Mohnish Pabrai Talk at TiE SoCal (Irvine, CA) on Marketing & Branding on February 24, 2014

Mohnish: A pleasure and honor to be here today and always a pleasure to participate in any way I can, and work with TiE, I have a lot of respect for TiE. I love the mission. Like my hero, Charlie Munger says, a place like Costco has done a lot better in the world than even the Rockefeller Foundation. The reason he says that, if you really dissect that statement, is entrepreneurs and entrepreneurship is really what makes the wheel turn. It is what leads to what is eventually a lot of good for society, from jobs to growth and everything. It all starts with an entrepreneur dreaming an impossible dream. Since that is the essence of what TiE cares about and TiE focuses on, it is easy to love TiE, so that is great. What I am going to do today is, I have some thoughts I would like to share with you. Hopefully we will have time to hear from you and maybe get your questions and comments and such on the subject at hand. We are going to talk about something I usually don't talk about, which is sales and marketing. Like many of you in the room, I am an engineer, and I trained as an engineer. When I went through undergraduate as an engineer, I looked at these marketing majors with a jaundiced eye and basically my take at the time was that this is all kind of fluffy stuff and it is easy stuff, and these guys aren't really doing the real hard work like real men do engineering and all those sorts of kind of perspectives. Very early in my early twenties, I happened to read a book. I will mention a few books today. I have a list I will hand out, so you don't need to write down the names of the books I am mentioning. I will give it to you all on a piece of paper if you care to go through some of them. This would have been like mid-eighties. I read a book called Marketing High Technology by this guy called William Davidow, and he is now a venture capitalist in Silicon Valley. A very prominent firm, more Davidow Ventures, but at that time he was originally head of R&D at Intel, and then they had moved him from head of R&D to head of marketing at Intel. He wrote this book after he had kind of done a few years of running marketing for Intel.

There are a couple of things he mentioned in the book that really stood out for me. One of the first things he said was that 'marketing is an exact science, and it is almost as an exact science as physics. Obviously, that destroyed a lot of preconceived notions I had about the way I thought about marketing. Then he went about talking about what he called the laws of marketing, which in many ways, he thinks of as the laws of physics. Just to take a step back, this is 101, but marketing and sales are two completely different things. I will talk about sales a little later, but first I want to talk about marketing, and then we will dovetail into sale. Of course, there is some overlap, but there, I think of them as very distinctly different endeavors and I was intrigued by the way Davidow was talking about these laws of marketing. For example, one of his laws was that if you look at any market, any product, there will typically be three or four players at the most that control 80% of that market. It could be making airplanes, or it could be making hair clips. You can pretty much go across the board. It could be making software, anything you want. I found that stunning, and if you invert that, one of my heroes, Charlie Munger, says, every time you encounter something, always invert the logic to try to get some other place. If you invert that principle, first of all, if you agree with the principle, then the inversion would be that if you are starting a business and you say that this is a $10 billion market, and I just need 10% of it, and I will be a billion dollar company, Well, right there, you are off, because the inversion would be that if you are going after a market, your approach has to be, how do I get 60% of that market? If your starting point is that I am going to take 2% of this market, or 5% of this market, what you have not done is you have not segmented that market properly, and that is a fatal flaw. The first thing you ought to do is define the market that you are going after, and after you have defined it if you don't get to a very clear cut game plan to get 50, 60% market share, then don't even try because either you have not done your job correctly or you don't have anything to offer that is going to be that compelling to people. This is kind of one example of what Davidow was talking about and then I read a set of three books written by the same authors. The funny thing about these books is, all my marketing lessons which I still use today, were all from these books in the seventies and eighties. I am sure there is a bunch of newer one now, but I don't have those names to share with you because I am kind of locked into these core principles. But another set of three books was written by these two guys, Miller, and Heiman. The names of those books were Strategic Selling, Conceptual Selling, and Successful Large Account Management. Of course, even though the term “selling” is in those books, a large part of it has to do with marketing. Not so much about selling, I will get to selling later. Between Davidow and these Miller-Heiman books, I got a very solid education that marketing is not fluffy, it is really a set of very core rules. If you violate those rules, that would be like a physicist who claims that there is no gravity. The physicist can claim there is no gravity, but gravity is going to affect him, okay? So, you can think that there is no gravity, or it works a certain way or it works in reverse, but all of those things are going to come bite you. You really cannot ignore these core rules of marketing. If you don't want to ignore them, you at least must know them, right? It is hard to ignore something if you don't even know what it is. You must know these rules. I would say probably 90, 95% of entrepreneurs who get going do not understand these rules, and therefore the result is predictable. They are going to hit a brick wall soon and such.

The rules are very important. The second is that the stronger the marketing, the weaker the sales engine can be. I do not consider myself a good salesman. I consider myself a poor salesman. I consider myself a strong marketing person. If you have done your marketing homework, you can be a leper and make sales, and a standing example of that is someone in front of you. Because basically my approach to sales would be, 180 degrees approach to your traditional used car salesman schmoozing model and golf courses and all that. None of that is of much interest to me. The stronger the marketing, the less important the sales engine becomes. It is very important, in my opinion, to spend incredible amounts of time on the marketing aspect of the business, because if you don't spend that time on that aspect of it, you will spend 50x that time on the sales end and hit your head against a brick wall, and that is no fun. It is not fun to hit your head against a brick wall. It is good not to go there. I just feel the stronger the marketing, the weaker the sales.

Now, the other aspect is that most things that people come up with is that they want to pitch to the world some basic rules. Charlie Munger's rule, do not try to sell something that you wouldn't buy yourself. Okay, if you don't truly think it is something that you would yourself, be a customer of, don't try to pitch it. Don't be a used-car salesman. Make sure that whatever you are trying to come up with is compelling enough that you would yourself be deeply interested in buying. About 16 or 17 years ago, I read a book called Power versus Force, written by David Hawkins. When I refer to this book to my friends, I get two kinds of reactions. Either they are ready to throw it back at me and hope it really hurts me, or they love the book. I don't have people who say, "Ah, it was okay". I get extreme reactions. I am sure when you read the book, if you decide to read it, you will have either one reaction where you will embrace it, or another where you say that this is such a bunch of nonsense. But please bear with me and just dive in and accept it. David Hawkins is not a marketing guy. He is a new age guru who hangs out in one of these new age places in Arizona with a ponytail and all.

It is somewhat of a spiritual book. His thesis on that book is that if I lie to you, and in your conscious state, you do not know that I am lying to you, in your subconscious, you do. For all humans, there is a pipe, a communications highway or at least a one lane highway that is going between your subconscious and your conscious. Because of all the junk the world throws at us as we are growing up, for most of us humans, that pipe is almost completely clogged. Whatever your subconscious is trying to send as a message to you, to your conscious brain is barely able to get through. Usually, it gets through in some mumbled, jumbled way. There are certain humans for whom that pipe is less clogged than others. The less clogging that you have, the better judge of human nature and a better judge of the world, you are going to be, I believe that people like Warren Buffett and Charlie Munger have significantly less clogged pipes than most of the rest of us. I believe someone like Gandhi had almost a completely unclogged pipe and such. What David Hawkins said is that most of us, if someone is lying to you at the subconscious level, this guy is just feeding me a lie, and when your subconscious is trying to transmit that message to the conscious part to tell you get away from this idiot, it can't get through. But what happens is, a little bit of the signal for most of us does get through, and the little bit of the signal, what is telling you is you somehow feel that you don't feel that good being around that person. You may not know why you don't feel good about being around that person. For example, the classic use-car salesman, you really don't crave to be around that person, and you can't pinpoint which part of his pitch is a lie, but you generally don't want to be around that, and if you invert it, which is what Hawkins does, which is if someone is absolutely truthful to you all the time, you want to be as close to that person as much of the time as you can. Hawkins came up with what he called these attractor fields, and he put a bunch of math in the book as well, putting like a log scale on different attractor fields, which is probably where I lose some of my rational friends when they read the book. What he said is that humans have different levels of attractor fields that they emit.

The more truthful you are, the stronger those attractor fields, the slimier used-car salesman you are, then you are just, like repelling people. They don't want to be around you and you are trying to chase them down and get them around you.

For example, he put Jesus, right at the absolute top of the attractor fields, absolute truth. He put Gandhi, I think probably, one whole log level down below Jesus. Then he put all kinds of other great people, Martin Luther King, and others kind of up there. Warren Buffett probably because he is a capitalist, is not quite like Gandhi, but he would be somewhere up there, right? You must give up discounts to capitalists, but basically, he would be up there. That is why people want to and that is why there are 40,000 people who show up in Omaha every year because it is those attractor fields that work. These attractor fields work, but Hawkins went further, and what he said is that if I lie to you, and we put these kinesiology sensors on you, not on me, on you that sensor is going to pick up changes in your muscles, which your subconscious is feeding into which will basically say you are being lied to. I have never tested that. I don't know whether that part of his thesis works or not, probably another reason why I lose my rational friends. But let us assume whether it works or not, the bottom line is, if I lie to you, your subconscious knows, and that is the end of it.

Now, when you take that in the context of marketing, which is where I overlaid this. I am pretty sure the people at Procter and Gamble have never read Hawkins because the company predates Hawkins. But P&G has a principle. They have a principle that they will never market anything unless whatever they are saying is true, and it is genuinely an improvement. Whatever they are pitching must be true. What P&G has found probably over a hundred years of history of marketing everything, and they are the Gods of marketing, is, you cannot, in effect, put lipstick on a pig. If you have a substandard product, you dress it up well, what happens is, the human attractor fields just see straight through, and those products don't do well. What P&G has found is that if you are pitching some kind of detergent that is better than other detergents, it better be better. Otherwise, it just doesn't work. Someone like P&G really understands that at the core, and I think they may not realize it, but they really are kind of playing off Hawkins. When you look at this in the context of our discussion today, which is on marketing, number one, please don't go out to the world with anything that is not earth shattering. If you don't have a compelling value proposition, there is no point pitching that because it is going to fall flat, it is going to fail to get 60% market share, right?

First, whatever product or service you are coming up with has to have a compelling value proposition. Whatever that value proposition is, must be real and truthful. You can't just fake it and say, “Oh, this is what we do.” You have some glitzy marketing message around it, but in the end it will fail. Very important is to keep Hawkins’s message in mind and keep it absolutely truthful. It is not easy to come up with compelling things that the world needs. That is not an easy exercise, but like Munger says, why should it be easy to get rich, right? If it is not easy to come up with these things, no problem, just spend more time with the drawing board, and eventually you will figure it out. Now, let us say you have come up with a compelling value proposition, let us say you are truthful, you truly understand it, and your pitch is truthful in all of that. What I have found is that basically whatever you come up with and you have come up with it in your lab and thought about it, talked to friends, looks great. It is the service of product looks great. The real litmus test of that is when you put it in front of customers, right? When you go out and make your pitch or create an ad or whatever else, and a very important thing for an entrepreneur to do is when they put that out there, pay a lot of close attention to the feedback you get from the people who are listening to the pitch. This is very important at the front end because what is probably the case is that whatever you came up with is off base. It is not exactly what your market earns. I will give you an example.

There is a friend of mine in Chicago, and he started a company called InstallShield. Many of you might be familiar with the company when you are installing different Windows products, InstallShield comes up. Viresh basically was like, I think 19 years old or something when he came up with InstallShield. He said he was going to go to a trade show, some software tools trade show, and he was trying to do a whole bunch of different things. He was trying to do Google Maps 30 years ago, when there was no way that commuting could support that sort of thing. But he went to a trade show, and he had created this kind of trade show booth with different products. He had seven products, seven different tools that he was pitching. It wasn't balancing on that booth, because he wanted to put four bullets on one side and four bullets on the other. He was like four and three. It was really bothering him. As an afterthought, this little tool he had was just to install software, was his eighth bullet. He just put that in the end as the bottom and the eighth bullet was installed software installation tool. Throughout the whole week, I think a couple of days, he was at this trade show booth and all these people are coming by and all this stuff going on. There was a guy across the aisle from him who spent two days looking at those eight things because he was in the software business. After two days, he came up to him and said, “I have an interest in that product”. This product did not exist. It was in Viresh’s mind and so this was one of the only leads he picked up at the show. He went back and created the product and gave it to the guy, and then he found that other people wanted it, and so on and so forth. Bottom line is that, if you study start-ups, you will find over and over that what works is not what you came up with. What worked is like some tangent or, you mentioned something to a customer in passing, and then they grab onto that say, “I want that”, and you say, oh, he is unusual. He wants an unusual thing. I keep my core pitch. No, what you really must do is pay close attention to what is going on.

I will give you an example of that, which I just encountered a few hours ago. I am in the process of raising a fund, it is just going to finish in two days, but I am in the process raising a fund to basically buy an insurance company. It was the first time in my life that I had to raise about $150 million in a short period of time, about six weeks. I have never done that before, and I didn't know whether I could do it or not and looks like we will oversubscribe. The best part of the over subscription is, I never left Irvine and the investors are from all over the world. I am like the leper in terms of sales, I just wanted to make sure my marketing was done right, and then everything else works. I was looking today at the list of investors who have committed to coming into this venture, and what surprised me was that 50% of that list is Indians from all over the place. Now, Indians make up what? 2%.

Audience: Correct?

Mohnish: Right, they make up 2% of the country. Statistically, we do not expect that 2% of the country is becoming 50% of my funds. I did not pitch it specifically to Indians, I just pitched it across the globe. Now, if I was good at the marketing engine, what I would understand is, the next time I am doing this to pay more attention to that. To pay more attention to that demographic and to hone a message that is honed into that demographic somewhat more, because clearly, I am tapping into something which is statistically significant and so these are the things you have got to pay attention to, which is that you are not going to have the right idea to start with. Your idea may be 70% right, or 60% right, or 10% right. But if you listen carefully to what your customers say you will be able to adjust it. A very good book on this front is the book called, "The Origin and Evolution of New Businesses" written by an IIT grad and Harvard Business School grad Amar Bhide. I have become friends with him since I read the book. What Amar did is, he is a professor now at Columbia I think, he spent a few years interviewing Inc. 500 CEOs. The Inc. 500 list comes out every year. It is on the list of 500 fastest growing private companies in the US. His perspective was that business schools spend a lot of time studying large businesses. They do not spend time studying entrepreneurship. His perspective was, "well, I really want to understand how and what goes on as the formation of a company." He said, why don't I talk to these Inc. 500 CEOs, ask them a bunch of questions, interview them, and see from an academic point of view if there are common themes that emerge from all these discussions, which can serve as kind of a blueprint of what great things are to do and not to do when you start. I think that is a fantastic book to read because there is incredible research that went in, but it's also a very funny book.

There is an incredible commonality amongst this diverse range of investors in completely different industries who did this exact same thing. For example, one thing I did in my first business when I started TransTech is, I had two business cards. One of my business cards said President and CEO, which I never used. My second business card said, Vice President Marketing the only card I used, and I was, at that time, pitching IT services to basically you would say, companies worth 500 million or a billion in sales, large businesses. Many a times, they were Fortune 500 companies. When I went to meet these companies, my thinking was that, if I say I am the president CEO, it makes the company look small, right? If I say Vice President, marketing, oh, he looks impressive and he must work for some impressive people and must be a larger organization, and that sort of thing. The funny thing is, when I read Amar's book, half the Entrepreneurs did that, and I did that because it just made logical sense to me. But a lot of entrepreneurs did that. The other thing they did was they put international in the names of the companies, they put global in the names of the companies, they put all these different things and names the companies to make it look larger, right? All these things to make it look larger. These people had not talked to each other to come up with it. They had come up with it independently. What I found interesting, when Amar did the analysis is, when you were starting a business, you could read the book, look at this list of things that all these guys did, and try to incorporate those because those worked. All those guys were successful, and they built large businesses. The other thing that comes up, which is outside the subject of the discussion we are having today, is, they were basically arbitrage players. What I mean by arbitrage players is that I just told you that don't go out till you have a compelling value proposition. Compelling value propositions, let me rephrase that. Enduring comparing value propositions. Like, for example, the iPhone. We are not going to come up with that. I am sorry folks. Maybe one or two of you can, but I certainly can't. Most of you probably can't either. Hard to come up with enduring competitive value propositions that are just earth shattering, right? But arbitrage oriented value proposition. To give you an example, one of the entrepreneurs that Amar interviewed started this company called CompuLink in Florida. This guy had finished high school and went into the Army. The Army trained him in being like a communications tech, basically doing all this communications gear. After two years, he had enough of the Army and the buzz cuts and all that and he quit. He didn't have much money. He had a very small studio apartment in Florida, and he was trying to figure out what to do. The way his apartment was set up was, there was a long distance between his computer and his printer, about 20 feet. He needed a long cable between the computer and the printer. He went to the local computer store. This is probably in the early eighties, - no internet, nothing. He went and said, "hey, I am looking for such and such type of cable at this length". At that time, cables were not standardized. Every vendor was making its own cables and own proprietary stuff. You had to get exactly that printer and that computer connecting and all that. The computer store owner told him, "Look I don't have that kind of cable. I get these requests all the time, but I can tell you that you can just daisy chain six of these and that will get you your 20 feet. It is more expensive, but you can do that." This guy in the Army knew how to make cables. That is one of the things he had picked up. He flipped the question to the store owner. He says, "hey, look what if somebody gave you all these missing lengths of cables that you don't have and you just sell them because what you are proposing to me is so expensive and ridiculous, that makes no sense".

The guy said, "Look, I want branded stuff. "I don't want some mishmash stuff". Then the guy said, "well, would you put it on sale on consignment?" He said, "oh, on consignment, you mean you are going to put your inventory in my store?" He said, "Yeah, sure, no problem. Put it there". He made a kind of a matrix of all the different interfaces and all the missing cable links, and then he went to work in his department and made these cables, and then he put it in the store. Then he went to talk to all the other computer store owners up and down close to Florida and had all these stores carrying his cables. He had super normal profits because the pricing was set to be slightly less than this daisy chain thing. But what would happen is that after about a few months, the manufacturer or some branded cable guy would come up with that cable length, better packaging, better brand, and then the store owner would say, I don't need this anymore, okay. Take your riffraff out of here. He was making supernormal profits, but he made it in a short time. He had a competitor advantage, but it was not enduring. But what he did was, he was nimbler than everybody else, because you are small. He continuously kept track of what was coming out, what interfaces are coming out, what lengths are missing, and he just did one step ahead and just continued to come up with products just three, four months before the rest of the guys caught up with him. Then finally that business evolved to the point where he went from making cables to installing large scale cable installations for Fortune 500, Fortune 1000 companies. Now that business has like 1800 people, okay? That was a case of not an enduring competitive brand, it just going, just hopping from one to the other to the other until finally he found a services piece, and then the services piece worked, and he scaled the services piece and such so, anyway Amar's book is fantastic on that front. What you really have to do is, keep your ear very close to the ground and really listen, especially in the early days, really listen to what your customers are saying, because they will basically tell you exactly the way you need to point the company. If you don't listen to them tone deaf, then again, you are going to hit your head against a brick wall. I want to talk about another Charlie Munger calls these mental models. I will talk about another model, which is broader than just marketing, but I think it applies very much to marketing. There was this management guru who was at McKinsey in the seventies and eighties Tom Peters, and he wrote a bunch of best-selling books, if you are my age, you probably have read some of these books in Search of Excellence, a Passion for Excellence and so on. He was like kind of the Jim Collins of the seventies and eighties wonderful writer, did a lot of good work on looking at different companies, large companies, and why they did well and so on. I remember one of Tom Peter's books, he gave a story, and I really found this story hard to believe. I said this cannot be the way the world works. Tom said that, and he said this was a true story, he said that there were these two gas stations at this busy intersection in California. They were both self-served gas stations. At that time, for those of you who are older than the time when you just put your credit card in and out of the machine, you will go into the store to pay if you remember that. One of the owners of the gas station would come out every hour or an hour and a half, pick a random car and tell the guy, "listen, sit in the car, I will give you a full serve." He would pump the gas, clean the windshield, check the oil, just do everything and at no charge. The guy across the street could clearly see what is going on. His perspective was that this is stupid. It is self-serve. Why do you want to give full serve on self-serve? Because you are never going to make the money on that, and you can't do it for everyone. What is the point of doing this for this random people because the other people aren't getting serviced, over time what started happening is the guy who was providing the extra service once in a while was getting more business, more cars were going to his gas station, which is the guy across the street. Even after the guy across the street saw a drop in business, and it was clearly visible to him why his business has dropped, he did not make a change to his modus operandi. Then Tom Peters says that you can sit down with your most direct competitors, and you can lay out all your competitive advantages and your hidden trade secrets and everything. Just lay it all out and they will listen to you. They might be intrigued, but they will be no behavior change. I said, this is ridiculous. How can this be true? In a capitalist society, when someone is showing you something that would make you more money and more successful, how can you choose to ignore it. Again, in my mid-twenties when this happened, I had started my IT services business at the time and so I said, what I am going to do is I am going to prove Tom Peters wrong. I am going to prove Tom Peters wrong in two different ways. The first way I am going to prove him wrong is I am going to copy anything from anyone that I find interesting and sensible, even if every bone in my body is fighting that Tom is talking about. I said, first, I am going to clone good practices and good ideas wherever I see them. The second is I am going to test it in the real world if this is exactly how people act. In the IT business, the industry at that time was growing so fast that we had lots of turnovers. We had lots of young ambitious kids working for us. They used to get job offers all the time, 20, 30% raises and all these things.

Many of them wanted to set up their own IT business and compete with us and so on. Very often someone would come into my office, look at their shoes and turn their resignation. Then when I ask him what he was going to do, usually again, looking at the shoes, he would basically say, I am going to compete with you. At that point, this is something I have always felt right from the time I heard about Bill Davidow, for my marketing and all these things are all about really an academic pursuit. The fact that we make money and all that is just a side effect. I was into this pursuit of proving Tom Peters wrong. I did not really care about any negative impacts on the business or cash flows or anything. I said, “no, that is great”. If you are going to a business competition with us, is there anything I can do to help you? I said, if you want to sit down, I can lay out all my trade secrets. These guys first all thought that I was either kidding with them or lost my mind or whatever else, and I am not getting angry or anything. I said, “I would say, please sit down and I explained every possible thing I could about the way I went about getting, clients segmenting, finding the business, all these different things”. Then I'd sit back and observe when they set up their business, what, and how they were proceeding. Not one of them followed anything I told them, okay and I said, My God, Tom Peters is so right, right? That is stunning to me because I was actually laying out everything black and white. Maybe they didn't trust me. I don't know. Okay. But it was pretty apparent what I was telling them was maybe that the power was as forced. They should have known for the subconscious. But maybe the pipe was completely clogged, who knows? But none of them followed anything I told them. I discovered that basically there is a small portion of humans who have this cloning gene who are willing to basically say, I am stupid. The rest of the world is smarter than me. I will learn from the rest of the world. Because to really be a cloner, what I have understood is it is an exercise in humility, right? Because you are basically saying, everyone else is better than me, and I have no problem admitting everyone else is better than me because they are. Also, because I am a shameless cloner, what is wrong with cloning when no one else does? What I found is that cloning is incredibly powerful because, so few people are willing to do it right. They are just not willing to go there. There are several facets to cloning. What I try to do is, anytime I see people in the industry or outside the industry do anything that impressed me or made me kind of look up and say, oh, that is something good and all that. I remember one time I got a letter from my law firm in this big brown manila envelope. The label they had used was a very nice, elegant large label, firm name written nicely. It was larger than most labels I had seen, and I cloned that. I said, what we will do whenever we send out stuff, we are going to use this large label. I have used it all the companies from then till now, okay.

That is an example. I have continued to look for small things, big things, things that I can clone. When you are looking at this enduring competitive advantage, there are two facets to it. One facet is that you come up with something like our cable guy, where he is coming up with cable length and just trying to be three months ahead of the rest of the pack. He has some sort of advantage for some time. But also, what you need to do in parallel with that is build advantage, one tiny piece at a time. Every little best practice or every little thing that you see, if you incorporate over time, will expand into something meaningful. It is just small pieces. Like, anytime we hire employees in any of my firms, or even in India when we hire for Dakshana, we run a test, which a company in New Jersey came up with. It is called the Caliper test and it basically gives you a personality profile on the person. It also has a facet which is IQ test oriented. We can also see how smart they are. That company gets a job description from us. They know what each job means – be it a sales job, an administrative job, or a job with high attention to detail. They overlay the job details with the personality profile and then give us a report. They come up with three rankings, which is either matched - person has matched to the job or matched reservations, or don't go there. If they ever say, don't go there, don't worry about how much you like the person, don't hire the person. Now that testing costs us about $400 each time we do that. One of the most expensive things that can happen to a company is bad hires, very expensive. You have bad hires. I don't even hire interns without running through the test. In fact, I got an email last night from our group in India, and they were saying that one of our alums they wanted to hire him for three months. He is free for three months. It is only 15,000 rupees a month. 45,000 rupees over three months. What about $800 or so. My suggestion with them was run Caliper. Even though it's 50% overhead of what we are going to pay, we just don't want to deal with three months or someone who is a misfit. You can't tell that in an interview. Somebody mentioned this to me many years ago, and I incorporated this, many times I mention it to so many CEOs I meet, they don't incorporate because the cloning gene is missing, sorry to say.

Cloning has many facets to it. I continuously look for things that other businesses, other companies are doing, which I like, and I try to see if is there something that I can incorporate, my entire livelihood now is based on cloning. Pabrai Investment Funds was cloned from the Buffett Partnerships. What happened to the Buffett partnerships the most, and just to tell you how amazing and bewildering the world is, the most successful set of hedge funds ever run in the history of hedge funds from 1956 to 1969 well run everything else. Then this massive industry takes place. Then from 1969, when Buffett shot the hedge fund to 1999, when I was thinking of cloning him 30 years in a capitalist society where everyone is clearly aware of what he did and what the results were and all that, I could find nobody who cloned that model is incredible. It is an amazing model. I said, “Okay, I understand why no one clone it, Tom Peter said that, and I have seen it.” I said, “I will clone it. I was put on this earth to clone it” and we cloned it. My family has a significantly higher net worth because I did that, God bless cloning. Now I am in the process of buying an insurance company. Why am I buying an insurance company? Because that is the model Berkshire Hathaway used. I don't need to come up with ideas on my own. I can just clone those ideas. It works. I think that cloning is very important.

Another thing I wanted to talk about is this aspect of copying the best ideas from anywhere you find them. When I was growing up in Mumbai, in the seventies you really didn't get any junk mail, right? In India, there was no such thing as junk mail at the time. If you got a letter which was handwritten or something, somebody really cared about you and wrote this letter. I remember that on a typical day, we would get like two or three letters, a bill and something else, nothing much. But every year at Diwali time, there would be a card that would show up, and this card would be from this Jeweler in New Delhi. We were living in Mumbai. This new jeweler in New Delhi sent us this card and was Multani Jewelers. I had never heard of these people. Every year it was the same kind of card. It was signed by these two or three brothers. I think when I was 10-11 years old, I asked my parents, who are these people? Who are these Multani Jewelers? They said, "Oh, when we got married, we bought our wedding jewelry from there". I thought about that. I said, the wedding took place and now there is going to be no transaction for a while. This card keeps coming. What took me a while to understand is that what they were doing was very smart. First, India hardly had any junk mail. If someone sends a card like that to you, it has value. I clearly noticed it. The second is that these transactions, when you have these weddings and such for the jeweler, is a massive transaction, right? A given family will really show up at the jeweler every 15 or 20 or 25 years for a major purchase, and then they will be going dormant for another 10, 15 years. What you really must do is, you must build a brand, so they think of you, right? I said, wow, this is very good. These guys are basically just sending this one-rupee card, and over 20 years this 20 rupees, and you feel good about them, right? I cloned that. Right from the time I started running my first business, we send greeting cards. Then I realized some place where someone had written that humans love to look at other humans. What humans love the most is to look at themselves, okay and in fact, they did this on Facebook. They have done the analysis and the thing that people look at most is their own pictures. Okay that is the number one thing. Who looks at their pictures the most on Facebook? Raise your hand. Not this crowd. Come on.

Okay, so people love to look at their own pictures, but if they can't look at their own pictures, they want to look at other people's pictures, and you see this in a baby. The baby is nine months old, eight months old. If you make eye contact with a baby, it will make eye contact with you. Baby is a program to look at other people. They love to look at people. Humans love to look at other humans. I used to first clone Multani jewelers just by sending a Christmas card with some Christmas tree on the cover, something like that. Then I read this thing about humans, like, look at our humans, says, no, we will change it to a family picture, right and then this is before it became in vogue to send family pictures and then we started doing that. In the meantime, what has happened is that people have moved from sending cards out to doing it online, right? But that is stupid because online really doesn't have the same impacts. The good news is, US Postal Service mail volumes are going down. And the amount I use the US Postal Service just keeps going up, okay? Because now fewer cards show up at people's doorsteps and especially if they have pictures in them, they like to look at those pictures. You got my card Dee. Do you like to look at it?

Audience: It looks great.

Mohnish: All right. There you go. Thank you for the plug.

Audience: Thank you too!

Mohnish: All right, that is good, okay. There you go. I haven't even sent it to you. Maybe we will add you to the list. All right. Anyway, the pictures, for example, as people stop sending things physically, I am just increasing that. One of the things I found is that since I don't like to spend a lot of time meeting humans, interacting with them, all the sales stuff and all that, I created backend stuff that is going to be robust. The greeting cards are one piece of that. Another piece of that is there is this book by, what is the name of the author, the guy who wrote Influence, what is the name of the guy?

Audience: Robert Cialdini

Mohnish: Robert Cialdini's book is Influence Psychology of Persuasion and so and I have gotten to know Robert since then. Great guy. Cialdini basically said that he gave a true story. This was before 911, when you arrived at a flight, you used to be able to go right up to the gate to meet someone, right? It was before all hell broke loose, and they stopped doing all that. He was talking about in the seventies, for example, in California there would be the Moonies at the airports in the hare Krishna robes and all that. They would be looking, as people are coming off an airplane at this kind of well-dressed businessman, okay and when they found a well-dressed businessman come off the plane, the Moony would attach himself to the businessman and start walking with him and say, sir, isn't it a beautiful day? Isn't it a wonderful day? This is such a nice sunny day. I want you to have this flower. The businessman, he has no interest in the moony, he has no interest in the flower, none of that. He is just trying to get away from the guy with the guys, keeping up with him, right? He keeps saying, Sir, I just want to have the flower. I am not asking for anything. I just like you. I like the day I want to give a fellow human a flower. Occasionally, every eighth or 10th guy will take the flower just to get rid of the guy. The moment he takes the flower, what happens is now you have created an obligation, okay? Because you took somebody, you took something from me, clearly there is an obligation. Usually reaches into his pocket, put out a couple of dollars, gave it to the guy, and then first dumpster, there goes a flower. The moony is about 10 steps behind picking up the flower as soon as this dump goes for the next victim. Okay and Cialdini said that humans, basically, and this is probably going back into our genetic history. Tony, how much time do we have? Are we okay?

Tony: Yeah, sure.

Mohnish: Okay, fine. Just when we have about 20, 25 minutes, maybe, then we can open and get people want to have questions. But anyway, what Cialdini said is that if you go back into human evolutionary history, people go hunting, and let us say I go hunting, I bring down this big beast, okay? There is no refrigeration. How do I store the meat that my family is not going to eat? Well, the way I store it, I store it in my neighbor's belly. I come back with a big beast and invite everybody to say, hey, guys, party time, feed everybody okay, because there is nothing else, I can do because it is going to spoil otherwise, right? You feed everyone. What happens is, we have been built to remember, hey, Joe fed me well three weeks ago. When I bring down the big beast, I am going to call Joe, but the reciprocation memory that we have as humans is somewhat flawed. It does not have a calibration engine. If I do you a favor, all that you are able to remember is that I did you a favor, you feel good about me. That is about the end of it. You really are not able to calibrate the degree of the favor and say, "Oh, he did this for me so I can do this exact thing for you". Of course, the shyster salesman of the world has learned how to take advantage of that. One of the things I used Cialdini's, this distortion with reciprocation when I got Pabrai Investment funds going, was that anytime we sent a potential investor a package, people requested a package, we could send everything as a pdf. We never send anything as a pdf. We sent a physical package and the physical package had a very nice $50 cross pen in it. Now the guy got the flower at a hundred percent hit rate. Unlike Mooney who may have had a 10% hit rate, he didn't ask for the pen, but the pen arrived in the mailbox, and maybe one in 200 people would actually go to the trouble of returning the pen for me.

Okay, they are saying that I really don't want this obligation thing going on. Here is your pen back. Returning the pen is not as easy as dealing the Mooney, because you got to do all kinds of heuristics to send that pen back. But 99% or more have kept the pen, and some portion of them invest in Pabrai Investment funds. But the ones who don't invest, what happens is, number one, they feel good about Mohnish, right? Because they have a nice pen. The brain says he is a good guy. Number two, they feel some kind of obligation. The obligation is very simple. I give you a $50 pen, you can send a million-dollar wire, and we are even because I did you a favor and then you did me a favor and we shared our meat, it is all fine.

That works right and we have sent a lot of cross pens out and that works out fine. What I am trying to say is that you can pick up ideas from anywhere when you read the "The Origin and Evolution of New Businesses" pick up lots of ideas from there. That is good. You can pick them up anywhere. I used to read Inc. Magazine. I haven't read Inc. Magazine in a while, but every issue I looked to very carefully to find small things that other entrepreneurs, other businesses were doing that I could incorporate. It is these smaller things that you put together that as you total them up, they end up becoming significant in totality. I would say that that is some of the things I wanted to share with you basically. That number one, don't try to sell anything that you wouldn't buy yourself. Like I said, and the sales side, if your marketing engines are strong, we didn't go a lot in the sales, but the marketing engine is strong. You don't really need a strong sales engine. Some of the things I have always kept in mind about sales is that it used to be that if you were going to meet a customer who was out of town, let us say you want to fly, you are selling some high-end product, you are going to fly to meet somebody. Well, it used to be, probably 20 years ago, that was at least a thousand dollars cost between flights and everything else. It might be similar or more now, but then, there is a huge time sink as well. It blows a day or two of your time. Even if you go to meet someone in town, I mean, if I went to Cerritos or someplace to meet someone, it is going to blow about half my day, between the planning for it and going and meeting and coming back, three, four hours or at a minimum going. That is a very high price to pay, in my opinion, for a sales call. First, what I have done for myself is, one is I don't like to do things that I don't like to do. If this thing is not going to be intellectually stimulating or something, I would rather not go make the sales call.

What I said is, well, we can set it up so that the back end is powerful enough that you eliminate that front end requirement. Like for example, this time we raised this capital I only made one visit to a person who was in Irvine to their office mainly because I wanted to see his office. He had been telling me to come and see it for a while. Those were quick 15-minute commutes both ways. But never offered to go meet anyone else. I made a lot of phone calls, but those are much less costly. I would just say that, when you are trying to do your pitches and different things like that, you want to be cognizant of the fact that anytime you are doing live meetings, it is incredibly expensive. The second is that if the marketing message is not strong and buttoned down, that live meeting is not going to be very fruitful. You are better off having a much stronger message where you can get things done the Amazon way, where there is not even a phone number you can call, all digital. That is great. But with that, maybe if you have questions or comments you can ask, and we will go to whenever Tony tells me to.

Tony: That was wonderful. I was watching and fascinated myself.

Mohnish: We can hand these out. You can just, these are just a list of books I had mentioned.

Tony: Yeah, sure. Let us take a few questions, and I am sure by the end of the evening here, he had a question, at the back. Yes.

Audience: I wanted to talk to you about what you mentioned about cloning, human nature common sense tells us, and it has been proven in a lot of books that, whenever you clone something, you are always going behind the curve, if you want start something, let us say copy Coca-Cola, they will always be ahead of you, whether it is in price, advantage in economies. Don't get me wrong, it has been successful. Like Samsung, they have taken over Apple's iPhone. They just copied it. All American car industries are now taking over Manufactures and Koreans, but most of them, anything I have read in books is you are always headed behind.

Mohnish: Let me just repeat the question for the benefit of the video. Your question is that cloning, you are behind the eight ball, you are basically copying someone. How can you really gain an advantage?

Audience: Unless you leapfrog with something.

Mohnish: Yeah. Unless you leapfrog. Well, let us look at some real-world cases. Some of the largest companies on the planet are clone businesses. Microsoft is a clone business. They have spent tens of billions of dollars, probably spending tens of billion dollars every year. The only things that make money are the office. Word is clone from Word Perfect. Excel is a clone from Lotus. Microsoft money from Quicken, not even that good and Bing, the full form of Bing is, but I it’s not Google, Bing is cloning Google, and just go on and on. They are not even good cloners. It takes about 5, 6, 7 versions for them to get it right. Still, they built a great business. If you look at someone like Walmart Sam Walton, the ultimate cloner, spent an incredible amount of time in his competitor stores. In fact, if you read his autobiography Made in America, it will just show you that for the first 20 years of Walmart existence, Walmart had no new ideas. The only thing that they did differently was they went into small towns, but they pretty much copied Sears and came out model. They had a slight tweak to the other models. Coca-Cola, look at Pepsi, right? Highly successful, they cloned it. I think cloning is very powerful because there is room for more than one. What is going to end up happening is that even if you clone something, in the end, you are going to put your stamp on it. And when you put your stamp on it, it is that small bit that is slightly off that makes it unique. When Walmart, for example, cloned Sears, the piece that Walmart brought in is an incredible discipline on costs. If they were going for a trip to New York, four of them would stay in the same hotel room. No one at Walmart ever flies anything but coach, if they are using a private plane, which now they do, they cannot use it unless the plane is full. They have all these rules about the way they run their thing, incredible cost discipline, which Sears and Kmart did not have. What is going to happen is, if you start with cloning, what you are going to end up with is going to be cloning with your own aspect of nuance to it, which is going to give you an advantage. I can say Pabrai Investment Funds cloned Buffett. First, there is only one born Buffett. But there are many aspects of what I did. Probably when you drill down is different from the way Buffett did it. It is going to end up being different. I would say that people will say that this will not work because it already exists, but many versions of the same thing can make it.

Audience: Many years ago, you were betting on an auction to have lunch with Warren Buffett, and you won that auction. You went, had lunch with him. What can you tell us from the experience? What did you learn? What was your impression of that? Give us some.

Mohnish: Sure. I had lunch with Buffett in 2008. My family was with me, my wife and daughters, which was a lot of fun and one of my friends as well. It was a great experience actually. We spent about three hours having and in fact, Warren told us when we started that the lunch could go on for as long as we wanted. There was no time limit. We could ask him anything. About 15 minutes of us starting to talk to him, you felt like you were talking to your grandfather. He made sure that you didn't think you were talking to Warren Buffet. Well, we covered many different subjects. I think many of the things we covered were probably in the public domain, if you read about Buffett will come up. But what I found very helpful, first of all, my interest in making the lunch was really to pay a gurudakshana. I have been cloning left, right, and center making all this money. How do I thank him? Well, there was a lunch of a way to thank him. I told him right up front this, I am just very grateful for what you did, very thankful for you and all of that. That is what I wanted to really cover. But one of the things that was helpful during the lunch is, it calibrated for me the things that were very important to Warren, the core principles that are front and center. For example, one of the first things he mentioned is that there are two ways you can live your life. He said, you can live your life by what he called an inner scorecard which is, you judge internally how well you are doing at something and the other way you can live your life is by an outer scorecard, which is, you look at the world and the way they think about you is the way you judge yourself. He said, the correct way to live your life is with an inner scorecard. He went ahead and said, would you prefer to be the best lover in the world, but known as the worst? Or would you prefer to be the worst lover in the world, but known as the best? He said, if you know how to answer that question you have got it made. What I have, I think that the inner scorecard versus outer scorecard is an incredibly important mental model to keep in mind, is always to do things that you think at the core are the right thing to do. Regardless of the world agrees with you or not. Very few humans are willing to do that. People care about what the world thinks. Warren does not care what the world thinks. If you think, if you look at many aspects of his life, he had a wife and he had a mistress at the same time, and the wife approved of the mistress. In fact, the wife gave him the mistress, and no one raises an eyebrow about it. He never cared about what the world thought about it. Someone once asked him about this whole, triangular arrangement and his perspective, his answer was, there are three people affected by it, none of whom have a problem with it. The ultimate inner scorecard doesn't really care about what the world says, just go ahead.

Audience: You mentioned that listen closely to the customer and they tell you what to do, but you also said, don't drive to the customer and all.

Mohnish: In the early days. The question is, I am saying that listen to your customers, then I am also saying don't meet them. Let me preface that. In the early days, please spend incredible amounts of time with your customers.

Audience: Everything is evolving, right, so what customers have questions about knowledge of marketing, engine may not be there.

Mohnish: Right, I would say that is a very valid point. The question is that we may not be to able pick-up market movements or signals if we are sitting in our ivory tower and not meeting anyone. My perspective is that you can pick up data from multiple sources. I feel the worst possible way to pick up data, the least efficient channel to pick up data, is talking to another human. That is the worst way to educate yourself. In my opinion, the best way to educate yourself is to read a book. From my point of view, I think in terms of the density of knowledge going into your brain reading is the best way to do that. The lowest level of doing that is meeting someone because all the banter and everything else going on, and then the sales and all of that, at the end of the day, there is very little essence that comes out. I would say early days, max time. Subsequently, you must figure out a way where you are bringing in data that is important, so you don't miss market signals. I would say a lot of that you would do much better by being a voracious reader versus being a voracious meter of people. Reading probably gets you much further along on that curve.

Audience: I would like to have your opinion. I got one product which is a patented product, it to do with what you call toothpaste, mouthwash, whitening gel. We come out with the product and ready to go to the market, and some advisor says, unless you perfect it, don't go to the market. The question is, by the time you are ready, there is always something new. What is your take on that one? If you wait forever, it just takes a lot of time.

Mohnish: Well, the question is like, you mentioned that you have a patented product, and advisors say that don't go to market unless it is perfect, but that is a moving target, right, have a seat. My answer is that there are 100 ways that things can be successful. You can be like Steve Jobs, and you can wait till things are perfect and just keep working on them till you think you are satisfied and that works. Or you can be like Bill Gates and send everything half-baked to the market. That worked also, right? The nature of capitalism is that you don't have one way that is probably going to be the only way it works. My personal bias would be to put out something that is as close to perfection as possible so that you feel good about it. I would say this is a gut call. Look at it, at what point do you feel it is an incredible product and you can go on and you can call it a version 2.0 after a year or something. If you feel it is there and it is incredible, go for it. I think if you have reservations, then I would say keep it in the lab for a little longer. There are multiple ways to skin the cat.

Audience: You feel good about using it yourself?

Mohnish: Absolutely.

Audience: Take it out.

Mohnish: Absolutely.

Audience: That is what you used to do, right?

Mohnish: That is the key.

Audience: You use it yourself

Mohnish: You must love it.

Audience: I am going to take you back. What I wanted to hear from you is the mental models. When you pick stocks, what mental models do you use? You articulated Munger and Buffett so times and eager to hear from you. What did you learn about mental models from them?

Mohnish: How much time do we have, Tony?

Tony: We have time.

Mohnish: We have time. The question is on mental models and how do you pick stocks and how do I pick stocks and so on. Let me answer your question the following way. Let us say that you have an 80 IQ and you come to me and say, “Look, I am not very smart, but I want to do the best I can in the market. How should I go about managing my portfolio?” I say, 80 IQ we can work with an 80 IQ buy an index fund, buy the S&P 500 index dollar cost average every paycheck, maybe 15% over a lifetime. You are going to wake up at 70 and be rich. Seven figures for sure. Now you say to me that “I have a 90 IQ; I am much smarter than the 80 IQ guy. Can I do better?” I would say to you, we have more to work with 90 IQ we can do better buying Berkshire Hathaway. Probably, it will be the S&P 500 index somewhat better again, dollar cost average, and put some money from every paycheck and you are done. Then, a 100 IQ guy comes to me and says, “Look, I am better than these smart guys. I am 100 IQ. Can I do better than that?” I say, a 100 IQ, of course, we can work with that, and we can do some more things with that, we can do better. There were these two business school professors, one from Ohio State and one at the University of Nevada and they did a study over 30 years, I think 1976 to 2006. They studied that if you bought a stock that Warren Buffett bought, and you bought it after it was publicly known that he had bought it, and you bought it on the last day of the month that it was publicly known that he had bought it, and you found the worst broker on the planet who charged you the highest price on the last day of the month to give you that stock, and you bought it at that high price on the last day, and you sold it when Buffett started to sell again, publicly known again last year of the month, found the worst broker, sold it at the lowest price in the last year of the month. You beat the S&P over 30 years by 11 and a half percent a year. You did 21.5% annualized if you followed that approach. Now, if you are beating the S&P 500 by three percentage points a year you are like one in 200. As you get to five percentage points, seven percentage points, 10 percentage points outperformances, it is one in thousands. That is an incredible performance for having to work 15 minutes a month because for the whole month you can be in Goa or Aspen or whatever enjoying life.

Then last day of the month, you come back and say, God Google, did Buffett do anything this month? Any disclosure? Anything happen? God Google will tell you anything happened. He says, "Oh, he bought IBM. Okay, worst broker, give me the high price today for IBM." Then go back to your skiing activities, what else you are doing till the next month. Now let us say someone has a 110 IQ and says to me, "Look, I am better than these other guys. I am 100 IQ, can I do better than that". It is not easy to do better than 11 and a half percent a year. But then I would say, do something like what I do, which is be a shameless cloner. There are two ways you can go bowling if you go to a bowling alley. One is you can bowl with bumpers, and the other is you can bowl without bumpers, right? You can put the things so you have no gutter balls, or you can have gutter balls all the time. If I told you that what matters is the score at the end, not whether you use bumpers or not, would you prefer to bowl with bumpers or without bumpers? With bumpers? Is it more fun to bowl with bumpers? Yes, the score is going to be higher. I love bowling with bumpers. If you are one of the I don't want a bowl with bumpers guy, then you are also the kind of guy who probably doesn't want to clone, bowling with bumpers is fantastic. Always bowl with bumpers, turn those bumpers on. When you bowl with bumpers, which is what I am doing with all, if you look at Pabrai Investment fund's portfolio, almost the entire portfolio is stock picks by some other great investor. I have no original ideas, I just look at what some other smart person is doing, seeing if I can understand what they have done, then buy the same thing. Then, because of the same thing and the incredible nature of this wonderful country is, I get paid for doing that.

I get paid well to do that, but don't tell my investors, they think I am working hard. Are we recording this, basically bowl with bumpers. I would say that you can go far along as an investor just by doing mindless cloning. In fact, someone just set up an ETF, right? Someone set up an ETF for the first time which is a cloning ETF, all this time I was talking that there is no fund that does cloning some ETF, well, I don't know what it is called. Have you looked at it? There is a cloning ETF. Apparently, it has great performance. It is looking at all these, I don't know what to do in the future, disclaimer, no idea. That might be a good place to start, or you could do just what those two professors said. Just 15 minutes a month and that is it.

Audience: I had a question

Mohnish: I am sorry to disappoint you.

Audience: Just one. How much Berkshire do you own?

Mohnish: Well, between us girls, I have one share. I am legal to go to the meeting.

Audience: The reason I was asking you is whether you follow the Buffett and Munger thought process.

Mohnish: There have been times in the past when I have had significant holding in the Berkshire. The question was, how much Berkshire do I own, and I own one share, at times when it has been cheaper, I have bought more of it. I think owning Berkshire is a great choice. Simple choice. You have no taxes to be paid or any of that until you sell. It is great. Some folks may think they can do better than that.

Tony: I know we have lots of questions, we have taken quite a lot of your time, but thank you so much. That was an incredible talk, so excited, you all would come, and you don't mind staying back a few minutes.

Mohnish: Yeah, sure.

Tony: It is great to see you all and thank you very much.
