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Book Review: Zero to One, by Peter Thiel

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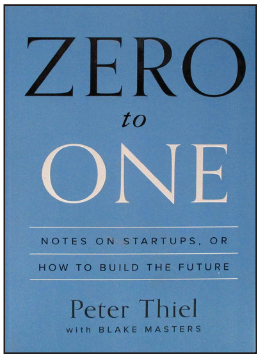

Zero to One

By: Peter Thiel

Review by Ammon Kou

Most startups fail. Unfortunately, that's the bitter truth. Groundbreaking products and services fail to penetrate the world of the consumer. Those that do are quickly drowned out by a plethora of imitations and substitutions. Why do businesses fail so often?

According to serial entrepreneur, philanthropist, and co-founder of Paypal Peter Thiel, the simple reason is because they fail to go from zero to one. Startups fail to differentiate themselves and captivate their audiences. Instead, they enter a world of competition — going from zero to one of many.

Going from zero to one (and only one!) requires one thing — a monopoly.

Monopoly

Thiel unapologetically writes "capitalism and competition are opposites." Capitalism focuses on generating profits. Competition focuses on eliminating your opponents, commonly through undercutting them with lower prices.

However, lower prices lead to lower profits. Therefore, monopolies are ideal for the entrepreneur because they generate high profits and avoid competition. Building a monopoly starts on the individual level. Most of us go through school learning a little about everything while excelling at nothing. By focusing on building out specific and unique skills, we come closer and closer to developing that zero-to-one business idea.

This is only the beginning. Thiel counsels that the business idea needs to fulfill the needs of a niche market and provide a 10x speed or convenience solution. Only then will the startup break into the world of the consumer. Creating your monopoly is one thing; maintaining it is another.

Maintenance of a monopoly requires three things: (1) network effects, (2) economies of scale, and (3) branding. Network effects refer to the value of your business idea. The more people who use your product, the more valuable it becomes. Thus, your would-be imitators have difficulty in providing a substitute product. Economies of scale refer to your costs. The larger the scale of your production, the smaller your average cost per unit. Smaller competitors attempting to gain market share do not earn a profit and are essentially shut out. Branding refers to the perception of your product. By building a strong brand early on, competitors will need a higher upfront investment to create awareness for their product. Thiel believes that through monopoly, startups can achieve the great successes they were meant to be.

Conclusion

In speaking with several startup founders, one topic always brought up is competition and how to beat it. Although no single right answer exists, Thiel's argument for the monopoly is very compelling. Because monopolies have little to no competition, business owners have the freedom they need for innovation. The problem these founders face is that while, in theory, monopolies are the ideal, they are difficult to build and even harder to maintain. As more and more businesses come into existence, innovation will be the gate to survival, and the monopoly may very well be the key.