

Zero to One – Peter Thiel

Notes and Takeaways

Best question to ask someone:

- o “What important truth do you hold dear that very few people accept as true?”

At the macro level, the single word for horizontal progress is globalization – taking things that work somewhere and making them work everywhere

Vertical process or intensive progress means doing new things

- o If you have a typewriter and build a word processor you have made vertical progress

Horizontal or extensive progress means copying things that work

- o If you take a typewriter and build 100 you have made horizontal progress

Vertical progress is 0 to 1

- o The single word for vertical progress is *technology*

If you want to create and capture lasting value, don’t build an undifferentiated commodity business

- o Must think creatively to define new businesses and new offerings

Monopoly versus perfect competition

- o Most businesses will fall closer to one extreme than they often realize
- o Monopolistic companies lie to protect themselves
 - They know that bragging about their great monopolies brings scrutiny
 - Google, for example owns 68% of search engine traffic, however they hold themselves out as an “advertising” company to avoid scrutiny
 - Think Facebook, Amazon, etc.
- o Non-monopolies tell the opposite lie: “We’re in a league of our own.”
 - The fatal temptation is to define a market extremely narrowly so that you dominate it by definition
 - Entrepreneurs are always biased to understate their competition
 - Think of a British restaurant in Palo Alto, if they only consider their competition to be other British restaurants, then they may “dominate,” however in reality any other restaurant is realistically competition
- o Think of the competitive advantage between monopolies versus perfect competition
 - In a restaurant that is highly competitive, the owner may have to cut price and drop margins to be competitive and attract customers, in turn they can only pay minimum wage to their employees
 - On the other hand, Google has very little competition, they have a wider latitude to pay for workers, product development and therefore have a much greater impact on the wider world
 - There is privilege, power and potential abuse in a monopoly situation
- o So a monopoly is good for everyone on the inside, but what does it do for everyone on the outside?

- Outsized profits tend to come out of the customer's wallets, so those outside see marginal benefit
- Monopolies also create the economic conditions to drive progress because the years or even decades of monopoly profits provides a powerful incentive to innovate and be an effective competitor to challenge the monopoly

Economic theory postulates that absolute competition is a necessary prerequisite for a thriving economy

- o An equilibrium state of perfect competition is easy to model but does not represent the reality of business
 - In any specific business, equilibrium means stasis, and that can spell trouble for the profitability or even the survival of a business. Business owners often mis-read status quo as non-threatening when this stasis can mean decline or death of the business.
- o In reality, every new “creation” takes place far away from perfect competition and equilibrium
- o A monopoly is therefore not a pathology or an exception – Monopoly is the condition of every successful business
- o Companies that are truly different: earn a monopoly position by solving a unique problem
- o All failed companies did not create a niche and could not innovate or change to survive - survival of the fittest= first rule of capitalism

Rivalry causes us to overemphasize old opportunities and slavishly copy what has worked in the past

Competition can make people “hallucinate” opportunities (see something that doesn't exist or have viability)

- o Think all the dot coms in the late 90s

There is no middle ground: Either don't throw any punches, or strike hard and end it quickly

Great businesses are defined by the ability to generate cash flow *in the future*

- o Aging industries and sectors are not as valuable
- o Example: New York Times versus Twitter in 2013 – Twitter was new age and betting heavily on future cash flow, where the New York times was stagnant and trying to defend their declining cash flows
- o Technology companies often lose money in the first few years, building towards value and delaying profits
 - Most of a tech companies value will come at least 10 to 15 years in the future

The overwhelming importance of future profits is counterintuitive

- o For a company to be valuable it must grow and endure
 - Growth is easy to measure, but durability isn't
- o The most important question you should be asking is will this company be around a decade from now

What does a company with large cash flows far into the future look like?

- o A combination of: proprietary technology, network effects (see below for definition), economies of scale, branding and above all visionary management team
- o Proprietary technology – this is the most substantive advantage a company can have
 - As a good rule of thumb, the technology must be at least 10X better than its closest substitute
 - Clearest way to create a 10X advantage is to invent something completely new
- o Network Effects – makes a product more useful as more people use it
 - Network effects are powerful, but you’ll never reap them unless your product is valuable to its very first users (early adopters)
- o Economies of Scale – a monopoly business gets stronger as it gets bigger
 - The fixed cost of creating a product can be spread out over ever greater quantities of scale
 - This is why it is very hard to build a monopoly in service businesses
 - A good startup should have the potential for great scale built into its first design
- o Branding – Creating a strong brand is a powerful way to claim a monopoly
 - Always begin with substance to create a brand

Building a monopoly

- o Start small and monopolize
 - Every startup should start with a very small market
 - Always err on the side of starting too small
- o Scale up
 - Once you create and dominate a niche market, then gradually expand into related and slightly broader markets
 - Think Amazon
 - There are always hidden obstacles when scaling, unknown unknowns because everything is new – be dynamic when encountered and do best to plan for change and known constraints
- o Don’t disrupt
 - This is not a self-congratulatory buzzword to be used for “trendy and new”
 - Rather than disrupt, focus on creating
 - The act of creation is far more important
- o The last will be first
 - What really matters is generating cash flows in the future
 - First mover advantage, not as important as people think
 - It is much better to be a “last mover” meaning making the last great development in a specific market

“Victory awaits him who has everything in order – luck people call it” Roald Amundsen
South Pole explorer

You can expect the future to take a definite form or you can treat it as hazily uncertain

- o If you treat the future as something definite, it makes sense to understand it in advance and work to shape it
- o If you expect an indefinite future made up by randomness then you'll give up on trying to master anything
- o You have what it takes to shape your destiny it takes planning and resilience
- o Process trumps substance, habitual improvement trumps inspiration

Reject the unjust tyranny of chance – you are not a lottery ticket

Follow the money

- o “For whoever has will be given more, and they will have an abundance. Whoever does not have, even what they have will be taken from them.” (Matthew 25:29)
- o Never underestimate exponential growth
- o The power law: a small handful of companies radically outperform all others
 - Diversification will cause you to miss out on great opportunities
 - The biggest secret in venture capital is that the best investment in a successful fund equals or outperforms the entire rest of the fund combined
- o Whether you like it or not, every individual is unavoidably an investor
 - Invest in career and jobs that will create money and safety

The road does not have to be infinite after all – take the hidden path

Thiel's Law: A startup messed up at its foundation cannot be fixed

- o Apply same principle to any existing business

Choosing a partner or co-founder in a business is like getting married, and conflict can be just as ugly as a divorce

- o Founders and partners should share prehistory before they start a business together – otherwise they are just rolling the dice

You'll attract the employees you need if you can explain why your mission is compelling: not why it's important in general, but why you're doing something important that no one else is going to get done

Do one thing well – On the inside, every individual should be sharply distinguished by her work

From the outside, everyone in your company should be different in same way

Nerds versus salesmen

- o Nerds are skeptical of advertising, marketing, and sales because they seem superficial
- o Nerds are used to transparency – they add value by becoming an expert at a technical skill
- o What nerds miss is that it takes a lot of hard work to make sales look easy

The engineers grail is a product great enough to “sell itself”

- o But anyone who would actually say this about a real product is delusional or flat out lying to themselves and has never been a salesman

Superior sales and distribution by itself can create a monopoly, even with no product differentiation

- o Customer Lifetime Value (CLV) can be a very useful tool to determine what is an appropriate amount to spend on marketing and sales

All of us want to believe we make up our own minds, that sales and marketing don't work on us – this is simply not true

- o Everybody has a product to sell – no matter if you're an employee, a founder, or an investor

Computers should be seen as tools to systematize and scale never as a rival

- o Don't be threatened of an AI takeover anytime in the near future, instead think how can computers be used to help humans solve hard problems

Seven questions

- o Engineer question – can you create breakthrough technology instead of incremental improvements?
- o The timing question – is now the right time to start a particular business
- o The monopoly question – Are you starting with a big share of a small market?
- o The people question – Do you have the right team?
- o The distribution question – do you have a way not just to create but deliver your product?
- o The durability question – will your market be defensible 10 and 20 years into the future?
- o The secret question – Have you identified a unique opportunity that others don't see?