What Orkut Teaches About Sunk Costs

Idea In Short

A once-dominant social network, launched roughly two weeks before a rival that would eventually eclipse it entirely, offers a vivid illustration of a deceptively simple economic principle: resources already spent cannot be recovered, and should never influence a forward-looking decision. Understanding sunk cost thinking, and building the discipline to actually apply it, matters for consultants and clients alike, especially when a legacy system, relationship or strategy has clearly stopped working.

A Social Network's Rise and Quiet Fall

A pioneering social networking platform launched roughly two weeks before a rival that would eventually become the dominant global platform, and for a period it built genuinely enormous popularity in several large markets before fading into irrelevance and eventual retirement.1 The eventual winner in that competition went on to serve billions of users worldwide, dwarfing what was once a genuinely serious early competitor.

A Simple Concept, Consistently Ignored

The underlying economic principle at play is deceptively simple: resources already spent cannot be recovered, and therefore should not influence a forward-looking decision. Nearly everyone understands this intellectually, and yet people consistently fail to apply it in practice, staying attached to a failing product, strategy or relationship simply because of how much has already been invested in it.

Why Legacy Systems Persist Longer Than They Should

This matters enormously in consulting and organizational settings for two related reasons. Clients often maintain legacy organizational structures, outdated technology systems and long-standing vendor relationships that quietly hold them back, precisely because abandoning them feels wasteful given how much has already been invested. Consultants themselves need the same discipline in reverse, recognizing when a particular approach, deliverable or line of analysis is not actually working and should be abandoned rather than defended out of stubbornness.

The Past Does Not Set the Market Price

A classic illustration of sunk cost thinking involves someone refusing to sell an asset for less than its original purchase price, anchoring to a past number the market has no obligation to respect. The market simply does not care what was originally paid; only current and future value matter to a rational forward-looking decision.

Expert Decision-Makers Understand This Intuitively

Skilled poker players and professional investment managers tend to internalize sunk cost discipline better than most people, since money already committed to a hand or a position is, functionally, already spent and should have no bearing on the next decision. Continuing to invest in something failing simply because of what has already gone into it is a well-documented and thoroughly avoidable mistake.

The Power of Quitting Strategically

A well-known business author has written extensively about the strategic value of quitting the right things at the right time, arguing that persistence only makes sense for pursuits genuinely worth the struggle. In one widely cited interview, he drew a sharp distinction between changing tactics and abandoning strategy: organizations that lack confidence in their underlying direction cling rigidly to specific tactics out of fear, while genuinely strong organizations stay clear and consistent about strategy while remaining fully willing to adjust tactics along the way, and markets tend to forgive, even reward, that kind of tactical flexibility when the underlying strategic direction stays coherent.2

Persistence Still Matters, Selectively

None of this argues against persistence generally. Consultants should use rigorous data to break down problems, weigh genuine tradeoffs and opportunity costs, and anticipate the difficult stretches nearly every worthwhile pursuit passes through before it succeeds. The discipline lies in distinguishing a temporary difficult patch worth pushing through from a fundamentally failing approach that no longer deserves further investment.

Recognizing the Difference in Practice

The hardest part is rarely understanding sunk cost thinking intellectually; it is recognizing, in the middle of an ongoing commitment, whether a current struggle represents a normal difficult stretch or a genuinely failing situation that deserves an honest, timely exit. Building a habit of periodically asking whether a decision would still be made today, evaluated purely on its current and future merits rather than on what has already been invested, offers a genuinely practical check against this common and costly bias.3 Asking that question honestly, on a fixed regular schedule rather than only when a crisis forces the issue, catches failing commitments considerably earlier than simply waiting for an obvious, undeniable collapse ever would.

- 1Social Networking Service
- 2Sunk Cost
- 3Escalation Of Commitment

Summary

A social network that briefly rivaled its eventual competitor, only to fade into irrelevance, illustrates a deceptively simple principle: money and time already spent should never influence a forward-looking decision. Knowing when to quit a failing strategy, product or relationship is every bit as valuable a skill as knowing how to persist through a difficult but genuinely promising one.