Derek Thompson’s Review of: Peter Thiel's Zero to One (excerpt)

Thiel, a founder of PayPal and the data analytics firm Palantir, might be best known for his idiosyncrasies, which helped inspire the character of Peter Gregory in the HBO series Silicon Valley. Indeed, the recipients of Thiel's donations seem torn from the pages of a Philip K. Dick novel: an anti-aging biotech firm, an organization dedicated to building ocean communities underwater, and a foundation that pays teenagers to drop out of college and start new companies. Say what you want about the Thielian future of cyborg teenagers living for 200 years in pressurized cabins under the Caribbean; this is not a man to be faulted for thinking too small.

So it's surprising in a wonderful way just how simple Zero to One feels. Barely 200 pages long, and well lit by clear prose and pithy aphorisms, Thiel's has written a perfectly tweetable treatise and a relentlessly thought-provoking handbook.

His most provocative thesis, excerpted in a popular WSJ column, declares that "competition is for losers" and entrepreneurs should embrace monopolies. This is an ingenious framing device—just controversial enough to arouse debate, but commonsense enough to make an incrementalist acknowledge its virtue. Thiel is not suggesting that capitalism is bad. He's saying that, precisely because capitalism is wonderful for consumers, it's hell for companies. Truly competitive industries, like Manhattan restaurants, see their profits gobbled by rivals and fickle eaters. Every start-up must begin small before getting big. Entrepreneurs should at first seek to dominate a small market. In other words: They should try to build a mini-monopoly.

"The perfect target market for a start-up is a small group of particular people concentrated in a group but served by few or no competitors," Thiel writes. Lots of tech hits, like Facebook and PayPal, were launched in small communities of power users. These early adopters tested the product, identified early bugs, and helped to spread the word when the company expanded. An online yearbook for Harvard students might not strike you as a $100 billion idea. But today Facebook is a $200 billion company, because Zuckerberg established monopolistic fiefdoms at colleges before expanding to take over the world.

Thiel arrived in Silicon Valley in 1985. After two tours of duty at Stanford (which did little to dissuade him of the notion that college is a waste of time) he founded PayPal (then "Confinity") with a group of friends in 1998. Two years later, at the pinnacle of the dot-com bubble, he merged his business with Elon Musk, perhaps the Valley's most celebrated polymath, who happened to starting a similar company, X.com, just blocks away.

The crash left an intellectual hangover in the technology space, Thiel says. The founders who survived the deluge clung to four principles: 1) Be humble and make incremental advances; 2) Stay lean and experiment agnostically; 3) Don’t try to create new markets all of a sudden; 4) Focus on product, not sales. But those who misremember history are doomed to repeat it. "The opposite principles are probably more correct," Thiel says. Start-ups should be bold, have a clear plan, try to build a small monopoly, and appreciate that sales matter as much as product.

It's refreshing to hear a techie extol the virtue of sales, and Thiel is good at explaining both why nerds hate marketers, and why the nerds are wrong. "Nerds are skeptical of advertising, marketing, and sales, because they seem superficial," he writes. "They know their own jobs are hard, so when they look at salespeople laughing on the phone with a customer or going to two-hour lunches, they suspect that no
real work is being done. If anything, people overestimate the relative difficulty of science and engineering, because the challenges of those fields are obvious. What nerds don't realize is that it also takes hard work to make sales look easy ... If you've invented something new but you haven't invented an effective way to sell it, you have a bad business—no matter how good the product." There is more sneakily simple wisdom in Thiel's chapters on sales and distribution than in several perfectly suitable business books.

Thiel is brilliant at addressing his audience, entrepreneurs on the road to success. His shortcomings are concentrated in moments where he has to grapple with the limits of his boundless optimism. There is a long skippable portion of the book where Thiel haphazardly blames America's growth of transfer spending on the federal government's sudden allergy to planning for the future. But the programs that make up most of the spending he criticizes, including Social Security and Medicare, were passed between the 1930s and 1960s, a period that Thiel hails as the apogee of American technological daring. Perhaps Washington has severely altered the way it thinks about technology since the 1970s. The more significant explanation is that America, like every rich democracy in the world, is just getting old.

Zero to One slips into the worn-out grooves of its unfortunate genre by building a theory of success without studying failure with equal rigor. Thiel's chapter on fortune, "You Are Not a Lottery Ticket," is a impassioned defense of the idea that skill outweighs luck in the market place. But in the next chapter, "Follow the Money," he acknowledges that most of the bets that venture capitalist make are, indeed, failures.

"The biggest secret in venture capital is that the best investment in a successful fund equals or outperforms the entire rest of the fund combined," he writes. This power law distribution of VC investments means that a few bets will get fabulously unequal returns and it's almost impossible to predict which ones those will be. In a winner-take-all world where even the experts running VC firms don't know which company will win, commanding entrepreneurs to transcend the vicissitudes of luck is asking a generation of young men and women to defy gravity.

Thiel repeatedly rebuts the argument that success is the result of built-in privilege. He doesn't point out that Silicon Valley, which is overrun by educated white dudes, is America's petri dish of cumulative advantage.

As one of the Valley's stars, Thiel is preaching the gospel of success in an industry where failure is the law of the land. There is not much here about what happens when your business runs into the ground. I would have liked to read more about how PayPal, which was founded to create an an alternative currency to the dollar, succeeded, not as a crypto-currency, but rather an a convenient online payment system. A book about home runs needs to address that question: What do you do in the batters box after the first swing-and-miss?

When Thiel is interviewing for a new position, he says one of his favorite questions to ask is: "What important truth do very few people agree with you on?" With Zero to One, he has written a book that answers his own question many times over. But some of Thiel's best thinking feels like refreshingly humanist advice: Remember that your founders are your family, give great employees limited tasks, start with ambitious yet small products that dominate a narrow market, stop hating on salespeople, and focus on a corporate thesis statement, or "secret," that distinguishes you from your rivals.