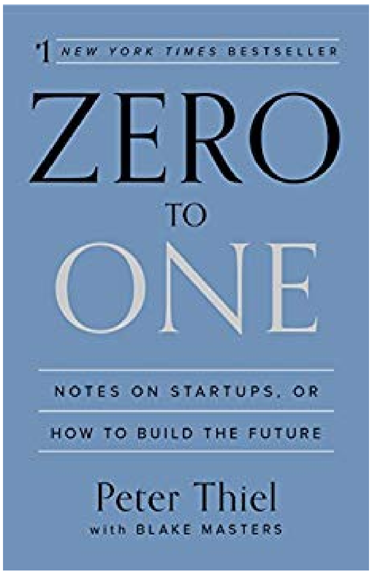
# Zero to One Book Summary, by Peter Thiel

**by Allen Cheng**

https://www.allencheng.com/zero-to-one-summary-peter-thiel/




*Zero to One* is entrepreneur and venture capitalist Peter Thiel's unconventional advice for technology startups. It's about creating new things and also about creating a better future. Thiel, co-founder of PayPal and the first outside investor in Facebook, argues that technology has stagnated. Most new companies improve incrementally on existing products. They move the world from 1 to n.

But there's much more to discover. The most valuable and game-changing startups create something new. They move the world from 0 to 1. Creating new things is not only the best path to economic profits—it's the only path for human progress.

## 1-Page Summary of Zero to One

In *Zero to One*, PayPal co-founder and venture capitalist Peter Thiel contends that **creating new things is the best way to profit economically, as well as the only path for human progress.**

However, technology has stagnated today. Much of what we do repeats or builds on what's been done before. **It's easier to copy something than to create something new. This moves the world from 1 to n, refining something that already exists. However, creating something entirely new moves us from 0 to 1.**

Unless companies create new things, they'll eventually fail regardless of how profitable they are today. There's a limit to what we can gain by refining things, a point at which best practices won't get us any further. We need to break new ground.

## The Path of Progress

Progress can be either horizontal or vertical. **Horizontal or expansive progress results from duplicating success—**going from 1 to n. This kind of progress is easy to envision because it looks a lot like the present. **Vertical or intensive (focused) progress requires doing something entirely new—**going from 0 to 1. It's more difficult to envision because we've never seen it before.

For example, starting with one typewriter and building 100 of them would be horizontal progress (duplicating something). Starting with a typewriter and building a word processor would be vertical progress (creating something new).

**Globalization is horizontal progress—**it entails taking something that works in a particular place and replicating it everywhere. For instance, China's 20-year plan is to be like the West is today.

**Technology, going from 0 to 1, is vertical progress—**it encompasses anything new and better, including but not limited to computers.

Continued globalization isn't feasible without technological progress because the industrialization of more countries will lead to more environmental problems and competition for limited resources. For instance, if China doubles its industrial production without technology improvements, it will double its air pollution. Spreading the practices of developed countries globally will bring devastation rather than wealth. The key to a better future is both imagining and creating the technologies to get us there.

## Startup Lessons

**Startups consisting of a few people with a common mission are the source of most new technology. **But many tech startups today are hobbled by four erroneous lessons drawn from the 1990s dot-com bubble and crash:

1. **Make incremental advances: **Be wary of big visions that drive bubbles. Move forward with small, incremental steps.
2. **Stay lean and flexible: **To stay lean and flexible, don't tie your hands with planning. Instead, try things and iterate or build on the ones that work.
3. **Build on the competition: **Don't try to create new markets. Build your business by improving on a product people are already buying from someone else.
4. **Focus on product, not sales: **If you have a good product, it should spread virally without a

need for advertising.

Tech startups treat these lessons as sacrosanct, but they actually undermine success, especially big innovations. The opposite of each lesson is more accurate:

1. It’s better to be bold than inconsequential.
2. A bad plan is better than none.
3. Don’t compete: competition destroys profits.
4. Sales strategy matters as much as product.

## Monopolies and Competition

**Monopolies are good for society.** While it may seem counterintuitive, they can be more ethical, treat workers with greater consideration, and create more value than companies locked in competition do.

Competitors are caught up in a daily struggle for survival. For instance, with their low margins, restaurants have to do everything possible to minimize expenses—which can include paying minimum wage to employees and putting family members to work for nothing. In survival mode, money is everything.

In contrast, **in a monopoly where profits are assured, there’s room to consider other things besides money**. For instance, lacking intense competition, Google can give consideration to its workers, its products, and its impact on society.

Monopolies’ bad reputation comes from sometimes earning outsized profits at the expense of society. Certain monopolies corner the market on something that’s needed and jack up the price; customers have no choice but to pay it. This works for the owners in a world where nothing changes, like in the game of Monopoly, where you control as much real estate as you can, but you can’t create new real estate.

In contrast, **creative monopolies do good and drive social progress** because they operate in a different environment, a dynamic one. Instead of controlling all the options like Monopoly real estate, they create new options. They expand consumers’ choices by creating new categories of things. By adding value, creative monopolies make society better.

## Monopoly Characteristics

**Monopoly businesses with strong future cash flows share several characteristics**:

- **Proprietary technology**: This may be your greatest possible asset because it makes your product difficult to copy. For example, proprietary technologies used in Google’s search algorithms for aspects such as query autocompletion make the search engine hard to replicate. **For proprietary technology to give you a monopolistic edge, it needs to be at least 10 times better in some major way than anything like it**. Anything short of a dramatic difference will seem incremental and unimportant.
- **Network effects**: A network effect is the way additional users improve the value of a product or

service for all users. For example, the more your friends use Instagram, the more value you get from being on it too. To generate network effects, your product has to be immediately valuable to its earliest adopters and then grow from there. A network business has to work on a small scale before it can go big—in fact, you have to *plan* on starting small. Mark Zuckerburg started Facebook by getting just his Harvard classmates to sign up.

- **Economies of scale**: A monopoly gets stronger as it grows because the fixed costs of creating a new product (like office space and engineering or development) are spread over a greater volume of sales and the cost per unit declines. **When starting a business, you should build in the capability of scaling**. For example, Twitter enjoys built-in scale: it can keep increasing the number of users without adding customized features.
- **Branding**: Creating an unassailable brand is integral to having a monopoly. For example, Apple is the most powerful technology brand. Everything from product design (including look and materials), to store design, price, and advertising contributes to an overall impression that Apple products are like no other. Of course, branding alone isn't enough—you also need substance. Apple's market dominance is based on superior products backed by an array of proprietary hardware and software technologies.

## Other Factors in Building a Monopoly

There are five additional considerations in building a monopoly:

- **Discovering a secret**: Creating a great business that no one else can compete with starts with discovering and building on a secret. It can be an untapped opportunity or a different way of looking at a problem. For example, Airbnb recognized and connected a supply of unoccupied lodging with travelers' demand for affordable and unique accommodations. The founders of Uber and Lyft built billion-dollar businesses by connecting people who needed rides with drivers willing to provide them. Believing in secrets (untapped potential) and looking for them enabled these entrepreneurs to see an opportunity no one else noticed.
- **Expanding your market**: How you choose and expand your market are critical to your success. Start with a small market because it will be easier to dominate than a large one. Once you've dominated a small market, slowly expand into related markets that are a bit wider. This was Amazon's approach. Jeff Bezos's long-term goal was to dominate online retail but he chose to start by selling only one thing—books. After a successful start with books, the company began selling CDs, videos, and software and gradually expanded to other categories until it became the dominant online retailer.
- **Disrupting**: When entrepreneurs think of their companies as disrupting a market, they're focusing on things as they currently are, rather than coming from a new perspective. It's far more important to focus on the new product you're creating than on how old companies will react to it. If disrupting existing companies is part of your company's identity, then your company isn't new and isn't likely to become a monopoly.
- **Being a 'last mover': **The "first mover advantage" means getting into a new market first and taking a substantial share of the market before anyone else gets there. But moving first is a tactic, not a goal."" Your goal is to generate cash flows for the future. You do this by starting with a small slice of the market (being the first mover) and gradually expanding, dominating each new slice until you own the ultimate market for your product. You want to be **the last mover—the one who makes the last spectacular improvement in a market that ensures years of monopoly**

**profits.**

- **Understanding the power law: **The power law describes a common phenomenon in which small changes can have disproportionate results. Startups should operate according to the power law. A narrow focus on the right thing will produce the greatest results:
    - One market will bring the greatest success.
    - One distribution strategy will outperform all others.
    - Some moments will count more than others.
    - What’s most important probably won’t be obvious.

## Startup Basics: Key Decisions, Building a Team

When starting a company, it’s important to choose leaders who have the right technical knowledge and whose skills are complementary. Equally important, however, is how well the founders know each other and work together. You also need a structure and clearly defined roles so everyone is aligned to move the organization forward.

For effective alignment, you must make three decisions:

- **Ownership: Who will own the company’s equity**. Ownership is typically divided among founders, employees, and investors.
- **Possession: Who will run the company day-to-day**. It may be a founder/CEO or manager and employees.
- **Control: Who will govern the company.** A board of directors (usually consisting of founders and investors) maintains control.

**Compensation**

**A CEO of a venture-funded startup shouldn’t be paid more than $150,000 a year**. High pay (more than $300,000) encourages him to protect his salary by defending the status quo and minimizing problems rather than exposing and fixing them.

Other advantages of low CEO pay are that it:

- **Encourages the executive to focus on increasing the value of the company**.
- **Motivates employees to work harder**. By working for lower pay, an executive demonstrates his commitment to the company and its mission. Employees will follow his example.

By the same token, over-paying employees encourages them to focus on what the company is doing in the present instead of thinking about how to increase the company’s value in the future. Cash bonuses also encourage short-term thinking. Offering equity or part ownership of the company shifts the focus to the future.

**Recruiting**

The first few employees in a startup might be attracted by exciting roles or equity. But beyond your first round of hires,** you must be able to articulate to the 20th candidate why she should want to join your company.**

Your answers need to be specific to your company. They should address:

1. **Your mission**: Explain what makes your mission unique and compelling—what's the important thing you're doing that no one else is doing?

2. **Your team**: Show potential employees that the people on your team are the kind of people they want to work with. Show recruits how your company is a unique match for them.

Don't cite your perks—you don't want people working for you who can be convinced to do so by things like laundry pickup because that's an indication of superficiality. Your unique mission is what should count.

## Selling Your Product

Many Silicon Valley entrepreneurs underestimate the importance of distribution, or the process of selling the product (advertising, sales, marketing, and distribution channels). They often believe their product is so superior it should sell itself: if they build it, customers will come. But **understanding distribution and having a plan for it is critical to a company's success; it should be part of designing your product**.

There are two considerations for planning a sales strategy for your product: customer lifetime value and customer acquisition cost.

- **Customer lifetime value** or CLV is the profit you earn over the course of your relationship with a customer. For example, if you sell low-priced prescription eyeglasses at about $100 a pair and the typical customer needs only a few pairs over her lifetime, the CLV would be only a few hundred dollars.
- The **customer acquisition cost** is the amount you spend to acquire a customer (your marketing cost divided by the number of customers). You want your customer lifetime value to exceed the amount you spend to get a customer.

Distribution methods range from viral marketing (the cheapest method) to typical marketing, traditional sales, and complex sales (the most costly method).

Generally, the pricier your product is, the more you need to spend on selling it (and the more economic sense it makes to spend the money because you'll get a big return). In contrast, for a low-priced product like $100 prescription eyeglasses, you'd want an economical method of advertising that wouldn't eat up the profits from your sales.

Startups fail more often because of poor distribution than because they have a bad product. Getting the right channel to work is the key to a successful business.

### A Checklist for Success

In summary, a startup won't succeed without a business plan that addresses each of the following questions. If your answers are weak, your company will fail—however, with a solid answer for each, you'll be on your way to having a great business.

- **Engineering**: Is your technology a significant advance or only incremental improvement?
- **Timing**: Is this the right time to sell this technology?
- **Monopoly**: Are you targeting a big share of a small market?
- **People**: Do you have the right people on your team?
- **Distribution**: Do you have a plan to sell your product?
- **Durability**: Will you dominate your market in the next 10 to 20 years?
- **Secret**: Have you identified a unique opportunity overlooked by everyone else?

### Technology of the Future

A Forbes magazine headline once asked: "Will a machine replace you?" But there's nothing to worry about because computers complement human abilities—they don't substitute for humans. **In the future, the most valuable businesses will be the ones that use technology to help and empower people to do things better, not replace them**.

Humans can replace or substitute for each other as a result of globalization—for instance, Indian, Chinese, or Mexican workers can replace American workers in manufacturing and customer service.

However, the challenge of the future won't be labor competition between countries, it will be competition for resources. People in all countries will demand more comforts as their countries develop through globalization and their basic needs are met. **The answer to competition for scarce resources is technology that helps people live better.**

People and computers are good at different things. People excel at making plans and decisions in complicated situations; they're not as good at analyzing huge amounts of data. In contrast, computers excel at processing data, but can't make judgments that are easy for humans.

The different capabilities of humans and computers mean that we can gain more from working with computers than from trading with other people. Other people are like us and do what we do; in contrast, technology helps us do more. People substitute; technology enhances.

## Full Summary of Zero to One

### Introduction

Some animals have a drive to build things like dams but only humans have the ability to invent entirely new things. In *Zero to One*, PayPal co-founder and venture capitalist Peter Thiel contends that **creating new things is the best way to profit economically, as well as the only path of human progress.**

This book, written with Blake Masters, is about launching companies that create new things. It stems from a course Thiel taught at Stanford in 2012 on startups. Masters was a student in the class and his notes, which were widely shared online, evolved with Thiel's collaboration into this b...

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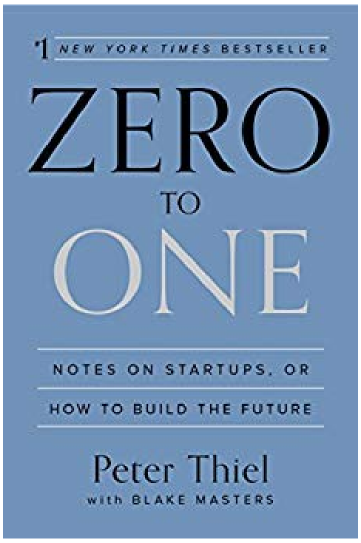


**Read the rest of the "Zero to One" summary at my new book summary product, Shortform.**

Here's what you'll find in the **full Zero to One summary:**

- Introduction
- Chapter 1: The Challenge of the Future
- Chapter 2: Lessons of the Dot-Com Bubble
- Chapter 3: Myths about Competition and Monopoly
- Chapter 4: Destructive Competition
- Chapter 5: Building for Future Profits
- Exercise: Monopoly Profits