

THE AFFORDABLE LOSS PRINCIPLE



Starting a new business is risky: you can't predict if your company will succeed or fail. That's why expert entrepreneurs figure out first what they are willing to lose rather than what they expect to make. They ask themselves: "Is this business worth starting even if I lose what I invest?"

Professor **SARAS SARASVATHY** at the University of Virginia Darden School of Business calls that **THE AFFORDABLE LOSS PRINCIPLE**.

One entrepreneur may be comfortable losing \$100, another \$10,000. But it's not just money that entrepreneurs put into their startups. It's also their time, effort and energy.

An entrepreneur might think: "I've always wanted to have my own business. But can I afford to invest \$20,000 plus a year of my time in this startup? Will I be okay losing all that if it fails?"

Failing Smart = Learning

Expert entrepreneurs know that there are smart ways and not-so-smart ways to fail. If you put all your savings into your company and it goes bust, you lose everything. That's not the smartest way to fail. **THE AFFORDABLE LOSS PRINCIPLE** shows you how to fail smart.

Let's say you've got \$30, and you want to start a lemonade stand. If you put \$30 into your new business and no one buys a single cup of lemonade, you'll lose \$30. But what if you asked the farmers at the Farmer's Market to give you unsold lemons and spent just \$2 to buy sugar? Even if you end up losing \$2, it won't be the end of the world. You'll learn a ton about selling lemonade, and you'll still have \$28 left!

Entrepreneurs believe in failing fast, failing cheap and learning from mistakes. Because they **RISK ONLY WHAT THEY CAN AFFORD TO LOSE**, they always have the resources to make a new start.

Bootstrapping Your Startup

Launching a business on the cheap is called **BOOTSTRAPPING**. Founders who bootstrap their startups are careful about spending money. When they need something, they don't rush to buy it. Instead, they find creative ways to get it. They know how to identify **SLACK**. Slack can be waste, like old tires, or empty space, like an old garage. Slack can also be other people's skills and knowledge that entrepreneurs can put to new use.

The rules of bootstrapping:

- Never buy what you can rent
- Never rent what you can barter for
- Never barter for what you can borrow
- Never borrow what you can get for free

You don't need a lot of money to start a business, but you do need to invest smartly and control your downside.

