PETER THIEL'S 7 QUESTIONS THAT EVERY COMPANY MUST ANSWER

These questions come from *Zero to One*.

Cardinal rule: only invest in companies which have the potential to return the value of the entire fund.

1. ***The Engineering Question***

Can you create a breakthrough technology instead of incremental improvements?

Properly understood, *technology* is any new and better way of doing things.

A great technology company should have proprietary technology an order of magnitude (10x) better than its nearest substitute.

2. ***The Timing Question***

Is now the right time to start your particular business?

Why did this company not exist before? (Brian Singerman)

3. ***The Monopoly Question***

Are you starting with a big share of a small market?

Can you expand quickly? How big is the market today? How quickly is it growing? How big will it be in 10+years?

Will you remain a dynamic (as opposed to static) monopoly?

4. ***The People Question***

Do you have the right team? Are they definite optimists?

Founder-market-fit.

5. ***The Distribution Question***

Do you have a way to not just create but deliver your product?

6. ***The Durability Question***

"For a company to be valuable it must grow ***and endure***, but many entrepreneurs focus only on short-term growth. They have an excuse: growth is easy to measure, but durability isn't." (p. 47) Will your market position be defensible 10 and 20 years into the future?

Are you the first mover? Are you the last mover?

Do you have a moat? Proprietary technology, network effects, economies of scale and/or brand.

7. The Secret Question

Have you identified a unique opportunity that others don't see?

BONUS

8. The Economic Question

This question is not listed by Thiel but its substance is covered in *Zero to One*. The *Economic Question* relates to the *Monopoly Question*: with a monopoly comes monopoly profits and pricing power- *"If you want to create and capture lasting value, don't build an undifferentiated commodity business"* (p. 25).

a. Do the unit economics make sense? Will they make sense?

"It's ok to have bad unit economics in the early days, but you have to have a good reason for why the unit economics are going to work out later" (Sam Altman).

"***Gross margins***, which represent sales minus cost of goods sold, are probably the best measure of long-term unit economics. The higher the gross margin, the more value each dollar of sales is to the company because it means that for each dollar of sales, the company has more cash available to fund growth and expansion" (Hoffman and Yeh, *Blitzscaling*, p. 62).

See *The Great Public Market Reckoning* (Fred Wilson).

b. Is the ultimate financial measure of success free cash flow per share?

Simply stated, the value of a business today is the sum of all the money it will make in the future. However, you have to discount those future cash flows to their present worth because a given amount of money today is worth more than the same amount in the future (*Zero to One*, p. 44).

"Why focus on cash flows? Because a share of stock is a share of a company's future cash flows, and, as a result, cash flows more than any other single variable seem to do the best job of explaining a company's stock price over the long term" (Bezos, 2001; see also 'in lean times, build a cash moat' (Bezos, 2000) and 'free cash flow enables more innovation' (Bezos, 2004)).

See *All Revenue is Not Created Equal* (Bill Gurley).

For the difference between profit and cash flows, see here. For a beginner's guide to cash flows, see here.