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ZERO to ONE, Notes on Startups, or How to Build the Future

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ZERO to ONE is a provocative title for a book, and a puzzle for an unsuspecting reader.

Only the subtitle, “how to build the future,” gives clues about the intent of the book. The book’s author is none other than Peter Thiel, who co-founded PayPal, Palantir Technologies, and a few other startups.

In the Preface, the author makes a stunning statement that every time we create something new, 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. Technology is miraculous because it allows us to do more with less; unlike animals, we can invent new things and better ways of making them.

Chapter 1 further explains the ideas of 0 to 1, which means technology allows us to progress vertically with intensity, whereas copying things is about globalization. From the invention of the steam engine in the 1760s and all the way up to about 1970, there had been relentless technological progress. Because of various inventions and their uses in everyday life, we have inherited a richer society than any previous generations. Chapter 2 presents the dot-com boom and bust of the 1990s. There is a lesson here: Internet usage and applications are more scrutinized for their sustained benefits, not just one-off, short-term excitements of stock price increases.

Chapters 3 and 4 set the stage for creative monopolists, who give customers more choices, and are good for society. So, monopoly profits provide a powerful incentive to innovate. Competition, that is rivalry between two close competitors, according to this book, stifles innovation because both copy each other’s incremental developments instead of creating innovative technologies.

Chapter 5 discusses profoundly the last mover advantage. Escaping competition will give a monopoly, but even a monopoly is only a great business if it can endure in the future. When Twitter went public in 2013, the market valued it at $24 billion –more than twelve times the New York Times’s market capitalization—even though Time earned $133 million in 2012 while Twitter lost money. What explains the huge premium for Twitter? The answer is cash flow. The book makes the point that the value of business today is the sum of all the money it will make in the future. That is, to properly value a business, one must discount those future cash flows to their present worth. Technology companies might lose monies in the first few years, but then after building valuable things, they become more profitable. For companies to be valuable, they must grow and endure. Every monopoly is unique; however, they share the following characteristics: (1) Proprietary Technology, (2) Network effects, (3) Economies of Scale, and (4) Branding. Finally, there is such a thing as the last mover advantage. Dominate a small niche and scale up from there. As the saying goes, "you must study the endgame before everything else."

Chapter 6 is about luck alone cannot lead to success. Since the 1980s, United States culture has embraced an indefinitely optimistic world, especially in Finance, Politics, Philosophy, and Life. However, indefinite optimism, according to Peter Thiel, is inherently unsustainable because how can the future get better if no one plans for it?

Chapter 7 states the obvious, follow the money. Money makes money. The most important things are singular: One market will be better than all others, as we discussed in Chapter 5. One distribution strategy usually dominates all others, too—see chapter 11. Time and decision-making themselves follow a power law; these matter far more than others—see Chapter 9.

In Chapter 8, the book discusses finding a secret, something important and unknown, something hard to do but doable. Peter Thiel poses a business version of our contrarian question: what valuable company is nobody building? Chapter 9 makes profound statements: you need good people who get along, but you also need a structure to help keep everyone aligned for the long term. Cash is attractive. However, a cash bonus is slightly better than a cash salary—at least it is contingent on a job well done. Founding lasts if a company is creating new things, and it ends when creation stops. If you get the founding moment right, you can do more than create a valuable company: you can steer its distant future toward creating new things instead of the stewardship of inherited success. You might even extend its founding indefinitely.

Chapter 10 begins with the new culture of work where formal business hours become obsolete, and nobody watches the clock. Talented people are attracted to a compelling mission of an organization. According to the book, entrepreneurs should take cultures of extreme dedication seriously.

Chapters 11, 12, and 13 are about finding niches in distribution, sales, and marketing, embracing technology and renewable energy.

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The book ends with a chapter on the founder's paradox. A unique founder can make authoritarian decisions, inspire strong personal loyalty, and plan for decades. Paradoxically, impersonal bureaucracies staffed by trained professionals can last longer than any lifetime, but they usually act with brief time horizons. The lesson for business is that we need founders. If anything, we should be more tolerant of founders who seem strange or extreme; we need unusual individuals to lead companies beyond mere incrementalism. The book concludes by posing the question: Stagnation or singularity?

Stagnation is not a good thing. That is, if the scenario brings more globalization, convergence, and sameness. Singularity is a better alternative. Singularity, the result of innovative technologies, transcends the current limits of our understanding, starts from Moore's law, and traces exponential growth trends in dozens of fields, including artificial intelligence.

A quote from the author of *The Black Swan* about this book, "when a risk taker authors a book, read it. In the case of Peter Thiel, read it twice. Or to be safe, three times. This is a classic." Indeed, this book is a MUST read for everyone who wants to know how and from where innovative technology and a new way of thinking comes from. To be specific, this book is about creating new sources of wealth.

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