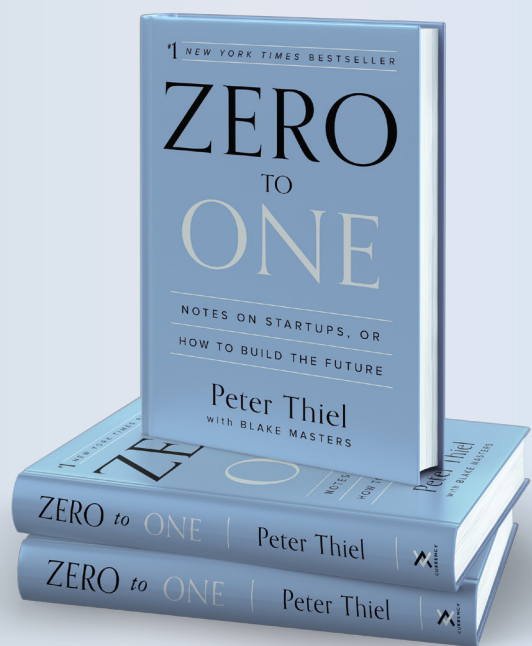


# BOOK SNAPS™

Zooming In On Your Next Read



## Zero to One

By Peter Thiel

Peter Thiel is an entrepreneur and investor. He started PayPal in 1998, led it as CEO, and took it public in 2002, defining a new era of fast and secure online commerce. In 2004 he made the first outside investment in Facebook, where he serves as a director. The same year he launched Palantir Technologies, a software company that harnesses computers to empower human analysts in fields like national security and global finance. He has provided early funding for LinkedIn, Yelp, and dozens of successful technology startups, many run by former colleagues who have been dubbed the “PayPal Mafia.” He is a partner at Founders Fund, a Silicon Valley venture capital firm that has funded companies like SpaceX and Airbnb.

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Illustrated Edition

## Believing in Building a Better Future

It’s an understatement to say that author Peter Thiel is an expert in the fields of investment, entrepreneurship, and startups. He is the founder and former CEO of PayPal and was the very first outside investor in Facebook. He provided early funding in companies like LinkedIn and Yelp, as well as funding SpaceX, Airbnb, and dozens more as part of the group now dubbed the “PayPal Mafia.” In *Zero to One*, Thiel shares his unique perspective on what it takes for startups to succeed and the role technology plays in shaping the future.

*Zero to One* has its roots in a set of detailed class notes taken by co author Blake Masters from a class on startups taught by Thiel at Stanford in 2012. The resulting book was written from the “contrarian premise” that we are currently experiencing “technological stagnation.” Progress has long been sequestered to Silicon Valley, but Thiel asserts that progress is possible in any ‘industry or area of business’ so long as leaders can learn to think for themselves. They must break free from competing within an already established industry, simply adding more to something already familiar, thus, going “from 1 to n.” Tomorrow’s “champions” have to establish truly innovative and revolutionary businesses that are entirely unique. Only by doing something truly new can we go “from 0 to 1.”

“The act of creation is singular, as is the moment of creation, and the result is something fresh and strange.” Bill Gates went from 0 to 1 with an operating system. Mark Zuckerberg did it with a social network. Instead of jumping off the work of their competition, leaders need to learn from them. And Thiel believes that the stakes are very high. The very future of business in America is on the line.

## A Detailed Look at 1 to n vs. 0 to 1

When we imagine what the future looks like, progress can come in two different forms. “Horizontal progress means copying things that work—going from 1 to n.” This kind of progress, also called extensive progress, is “easy to imagine” because we already see it all around us. From a macro perspective, a single word that is synonymous with horizontal progress is “globalization.” “China is the paradigmatic example” of this kind of



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progress. They have been methodically copying every innovation of the rest of the developed world for over a century.

Going from 0 to 1 is referred to as “vertical of intensive progress.” This kind of progress is “harder to imagine because it requires doing something nobody else has ever done.” The single word synonymous with this kind of progress is “technology.” Technology is usually used to describe the leaps made in information technology, mostly in Silicon Valley. However, it should be more “properly understood as any new and better way of doing things.”

Both modes of progress can happen to one degree or another at the same time. The world has experienced periods of rapid expansion in both ways and times when one mode was dominant over the other. “Since 1971, we have seen rapid globalization along with limited technological development, mostly confined to IT.” Thiel’s position is that the future of progress rests in our ability to move away from 1 to n and towards 0 to 1. If we continue seeing globalization outpace technology, the results will be “environmentally catastrophic” and lead to “devastation, not riches.” The imagination and creation of new technologies is the only way to “make the 21st century more peaceful and prosperous than the 20th.” This is where startups step in. Startups get stuff done. People working in startups are the “largest group of people that can be convinced of a plan to build a different future.”

## Lessons from the Dot Com Crash

When a once new financial instrument collapses and goes the way of the dodo, we call it a bubble that has burst. The stock market crash of 1929 was the biggest such bubble until the dot com “craze” of the 1990’s. Thiel believes that “the lessons learned afterward define and distort all thinking about technology today.”

The internet took off when Netscape released its user-friendly browser Navigator. It dominated the browser market, holding 80% of it, and the company issued an IPO in August 1995 “even though it wasn’t yet profitable.” Other tech companies followed suit and stock values began skyrocketing. There were plenty of skeptics, including then Fed chairman Alan Greenspan who issued a warning a full three years before the actual bubble burst saying “irrational exuberance” on the part of the investors may have “unduly escalated asset values.” Put simply, the “market had gone crazy” and it was only a matter of time before this “New Economy” had its reckoning and “page views” were no longer given higher ranking than profits as a “financial metric.”

Meanwhile, the “Old Economy” suffered a string of devastating blows. The late 90s saw near-total collapses of the economies of Thailand, Indonesia, and South Korea, and Russia due to “crony capitalism and massive foreign debt.” American investors became very nervous with the news from Russia and a “chain reaction” was set off which eventually resulted in the downfall of “highly leveraged U.S. hedge fund” Long-Term Capital Management. The euro was launched in the last year of the decade and its value began slipping almost right away. The signs

seemed clear. “The Old Economy couldn’t handle globalization. Something needed to work—and work in a big way—if the future was going to be better at all. By indirect proof, the New Economy of the internet was the only way forward.”

The intense period of “dot-com mania” ran its course during “18 months of insanity from September 1998 to March 2000.” Likened to the Gold Rush, people flocked to Silicon Valley to launch “dozens” of startups week after week. Stable, well-paying jobs were left behind in pursuit of tech riches, which were often backed by companies that were actually losing, not making, money. Simply tacking .com to the end of a business name seemed to “double its value overnight.” It was pure insanity and Thiel, who was running PayPal at the time, was “scared out of his wits.” There was an “alarming casualness” everywhere Thiel turned. Huge sums of money were being exchanged “starting and flipping companies” in an atmosphere that treated sanity as eccentric. It had to end and it certainly did, in a majorly damaging way.

In March 2000 the NASDAQ peaked at over 5000. In October 2002 it bottomed out at just over 1000. The market collapse led to a big swing in the other direction. The economy turned again to globalization, moving away from “clicks” and back to “bricks.” That being said, there were many who “stuck with Silicon Valley after the crash and those who survived were huge winners.

Thiel describes four lessons learned from the crash that are still used as a guide for startups today, even though, in his opinion, they “should be abandoned.”

1. Small steps forward are far safer than giant, “change the world” leaps.
2. Companies should remain “lean and flexible,” which is “code for unplanned.”
3. Real businesses “start with an existing customer” and thus, startups should identify products of the competition and seek to improve upon them.
4. The focus should be on the product, which should sell itself without targeted advertising or a sales force behind it.

Thiel says that these “lessons have become dogma in the startup world” and some believe that ignoring them is to “invite doom.” In reality, following near-opposite principles would lead to better outcomes for some. In other words, there is no one right way of doing things. There is no prescription for startup success. Thiel contends that startups would be best served by thinking for themselves, not following a set of rules. Instead of trying to plug themselves into a formula or compete with others, they should attempt to stand out and be singular.

## Becoming a Monopoly

A catastrophic mistake that countless entrepreneurs make is becoming overly focused on short-term growth. Startups should be fixing their sites far down the line, attempting to answer the question, “will this business still be around a de-



**[In assembling the team], Thiel wanted to work with people who had strong relationships with each other, that would improve not only their happiness at the job, but make them better at doing it.**

cade from now?” The answer lies not in numbers, but rather in “the qualitative characteristics” of the business. Startups should be designed to become monopolies that are analyzed around the following characteristics:

1. **Proprietary Technology:** This is the single most important characteristic as it “makes your product difficult or impossible to replicate.” Ensuring that your proprietary technology is “at least 10 times better than its closest substitute” is the way to achieve a “monopolistic advantage.” Thiel calls these “10x improvements” and he points to PayPal’s partnership with eBay and Amazon’s direct shipping from suppliers as prime examples.
2. **Network Effects:** This is the result of a product or service becoming increasingly more useful as more and more people use it. In order to work, the network must start out very small and be “valuable to its very first users.” Mark Zuckerberg started Facebook with the goal of getting Harvard classmates to sign up, not “to attract all people on Earth.”
3. **Economies of Scale:** Starting a business, especially in technology, can be very expensive. The fixed costs associated with product creation need to be “spread out over ever greater economies of scale.” Huge advantages can be realized in a software startup, for example, because “the marginal cost of producing another copy of the product is close to zero.”
4. **Branding:** Brands are monopolized by their very definition. They provide a powerful opportunity to “claim a monopoly” when they are strong. Apple is “today’s strongest tech brand.” Design choices, user experience, and premium pricing “all contribute” to the perception that Apple is in a category all its own.

## Recruiting for the Mafia

Peter Thiel built a team at PayPal that consists of individuals who have spun off into their own highly successful tech orbits. This group of serial investors has become known as the PayPal Mafia. The team “sold PayPal to eBay for \$1.5 billion in 2002. Since then, Elon Musk has founded SpaceX and co-founded Tesla Motors; Reid Hoffman co-founded LinkedIn; Steve Chen, Chad Hurley, and Jawed Karim together founded YouTube; Jeremy Stoppelman and Russel Simmons founded Yelp” and more, with each and every one of the new companies valued at “more than \$1 billion each.” These are insanely impressive results that Thiel credits to a culture that was “strong enough to transcend the original company.”

In assembling the team, Thiel went past a “merely professional view” and extended his focus far beyond financials. Instead, he wanted to work with people who had strong relationships with each other, that would improve not only their happiness at the job, but make them better at doing it. He wanted to “hire people who would actually enjoy working together.” Having talent was certainly a prerequisite, but more than that, “they had to be excited about working specifically with” PayPal. With that framework set, the team was assembled and the PayPal Mafia was born.

Startups should endeavor to create their own “mafia” through viewing recruitment as a “core competency” that “should never be outsourced.” In recruiting talent, a new company has to clearly articulate what makes them different. Specifically, employees need to know what is “compelling about your mission,” such as what the company is doing “that no one else is going to get done.” New talent will also need to know what is attractive “about your team.” If it is unclear why this person is a good match, then he or she probably isn’t a good match. Avoid what Thiel calls the “perk wars,” trying to win someone over with promises of free day care and happy hours. Instead, recruiting should convey that working at the startup is an “opportunity to do irreplaceable work on a unique problem alongside great people.” Every single new hire “should be equally obsessed” with the mission and other people involved.

Peter Thiel goes well beyond the realm of expert. His unparalleled success in the startup arena is legendary. This book gives readers a front row seat in Thiel’s Stanford class, gaining access to insights and information once only afforded to those present ivy leaguers. We have become complacent in our stability and are running the very real risk of falling into ruin in the not-so-distant future. We have allowed “big plans for the future to become archaic curiosities.” Our greatest success stories are attributed to luck, fate, and even “incredible planetary alignment.” Thiel wants us to know that we have our smarts, our visions, and our laser focus to thank for how far we have come, not dumb luck.

We are not lottery tickets. We are leaders. We can steer the ship and control our own destiny, and in fact, we must. Thiel charges today’s risk takers with a very clear challenge to put the world on the right path. Startups should not seek to improve, they should seek to truly innovate. Leaders must look to themselves for fresh ideas that will change the very world and the way we view it. They must develop ideas that go from 0 to 1.