

How to Build the Future

Henry Makensi on Peter Thiel's five-star book *Zero to One*

When the founder of two startups valued at over \$1 billion publishes a book one has to take note. Having started my career as a venture investor I had of course heard of Peter Thiel but the movie the "Social Network" clouded my view of him as a lone hedge fund investor who got lucky on Facebook. Thiel is a legend in the technology and venture world. He co-founded PayPal in 1998 and sold it to Ebay in 2002 for \$1.5 billion which, given this was after the tech bubble had burst, was a significant achievement. Thiel then went on to co-found Palantir, a security software business with over \$1 billion in revenue. He actively reinvested his fortune into tech ending up as an early investor in Facebook and Airbnb.

The book *Zero to One* stems from a course about startups that Thiel gave at Stanford (his alma matter) in 2012. His goal with that class was to make students see beyond the tracks laid down by academic specialties to the "broader future that is theirs to create." One of the students, Blake Masters, took the copious notes that formed the basis of this short book about entrepreneurship and business. He also took the learnings of the book to heart and founded and is now CEO of a legal technology start-up.

Thiel was not a programming major by training (lawyer) and is in his own words a *definite optimist*, by which he means someone who believes firmly in the value of planning and charting one's destiny. The book begins with a historical recap of the late 90's tech bubble mania in Silicon Valley and tells the story of PayPal and the key lessons learnt. One lesson I took away was the value of focusing on a small market (PayPal focused solely on EBAY sellers with their payment product initially). Ideally the niche market you stake out is one where your users consume your product frequently; and by staking out a monopoly position you gradually grow your customer base into other niches. This is in start contrast to the MBA model of selecting a

large market (often highly competitive) and then trying to accrue market share with a superior product.

The book constitutes a credible effort to convert the reader to Thiel's "startup way of thinking" which is to think for yourself. As Thiel points out, thinking for yourself is distinct from contrarian thinking. The latter in his view is simply believing the opposite to what consensus believes. His goal is to make you think that the sky is the limit, that being part of an exciting startup is the "be all and end all", and that technology will solve most if not all of humanity's problems.

Some of the book's chapters are required reading for the more conventional reader on value investing. As a value investor these chapters helped me appreciate the value of key drivers such as network effects, superior technology and branding and coming to grips with the at times stratospheric valuations inherent in the sector (for full measure Thiel also runs a hedge fund). The author explains venture capital returns and lays out why venture investing is subject to power laws with a single investment having to return multiples of the entire fund.

I found his chapter on cleantech a little tedious and less insightful than the rest of the book, this I suspect is because I work in the energy sector. The only company that he has anything remotely positive to say about is Tesla which was founded by his former business partner Elon Musk. Personally I'm sceptical about Tesla. While I concede that Musk is a formidable evangelist and salesman and that Tesla make elegant looking cars, electric vehicles can hardly be classified as disruptive technology and I don't regard Tesla as being in the same class as a Google or Apple whose high revenue multiples have turned out to be justified. For one the

battery technology improvements are incremental at best and certainly don't meet Thiel's criteria of being 10x better than rival technologies (there are fundamental laws of thermodynamics that make it unlikely this will change in the immediate future). The consequence is that unlike Internet search this sector is one with higher degrees of commoditization and intense competition from well funded incumbents with existing brand recognition (BMW, Mercedes, Ford etc).

Thiel warns about the many pitfalls of investing in or founding a startup and shares lessons learnt based on first hand experiences of companies he or members of the PayPal mafia founded. 7 of these companies went on to be worth in excess of a \$1 billion (Tesla CEO Elon Musk is one of them). His investment criteria at times are a bit tenuous, for instance he chose never to invest in a cleantech startup who's CEO wore a suit and tie. This reminds me of a CEO I once worked with who when recruiting candidates chose to throw half the CV's in the trash and when asked why he did that he answered, "these are unlucky people, and I don't hire unlucky people!".

The lecture origins of the book have the effect that a few chapters stray from the startup topic to the realm of the philosophical and at times read like they're taken from a commencement speech. Thiel as a self-professed nerd is sceptical of the nerdist image of many tech founders (Bill Gates) and gets a little carried away on

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explaining the pitfalls of aspiring to American Royalty, pointing to the fact that the likes of Elvis and MJ all died lonely premature deaths.

One of the points he makes is that too many young people are starting new tech companies and that a more fruitful endeavour for an ambitious graduate is to join Airbnb's as the 100th or even 1000th employee, as opposed to trying to become CEO of a company that goes nowhere. Intercompany differences in growth rates are likely to trump intracompany relative seniority. This is salient advice for anyone with aspirations of becoming a tech founder (Thiel himself of course did not abide by it himself and dove straight in).

The book also offers some very good concrete advice on issues such as branding, recruitment, equity and governance, and distribution. The ending chapters are off topic and can be skipped for those solely looking for nuggets on VC and startups.

Zero to One can be read in a single afternoon sitting. It offers the reader a unique vista into the opaque world of venture capital where so few firms are able to generate positive returns and where Thiel's track record stands out as second to none. The book is required reading for anyone with an interest in technology investing, both private or public, and it will instil anyone pursuing a career in a tech startup with unbridled enthusiasm and a roadmap to chart out a startup legacy.