more to be additive to society, give resources, sustainable, educate, train, develop, invest in our communities and in our people. And so with that Vijay, I got to say, thank you so much for joining me here at the Six Five Summit. You've been a great guest. I hope we'll have you back next year.

Vijay Sundaram: Thank you so much for having me. This was a really engaging conversation. I felt like I was talking to a friend, so thanks. Thanks for making it so engaging.

Daniel Newman: You are my friend. You are all of our friends. Everyone out there, I hope you're enjoying day two here at the Six Five Summit. This's one of many grateful conversations for you to tune into, spend some time learning, listening from some of the greatest and most thoughtful minds in technology today. So stick with us. Remember all of our sessions are available and on demand. Please share with your friends, invite your friends. We will be happy to have you here during the event or after the event, but for today for this session, I got to say goodbye, but I hope you'll tune into some more sessions and we'll see you later. Hey, don't hit stop. Don't hit stop.

Dana: I saw your note.

Daniel Newman: Don't hit stop. Dana, I was thinking I could say 60 million a few different times, and maybe Vijay could say 60 million and you could just double over when I said 15 million?

Dana: Sure.

Daniel Newman: Does that work?

Dana: I'm trying to remember what was right before that and right after that.

Daniel Newman: If I literally just say 60 million, I'll do a pause and I'll say it three times maybe you can make one of them fit over?

Dana: Sure. Yep. That works.

Daniel Newman: And I think Vijay you said 50, so you might need to say 60 too.

Vijay Sundaram: Okay, good. I said over 50, but I'll say 60.

Daniel Newman: That was a request of Sandy, not me.

Dana: Okay.

Daniel Newman: Okay. I'm going to pause. And then I'll say it a couple of times. Then you could pause Vijay and say it a couple of times and we'll be good to go.

Vijay Sundaram: Yeah.

Daniel Newman: 60 million, 60 million, 60 million, 60 million.

Vijay Sundaram: 60 million, 60 million actually, 60 million.

Dana: Sandy said you guys sound like Austin Powers. That was great. All right guys.

Daniel Newman: [inaudible].

Dana: What's that?

Vijay Sundaram: So did we get this all in the first take? Do we need to do any things? What do you all think? You forgot to put this up.

Dana: Oh, that's great.

Sandy: No, I thought it was good. And maybe this can come in the editing, but I thought that in a couple situations Vijay, you became a little bit repetitive. And maybe because I've heard you say it, right? So we'll see how it goes. But no, I thought it was good. What'd you guys think?

Daniel Newman: We went a little long, so if there's a couple parts... I just don't know whether we're going to have time to do a big scrub in at it, but I didn't find any point where I was zoning out. I feel like he was thorough. And also you got to remember most people that are going to hear this Sandy, are going to hear it for the first time. So hearing something twice isn't necessarily a bad thing because usually you need to hear it several times to remember it. And I thought the moderator was just freaking fantastic. Maybe the best I've ever heard, so I wouldn't want to lose that quality.

Sandy: Yeah, no. I wasn't suggesting that we redo anything. It's fine. Yeah, it's good.

Daniel Newman: I want you to smile and be happy that Vijay did a great job. And I think we covered some really great ground and introduced some things that I guess, I'm betting a lot of our audience don't know.

Sandy: Yeah. Oh, no. I'm smiling. I'm smiling. It was fine. It was good. I shouldn't have said anything.

Vijay Sundaram: No, I thought it went from my perspective, it was quite smooth. You asked the questions, I knew what we were going to talk about. You knew more than just a third party questioner or moderator who doesn't have context and was just asking the question. That went a long way because you have context into this topic and into Zoho. And that will make for a better event for the audience than someone, anyone just coming in and popping those questions. So [crosstalk].

Daniel Newman: Thank you. I think that's the goal of being an analyst versus a reporter is-

Vijay Sundaram: Yes, exactly.

Daniel Newman: ... we really try to make this an interaction, a conversation. And by the way, I do realize very subtly that when I'm maybe say something is interesting or good about a company, it has more credibility than when someone says it about themselves. So, you're like Zoho is great, great, great. But if I say Zoho is doing this and it's great, it sounds that's actually... Sandy, that's why you work with us, right?

Sandy: Yes. Of course.

Daniel Newman: But no. Dana, thank you so much.

Dana: Thank you guys.

Daniel Newman: You can probably stop the recording now, so you don't have to.