



Entrepreneur Incubator

Reference Article

Taking Risks in Your Business

Small Business Trends (August 2008)

Have you ever taken a “bet the farm” risk in your business? I’m asking this question as part of an ongoing series in our Success Center — looking for thoughtful, introspective answers that will help other entrepreneurs. So I posed this question to 6 entrepreneurs and experienced businesspeople. Here are their responses:

“We take calculated risks,” says Jacob Mullins, [VentureBeat](#):

“Actually, we really haven’t taken a huge “bet the farm” type risk in VentureBeat. Of course, making the decision to start a company, leave the traditional work place and guaranteed paychecks, is a huge risk in itself. Apart from that, however, we have worked really hard to grow organically and bootstrap ourselves as much as possible. At first it was solely Matt Marshall writing by himself, and over time he grew the editorial team to one freelancer, then two, then a full-time staff person, and now a whole team of editorial staffers. Our growth curve closely resembles our revenue curve and we’re careful to not overextend ourselves. At the same time, though, we are ambitious and aggressive. We realize what an interesting time it is in new media and we’re eager to take advantage of the opportunities that abound. We’re definitely not risk averse, we just like to make sure that it’s very calculated and thought-out.”

“I didn’t want an expensive hobby,” says Dane Carlson, of the [Business Opportunities blog](#):

Betting the farm, especially in the startup sense, runs counter to my business philosophy and it should run counter to yours, too. My conservative way to start a business is to first figure out whether or not you have a product or service that someone will give you money for. If you do, great. Start selling and you’re in business. If not, you’re not a business. You’re an expensive hobby. No one should “bet their farm” for a hobby.

If everyone thinks your product is great, but strangers don’t literally thrust dollar bills into your pockets, you shouldn’t go into business. Refine your product and your pitch and try again. Don’t bother with incorporating or renting an office until after you’ve gone out and sold your product to someone you didn’t already know, and you won’t be forced to bet the farm just to start up.

“Quitting my day job is the closest I’ve come,” says Jeremy Gutsche, [Trend Hunter](#):

I love risk, but I don’t really feel like I’ve had to ‘bet the farm’, yet Thus far, the biggest jump would have been the decision to quit my day job. I think that’s a big decision for a lot of entrepreneurs. When you start to move up the corporate ladder, salaries and bonuses start to ramp up making it more difficult to make the leap. At the same time, the roles become more influential and corporate life becomes even more enjoyable.



Entrepreneur Incubator Reference Article

The way I made the decision was to commit to 'one more bonus'. The kicker was that 'one more bonus' made me hang on for an extra 4-6 months. However, if I'd been unemployed 2 years earlier, I never would have thought of corporate life. I never would have looked for another job... I would have worked on Trend Hunter full time from day 1.

"I don't play with scared money," says Ed Bott of Ed Bott's Windows Expertise:

In my younger days, I spent many a spare hour at the racetrack or studying the art and science of horse-race handicapping. I knew several people who made a living as professional horseplayers, and every single one told me the same thing: You can't win if you're playing with scared money.

They were right. If you're making a bet where you can't afford to lose, your fear is going to get the better of you and you're going to try to do the safe thing instead of making smart decisions or doing the right thing.

In 2001, when I decided to leave my comfortable paycheck behind and become a full-time writer and consultant, I had a chance to put that lesson to the test. I made sure I had enough of a bankroll to tide me over for the time it would take me to get my new business off the ground. Before I said "I quit," I negotiated contracts for regular assignments with some of my favorite publications. And I signed a contract to write the first in what would become a best-selling franchise with Microsoft Press, Windows XP Inside Out. Because I wasn't "betting with scared money," I was able to negotiate terms that made sense for me and choose the work I really wanted to do instead of having to say yes to whatever opportunities came along.

I've had flush times and lean times in the years I've been working for myself, but I've always made sure to follow that rule. It's been a winner every time.

"When taking risks we weigh the benefits against the costs" says Scott Belsky, Behance.com:

As a start-up business, we take risks every day. In fact, our employment in itself is a risk. However, we have our own way of evaluating the benefits that makes our "investment" very compelling.

Here's how we consider it: Every action has both a benefit and cost associated with it. A "risk" is when you cannot adequately measure the benefit and cost - when you don't know for sure whether or not the benefit will outweigh the cost. Well, "betting the farm" implies that there is little balance between the cost and benefit. In my opinion, if the ratio is way too broad, I think you might be rushing into things.

Of course, one of the major "benefits" from taking a risk is knowledge - and the most valuable knowledge often comes with failure. There have been many times when we, as a team, have decided that we were willing to get something wrong



Entrepreneur Incubator Reference Article

simply for the sake of learning. In such cases, the cost/benefit ratio is not as bad as you think!

At Behance, one of the biggest “risks” before us is a new product we are developing for productivity and project management. With “Action Method Online,” we’ve decided to approach typical project management from a completely different angle. There is one fundamental change in particular that will either be a major limitation or a tremendous differentiation. At one point, we decided to “up the ante” by applying for a patent (ie: spending lots of money) and building upon the new platform we developed.

But, for a team with a mission to “organize the creative world,” we will benefit from this experiment — regardless of how successful it is. We recognize the many iterations that lie ahead and believe that the knowledge, on its own, make the project a risk worth taking.

“Yes, I have taken bet the farm risks,” says Andru Edwards, [GearLive.com](#):

While I think that there are many things we have done in our business that can be seen by different people as a “bet the farm” move, I can think of two instances where I knowingly knew that I was putting everything on the line. The first was when I decided to take the side-blog business that I had going on, and turn it into a full-fledged, full-time business. The risk that was that it was either sink or swim. Either it would thrive, or it would die. Luckily, we enjoyed almost immediate success.

Underlying infrastructure that we use to publish our websites was a very risky move. Considering that a very large percentage of our traffic comes by way of search engines, and considering how finicky those search engines can be when you make major changes to the structure of any website, it was a real cross-your-fingers moment in our history.

And now for my own response....

“Take a huge risk if it means protecting your company,” says Anita Campbell of

Small Business Trends:

I think there are times when every small business has to be prepared to take a “bet the farm” risk to protect your rights. The best example is a true story involving one of our experts here at *Small Business Trends*, John Wyckoff (now deceased).

John had several patents on unique sport clothing items that his company manufactured. One day he learned his largest (by far) customer went to another supplier to copy one of his inventions. The customer continued to purchase from John’s company, but was concurrently developing product lines that infringed his patents.

It was a gut-wrenching decision, but he sued his largest customer (a HUGE corporation). He could have ignored his customer’s actions and hoped for the best. Instead, he drew a line in the sand. He knew that he had to protect his rights, or others might start infringing, too. He had to do it, even if it took every



Entrepreneur Incubator Reference Article

penny in his small business. And even if he lost his biggest customer. In the end, it worked out OK. His customer settled the lawsuit and remained a customer. But it took guts to risk it.

I think that's a good example of where you may have no choice but a "bet the farm" risk. Here are a few situations where you might be forced to put everything on the line to protect your business:

- infringement of your patents or trademarks by your best customer;
- attempts to undermine your patent rights, by patent trolls;
- theft of trade secrets by a key employee who goes to work for your biggest competitor;
- any kind of fraudulent action against your company that eventually could put you out of business.

With any luck, most of us will never be faced with these situations. But if you are, be prepared to be bold. Or you just might lose it all anyway.