SUMMARY OF

# ZERO to ONE

***By Peter Thiel***

## Who is Peter Thiel

Peter Andreas Thiel is a German-American entrepreneur, hedge fund manager, venture capitalist, philanthropist, political activist, and author. Often referred to as the "Don of the PayPal Mafia", Thiel was ranked No. 4 on the Forbes Midas List of 2014, with a net worth of $2.2 billion, and No. 246 on the Forbes 400 in 2016, with a net worth of $2.7 billion.
**Source: Wikipedia**

## My Thoughts

This is great book for anyone thinking of starting a new company. In most cases startup founders either copy or make similar products already available, which in long run leads to more competition and a little economic profit. This book is an excellent resource for building a monopoly business by creating new products that nobody has ever thought before.

## Preface

This book is about how to build companies that create new things. Peter shares everything he has learned directly as a co-founder of PayPal and Palantir and then investors in hundreds of startups, including Facebook and SpaceX. This book stems from a course about startups that Peter taught at Stanford in 2012. One of his students, Blake Masters, took detailed class notes which culminated into this book.

## Chapter 1: The Challenge of the Future

This chapter is the foundation to develop startup mindset - how we think about the startup shapes the future progress of the company. There are two forms of future progress: Horizontal and Vertical. Horizontal progress is globalization – taking things that work somewhere and making them work everywhere. Vertical progress means doing new things – going from 0 to 1. The single word for vertical progress is technology. Properly understood, any new and better way of doing thing is technology.

In today’s world what matters most is new thinking and new and better way of doing things.

## Chapter 2: Party Like it's 1999

This chapter focuses on lessons learned from the boom and burst of dot-com. In the dotcom mania (18 months of insanity from Sep 1998 to Mar 2000), people were starting and flipping the companies with alarming casualness. Many started half a dozen companies at once without knowing that the mania was unsustainable. Greed to become rich was insane! The NASDAQ (American stock exchange) reached 5,048 at its peak in the middle of March 2000 and crashed in the middle of April 2000.

In the midst of all, no one believed that the anti-business model of growing, while losing money, would be sustainable. PayPal's (co-founded by Peter) grand mission of 'creating an internet currency that would replace US dollar' was voted one of the 10 worst ideas of 1999 by journalists; post-bubble skeptics described as grandiose.

Like any other startups, PayPal encountered several challenges: not enough customers and growth, mounting expenses, funding etc. PayPal's early success was a result of a customer acquisition strategy, although unsustainable for long-term, when they decided to give $10 to new customers for joining and $10 more every time they referred a friend. On Feb 16, 2000, the Wall Street Journal ran a story lauding a viral growth and suggesting that PayPal was worth $500 million, which attracted several investors.

During that period, Peter learned some lessons that contradict the dogma in the startup world and conventional wisdom of Silicon Valley:

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

## Chapter 3: All Happy Companies are Different

Businesses operate in one of the two environments: Competitive or Monopolistic. Under perfect competition, in the long run no company makes an economic profit. But a monopoly owns it market, so it sets its own price.

In 2012, US airlines created so much value by serving millions of passengers and creating hundreds of billions of dollars, but they made only 37 cents per passengers on $178 average ticket price. Whereas Google brought $50 billion, but it kept 21% of those revenue as a profit. Google is worth more than three times all the US airlines combined.

Airlines operate in a perfect competitive environment, but Google has its monopoly (68% search market share). Monopolistic like Google doesn't think about competition, they only need to think of its people, products and its impact on wider world, and their profit is an incentive to innovate continuously.

## Chapter 4: The Ideology of Competition

If competition means no sustainable profits for anybody, how could it be healthy and why are we so focused on competing? The ideology of competition pervades in our society - in school we are obsessed with higher grades and credentials, in workplace we are obsessed with high status and career advancement.

In competition, we are so focused in defeating rivals that we forget the wider question of whether this was the right place to be in. Peter sums up this chapter nicely in one sentence, 'Winning is better than losing but everybody loses when the war isn't one worth fighting'.

## Chapter 5: Last Mover Advantage

Monopoly is a great business only if it can grow and endure in years to come. The most important question to create any valuable business is: will this business still be around a decade from now? Think critically about the qualitative characteristics of the business. Some of the common characteristics of monopoly business are: proprietary technology (makes it hard to replicate), network effects, economies of Scale (fixed costs can be spread over greater quantities of sales) and strong branding.

## Chapter 6: You Are Not a Lottery Ticket

Peter makes a case that those who have changed the world were imaginator and creators of the future with firm convictions. Their success was not a product of chance and they didn't wait for things to happen for them; even though successful people like Bill Gates, Warren and Jeff Bezos are humble enough to call their success a luck. A few like, Steve Jobs, Jack Dorsey, and Elon Musk, have created several multibillion-dollar companies. If success was a matter of luck, he argues that these kinds of serial entrepreneurs would not have existed.

## Chapter 7: Follow the Money

In this chapter, Peter moves from creating a monopoly business to investing in a monopoly business through power law of 80-20. In 1906, economist Vilfredo Pareto discovered what became the "Pareto principle", or the 80-20 rule, when he noticed that 20% of the people owned 80% of the land in Italy - a phenomenon that he found just as natural as the fact that 20% of the peapods in his garden produced 80% of the peas.

Similarly in startup world, most companies fail, and only a few turn out to be few successful or multibillion companies. Venture capitalist's job is find those few companies that have the potential to succeed at vast scale. But this power law is not only important for investor; rather, it's important to everybody because everybody is an investor. An entrepreneur makes a major investment just by spending her time working on a startup.

## Chapter 8: Secrets

Most famous and familiar ideas was once unknown and unsuspected. People have come to believe that there are no secrets to be revealed and there are no discoveries to be made. Peter's presents a case of HP when it stopped caring about new technology and focused on selling what they had created, it's worth declined to $23 billion 2012, from $70 billion in 2005.

What valuable company is nobody building? This is a question every entrepreneur should be asking as every correct answer is necessarily a secret: something important and unknown, something hard to do but doable. The best place to look for secrets is where on one else is looking. Airbnb is a perfect example; they saw untapped supply and unaddressed demand where others saw nothing at all.

## Chapter 9: Foundations

There are a few a few things that every business must get right at the beginning:

- ***Founding Matrimony:*** First and most crucial decision is choosing a co-founder. How well founders know each other and how well they work together matter as much as technical abilities and complimentary skill sets.
- ***Ownership, Possession, and Control:*** In order to keep everyone aligned for the long term, you need a structure and for that, it's useful to distinguish between three concepts:
    - Ownership: who legally owns a company's equity?
    - Possession: who actually runs the company on a day-to-day basis?
    - Control: who formally governs the company's affairs?
- **On the Bus or Off the Bus:** As a general rule, everyone you involved with your company should be involved full-time.
- ***Cash is not King:*** Peter suggests limiting the salary of CEO of an early-stage, venture-back startup. He learned from his experience that a cash-poor executive focuses on increasing the value of the company as a whole.
- ***Vested Interest:*** Instead of offering high salaries because you can afford to offer, it's better to offer partial ownership of the company: Equity. People with equity are focused toward creating value in the future.

## Chapter 10: The Mechanics of Mafia

"No company has a culture, every company is a culture". A startup is a team on a mission, and it is important for people on a mission to enjoy working together. Hiring right people who are excited about the mission and enjoy working together is a key. Every startup must answer this question: why should people join your company when they could work at Google for more money and more prestige? The only good answers are specific to company and two general kinds of good answers are: answers about the mission and answers about the team.

## Chapter 11: If you build it, will they come?

This chapter is about the importance of Sales in startup world. In Silicon Valley, nerds are skeptical of advertising, marketing and sales and they think a product should be a great enough that it sells itself. Peter argues that inventing something new is not good enough if you haven't invented a way to sell it - no matter how good the product.

Two metrics set the limits for effective distribution. Customer Lifetime Value by net profit must exceed the amount you spend to acquire a new customer (Customer Acquisition Cost). Peter also outlines some ideas on how to sell a product in this chapter and i won't do justice if try to write in a concise manner.

## Chapter 12: Man and Machine

Contrary to what many people believe, machines or computers have never been a substitute for human. Instead, technology has solved many human problems. In 2000, Paypal was losing around $10 million to credit card fraud every month. Since they were processing thousand as of transaction, it was not humanly possible to identify and cancel bogus transactions, so they together with a team of elite mathematicians developed a system to automatically identify and cancel bogus transactions.

It was only a matter of time that the fraudsters found a way to fool their automatic detective algorithms. PayPal's team decided to take a hybrid approach to stop fraudster: the computer would flag the most suspicious transaction and human operators would make a final judgement. This kind of man-machine symbiosis enabled PayPal to stay in business.

## Chapter 13: Seeing Green

At the start of the 21st century, entrepreneurs got busy with starting thousands of cleantech companies. Instead of a healthier planet, we got a massive cleantech bubble. Any business plan that fails to answer the following questions is destined to fail:

1. *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 staring 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?

## Chapter 14: The Founders' Paradox

In most cases, founders of great companies are unusual people with extreme traits; they are not normal average humans. But, at the same time, you can expect some opposite traits. Startup CEOs can be cash poor but millionaire on paper, they oscillate between sullen jerkiness and appealing charisma. We need more founders, not only to lead companies beyond mere incrementalism, but also to bring the best from everyone around them.

## Conclusion: Stagnation or Singularity

No one can predict the future, even the farsighted founders can't look beyond 20-30 years. In order to avoid stagnation and mere globalization, 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.