AN EXECUTIVE SUMMARY OF

ZERO TO ONE by Peter Thiel

Who is Peter Thiel

Peter is a German-American entrepreneur and billionaire that co-founded PayPal. He also Co-Founded the Billion-dollar company, Palantir, and was a large initial investor of Facebook (10.2% stake). Peter was providing lectures to students at Stanford University and one of the students, Blake Masters, turned his notes into this book: **Zero to One**.

Preston and Stig's General Thoughts on the Book

This was a fantastic book for entrepreneurs. For anyone trying to start their own business and explore new ways to create a product or service, this book will give you plenty to think about. Peter is a powerful thinker and some of the ideas expressed in this book demonstrate his ability to see things from the inverse perspective. The main theme of this book reminded us a lot of the **Blue Ocean Strategy** and **The Science of Getting Rich.** Both of those books are dedicated to the same idea Peter imparts in this book: enormous value can be created when a business creates something fresh and new. It can also be implied that when a company slightly improves and competes with existing products or services, little relative value is created for that business. Click here to **read 3rd Party reviews of Peter's book**.

Preface

The next Bill Gates will not build an operating system and the next Mark Zuckerberg will not create a new social network. You won't learn anything new if you just copy those that have succeeded. You might go from A-N, but not from Zero to One. If American companies do not realize this, they will fail in the future. Companies should not fine tune best practices, but find new and untraveled paths.

Chapter 1: The Challenge of the Future

When Peter Theil interviews people, he likes to ask them what unique truth they know that very few people agree upon. It is a hard question because the American education system is flawed. When we have learned something to be true, it is also something that a majority of people have agreed upon.

Horizontal progress is easy to imagine. That is when you improve something that you already know works. That will take you from A-Z. Vertical progress is harder because you need to do something that has never been done before. That will take you from Zero to One. China is prospering by horizontal progress. Globalization has allowed this to happen. By copying or improving something that already exist, you will not get ahead. Technology is what has taken you from Zero to One. You can have both horizontal and vertical progress, one at a time, or neither. Right now, we experience globalization, but limited technology progress. The progress has mainly been made in IT. The future depends on technology – not on globalization.

It is almost implied that the developed countries are leading, and other countries should aim to keep-up. Peter Thiel does not agree. If China and India for example double their energy consumption it would be a catastrophic pollution disaster using the practices from today. Globalization without technology is not sustainable.

Chapter 2: Party Like it's 1999

The 1990's had a good image until the Dotcom bubble burst. Peter Theil himself was scared about a crash in the technology market while he was running PayPal. It was not that he didn't believe in his own company, but people around him were acting crazy. No one believed that the anti-business model of growing, while losing money, would be sustainable. Peter had an acquaintance that had planned an IPO before he had incorporated his company.

PayPal was considered grandiose and even voted one of the ten worst business ideas of 1999 by a journalist. For PayPal to work they needed 1 million customers as a critical mass. After early struggles, the growth rate became exponential when the company introduced a campaign where new customers were awarded $10 for each account established. The campaign was as effective as it was unsustainable, but the strategy worked, and it attracted plenty of investors. That capital was enough to buy PayPal time to make it a success before the bubble burst. At the end of the bubble, Peter develops lessons learned that contradict conventional Silicon Valley wisdom:

- It is better to risk boldness than triviality.
- A bad plan is better than no plan.
- Competitive markets destroy profits.
- Sales matter just as much as product.

Chapter 3: All Happy Companies Are Different

Consider the airline industry which has created a lot of value, but few companies can make a profit. Compare this to Google that is creating less value, but is keeping the profits. Google makes so much money, that it is worth more than 3 times the value of all American airlines combined.

Economists explain this by categorizing Google as a monopoly. The high profit is made as consumers would have to pay a higher price for goods and services. Compare this to the airlines industry, which Peter described as "Perfect Competition". Most profit is washed away by fierce competition by rivals in the market.

Peter Theil likes the idea of a monopoly. Consider Google, dependent on your definition, it has a monopoly for search engines. Google does not have to constantly focus on competition, but can focus on innovation. The lesson is clear: If you want to keep the profit and progress you should build a business that has a very unique competitive advantage where rivals can't enter.

Chapter 4: The Ideology of Competition

Competition means no profit for anyone (from a pure theory position). So why do so many people like the idea of competition? It is an ideology that our education system preaches more than anything else. The best students get good grades and prestige if they solve the same assignment as everybody else – just marginally better. The competition continues and becomes even fiercer in higher education. The best of the best students are typically rewarded with conventional and non-innovative jobs in law or management consulting. The opportunity costs for society are enormous – everyone is thinking alike.

Chapter 5: Last Mover Advantage

The value of a business today is all the future cash flows from that company after being discounted at an appropriate rate. An old, low-growth company, like a newspaper, might hold its value if it can sustain the current cash flows for 5-6 year. But, often, the value of the company dwindles as customers move over to alternative products. Growth companies have the opposite trajectory. Some high growth companies might be losing money in the early years, and have the potential for significant cash flows in the next 10-15 years ahead. PayPal and LinkedIn are examples of this. (By the way, *The Investors* are a little skeptical of Peter's enthusiasm for some growth companies and his earnings forecasts. This seems very speculative from our position)

For a company to be valuable it must both grow and endure. He suggests focusing on short term growth because it is easy to measure. These companies focus on monthly revenue charts and quarterly earnings reports. The most important question to ask is: Will this business still be around a decade from now? Numbers alone will not give you the answer. You must critically think about qualitative characteristic.

Chapter 6: You Are Not a Lottery Ticket

Many celebrities including Bill Gates and Warren Buffett argue that luck has a big influence on their success. Peter Theil argues that we might be too quick to dismiss anyone who succeeded according to plan. While this can't be objectively tested, as the sample size of the single person's success is always one, the reader of the book must have the same opinion. Why else would he or she read this book if success was something completely random. Perhaps Steve Jobs is the proof that you create your own success. He did not ask for the opinion of focus groups. He designed for perfection, and he knew what he wanted. The main lesson to learn from Steve Jobs was he envisioned and executed long term plans to distribute innovative products. Steven Jobs changed the world by careful, backwards, planning.

Chapter 7: Follow the Money

In 1906 the Italian Economist Wilfredo Pareto discovered what would be known as the "Pareto Principle". He realized that 20% of the people owned 80% of the land in Italy. It was a concept, known as the 80-20 rule, which he found all throughout nature. The biggest cities dwarf the surrounding smaller cities. Monopolies grasp more profit than combining a majority of competitors. Money follows the same pattern. As an investor in venture capital, you should not over diversify as the returns are not normally distributed. For example, some companies will fail, more companies will stay flat, and a few superior companies will potentially return 10x there initial investment. If graphed, it might look like an inverse probability plot.

In reality, the investor should focus on the few superior companies that get exponential results. Peter Thiel's investment in Facebook vastly outperformed the combined return of all the other investments in his fund. Palantir, the second best investment, is set to make a higher return than all the other investments combined – aside from Facebook.

Chapter 8: Secrets

Why do so many people believe that there are not secret to be revealed anymore in the world? It might start with geography. Just 150 years ago a lot of the world had not revealed itself to anyone. Today just by watching the discovery channel everybody in the western world can see even the most remote locations from their coach. There are plenty of secrets to be revealed, but if you don't believe you can find secrets, you will never find them. We see it in the stock market where the common true is that you as individual investors can't know more than the combined market. In all social setting there are the prospects that you might be right, but unless the truth has been vetted as conventional wisdom, few people will take the chance and perhaps be left alone.

Chapter 9: Foundations

Founding a company is just like building a house. You can't build it on a flawed foundation. The first critical decision when building a company is whom you start it with. Choosing a co-founder is like getting married, and founder conflict is just as ugly as a divorce. No one wants to think about what will happen if it goes wrong, and thereby they don't do it. When investing in a company you should consider the founding team. Technical skills matter, but how the founders' work together is just as important.

In start-up companies there is a potential for conflict when ownership and control changes. This typically happens between the founder and his investors. A classic example could be the founder wanting to grow the company and keep it private, while the investor would like to cash out through an IPO. The board is very important. As a founder, as well as an investor, you should strive for small boards of 3-5 people. Smaller board ensures execution and effectiveness.

As a founder you should look to employ people to have equity or a regular full time salary from your company. There is an exception for lawyers and accountants, however, everyone that does not own stock options or draws a full-time salary is fundamentally misalign. They are biased to claim value in the short term, and not create value for the future. That is why part time employees and consultant don't work well. You are either on the bus or off the bus.

Chapter 10: The Mechanic of Mafia

The first team Peter Theil built has been known as the "PayPal mafia". The reason is that so many of his previous colleagues have later helped each other with the foundation of a variety of great companies including: Tesla, LinkedIn, and YouTube. The strong culture that originally shaped PayPal was not assembled by hiring the most talented people from a pile of applicants. Instead it was assembled by people of similar interests and work ethics and they had a very common goal they were working towards.

Recruiting should never been outsourced. As an employer in a start-up company, you should know the answer to the following question: Why should the 20th employee work for you? Talented people do not need to work for you. They have plenty of options and could likely work for a higher pay in a more prestigious company elsewhere. The right answer is specific to your company and relates to the mission and the team of the company. If you don't know that reason, the importance will not be unique, and you won't get the right talent.

Chapter 11: If you Build it, Will They Come?

In Silicon Valley, people are skeptical about advertising. They shouldn't be. Advertising works on everybody, and if you don't acknowledge it, you're deceiving yourself. Advertising is not necessarily the obvious sales you see on TV to buy a product right now. As a matter of fact, sales work best when it is hidden. Consider people that sell companies, they are called *Investment Bankers,* while people that sell themselves are called *Politicians*.

Start-up companies should resist the temptation to compete with conventional companies for elaborate PR-stunt. Instead they should focus on viral marketing that can lead to exponential growth.

Chapter 12: Man and Machine

Many people are concerned that machines will replace them in the future. Self-driven cars, for example, may replace taxi drivers. In general it is not that simple. Computers and machines are not good at the same things. Computers can scan and filter large amount of data, but contrary to people, computers have difficulty with holistic judgments. When you combine the strengths of machines with the strengths of people you will end up with something great. Machines and people are not rivals and they don't compete nor replace each other like globalization. In the future, the successful companies will recognize the strength of using computers and people to supplement each other. In this chapter, Peter lists seven questions every founder should answer before starting a business: 1) Can you create a breakthrough technology? 2) Is it the right time? 3) Are you starting with a big share of a small segment/market? 4) Do you have the right team? 5) Do you have a way to deliver the product? 6) Will your market position be defensible 10 to 20 years from now? 7) Have you identified a unique opportunity that others don't see?

Chapter 13: Seeing Green

At the start of the 21st century, everyone looked to green technology. Politicians were mobilizing the population of investors to pour billions of dollars into the new world of clean energy. It all turned out to be a bubble due to gross government intervention and the supply of capital ahead of technology maturation.

Companies forgot how competitive the energy market was. They looked at the overall market and thought they could strike gold if they capture a fraction of the market. Being a small fish in the big seas is not a good approach. The most successful companies start with the goal to dominate their niche before entering into harder and larger markets. Just think of Facebook that started up as a network just for a single campus. Another mistake is to be careful of simply investing in a market with huge potential alone. Simply being a part of an industry that is bound to grow, does not create any prosperity for the investors by definition. Companies cannot operate on macroeconomic trends alone; we saw the same mistake as IT companies permeated the tech market in the late 1990's. All individual companies must have a plan and product/service to support the value they will actually add to the emerging industry.

Chapter 14: The Founder's Paradox

Founders' traits are often extreme. They do not follow the normal distribution. Perhaps they are closer to being inversely distributed. Think about a founder that is cash poor, but rich in terms of the equity in his company. Or think about how many charismatic founders are both insiders and outsiders of their business. Peter contemplates the ago-old idea of whether leaders are born this way or if there environment has shaped their behavior. Perhaps we all need a king that we can idolize, when things are good, and a scapegoat that we can cast away, when we don't like them any longer.

Conclusion: Stagnation or Singularity?

It is hard to say what the future will look like when even the most farsighted founders can't look more than 20-30 years ahead. We can't take for granted that the future will be better, and it means that we need to start changing that today. Everything important to us is singular. Our task today is to find singular ways to create new things that make the future not only different, but better by looking at everything as if it were new. We need to go from zero to one.