Zero to One by Peter Thiel | Book Summary by Paul Minors

INTRODUCTION

Who is this book for?

Zero to One by Peter Thiel is a must read for startup entrepreneurs everywhere. The book looks at how companies can engineer radical changes and in doing so, move the human race forward.

About the author

Author Peter Thiel was the co-founder of PayPal, the first outside investor in Facebook and is now the co-founder and chairman of Palantir Technologies. As far as investors and entrepreneur's go, Thiel is pretty inspirational. Thiel wrote Zero to One with the help of Blake Masters, also a budding entrepreneur, Blake co-founded a legal research technology startup after graduating from Stanford and Stanford Law School.

In this summary

Zero to One is about how to build companies that create new things. Thiel begins by examining what the future holds and what the business scene used to look like, before the millennium. Then Thiel looks at how all companies that are happy, are different before discussing the health of competition. Thiel discusses the role money plays in any venture before discussing industry secrets and how to build foundations. Finally he examines company culture and how to build one before identifying the 7 key questions you need to ask before starting a business.

BOOK SUMMARY

WHAT THE FUTURE HOLDS

It's going to be a challenge

Peter Thiel describes progress in future as happening in one of two ways. Either Horizontal progress - this is easier for us to perceive as essentially it means copying things that currently work - going from 1 to n. Thiel compares horizontal progress to the concept of globalisation, taking a product, service or process that works, perhaps on a small scale, and making it work globally. But Vertical progress, is more progressive, and not as easy for us to imagine. Vertical process, Thiel explains means doing original things, things that have never been done before. Its this kind of progress that we hope for. Vertical progress means from going from 0 to 1, Thiel explains that the way to do this is with technology.

Thiel explains that the most common source of new technology are start-ups. These are the guys that aren't afraid to take risks, they get stuff done quicker and are the ones to break into new industries with new technologies, they have the freedom to develop and adapt. The reason that the start-ups are creating the new tech and not bigger, well-established organisations, Thiel explains, is because these organisations are bureaucratic, they move slowly, are afraid of risks and overall, it takes a long time to get anything done. So if you want to be part of the future, get out of these organisations and get involved in a start-up.

> *"Positively defined, a startup is the largest group of people you can convince of a plan to build a different future. A new company's most important strength is new thinking: even more important than nimbleness, small size affords space to think. "*

According to Thiel, a start-up has to continuously question received ideas and re-think business from scratch. It's about the blank canvas and constantly re-writing the plan. And this, is where the future is made.

What was it like?

Peter uses the example of PayPal, the business he co-founded in the late 1990's to set the scene pre-crash.

Thiel was running PayPal in 1999. He describes himself as 'scared out of my wits'. He puts this fear down to the way that businesses were being started and ceasing to exist so regularly in Silicone Valley, he was afraid he would be headed down the same path.

However, PayPal had a difference, their goal was to have PayPal replace the US dollar by become an internet currency. This was big picture, change the future kind of stuff. The knew the crash was coming, and they rode it out, just prior to the crash they raised $100 million, the necessary funds to keep them moving.

Any entrepreneur that managed to ride out the post dot-com crash learnt a few key lessons, Thiel explains that the 4 biggest lessons are still very relevant in today's thinking;

1. *Make incremental advances. Grand visions inflated the bubble, so they should not be indulged.*

2. *Stay lean and flexible. All companies must be "lean," which is code for "unplanned." Try things out, "iterate," and treat entrepreneurship as agnostic experimentation.*

3. *Improve on the competition. Don't try to create a new market prematurely. Start with an already existing customer, build your company by improving on recognisable products already offered by successful competitors.*

4. *Focus on product, not sales. Technology is primarily about product development, not distribution.*

The 90's

Thiel describes the 90's as a bubble for the technology world. Were people believed in going from 0 to 1. Everyone aimed for it, but not many start-ups actually made it.

After the crash in 2000, the following rules were what the start-ups lived by;

1. It is better to risk boldness than triviality.

2. A bad plan is better than no plan.

3. Competitive markets destroy profits.

4. Sales matters just as much as product.

Thiel believes that we need some of the naivety that the start-ups pre-crash had. In order to create new technology, we have to forget about the 4 post-crash rules and learn from the past. Both mistakes and successes.

HAPPY COMPANIES ARE DIFFERENT, NOT THE SAME

Thiel compares monopolists and entrepreneurs. He says that the monopolists lie as a cover, they protect themselves from audits and scrutiny by keeping their monopoly under wraps, and as a result, often, giving more credit to their competition - who is likely non-existent. The entrepreneurs are the exact opposite. They preach that they are alone in their industry, they ignore their competition. But this, Thiel points out, is a mistake.

> *"The fatal temptation is to describe your market extremely narrowly so that you dominate it by definition."*

Thiel explains that monopolies have a powerful incentive to innovate, its the profits that they have built up over time that acts as a powerful driver. They can continue to innovate with research and projects that start-ups can only dream of.

> *"All happy companies are different: each one earns a monopoly by solving a unique problem. All failed companies are the same: they failed to escape competition."*

But competition is healthy!

It's a pretty common assumption that competition is healthy. However, Thiel points out that competition, more often than not. means no profits for anyone, theres a lack of differentiation in the market and it means that all of the businesses struggle. Whereas, if there is a monopoly, continuing to innovate, it means new technology and products brought to market benefiting the consumer and the creator.

> *"Competition is not just an economic concept or a simple inconvenience that individuals and companies must deal with in the marketplace. More than anything else, competition is an ideology—the ideology—that pervades our society and distorts our thinking. We preach competition, internalize its necessity, and enact its commandments; and as a result, we trap ourselves within it—even though the more we compete, the less we gain."*

Thiel examines Microsoft and Google as an example of competition. Microsoft focused on building an OS while Google created a search engine. You'd think that different markets, different products would mean there was no competition. However, the reality is that as both gained momentum and size they started to notice each other and work to beat the other. And as a result, we now have Windows and Chrome operating systems, Microsoft Office and Google Docs, the Surface and the Nexus. However, by focusing purely on each other, Apple was able to swoop in and overcome both of them. It only took Apple 3 years to have complete market capitalisation at $500 billion, versus the combined worth of Microsoft and Google at $467 billion. Competition, did not do well for Google or Microsoft. Competition is not always healthy.

Paypal and future profits

Thiel describes PayPal in the year 2001, they hadn't made any profit but their revenues were continuing to increase. Thiel believed that the profits generated in 2011 and further, would be where 75% of the company's present value would come from. However, this was a vast underestimate. At the time he wrote the book, Thiel disclosed that the majority of PayPal's value will come from 2020 and beyond!

> *"The overwhelming importance of future profits is counterintuitive even in Silicon Valley. For a company to be valuable it must grow and endure, but many entrepreneurs focus only on short-term growth."*

Thiel explains that by focusing primarily on near-term growth is not enough. You fail to consider what the business will be in a decade from now. You need to think big picture.

Thiel describes a companies that bring in large cash flows in their future as sharing the following characteristics:

1. **Proprietary technology**- making your product almost impossible to copy.

2. **Network effects**- this means that a product is increasingly useful, the more people use it. Think Facebook.

3. **Economies of scale**- when businesses get stronger as they get bigger. Software startups are a great example because the cost of creating a copy of the product is practically zero.

4. **Branding** – creating a strong and powerful brand is the best way to grow a monopoly. Apple is the perfect example of this.

Thiel explains that the ”first mover advantage" is when you are first to the market, you have the oppourtunity to gain market share while the competitors are still rushing to get started. However, Thiel explains that moving first is not necessarily the end goal, it’s a tactic. The goal should be generating cash flow. You can be the ‘last mover’ and still take over. The key is to find a niche market and scale up.

MONEY

Are you an optimist or a pessimist?

Thiel talks about one's perspective on the future as taking one of four possible views;

> *"You can also expect the future to be either better or worse than the present. Optimists welcome the future; pessimists fear it."*

- **Indefinite pessimism** – someone who sees a poor future and has no idea how to change this.
- **Definite pessimism** – someone who knows the future is bleak, and as a result, will be prepared for this.
- **Definite optimism** – someone who believes that the future will be better, but only if you work hard for it.
- **Indefinite optimism** – someone who believes in a better future but without knowing exactly how.

Follow the money

> *"The power law becomes visible when you follow the money: in venture capital, where investors try to profit from exponential growth in early-stage companies, a few companies attain exponentially greater value than all others."*

Thiel uses one of his organisations, Founders Fund, to illustrate this concept. Facebook, was their all-time best investment, with results better than all of their other investments combined. And Palantir, again, is expected to have similar results (although second still, to Facebook). The concept that a single successful investment can outdo the combination of all other investments, Thiel explains, is venture capital.

Thiel explains that technically, everyone is an investor, and therefore, the power law is relevant to everyone. Any time spent working on a startup, is technically an investment. Anybody who considers themselves an entrepreneur, someone investing their time, needs to consider if and when the startup will provide returns. Again, anyone who chooses a career, is investing in the assumption, that the work performed will, in return, be valuable in the future.

Thiel has a few suggestions for anyone starting their own company;

1. One market will outperform the others

2. One distribution path will also outperform the others.

3. Consider time and decision-making, as some of these are more relevant and matter more than others.

> *"You can't trust a world that denies the power law to accurately frame your decisions for you, so what's most important is rarely obvious. It might even be secret. But in a power law world, you can't afford not to think hard about where your actions will fall on the curve."*

SECRETS AND FOUNDATIONS

According to Thiel, there are two different kinds of secrets in our world. The first kind of secret is one of nature, and in order to uncover them, you must study the natural world and discover something new. The second kind of secret is about people. These are either things that are consciously hidden by people themselves, or something that even they do not know about themselves.

Thiel says, that when deciding what kind of startup you want to begin, consider the secrets that nature isn't telling you and the one's that people aren't telling you. If you can uncover these secrets, you can find answers.

Build a foundation

Thiel considers the following things as absolutely essential when staring a business or a startup. He thinks that they are so important that those close to him call this 'Thiel's Law'.

> *"A startup messed up at its foundation cannot be fixed. As a founder, your first job is to get the first things right, because you cannot build a great company on a flawed foundation."*

- **Founding matrimony** – the very first decisions is who your co-founder is going to be, this is someone you will share a lot with, you need to have history and know that you can work together. Thiel goes as far as to liken this as to choosing a husband or wife.

- **Ownership, possession control** – you need to establish who; a. owns the company (ownership), b. who manages the day-to-day running (possession) and c. who looks after the companies affairs (control). It's important to acknowledge that this is likely 3 different people.

- **On the bus or off the bus** – Thiel believes it is important that everyone involved in the startup is a full-timer for your company. There are exceptions for example lawyers but as a rule, ensure that everyone is a regular.

- **Cash is not king** – Thiel points out that cash is about the now, not about the future. It does nothing to encourage workers to work hard and create value for the companies future. “A cash bonus is slightly better than a cash salary—at least it's contingent on a job well done. But even so-called incentive pay encourages short-term thinking and value grabbing.”

- **Vested interests** – it doesn’t have to be all about a good salary when it comes to startups. Having equity in the company is an effective way to reward people and keep them involved.

- **Extending the founding** – establish the rules at the very beginning. When you found the company, make it clear what the rules are so everyone involved is on the same page.

BUILDING CULTURE

> *"A company doesn't have a culture, it is a culture."*

Thiel talks about how everyone at PayPal in the early days was nerdy and shared a love for science fiction. It became their culture. Regardless of age, race, gender, looks, as long as everyone loved science fiction, then they fit in just fine.

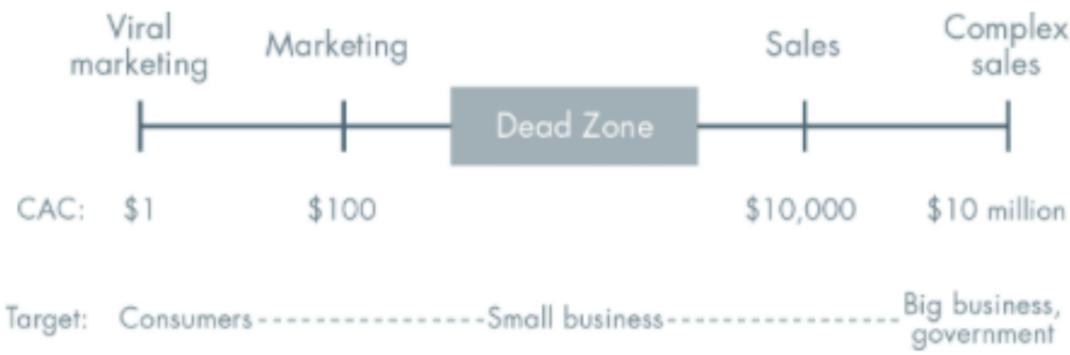
Thiel encourages handling your staff as individuals and making them unique in their role and responsibilities. Therefore, if they are solely responsible for one task, then they can easily be assessed and evaluated. This strategy worked for Thiel as a way of simplifying the management process. However, it can create unease as employees compete for the same responsibilities. Watch out for this particularly in startups, Thiel warns, as roles are a lot more fluid in the beginning. It's important to define who is responsible for what and how this will be assessed.

Will they come if you build it?

Earlier in the book, Thiel discussed having one superior distribution plan. Regardless of how good your product is, it needs to be distributed effectively.

> *"The total net profit that you earn on average over the course of your relationship with a customer (Customer Lifetime Value, or CLV) must exceed the amount you spend on average to acquire a new customer (Customer Acquisition Cost, or CAC). In general, the higher the price of your product, the more you have to spend to make a sale—and the more it makes sense to spend it."*

Distribution methods can be viewed as follows:



- **Complex sales** – this happens when the average sale is above 7 figures. The kind of sale that occurs once a year. Complex sales are, as their name suggests, complex. But it's the key to selling products of high-value.

- **Personal sales** – when the sales are between 10,000-100,000, it's important to have processes in place so the sales team can sell to a wide audience. This also means when new people join the sales team, it's easy to pick up and continue.

- **Distribution doldrums** – this is what Thiel refers to when a product is not worth enough (e.g. $1000) to have a personal salesperson complete every deal, but the marketing is not targeted enough. You get stuck in the dead zone.

- **Marketing and advertising** – this non-personal selling approach is for products with low value that appeal to the masses. When salespeople cannot be hired to sell small value items, companies turn to advertising to get the message out there.

- **Viral marketing** – a new, fast, cheap, effective way to gain momentum. When a product goes viral, current users are engaging with their friends and spreading the message, the chain continues exponentially. This only works in certain industries but when it works it can be highly effective.

It's important to understand the different strategies and which one works for your particular product or service, consider the value, the price and the necessary manpower involved.

Computers are substitutes for humans

> *"Everyone expects computers to do more in the future—so much more that some wonder: 30 years from now, will there be anything left for people to do?"*

Thiel emphasises that it's not that computers are going to replace humans, but continue to complement our human abilities. Businesses of the future will use technology, not to remove the necessity for humans or eliminate jobs, but to empower people to be able to do more. This, is the business model of the future.

As an example, Thiel discusses teachers. A good teacher knows that all students have individual needs, and often, they need their learning to be structured differently. For a long time, teachers were only able to teach in one medium, but computers, and technology is allowing them to adapt and cater to more needs. It doesn't replace the teacher, but provides the teacher with a platform to do more.

SINGLUARITY?

> *"Our task today is to find singular ways to create the new things that will make the future not just different, but better—to go from 0 to 1. The essential first step is to think for yourself. Only by seeing our world anew, as fresh and strange as it was to the ancients who saw it first, can we both re-create it and preserve it for the future."*

Conclusion

Key takeaways

- If you want to be part of the future, get out of these organisations and get involved in a start-up. This is where the technological advancements are made.

- Thiel explains that moving first is not necessarily the end goal, it's a tactic. The goal should be generating cash flow. You can be the 'last mover' and still take over.

- You need to establish the rules right at the founding of your business, this way, people know what the organisation is all about and in what direction you are headed.

- Culture is important in business.

- Consider the distribution method that is the most effective for your product service, identify the value and the best means to get it out there.

- Use technology as a way to empower you and any employees, don't use it to eliminate people.

Further Reading

The Third Wave by Steve Case is an insightful look into the future of startups and entrepreneurs in our ever-evolving technological world. Examining experiences form his own life, large global companies and recent stir-ups such as Uber, Case shares plenty of advice for those looking to achieve more and succeed in what he is calling 'the third wave'.

Good to Great by Jim Collins is another great read. Collins examines what it takes to turn an average company into a great one.

The $100 Startup by Chris Guillebeau has two key themes; freedom and value. Freedoms is what we are all looking for and value is the way to achieve it. The concept of having your own startup is the ultimate form of freedom according to Guillebeau. He discusses different lessons on the road to beginning your own startup. With a focus on 'micro businesses' this book has plenty of tips and advice for every step of the journey.

Guidelines is my eBook that summarises the main lessons from 33 of the best-selling self-help books in one place. It is the ultimate book summary; Available as a 80-page ebook and 115-minute audio book. Guidelines lists 31 rules (or guidelines) that you should follow to improve your productivity, become a better leader, do better in business, improve your health, succeed in life and become a happier person.

Action Steps

Thiel has identifies 7 key questions to ask yourself before you begin your embark on a business.

1. The Engineering Question – Can you create breakthrough technology instead of incremental improvements?

2. The Timing Question – Is now the right time to start your particular business?

3. The Monopoly Question – Are you starting with a big share of a small market?

4. The People Question – Do you have the right team?

5. The Distribution Question – Do you have a way to not just create but deliver your product?

6. The Durability Question – Will your market position be defensible 10 and 20 years into the future?

7. The Secret Question – Have you identified a unique opportunity that others don't see?