

Thiel, Peter (with Masters, Blake) – From Zero to One*Crown Business, 2014, [Business] Grade ★★★★★*

From Zero to One is the brilliant title of Peter Thiel's new book on innovation and startups. He argues that we have only focused on "globalization" (taking things that work somewhere and making them work everywhere) or $1 \rightarrow n$ for the last 40 years or so. I have to agree, and we all can see some evidence in today's low growth environment. This book is spun from Co-Author and former student Blake Masters' notes from Thiel's teachings at Stanford. The book is as good as the title.

Peter Thiel is one of the main characters in the "Paypal Mafia" (together with Elon Musk and Max Levchin) as one of the co-founders and the first CEO of Paypal. The people within the inner circle of Paypal have created several major companies from zero—together they might be the "Graham and Doddsville" of venture capital investing. They share business insights, values and often an atypical boldness in words and deeds. After Paypal, Thiel has returned to investing, serving as Chairman to and main owner of several successful VC-firms, among them Founders Fund. He was e.g. the first outside investor in Facebook. He also launched a macro hedge fund—Clarium Capital—that made huge bets on "high inflation" as the outcome of the QE experiment. That fund failed miserably—another example of his daring.

Going from 0 to 1 is trickier, and it requires doing something nobody else has ever done. It requires new thinking. When hiring, Thiel begins by asking: "What important truth do very few people agree with you on?" *"The question sounds easy because it's straightforward. Actually, it's very hard to answer. It's intellectually difficult because the knowledge that everyone is taught in school is by definition agreed on. And it's psychologically difficult because anyone trying to answer must say something she knows to be unpopular. Brilliant thinking is rare, but courage is in even shorter supply than genius".* This short piece of text is a good example why this book is so interesting. Although the book consists of unorthodox business smartness, Thiel's philosophical thinking stands out (he holds a BA in

Philosophy). It gives the reasoning an unusual clarity and makes the book a pleasure to read.

According to Thiel, the single word for $0 \rightarrow 1$ progress is technology. He is probably right, although I still ponder this. And new technology tends to come from new ventures, startups. Basically because it is much harder to invent in larger, slower, more bureaucratic organizations that often have a risk minimization strategy. *"Startups operate on the principle that you need to work with other people to get stuff done, but you also need to stay small enough so that you actually can."* This also makes the founders special, not because they themselves are special, but because their responsibilities are so special. Thiel devotes a chapter to founders that is quite amusing, e.g. he argues that they have a normal distribution of traits that is inverse to the rest of us (an U shape).

The major part of the book is an advanced "Q & A-session" on seven topics important to make a startup successful, among them distribution and "monopoly" (starting with a big share of a small niche). Thiel is no believer in basic formulas. He often stresses that every set-up is unique. *"What follows is not a manual or record of knowledge but an exercise in thinking. Because that is what a startup has to do: question received ideas and rethink business from scratch."* I learned a lot. Not because there are many new concepts or ideas, but rather from his huge experience on what is working and not from plenty of startups. His questioning of conventional wisdom is also very refreshing and thoughtful. I now sincerely believe it is possible for the industry to improve the on average lousy returns from venture capital. It's all about focused portfolios, power law thinking and founding matrimony. There are some minor issues I have doubts on, but this book is not controversial, only contrarian in some beliefs. Rather, one of its strengths is that it helps us to clarify our own thinking about business logic.

Amazon regards Zero to One to be one of the best business books of 2014. I totally agree.

Michael Persson, November 21, 2014

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