Ramen Profitable

July 2009Now that the term "ramen profitable" has become widespread, I ought  
to explain precisely what the idea entails.Ramen profitable means a startup makes just enough to pay the  
founders' living expenses. This is a different form of profitability  
than startups have traditionally aimed for. Traditional profitability  
means a big bet is finally paying off, whereas the main importance  
of ramen profitability is that it buys you time.  
[1]In the past, a startup would usually become profitable only  
after raising and spending quite a lot of money. A company making  
computer hardware might not become profitable for 5 years, during  
which they spent $50 million. But when they did  
they might have revenues of $50 million a year. This kind of  
profitability means the startup has succeeded.Ramen profitability is the other extreme: a startup that becomes  
profitable after 2 months, even though its revenues are only $3000  
a month, because the only employees are a couple 25 year old founders  
who can live on practically nothing. Revenues of $3000 a month do  
not mean the company has succeeded.  
But it does share something with the one  
that's profitable in the traditional way: they don't need to raise  
money to survive.Ramen profitability is an unfamiliar idea to most people because  
it only recently became feasible. It's still not feasible for a  
lot of startups; it would not be for most biotech startups, for  
example; but it is for many software startups because they're now  
so cheap. For many, the only real cost is the founders'  
living expenses.The main significance of this type of profitability is that you're  
no longer at the mercy of investors. If you're still losing money,  
then eventually you'll either have to raise more  
or shut down. Once you're  
ramen profitable this painful choice goes away.  
You can still raise money, but you don't have to do it now.\* \* \*The most obvious advantage of not needing money is that  
you can get better terms. If investors know you need money, they'll  
sometimes take advantage of you. Some may even deliberately  
stall, because they know that as you run out of money you'll become  
increasingly pliable.But there are also three less obvious advantages of ramen profitability.  
One is that it makes you more attractive to investors. If you're  
already profitable, on however small a scale, it shows that (a) you  
can get at least someone to pay you, (b) you're serious about  
building things people want, and (c) you're disciplined enough to  
keep expenses low.This is reassuring to investors, because you've addressed three of  
their biggest worries. It's common for them to fund companies that  
have smart founders and a big market, and yet still fail. When  
these companies fail, it's usually because (a) people wouldn't pay  
for what they made, e.g. because it was too hard to sell to them,  
or the market wasn't ready yet, (b) the founders solved the wrong  
problem, instead of paying attention to what users needed, or (c)  
the company spent too much and burned through their funding before  
they started to make money. If you're ramen profitable, you're  
already avoiding these mistakes.Another advantage of ramen profitability is that it's good for  
morale. A company  
tends to feel rather theoretical when you first start it. It's  
legally a company, but you feel like you're lying when you call it  
one. When people start to pay you significant amounts, the company  
starts to feel real. And your own living expenses are the milestone  
you feel most, because at that point the future flips state. Now  
survival is the default, instead of dying.A morale boost on that scale is very valuable in a startup, because  
the moral weight of running a startup is what makes it hard. Startups  
are still very rare. Why don't more people do it? The financial  
risk? Plenty of 25 year olds save nothing anyway. The long hours?  
Plenty of people work just as long hours in regular jobs. What keeps  
people from starting startups is the fear of having so much  
responsibility. And this is not an irrational fear: it really is  
hard to bear. Anything that takes some of that weight off you will   
greatly increase your chances of surviving.A startup that reaches ramen profitability may be more likely  
to succeed than not. Which is pretty exciting, considering the  
bimodal distribution of outcomes in startups: you either fail or  
make a lot of money.The fourth advantage of ramen profitability is the least obvious  
but may be the most important. If you don't need to raise money,  
you don't have to interrupt working on the company to do it.Raising money is terribly distracting.   
You're lucky if your  
productivity is a third of what it was before. And it can last for  
months.I didn't understand (or rather, remember) precisely why raising  
money was so distracting till earlier this year. I'd noticed that  
startups we funded would usually grind to a halt when they switched  
to raising money, but I didn't remember exactly why till YC raised  
money itself. We had a comparatively easy time of it; the first  
people I asked said yes; but it took months to work out the  
details, and during that time I got hardly any real work done. Why?  
Because I thought about it all the time.At any given time there tends to be one problem that's the most  
urgent for a startup. This is what you think about as you fall  
asleep at night and when you take a shower in the morning. And  
when you start raising money, that becomes the problem you think  
about. You only take one shower in the morning, and if you're  
thinking about investors during it, then you're not thinking about  
the product.Whereas if you can choose when you raise money, you can pick a time  
when you're not in the middle of something else, and you can probably  
also insist that the round close fast. You may even be able to  
avoid having the round occupy your thoughts, if you don't care  
whether it closes.\* \* \*Ramen profitable means no more than the definition implies. It  
does not, for example, imply that you're "bootstrapping" the  
startup—that you're never going to take money from investors.  
Empirically that doesn't seem to work very well. Few startups  
succeed without taking investment. Maybe as startups get cheaper  
it will become more common. On the other hand, the money is there,  
waiting to be invested. If startups need it less, they'll be able  
to get it on better terms, which will make them more inclined to  
take it. That will tend to produce an equilibrium.  
[2]Another thing ramen profitability doesn't imply is Joe Kraus's idea  
that you should put your   
business model in beta when you put your  
product in beta. He believes you should get  
people to pay you from the beginning. I think that's too constraining.  
Facebook didn't, and they've done better than most startups. Making  
money right away was not only unnecessary for them, but probably  
would have been harmful. I do think Joe's rule could be useful for  
many startups, though. When founders seem unfocused, I sometimes  
suggest they try to get customers to pay them for something, in the  
hope that this constraint will prod them into action.The difference between Joe's idea and ramen profitability is that  
a ramen profitable company doesn't have to be making money the way  
it ultimately will. It just has to be making money. The most  
famous example is Google, which initially made money by licensing  
search to sites like Yahoo.Is there a downside to ramen profitability? Probably the biggest  
danger is that it might turn you into a consulting firm. Startups  
have to be product companies, in the sense of making a single thing  
that everyone uses. The defining quality of startups is that they  
grow fast, and consulting just can't scale the way a product can.  
[3]  
But it's pretty easy to make $3000 a month consulting; in  
fact, that would be a low rate for contract programming. So there  
could be a temptation to slide into consulting, and telling  
yourselves you're a ramen profitable startup, when in fact  
you're not a startup at all.It's ok to do a little consulting-type work at first. Startups  
usually have to do something weird at first. But remember  
that ramen profitability is not the destination. A startup's  
destination is to grow really big; ramen profitability is a trick  
for not dying en route.Notes[1]  
The "ramen" in "ramen profitable" refers to instant ramen,  
which is just about the cheapest food available.Please do not take the term literally. Living on instant ramen  
would be very unhealthy. Rice and beans are a better source of  
food. Start by investing in a rice cooker, if you don't have one.Rice and Beans for 2n  
  
 olive oil or butter  
 n yellow onions  
 other fresh vegetables; experiment  
 3n cloves garlic  
 n 12-oz cans white, kidney, or black beans  
 n cubes Knorr beef or vegetable bouillon  
 n teaspoons freshly ground black pepper  
 3n teaspoons ground cumin  
 n cups dry rice, preferably brown  
  
Put rice in rice cooker. Add water as specified on rice package.  
(Default: 2 cups water per cup of rice.) Turn on rice cooker and  
forget about it.Chop onions and other vegetables and fry in oil, over fairly low  
heat, till onions are glassy. Put in chopped garlic, pepper, cumin,  
and a little more fat, and stir. Keep heat low. Cook another 2 or  
3 minutes, then add beans (don't drain the beans), and stir. Throw  
in the bouillon cube(s), cover, and cook on lowish heat for at least  
10 minutes more. Stir vigilantly to avoid sticking.If you want to save money, buy beans in giant cans from discount  
stores. Spices are also much cheaper when bought in bulk.  
If there's an Indian grocery store near you, they'll have big   
bags of cumin for the same price as the little jars in supermarkets.[2]  
There's a good chance that a shift in power from investors  
to founders would actually increase the size of the venture business.  
I think investors currently err too far on the side of being harsh  
to founders. If they were forced to stop, the whole venture business  
would work better, and you might see something like the increase  
in trade you always see when restrictive laws are removed.Investors  
are one of the biggest sources of pain for founders; if they stopped  
causing so much pain, it would be better to be a founder; and if  
it were better to be a founder, more people would do it.[3]  
It's conceivable that a startup could grow big by transforming  
consulting into a form that would scale. But if they did that  
they'd really be a product company.Thanks to Jessica Livingston for reading drafts of this.