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# Zero to One

By Peter Thiel

When you start a new business in an industry that already exists, writes PayPal founder Peter Thiel in his book *Zero to One*, you are adding more of something to the world that's already there. You are going from 1 to n, he writes. But when you start a business that is unlike any other business on the planet, you are truly creating something new. In Thiel's

terminology, you are going from 0 to 1. And you want to be the "one." Thiel is not a fan of competition — not just because of the required battle for customers but because competition makes companies focus on competitors more than customers. "If you can recognize competition as a destructive force instead of a sign of value, you're already more sane than most," he writes.

Thiel uses the ongoing battle between Microsoft and Google as an example. Originally, he writes, there should have been no reason for a fight. Microsoft was operating systems and office applications, while Google was a search engine. Then the two companies developed an obsession about each other. "The result?" Thiel writes, "Windows vs. Chrome OS, Bing vs. Google Search, Explorer vs. Chrome, Office vs. Docs, and Surface vs. Nexus." The battles were bloody, and the companies, Thiel writes, paid the price by watching Apple surpass them both in dominance. "Just three years before this, Microsoft and Google were each more valuable than Apple," he writes. "War is a costly business."

## Building a Monopoly

For monopolies, the situation is quite different. You can charge the prices you need to make the profits you want. There are no competitors driving down those prices. It's true, as Thiel explains, that monopolies would be bad if nothing changed: They could command any outrageous prices they wanted with no recourse for customers. But in the dynamic world of business, where unhappy customers represent an opportunity for a new competitor to enter the space, monopolies are motivated to create value for their customers, he writes.

There is no simple recipe for building a monopoly, but according to Thiel, there are several elements that entrepreneurs should look for. These include

**Proprietary technology.** As a rule, proprietary technology should be 10 times better than the nearest technology.

**Network effects.** This means other users are using the technology. Facebook works because everybody is on Facebook. But it's important that early users still find the product valuable even on a small scale (e.g., Facebook was just for Harvard students at first), because it will take some time to scale any product.

**Economies of scale.** Not all businesses benefit from economies of scale. Going from one yoga studio to 10 doesn't really yield economies of scale: you just need 10 times more instructors. The best startups have economies of scale built into the business model — Twitter, for example, can build up to 250 million users without making any significant changes to its operations.

**Branding.** You'll want to create your own unique brand. But be careful to start with substance before brand.

To make these elements work in creating a monopoly, Thiel writes, you need to start small. Look for those groups of people who have a need that is not fulfilled by any one company. Avoid the big markets: Yes, there are lots of customers, but also lots of entrenched competitors. Once you have your niche market created, he writes, it's time to scale up... carefully. eBay didn't jump from Beanie Babies to industrial surplus. It continued at first to cater to small-time hobbyists until, Thiel writes, "it became the most reliable marketplace for people trading online no matter what the item."

Beyond how-to steps, Thiel does not ignore the importance of mindset and thought processes. In one brilliant chapter, Thiel talks about those who have a definite view of the future (they know what is going to happen) and those with an indefinite view: the future is inscrutable, so why bother to prepare for it. To Thiel, indefinites rule the world. Entrepreneurs have a different worldview, however. They intend to make the future they seek.

Filled with insights ranging from financial advice to philosophical discussions, *Zero to One* is one of the most thoughtful books on entrepreneurship on today's shelves.