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| Cover Image | *Zero to One* Peter Thiel  Crown Publishing Group |

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# *183 notes/highlights*

*Created by Tarang Shah*  – Last synced February 18, 2016

## *1. The Challenge of the Future*

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| |  |  |  | | --- | --- | --- | |  | *What important truth do very few people agree with you on?*  February 12, 2016 | [10](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA10.w.0.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *When we think about the future, we hope for a future of progress. That progress can take one of two forms. Horizontal or extensive progress means copying things that work—going from 1 to n. Horizontal progress is easy to imagine because we already know what it looks like. Vertical or intensive progress means doing new things—going from 0 to 1. Vertical progress is harder to imagine because it requires doing something nobody else has ever done. If you take one typewriter and build 100, you have made horizontal progress. If you have a typewriter and build a word processor, you have made vertical progress.*  February 12, 2016 | [10](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA10.w.0.0.0.4.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *At the macro level, the single word for horizontal progress is globalization—taking things that work somewhere and making them work everywhere*  February 12, 2016 | [12](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA12) | |

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| |  |  |  | | --- | --- | --- | |  | *The single word for vertical, 0 to 1 progress is technology.*  February 12, 2016 | [12](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA12.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *My own answer to the contrarian question is that most people think the future of the world will be defined by globalization, but the truth is that technology matters more*  February 12, 2016 | [13](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA13.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *New technology tends to come from new ventures—startups. From the Founding Fathers in politics to the Royal Society in science to Fairchild Semiconductor’s “traitorous eight” in business, small groups of people bound together by a sense of mission have changed the world for the better. The easiest explanation for this is negative: it’s hard to develop new things in big organizations, and it’s even harder to do it by yourself.*  February 12, 2016 | [14](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA14.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Positively defined, a startup is the largest group of people you can convince of a plan to build a different future. A new company’s most important strength is new thinking: even more important than nimbleness, small size affords space to think.*  February 12, 2016 | [15](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA15.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Because that is what a startup has to do: question received ideas and rethink business from scratch.*  February 12, 2016 | [15](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA15.w.0.0.0.3) | |

## *2. Party Like It’s 1999*

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| |  |  |  | | --- | --- | --- | |  | *We still need new technology, and we may even need some 1999-style hubris and exuberance to get it. To build the next generation of companies, we must abandon the dogmas created after the crash. That doesn’t mean the opposite ideas are automatically true: you can’t escape the madness of crowds by dogmatically rejecting them. Instead ask yourself: how much of what you know about business is shaped by mistaken reactions to past mistakes? The most contrarian thing of all is not to oppose the crowd but to think for yourself.*  February 12, 2016 | [24](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA24.w.0.0.0.3.0.2) | |

## *3. All Happy Companies Are Different*

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| |  |  |  | | --- | --- | --- | |  | *what valuable company is nobody building*  February 12, 2016 | [26](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA26) | |

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| |  |  |  | | --- | --- | --- | |  | *Economists use two simplified models to explain the difference: perfect competition and monopoly. “Perfect competition” is considered both the ideal and the default state in Economics 101.*  February 12, 2016 | [26](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA26.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *The opposite of perfect competition is monopoly. Whereas a competitive firm must sell at the market price, a monopoly owns its market, so it can set its own prices. Since it has no competition, it produces at the quantity and price combination that maximizes its profits.*  February 12, 2016 | [26](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA26.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *by “monopoly,” we mean the kind of company that’s so good at what it does that no other firm can offer a close substitute. Google is a good example of a company that went from 0 to 1: it hasn’t competed in search since the early 2000s, when it definitively distanced itself from Microsoft and Yahoo!*  February 12, 2016 | [27](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA27.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *. Capitalism is premised on the accumulation of capital, but under perfect competition all profits get competed away. The lesson for entrepreneurs is clear: if you want to create and capture lasting value, don’t build an undifferentiated commodity business*  February 12, 2016 | [27](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA27.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Monopolists lie to protect themselves. They know that bragging about their great monopoly invites being audited, scrutinized, and attacked. Since they very much want their monopoly profits to continue unmolested, they tend to do whatever they can to conceal their monopoly—usually by exaggerating the power of their (nonexistent) competition.*  February 12, 2016 | [28](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA28.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Non-monopolists tell the opposite lie: “we’re in a league of our own.” Entrepreneurs are always biased to understate the scale of competition, but that is the biggest mistake a startup can make. The fatal temptation is to describe your market extremely narrowly so that you dominate it by definition.*  February 12, 2016 | [30](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA30.w.0.0.0.1.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Non-monopolists exaggerate their distinction by defining their market as the intersection of various smaller markets: British food ∩ restaurant ∩ Palo Alto Rap star ∩ hackers ∩ sharks Monopolists, by contrast, disguise their monopoly by framing their market as the union of several large markets: search engine ∪ mobile phones ∪ wearable computers ∪ self-driving cars*  February 12, 2016 | [32](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA32.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *In business, money is either an important thing or it is everything. Monopolists can afford to think about things other than making money; non-monopolists can’t. In perfect competition, a business is so focused on today’s margins that it can’t possibly plan for a long-term future. Only one thing can allow a business to transcend the daily brute struggle for survival: monopoly profits.*  February 12, 2016 | [33](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA33.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *a static world, a monopolist is just a rent collector. If you corner the market for something, you can jack up the price; others will have no choice but to buy from you. Think of the famous board game: deeds are shuffled around from player to player, but the board never changes. There’s no way to win by inventing a better kind of real estate development. The relative values of the properties are fixed for all time, so all you can do is try to buy them up. But the world we live in is dynamic: it’s possible to invent new and better things. Creative monopolists give customers more choices by adding entirely new categories of abundance to the world. Creative monopolies aren’t just good for the rest of society; they’re powerful engines for making it better.*  The world we live in is dynamic: it’s possible to invent new and better things.  February 12, 2016 | [33](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA33.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Monopolies drive progress because the promise of years or even decades of monopoly profits provides a powerful incentive to innovate. Then monopolies can keep innovating because profits enable them to make the long-term plans and to finance the ambitious research projects that firms locked in competition can’t dream of.*  February 12, 2016 | [34](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA34.w.0.0.0.4.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *So why are economists obsessed with competition as an ideal state? It’s a relic of history. Economists copied their mathematics from the work of 19th-century physicists: they see individuals and businesses as interchangeable atoms, not as unique creators. Their theories describe an equilibrium state of perfect competition because that’s what’s easy to model, not because it represents the best of business. But it’s worth recalling that the long-run equilibrium predicted by 19th-century physics was a state in which all energy is evenly distributed and everything comes to rest—also known as the heat death of the universe. Whatever your views on thermodynamics, it’s a powerful metaphor: in business, equilibrium means stasis, and stasis means death. If your industry is in a competitive equilibrium, the death of your business won’t matter to the world; some other undifferentiated competitor will always be ready to take your place.*  February 12, 2016 | [35](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA35) | |

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| |  |  |  | | --- | --- | --- | |  | *But every new creation takes place far from equilibrium. In the real world outside economic theory, every business is successful exactly to the extent that it does something others cannot. Monopoly is therefore not a pathology or an exception. Monopoly is the condition of every successful business.*  February 12, 2016 | [35](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA35.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Business is the opposite. All happy companies are different: each one earns a monopoly by solving a unique problem. All failed companies are the same: they failed to escape competition.*  February 12, 2016 | [35](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA35.w.0.0.0.4.0.2) | |

## *4. The Ideology of Competition*

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| |  |  |  | | --- | --- | --- | |  | *CREATIVE MONOPOLY means new products that benefit everybody and sustainable profits for the creator. Competition means no profits for anybody, no meaningful differentiation, and a struggle for survival. So why do people believe that competition is healthy? The answer is that competition is not just an economic concept or a simple inconvenience that individuals and companies must deal with in the marketplace. More than anything else, competition is an ideology—the ideology—that pervades our society and distorts our thinking. We preach competition, internalize its necessity, and enact its commandments; and as a result, we trap ourselves within it—even though the more we compete, the less we gain.*  February 12, 2016 | [37](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA37.w.0.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *This is a simple truth, but we’ve all been trained to ignore it. Our educational system both drives and reflects our obsession with competition. Grades themselves allow precise measurement of each student’s competitiveness;*  February 12, 2016 | [37](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA37.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Inside a firm, people become obsessed with their competitors for career advancement. Then the firms themselves become obsessed with their competitors in the marketplace. Amid all the human drama, people lose sight of what matters and focus on their rivals instead.*  February 12, 2016 | [39](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA39.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Rivalry causes us to overemphasize old opportunities and slavishly copy what has worked in the past. Consider the recent proliferation of mobile credit card readers*  February 12, 2016 | [40](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA40.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *The hazards of imitative competition may partially explain why individuals with an Asperger’s-like social ineptitude seem to be at an advantage in Silicon Valley today. If you’re less sensitive to social cues, you’re less likely to do the same things as everyone else around you. If you’re interested in making things or programming computers, you’ll be less afraid to pursue those activities single-mindedly and thereby become incredibly good at them. Then when you apply your skills, you’re a little less likely than others to give up your own convictions: this can save you from getting caught up in crowds competing for obvious prizes*  February 12, 2016 | [41](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA41.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Competition can make people hallucinate opportunities where none exist*  February 12, 2016 | [41](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA41.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Other times, rivalry is just weird and distracting*  Oracle's example  February 12, 2016 | [42](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA42.w.0.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *If you can’t beat a rival, it may be better to merge.*  Paypal and X.com  February 12, 2016 | [43](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA43) | |

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| |  |  |  | | --- | --- | --- | |  | *Sometimes you do have to fight. Where that’s true, you should fight and win. There is no middle ground: either don’t throw any punches, or strike hard and end it quickly*  February 12, 2016 | [43](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA43.w.0.0.0.3.0.1) | |

## *5. Last Mover Advantage*

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| |  |  |  | | --- | --- | --- | |  | *ESCAPING COMPETITION will give you a monopoly, but even a monopoly is only a great business if it can endure in the future*  February 12, 2016 | [45](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA45.w.0.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *But when Twitter went public in 2013, it was valued at $24 billion—more than 12 times the Times’s market capitalization—even though the Times earned $133 million in 2012 while Twitter lost money. What explains the huge premium for Twitter? The answer is cash flow. This sounds bizarre at first, since the Times was profitable while Twitter wasn’t. But a great business is defined by its ability to generate cash flows in the future. Investors expect Twitter will be able to capture monopoly profits over the next decade, while newspapers’ monopoly days are over.*  February 12, 2016 | [45](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA45.w.0.0.0.0.8) | |

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| |  |  |  | | --- | --- | --- | |  | *Simply stated, the value of a business today is the sum of all the money it will make in the future. (To properly value a business, you also have to discount those future cash flows to their present worth, since a given amount of money today is worth more than the same amount in the future.)*  February 12, 2016 | [45](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA45.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Comparing discounted cash flows shows the difference between low-growth businesses and high-growth startups at its starkest. Most of the value of low-growth businesses is in the near term*  February 12, 2016 | [45](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA45.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Technology companies follow the opposite trajectory. They often lose money for the first few years: it takes time to build valuable things, and that means delayed revenue. Most of a tech company’s value will come at least 10 to 15 years in the future.*  February 12, 2016 | [45](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA45.w.0.0.0.4.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *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. Those who succumb to measurement mania obsess about weekly active user statistics, monthly revenue targets, and quarterly earnings reports. However, you can hit those numbers and still overlook deeper, harder-to-measure problems that threaten the durability of your business.*  February 12, 2016 | [48](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA48.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *If you focus on near-term growth above all else, you miss the most important question you should be asking: will this business still be around a decade from now? Numbers alone won’t tell you the answer; instead you must think critically about the qualitative characteristics of your business.*  February 12, 2016 | [48](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA48.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *What does a company with large cash flows far into the future look like? Every monopoly is unique, but they usually share some combination of the following characteristics: proprietary technology, network effects, economies of scale, and branding. This isn’t a list of boxes to check as you build your business—there’s no shortcut to monopoly. However, analyzing your business according to these characteristics can help you think about how to make it durable.*  February 12, 2016 | [49](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA49.w.0.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *1. Proprietary Technology Proprietary technology is the most substantive advantage a company can have because it makes your product difficult or impossible to replicate.*  February 12, 2016 | [49](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA49.w.0.0.0.1.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *As a good rule of thumb, proprietary technology must be at least 10 times better than its closest substitute in some important dimension to lead to a real monopolistic advantage. Anything less than an order of magnitude better will probably be perceived as a marginal improvement and will be hard to sell, especially in an already crowded market. The clearest way to make a 10x improvement is to invent something completely new. If you build something valuable where there was nothing before, the increase in value is theoretically infinite. A drug to safely eliminate the need for sleep, or a cure for baldness, for example, would certainly support a monopoly business.*  Examples of PayPal improving eBay's payment vs cheques, Amazon stocking more books than anyone on the world and iPad bieng better than all tablets before it, follow  February 12, 2016 | [49](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA49.w.0.0.0.3.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *2. Network Effects Network effects make a product more useful as more people use it. For example, if all your friends are on Facebook, it makes sense for you to join Facebook, too. Unilaterally choosing a different social network would only make you an eccentric.*  February 12, 2016 | [50](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA50.w.0.0.0.3.0.5) | |

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| |  |  |  | | --- | --- | --- | |  | *3. Economies of Scale A monopoly business gets stronger as it gets bigger: the fixed costs of creating a product (engineering, management, office space) can be spread out over ever greater quantities of sales. Software startups can enjoy especially dramatic economies of scale because the marginal cost of producing another copy of the product is close to zero.*  February 12, 2016 | [51](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA51.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *4. Branding A company has a monopoly on its own brand by definition, so creating a strong brand is a powerful way to claim a monopoly*  February 12, 2016 | [52](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA52) | |

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| |  |  |  | | --- | --- | --- | |  | *Many have tried to learn from Apple’s success: paid advertising, branded stores, luxurious materials, playful keynote speeches, high prices, and even minimalist design are all susceptible to imitation. But these techniques for polishing the surface don’t work without a strong underlying substance. Apple has a complex suite of proprietary technologies, both in hardware (like superior touchscreen materials) and software (like touchscreen interfaces purpose-designed for specific materials). It manufactures products at a scale large enough to dominate pricing for the materials it buys. And it enjoys strong network effects from its content ecosystem: thousands of developers write software for Apple devices because that’s where hundreds of millions of users are, and those users stay on the platform because it’s where the apps are. These other monopolistic advantages are less obvious than Apple’s sparkling brand, but they are the fundamentals that let the branding effectively reinforce Apple’s monopoly*  February 12, 2016 | [52](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA52.w.0.0.0.1.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *When Steve Jobs returned to Apple, he didn’t just make Apple a cool place to work; he slashed product lines to focus on the handful of opportunities for 10x improvements. No technology company can be built on branding alone.*  February 12, 2016 | [53](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA53.w.0.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Brand, scale, network effects, and technology in some combination define a monopoly; but to get them to work, you need to choose your market carefully and expand deliberately.*  February 12, 2016 | [53](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA53.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Start Small and Monopolize Every startup is small at the start. Every monopoly dominates a large share of its market. Therefore, every startup should start with a very small market. Always err on the side of starting too small. The reason is simple: it’s easier to dominate a small market than a large one. If you think your initial market might be too big, it almost certainly is. Small doesn’t mean nonexistent. We made this mistake early on at PayPal. Our first product let people beam money to each other via PalmPilots. It was interesting technology and no one else was doing it. However, the world’s millions of PalmPilot users weren’t concentrated in a particular place, they had little in common, and they used their devices only episodically. Nobody needed our product, so we had no customers.*  February 12, 2016 | [53](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA53.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Start Small and Monopolize Every startup is small at the start. Every monopoly dominates a large share of its market. Therefore, every startup should start with a very small market. Always err on the side of starting too small. The reason is simple: it’s easier to dominate a small market than a large one. If you think your initial market might be too big, it almost certainly is. Small doesn’t mean nonexistent. We made this mistake early on at PayPal. Our first product let people beam money to each other via PalmPilots. It was interesting technology and no one else was doing it. However, the world’s millions of PalmPilot users weren’t concentrated in a particular place, they had little in common, and they used their devices only episodically. Nobody needed our product, so we had no customers.*  February 12, 2016 | [53](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA53.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *The perfect target market for a startup is a small group of particular people concentrated together and served by few or no competitors. Any big market is a bad choice, and a big market already served by competing companies is even worse. This is why it’s always a red flag when entrepreneurs talk about getting 1% of a $100 billion market. In practice, a large market will either lack a good starting point or it will be open to competition, so it’s hard to ever reach that 1%. And even if you do succeed in gaining a small foothold, you’ll have to be satisfied with keeping the lights on: cutthroat competition means your profits will be zero.*  February 12, 2016 | [53](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA53.w.0.0.0.4.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Scaling Up Once you create and dominate a niche market, then you should gradually expand into related and slightly broader markets. Amazon shows how it can be done. Jeff Bezos’s founding vision was to dominate all of online retail, but he very deliberately started with books. There were millions of books to catalog, but they all had roughly the same shape, they were easy to ship, and some of the most rarely sold books—those least profitable for any retail store to keep in stock—also drew the most enthusiastic customers. Amazon became the dominant solution for anyone located far from a bookstore or seeking something unusual. Amazon then had two options: expand the number of people who read books, or expand to adjacent markets. They chose the latter, starting with the most similar markets: CDs, videos, and software.*  February 12, 2016 | [54](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA54.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Sequencing markets correctly is underrated, and it takes discipline to expand gradually. The most successful companies make the core progression—to first dominate a specific niche and then scale to adjacent markets—a part of their founding narrative.*  February 12, 2016 | [55](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA55.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Don’t Disrupt*  February 12, 2016 | [55](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA55.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *However, disruption has recently transmogrified into a self-congratulatory buzzword for anything posing as trendy and new. This seemingly trivial fad matters because it distorts an entrepreneur’s self-understanding in an inherently competitive way. The concept was coined to describe threats to incumbent companies, so startups’ obsession with disruption means they see themselves through older firms’ eyes. If you think of yourself as an insurgent battling dark forces, it’s easy to become unduly fixated on the obstacles in your path. But if you truly want to make something new, the act of creation is far more important than the old industries that might not like what you create. Indeed, if your company can be summed up by its opposition to already existing firms, it can’t be completely new and it’s probably not going to become a monopoly.*  February 12, 2016 | [55](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA55.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Disruption also attracts attention: disruptors are people who look for trouble and find it. Disruptive kids get sent to the principal’s office. Disruptive companies often pick fights they can’t win. Think of Napster: the name itself meant trouble. What kinds of things can one “nap”? Music … Kids … and perhaps not much else. Shawn Fanning and Sean Parker, Napster’s then-teenage founders, credibly threatened to disrupt the powerful music recording industry in 1999. The next year, they made the cover of Time magazine. A year and a half after that, they ended up in bankruptcy court.*  February 12, 2016 | [56](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA56.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *But since we expanded the market for payments overall, we gave Visa far more business than we took. The overall dynamic was net positive, unlike Napster’s negative-sum struggle with the U.S. recording industry. As you craft a plan to expand to adjacent markets, don’t disrupt: avoid competition as much as possible.*  February 12, 2016 | [56](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA56.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *THE LAST WILL BE FIRST You’ve probably heard about “first mover advantage”: if you’re the first entrant into a market, you can capture significant market share while competitors scramble to get started. But moving first is a tactic, not a goal. What really matters is generating cash flows in the future, so being the first mover doesn’t do you any good if someone else comes along and unseats you. It’s much better to be the last mover—that is, to make the last great development in a specific market and enjoy years or even decades of monopoly profits. The way to do that is to dominate a small niche and scale up from there, toward your ambitious long-term vision. In this one particular at least, business is like chess. Grandmaster José Raúl Capablanca put it well: to succeed, “you must study the endgame before everything else.*  February 12, 2016 | [56](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA56.w.0.0.0.4) | |

## *6. You Are Not a Lottery Ticket*

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| |  |  |  | | --- | --- | --- | |  | *From the Renaissance and the Enlightenment to the mid-20th century, luck was something to be mastered, dominated, and controlled; everyone agreed that you should do what you could, not focus on what you couldn’t. Ralph Waldo Emerson captured this ethos when he wrote: “Shallow men believe in luck, believe in circumstances.… Strong men believe in cause and effect.” In 1912, after he became the first explorer to reach the South Pole, Roald Amundsen wrote: “Victory awaits him who has everything in order—luck, people call it.” No one pretended that misfortune didn’t exist, but prior generations believed in making their own luck by working hard. If you believe your life is mainly a matter of chance, why read this book? Learning about startups is worthless if you’re just reading stories about people who won the lottery. Slot Machines for Dummies can purport to tell you which kind of rabbit’s foot to rub or how to tell which machines are “hot,” but it can’t tell you how to win.*  February 12, 2016 | [59](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA59) | |

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| |  |  |  | | --- | --- | --- | |  | *You can expect the future to take a definite form or you can treat it as hazily uncertain. If you treat the future as something definite, it makes sense to understand it in advance and to work to shape it. But if you expect an indefinite future ruled by randomness, you’ll give up on trying to master it.*  February 12, 2016 | [59](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA59.w.0.0.0.3.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Indefinite attitudes to the future explain what’s most dysfunctional in our world today. Process trumps substance: when people lack concrete plans to carry out, they use formal rules to assemble a portfolio of various options. This describes Americans today. In middle school, we’re encouraged to start hoarding “extracurricular activities.” In high school, ambitious students compete even harder to appear omnicompetent. By the time a student gets to college, he’s spent a decade curating a bewilderingly diverse résumé to prepare for a completely unknowable future. Come what may, he’s ready—for nothing in particular.*  February 12, 2016 | [59](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA59.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *A definite view, by contrast, favors firm convictions. Instead of pursuing many-sided mediocrity and calling it “well-roundedness,” a definite person determines the one best thing to do and then does it. Instead of working tirelessly to make herself indistinguishable, she strives to be great at something substantive—to be a monopoly of one. This is not what young people do today, because everyone around them has long since lost faith in a definite world. No one gets into Stanford by excelling at just one thing, unless that thing happens to involve throwing or catching a leather ball.*  February 12, 2016 | [60](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA60.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *You can also expect the future to be either better or worse than the present. Optimists welcome the future; pessimists fear it. Combining these possibilities yields four views:*  February 12, 2016 | [61](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA61.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Indefinite Pessimism Every culture has a myth of decline from some golden age, and almost all peoples throughout history have been pessimists. Even today pessimism still dominates huge parts of the world. An indefinite pessimist looks out onto a bleak future, but he has no idea what to do about it.*  February 12, 2016 | [61](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA61.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *inevitable decline will be fast or slow, catastrophic or gradual. All he can do is wait for it to happen, so he might as well eat, drink, and be merry in the meantime: hence Europe’s famous vacation mania.*  February 12, 2016 | [62](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA62) | |

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| |  |  |  | | --- | --- | --- | |  | *Definite Pessimism A definite pessimist believes the future can be known, but since it will be bleak, he must prepare for it. Perhaps surprisingly, China is probably the most definitely pessimistic place in the world today. When Americans see the Chinese economy grow ferociously fast (10% per year since 2000), we imagine a confident country mastering its future. But that’s because Americans are still optimists, and we project our optimism onto China. From China’s viewpoint, economic growth cannot come fast enough. Every other country is afraid that China is going to take over the world; China is the only country afraid that it won’t.*  February 12, 2016 | [62](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA62.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *This is why the Chinese leadership is obsessed with the way in which things threaten to get worse. Every senior Chinese leader experienced famine as a child, so when the Politburo looks to the future, disaster is not an abstraction. The Chinese public, too, knows that winter is coming. Outsiders are fascinated by the great fortunes being made inside China, but they pay less attention to the wealthy Chinese trying hard to get their money out of the country. Poorer Chinese just save everything they can and hope it will be enough. Every class of people in China takes the future deadly seriously.*  February 12, 2016 | [62](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA62.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Definite Optimism To a definite optimist, the future will be better than the present if he plans and works to make it better. From the 17th century through the 1950s and ’60s, definite optimists led the Western world*  February 12, 2016 | [63](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA63.w.0.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Each generation’s inventors and visionaries surpassed their predecessors. In 1843, the London public was invited to make its first crossing underneath the River Thames by a newly dug tunnel. In 1869, the Suez Canal saved Eurasian shipping traffic from rounding the Cape of Good Hope. In 1914 the Panama Canal cut short the route from Atlantic to Pacific. Even the Great Depression failed to impede relentless progress in the United States, which has always been home to the world’s most far-seeing definite optimists. The Empire State Building was started in 1929 and finished in 1931. The Golden Gate Bridge was started in 1933 and completed in 1937. The Manhattan Project was started in 1941 and had already produced the world’s first nuclear bomb by 1945. Americans continued to remake the face of the world in peacetime: the Interstate Highway System began construction in 1956, and the first 20,000 miles of road were open for driving by 1965. Definite planning even went beyond the surface of this planet: NASA’s Apollo Program began in 1961 and put 12 men on the moon before it finished in 1972.*  February 12, 2016 | [63](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA63.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *would anybody today take such a vision seriously in the first place? In the 1950s, people welcomed big plans and asked whether they would work. Today a grand plan coming from a schoolteacher would be dismissed as crankery, and a long-range vision coming from anyone more powerful would be derided as hubris. You can still visit the Bay Model in that Sausalito warehouse, but today it’s just a tourist attraction: big plans for the future have become archaic curiosities.*  February 12, 2016 | [64](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA64.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Indefinite Optimism After a brief pessimistic phase in the 1970s, indefinite optimism has dominated American thinking ever since 1982, when a long bull market began and finance eclipsed engineering as the way to approach the future. To an indefinite optimist, the future will be better, but he doesn’t know how exactly, so he won’t make any specific plans. He expects to profit from the future but sees no reason to design it concretely.*  February 12, 2016 | [66](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA66.w.0.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Instead of working for years to build a new product, indefinite optimists rearrange already-invented ones. Bankers make money by rearranging the capital structures of already existing companies. Lawyers resolve disputes over old things or help other people structure their affairs. And private equity investors and management consultants don’t start new businesses; they squeeze extra efficiency from old ones with incessant procedural optimizations. It’s no surprise that these fields all attract disproportionate numbers of high-achieving Ivy League optionality chasers; what could be a more appropriate reward for two decades of résumé-building than a seemingly elite, process-oriented career that promises to “keep options open”?*  February 12, 2016 | [66](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA66.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Recent graduates’ parents often cheer them on the established path. The strange history of the Baby Boom produced a generation of indefinite optimists so used to effortless progress that they feel entitled to it. Whether you were born in 1945 or 1950 or 1955, things got better every year for the first 18 years of your life, and it had nothing to do with you. Technological advance seemed to accelerate automatically, so the Boomers grew up with great expectations but few specific plans for how to fulfill them. Then, when technological progress stalled in the 1970s, increasing income inequality came to the rescue of the most elite Boomers. Every year of adulthood continued to get automatically better and better for the rich and successful. The rest of their generation was left behind, but the wealthy Boomers who shape public opinion today see little reason to question their naïve optimism. Since tracked careers worked for them, they can’t imagine that they won’t work for their kids, too. Malcolm Gladwell says you can’t understand Bill Gates’s success without understanding his fortunate personal context: he grew up in a good family, went to a private school equipped with a computer lab, and counted Paul Allen as a childhood friend. But perhaps you can’t understand Malcolm Gladwell without understanding his historical context as a Boomer (born in 1963). When Baby Boomers grow up and write books to explain why one or another individual is successful, they point to the power of a particular individual’s context as determined by chance. But they miss the even bigger social context for their own preferred explanations: a whole generation learned from childhood to overrate the power of chance and underrate the importance of planning. Gladwell at first appears to be making a contrarian critique of the myth of the self-made businessman, but actually his own account encapsulates the conventional view of a generation.*  Amazing perspective!! Read!  February 12, 2016 | [66](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA66.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Indefinite Finance While a definitely optimistic future would need engineers to design underwater cities and settlements in space, an indefinitely optimistic future calls for more bankers and lawyers. Finance epitomizes indefinite thinking because it’s the only way to make money when you have no idea how to create wealth. If they don’t go to law school, bright college graduates head to Wall Street precisely because they have no real plan for their careers. And once they arrive at Goldman, they find that even inside finance, everything is indefinite. It’s still optimistic—you wouldn’t play in the markets if you expected to lose—but the fundamental tenet is that the market is random; you can’t know anything specific or substantive; diversification becomes supremely important.*  February 12, 2016 | [67](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA67.w.0.0.0.3.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *The indefiniteness of finance can be bizarre. Think about what happens when successful entrepreneurs sell their company. What do they do with the money? In a financialized world, it unfolds like this: • The founders don’t know what to do with it, so they give it to a large bank. • The bankers don’t know what to do with it, so they diversify by spreading it across a portfolio of institutional investors. • Institutional investors don’t know what to do with their managed capital, so they diversify by amassing a portfolio of stocks. • Companies try to increase their share price by generating free cash flows. If they do, they issue dividends or buy back shares and the cycle repeats. At no point does anyone in the chain know what to do with money in the real economy. But in an indefinite world, people actually prefer unlimited optionality; money is more valuable than anything you could possibly do with it. Only in a definite future is money a means to an end, not the end itself.*  February 13, 2016 | [68](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA68) | |

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| |  |  |  | | --- | --- | --- | |  | *Even in engineering-driven Silicon Valley, the buzzwords of the moment call for building a “lean startup” that can “adapt” and “evolve” to an ever-changing environment. Would-be entrepreneurs are told that nothing can be known in advance: we’re supposed to listen to what customers say they want, make nothing more than a “minimum viable product,” and iterate our way to success. But leanness is a methodology, not a goal. Making small changes to things that already exist might lead you to a local maximum, but it won’t help you find the global maximum. You could build the best version of an app that lets people order toilet paper from their iPhone. But iteration without a bold plan won’t take you from 0 to 1. A company is the strangest place of all for an indefinite optimist: why should you expect your own business to succeed without a plan to make it happen? Darwinism may be a fine theory in other contexts, but in startups, intelligent design works best.*  February 13, 2016 | [75](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA75) | |

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| |  |  |  | | --- | --- | --- | |  | *THE RETURN OF DESIGN What would it mean to prioritize design over chance?*  February 13, 2016 | [75](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA75.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *It’s true that every great entrepreneur is first and foremost a designer. Anyone who has held an iDevice or a smoothly machined MacBook has felt the result of Steve Jobs’s obsession with visual and experiential perfection. But the most important lesson to learn from Jobs has nothing to do with aesthetics. The greatest thing Jobs designed was his business. Apple imagined and executed definite multi-year plans to create new products and distribute them effectively. Forget “minimum viable products”—ever since he started Apple in 1976, Jobs saw that you can change the world through careful planning, not by listening to focus group feedback or copying others’ successes.*  February 13, 2016 | [75](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA75.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *YOU ARE NOT A LOTTERY TICKET We have to find our way back to a definite future, and the Western world needs nothing short of a cultural revolution to do it. Where to start? John Rawls will need to be displaced in philosophy departments. Malcolm Gladwell must be persuaded to change his theories. And pollsters have to be driven from politics. But the philosophy professors and the Gladwells of the world are set in their ways, to say nothing of our politicians. It’s extremely hard to make changes in those crowded fields, even with brains and good intentions.*  February 13, 2016 | [77](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA77.w.0.0.0.2.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *A startup is the largest endeavor over which you can have definite mastery. You can have agency not just over your own life, but over a small and important part of the world. It begins by rejecting the unjust tyranny of Chance. You are not a lottery ticket.*  February 13, 2016 | [77](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA77.w.0.0.0.3.0.1) | |

## *7. Follow the Money*

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| |  |  |  | | --- | --- | --- | |  | *We shouldn’t be surprised, since small minorities often achieve disproportionate results. In 1906, economist Vilfredo Pareto discovered what became the “ Pareto principle,” or the 80-20 rule, when he noticed that 20% of the people owned 80% of the land in Italy—a phenomenon that he found just as natural as the fact that 20% of the peapods in his garden produced 80% of the peas. This extraordinarily stark pattern, in which a small few radically outstrip all rivals, surrounds us everywhere in the natural and social world. The most destructive earthquakes are many times more powerful than all smaller earthquakes combined. The biggest cities dwarf all mere towns put together. And monopoly businesses capture more value than millions of undifferentiated competitors. Whatever Einstein did or didn’t say, the power law—so named because exponential equations describe severely unequal distributions—is the law of the universe. It defines our surroundings so completely that we usually don’t even see it.*  February 13, 2016 | [78](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA78.w.0.0.0.2.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *in venture capital, where investors try to profit from exponential growth in early-stage companies, a few companies attain exponentially greater value than all others. Most businesses never need to deal with venture capital, but everyone needs to know exactly one thing that even venture capitalists struggle to understand: we don’t live in a normal world; we live under a power law*  February 13, 2016 | [79](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA79) | |

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| |  |  |  | | --- | --- | --- | |  | *Venture capitalists aim to identify, fund, and profit from promising early-stage companies. They raise money from institutions and wealthy people, pool it into a fund, and invest in technology companies that they believe will become more valuable. If they turn out to be right, they take a cut of the returns—usually 20%. A venture fund makes money when the companies in its portfolio become more valuable and either go public or get bought by larger companies. Venture funds usually have a 10-year lifespan since it takes time for successful companies to grow and “exit.” But most venture-backed companies don’t IPO or get acquired; most fail, usually soon after they start. Due to these early failures, a venture fund typically loses money at first.*  February 13, 2016 | [79](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA79.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *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 . This implies two very strange rules for VCs. First, only invest in companies that have the potential to return the value of the entire fund. This is a scary rule, because it eliminates the vast majority of possible investments. (Even quite successful companies usually succeed on a more humble scale.) This leads to rule number two: because rule number one is so restrictive, there can’t be any other rules.*  February 13, 2016 | [81](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA81.w.0.0.0.2.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Consider what happens when you break the first rule. Andreessen Horowitz invested $250,000 in Instagram in 2010. When Facebook bought Instagram just two years later for $1 billion, Andreessen netted $78 million—a 312x return in less than two years. That’s a phenomenal return, befitting the firm’s reputation as one of the Valley’s best. But in a weird way it’s not nearly enough, because Andreessen Horowitz has a $1.5 billion fund: if they only wrote $250,000 checks, they would need to find 19 Instagrams just to break even. This is why investors typically put a lot more money into any company worth funding. (And to be fair, Andreessen would have invested more in Instagram’s later rounds had it not been conflicted out by a previous investment.)*  February 13, 2016 | [82](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA82.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *VCs must find the handful of companies that will successfully go from 0 to 1 and then back them with every resource.*  February 13, 2016 | [82](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA82.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Whenever you shift from the substance of a business to the financial question of whether or not it fits into a diversified hedging strategy, venture investing starts to look a lot like buying lottery tickets. And once you think that you’re playing the lottery, you’ve already psychologically prepared yourself to lose.*  February 13, 2016 | [82](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA82.w.0.0.0.4.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Why would professional VCs, of all people, fail to see the power law? For one thing, it only becomes clear over time, and even technology investors too often live in the present.*  February 13, 2016 | [83](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA83.w.0.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *If even investors specializing in exponentially growing startups miss the power law, it’s not surprising that most everyone else misses it, too. Power law distributions are so big that they hide in plain sight.*  February 13, 2016 | [86](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA86) | |

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| |  |  |  | | --- | --- | --- | |  | *The power law is not just important to investors; rather, it’s important to everybody because everybody is an investor. An entrepreneur makes a major investment just by spending her time working on a startup. Therefore every entrepreneur must think about whether her company is going to succeed and become valuable. Every individual is unavoidably an investor, too. When you choose a career, you act on your belief that the kind of work you do will be valuable decades from now.*  February 13, 2016 | [86](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA86.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Our schools teach the opposite: institutionalized education traffics in a kind of homogenized, generic knowledge. Everybody who passes through the American school system learns not to think in power law terms. Every high school course period lasts 45 minutes whatever the subject. Every student proceeds at a similar pace. At college, model students obsessively hedge their futures by assembling a suite of exotic and minor skills. Every university believes in “excellence,” and hundred-page course catalogs arranged alphabetically according to arbitrary departments of knowledge seem designed to reassure you that “it doesn’t matter what you do, as long as you do it well.” That is completely false. It does matter what you do. You should focus relentlessly on something you’re good at doing, but before that you must think hard about whether it will be valuable in the future.*  February 13, 2016 | [87](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA87) | |

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| |  |  |  | | --- | --- | --- | |  | *For the startup world, this means you should not necessarily start your own company, even if you are extraordinarily talented. If anything, too many people are starting their own companies today. People who understand the power law will hesitate more than others when it comes to founding a new venture: they know how tremendously successful they could become by joining the very best company while it’s growing fast. The power law means that differences between companies will dwarf the differences in roles inside companies. You could have 100% of the equity if you fully fund your own venture, but if it fails you’ll have 100% of nothing. Owning just 0.01% of Google, by contrast, is incredibly valuable (more than $35 million as of this writing).*  February 13, 2016 | [87](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA87.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *If you do start your own company, you must remember the power law to operate it well. The most important things are singular: One market will probably be better than all others, as we discussed in Chapter 5. One distribution strategy usually dominates all others, too—for that see Chapter 11. Time and decision-making themselves follow a power law, and some moments matter far more than others—see Chapter 9. However, you can’t trust a world that denies the power law to accurately frame your decisions for you, so what’s most important is rarely obvious. It might even be secret. But in a power law world, you can’t afford not to think hard about where your actions will fall on the curve.*  February 13, 2016 | [87](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA87.w.0.0.0.4.0.2) | |

## *8. Secrets*

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| |  |  |  | | --- | --- | --- | |  | *EVERY ONE OF TODAY’S most famous and familiar ideas was once unknown and unsuspected. The mathematical relationship between a triangle’s sides, for example, was secret for millennia. Pythagoras had to think hard to discover it. If you wanted in on Pythagoras’s new discovery, joining his strange vegetarian cult was the best way to learn about it. Today, his geometry has become a convention—a simple truth we teach to grade schoolers. A conventional truth can be important—it’s essential to learn elementary mathematics, for example—but it won’t give you an edge. It’s not a secret.*  February 13, 2016 | [89](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA89.w.0.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Remember our contrarian question: what important truth do very few people agree with you on? If we already understand as much of the natural world as we ever will—if all of today’s conventional ideas are already enlightened, and if everything has already been done—then there are no good answers. Contrarian thinking doesn’t make any sense unless the world still has secrets left to give up.*  February 13, 2016 | [89](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA89.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Recall the business version of our contrarian question: what valuable company is nobody building? Every correct answer is necessarily a secret: something important and unknown, something hard to do but doable. If there are many secrets left in the world, there are probably many world-changing companies yet to be started. This chapter will help you think about secrets and how to find them.*  February 13, 2016 | [90](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA90) | |

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| |  |  |  | | --- | --- | --- | |  | *WHY AREN’T PEOPLE LOOKING FOR SECRETS? Most people act as if there were no secrets left to find*  February 13, 2016 | [90](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA90.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Kaczynski claimed that in order to be happy, every individual “needs to have goals whose attainment requires effort, and needs to succeed in attaining at least some of his goals.” He divided human goals into three groups: 1. Goals that can be satisfied with minimal effort; 2. Goals that can be satisfied with serious effort; and 3. Goals that cannot be satisfied, no matter how much effort one makes. This is the classic trichotomy of the easy, the hard, and the impossible. Kaczynski argued that modern people are depressed because all the world’s hard problems have already been solved. What’s left to do is either easy or impossible, and pursuing those tasks is deeply unsatisfying. What you can do, even a child can do; what you can’t do, even Einstein couldn’t have done. So Kaczynski’s idea was to destroy existing institutions, get rid of all technology, and let people start over and work on hard problems anew.*  February 13, 2016 | [90](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA90.w.0.0.0.3.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Kaczynski’s methods were crazy, but his loss of faith in the technological frontier is all around us. Consider the trivial but revealing hallmarks of urban hipsterdom: faux vintage photography, the handlebar mustache, and vinyl record players all hark back to an earlier time when people were still optimistic about the future. If everything worth doing has already been done, you may as well feign an allergy to achievement and become a barista*  February 13, 2016 | [91](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA91.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Why has so much of our society come to believe that there are no hard secrets left? It might start with geography. There are no blank spaces left on the map anymore. If you grew up in the 18th century, there were still new places to go. After hearing tales of foreign adventure, you could become an explorer yourself. This was probably true up through the 19th and early 20th centuries; after that point photography from National Geographic showed every Westerner what even the most exotic, underexplored places on earth look like. Today, explorers are found mostly in history books*  February 13, 2016 | [92](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA92.w.0.0.0.1.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Along with the natural fact that physical frontiers have receded, four social trends have conspired to root out belief in secrets. First is incrementalism. From an early age, we are taught that the right way to do things is to proceed one very small step at a time, day by day, grade by grade. If you overachieve and end up learning something that’s not on the test, you won’t receive credit for it. But in exchange for doing exactly what’s asked of you (and for doing it just a bit better than your peers), you’ll get an A. This process extends all the way up through the tenure track, which is why academics usually chase large numbers of trivial publications instead of new frontiers.*  A grave and very important issue which must be addressed. This the first of 4 points(highlighted red) all are clearly important issues that have to be overcome.  February 14, 2016 | [92](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA92.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Second is risk aversion. People are scared of secrets because they are scared of being wrong. By definition, a secret hasn’t been vetted by the mainstream. If your goal is to never make a mistake in your life, you shouldn’t look for secrets. The prospect of being lonely but right—dedicating your life to something that no one else believes in—is already hard. The prospect of being lonely and wrong can be unbearable.*  February 13, 2016 | [93](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA93) | |

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| |  |  |  | | --- | --- | --- | |  | *Third is complacency. Social elites have the most freedom and ability to explore new thinking, but they seem to believe in secrets the least. Why search for a new secret if you can comfortably collect rents on everything that has already been done? Every fall, the deans at top law schools and business schools welcome the incoming class with the same implicit message: “You got into this elite institution. Your worries are over. You’re set for life.” But that’s probably the kind of thing that’s true only if you don’t believe it.*  February 14, 2016 | [93](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA93.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Fourth is “ flatness.” As globalization advances, people perceive the world as one homogeneous, highly competitive marketplace: the world is “flat.” Given that assumption, anyone who might have had the ambition to look for a secret will first ask himself: if it were possible to discover something new, wouldn’t someone from the faceless global talent pool of smarter and more creative people have found it already? This voice of doubt can dissuade people from even starting to look for secrets in a world that seems too big a place for any individual to contribute something unique.*  February 14, 2016 | [93](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA93.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *What happens when a company stops believing in secrets? The sad decline of Hewlett-Packard provides a cautionary tale. In 1990, the company was worth $9 billion. Then came a decade of invention. In 1991, HP released the DeskJet 500C, the world’s first affordable color printer. In 1993, it launched the OmniBook, one of the first “superportable” laptops. The next year, HP released the OfficeJet, the world’s first all-in-one printer/fax/copier. This relentless product expansion paid off: by mid-2000, HP was worth $135 billion. But starting in late 1999, when HP introduced a new branding campaign around the imperative to “invent,” it stopped inventing things. In 2001, the company launched HP Services, a glorified consulting and support shop. In 2002, HP merged with Compaq, presumably because it didn’t know what else to do. By 2005, the company’s market cap had plunged to $70 billion—roughly half of what it had been just five years earlier. HP’s board was a microcosm of the dysfunction: it split into two factions, only one of which cared about new technology. That faction was led by Tom Perkins, an engineer who first came to HP in 1963 to run the company’s research division at the personal request of Bill Hewlett and Dave Packard. At 73 years old in 2005, Perkins may as well have been a time-traveling visitor from a bygone age of optimism: he thought the board should identify the most promising new technologies and then have HP build them. But Perkins’s faction lost out to its rival, led by chairwoman Patricia Dunn. A banker by trade, Dunn argued that charting a plan for future technology was beyond the board’s competence. She thought the board should restrict itself to a night watchman’s role: Was everything proper in the accounting department? Were people following all the rules? Amid this infighting, someone on the board started leaking information to the press. When it was exposed that Dunn arranged a series of illegal wiretaps to identify the source, the backlash was worse than the original dissension, and the board was disgraced. Having abandoned the search for technological secrets, HP obsessed over gossip. As a result, by late 2012 HP was worth just $23 billion—not much more than it was worth in 1990, adjusting for inflation.*  Believing in innovation and change is necessary. And why not to let a finance/economics background person to steer a companies decisions.  February 14, 2016 | [95](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA95) | |

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| |  |  |  | | --- | --- | --- | |  | *The actual truth is that there are many more secrets left to find, but they will yield only to relentless searchers. There is more to do in science, medicine, engineering, and in technology of all kinds. We are within reach not just of marginal goals set at the competitive edge of today’s conventional disciplines, but of ambitions so great that even the boldest minds of the Scientific Revolution hesitated to announce them directly. We could cure cancer, dementia, and all the diseases of age and metabolic decay. We can find new ways to generate energy that free the world from conflict over fossil fuels. We can invent faster ways to travel from place to place over the surface of the planet; we can even learn how to escape it entirely and settle new frontiers. But we will never learn any of these secrets unless we demand to know them and force ourselves to look.*  February 14, 2016 | [96](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA96.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *The same is true of business. Great companies can be built on open but unsuspected secrets about how the world works. Consider the Silicon Valley startups that have harnessed the spare capacity that is all around us but often ignored*  February 14, 2016 | [97](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA97) | |

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| |  |  |  | | --- | --- | --- | |  | *The same reason that so many internet companies, including Facebook, are often underestimated—their very simplicity—is itself an argument for secrets. If insights that look so elementary in retrospect can support important and valuable businesses, there must remain many great companies still to start.*  February 14, 2016 | [97](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA97.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *There are two kinds of secrets: secrets of nature and secrets about people. Natural secrets exist all around us; to find them, one must study some undiscovered aspect of the physical world. Secrets about people are different: they are things that people don’t know about themselves or things they hide because they don’t want others to know. So when thinking about what kind of company to build, there are two distinct questions to ask: What secrets is nature not telling you? What secrets are people not telling you*  February 14, 2016 | [97](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA97.w.0.0.0.3.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Sometimes looking for natural secrets and looking for human secrets lead to the same truth. Consider the monopoly secret again: competition and capitalism are opposites. If you didn’t already know it, you could discover it the natural, empirical way: do a quantitative study of corporate profits and you’ll see they’re eliminated by competition. But you could also take the human approach and ask: what are people running companies not allowed to say? You would notice that monopolists downplay their monopoly status to avoid scrutiny, while competitive firms strategically exaggerate their uniqueness. The differences between firms only seem small on the surface; in fact, they are enormous.*  February 14, 2016 | [98](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA98.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Unless you have perfectly conventional beliefs, it’s rarely a good idea to tell everybody everything that you know. So who do you tell? Whoever you need to, and no more. In practice, there’s always a golden mean between telling nobody and telling everybody—and that’s a company.*  February 14, 2016 | [99](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA99.w.0.0.0.2.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *The best entrepreneurs know this: every great business is built around a secret that’s hidden from the outside. A great company is a conspiracy to change the world; when you share your secret, the recipient becomes a fellow conspirator*  February 14, 2016 | [99](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA99.w.0.0.0.3) | |

## *9. Foundations*

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| |  |  |  | | --- | --- | --- | |  | *EVERY GREAT COMPANY is unique, but there are a few things that every business must get right at the beginning. I stress this so often that friends have teasingly nicknamed it “Thiel’s law”: a startup messed up at its foundation cannot be fixed. Beginnings are special. They are qualitatively different from all that comes afterward. This was true 13.8 billion years ago, at the founding of our cosmos: in the earliest microseconds of its existence, the universe expanded by a factor of 1030—a million trillion trillion. As cosmogonic epochs came and went in those first few moments, the very laws of physics were different from those we know today.*  February 15, 2016 | [101](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA101.w.0.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Companies are like countries in this way. Bad decisions made early on—if you choose the wrong partners or hire the wrong people, for example—are very hard to correct after they are made. It may take a crisis on the order of bankruptcy before anybody will even try to correct them. As a founder, your first job is to get the first things right, because you cannot build a great company on a flawed foundation.*  February 14, 2016 | [101](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA101.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *FOUNDING MATRIMONY When you start something, the first and most crucial decision you make is whom to start it with. Choosing a co-founder is like getting married, and founder conflict is just as ugly as divorce. Optimism abounds at the start of every relationship. It’s unromantic to think soberly about what could go wrong, so people don’t. But if the founders develop irreconcilable differences, the company becomes the victim.*  February 15, 2016 | [101](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA101.w.0.0.0.4.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Now when I consider investing in a startup, I study the founding teams. Technical abilities and complementary skill sets matter, but how well the founders know each other and how well they work together matter just as much. Founders should share a prehistory before they start a company together—otherwise they’re just rolling dice.*  February 15, 2016 | [102](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA102.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *OWNERSHIP, POSSESSION, AND CONTROL It’s not just founders who need to get along. Everyone in your company needs to work well together. A Silicon Valley libertarian might say you could solve this problem by restricting yourself to a sole proprietorship. Freud, Jung, and every other psychologist has a theory about how every individual mind is divided against itself, but in business at least, working for yourself guarantees alignment. Unfortunately, it also limits what kind of company you can build. It’s very hard to go from 0 to 1 without a team.*  February 15, 2016 | [102](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA102.w.0.0.0.3.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *You need good people who get along, but you also need a structure to help keep everyone aligned for the long term. To anticipate likely sources of misalignment in any company, it’s useful to distinguish between three concepts: • Ownership: who legally owns a company’s equity? • Possession: who actually runs the company on a day-to-day basis? • Control: who formally governs the company’s affairs? A typical startup allocates ownership among founders, employees, and investors. The managers and employees who operate the company enjoy possession. And a board of directors, usually comprising founders and investors, exercises control. In theory, this division works smoothly. Financial upside from part ownership attracts and rewards investors and workers. Effective possession motivates and empowers founders and employees—it means they can get stuff done. Oversight from the board places managers’ plans in a broader perspective. In practice, distributing these functions among different people makes sense, but it also multiplies opportunities for misalignment.*  February 15, 2016 | [103](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA103.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Unlike corporate giants, early-stage startups are small enough that founders usually have both ownership and possession. Most conflicts in a startup erupt between ownership and control—that is, between founders and investors on the board. The potential for conflict increases over time as interests diverge: a board member might want to take a company public as soon as possible to score a win for his venture firm, while the founders would prefer to stay private and grow the business.*  February 15, 2016 | [104](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA104.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *ON THE BUS OR OFF THE BUS As a general rule, everyone you involve with your company should be involved full-time. Sometimes you’ll have to break this rule; it usually makes sense to hire outside lawyers and accountants, for example. However, anyone who doesn’t own stock options or draw a regular salary from your company is fundamentally misaligned. At the margin, they’ll be biased to claim value in the near term, not help you create more in the future. That’s why hiring consultants doesn’t work. Part-time employees don’t work. Even working remotely should be avoided, because misalignment can creep in whenever colleagues aren’t together full-time, in the same place, every day. If you’re deciding whether to bring someone on board, the decision is binary. Ken Kesey was right: you’re either on the bus or off the bus.*  February 15, 2016 | [105](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA105.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *For people to be fully committed, they should be properly compensated. Whenever an entrepreneur asks me to invest in his company, I ask him how much he intends to pay himself. A company does better the less it pays the CEO—that’s one of the single clearest patterns I’ve noticed from investing in hundreds of startups. In no case should a CEO of an early-stage, venture-backed startup receive more than $150,000 per year in salary. It doesn’t matter if he got used to making much more than that at Google or if he has a large mortgage and hefty private school tuition bills. If a CEO collects $300,000 per year, he risks becoming more like a politician than a founder. High pay incentivizes him to defend the status quo along with his salary, not to work with everyone else to surface problems and fix them aggressively. A cash-poor executive, by contrast, will focus on increasing the value of the company as a whole. Low CEO pay also sets the standard for everyone else. Aaron Levie, the CEO of Box, was always careful to pay himself less than everyone else in the company—four years after he started Box, he was still living two blocks away from HQ in a one-bedroom apartment with no furniture except a mattress. Every employee noticed his obvious commitment to the company’s mission and emulated it. If a CEO doesn’t set an example by taking the lowest salary in the company, he can do the same thing by drawing the highest salary. So long as that figure is still modest, it sets an effective ceiling on cash compensation.*  February 15, 2016 | [106](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA106.w.0.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Cash is attractive. It offers pure optionality: once you get your paycheck, you can do anything you want with it. However, high cash compensation teaches workers to claim value from the company as it already exists instead of investing their time to create new value in the future. A cash bonus is slightly better than a cash salary—at least it’s contingent on a job well done. But even so-called incentive pay encourages short-term thinking and value grabbing. Any kind of cash is more about the present than the future.*  Cash incentivizes short term thinking  February 15, 2016 | [106](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA106.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Startups don’t need to pay high salaries because they can offer something better: part ownership of the company itself. Equity is the one form of compensation that can effectively orient people toward creating value in the future. However, for equity to create commitment rather than conflict, you must allocate it very carefully. Giving everyone equal shares is usually a mistake: every individual has different talents and responsibilities as well as different opportunity costs, so equal amounts will seem arbitrary and unfair from the start. On the other hand, granting different amounts up front is just as sure to seem unfair. Resentment at this stage can kill a company, but there’s no ownership formula to perfectly avoid it. This problem becomes even more acute over time as more people join the company. Early employees usually get the most equity because they take more risk, but some later employees might be even more crucial to a venture’s success.*  February 15, 2016 | [107](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA107.w.0.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Stories of startup chefs becoming millionaires notwithstanding, people often find equity unattractive. It’s not liquid like cash. It’s tied to one specific company. And if that company doesn’t succeed, it’s worthless.*  February 15, 2016 | [108](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA108) | |

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| |  |  |  | | --- | --- | --- | |  | *Equity is a powerful tool precisely because of these limitations. Anyone who prefers owning a part of your company to being paid in cash reveals a preference for the long term and a commitment to increasing your company’s value in the future. Equity can’t create perfect incentives, but it’s the best way for a founder to keep everyone in the company broadly aligned.*  February 15, 2016 | [108](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA108) | |

## *10. The Mechanics of Mafia*

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| |  |  |  | | --- | --- | --- | |  | *Recruiting is a core competency for any company. It should never be outsourced. You need people who are not just skilled on paper but who will work together cohesively after they’re hired. The first four or five might be attracted by large equity stakes or high-profile responsibilities. More important than those obvious offerings is your answer to this question: Why should the 20th employee join your company?*  February 15, 2016 | [110](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA110.w.0.0.0.3.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Talented people don’t need to work for you; they have plenty of options. You should ask yourself a more pointed version of the question: Why would someone join your company as its 20th engineer when she could go work at Google for more money and more prestige? Here are some bad answers: “Your stock options will be worth more here than elsewhere.” “You’ll get to work with the smartest people in the world.” “You can help solve the world’s most challenging problems.” What’s wrong with valuable stock, smart people, or pressing problems? Nothing—but every company makes these same claims, so they won’t help you stand out. General and undifferentiated pitches don’t say anything about why a recruit should join your company instead of many others. The only good answers are specific to your company, so you won’t find them in this book. But there are two general kinds of good answers: answers about your mission and answers about your team. You’ll attract the employees you need if you can explain why your mission is compelling: not why it’s important in general, but why you’re doing something important that no one else is going to get done. That’s the only thing that can make its importance unique. At PayPal, if you were excited by the idea of creating a new digital currency to replace the U.S. dollar, we wanted to talk to you; if not, you weren’t the right fit. However, even a great mission is not enough. The kind of recruit who would be most engaged as an employee will also wonder: “Are these the kind of people I want to work with?” You should be able to explain why your company is a unique match for him personally. And if you can’t do that, he’s probably not the right match. Above all, don’t fight the perk war. Anybody who would be more powerfully swayed by free laundry pickup or pet day care would be a bad addition to your team. Just cover the basics like health insurance and then promise what no others can: the opportunity to do irreplaceable work on a unique problem alongside great people. You probably can’t be the Google of 2014 in terms of compensation or perks, but you can be like the Google of 1999 if you already have good answers about your mission and team.*  February 15, 2016 | [110](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA110.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *From the outside, everyone in your company should be different in the same way.*  February 15, 2016 | [112](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA112.w.0.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *The best thing I did as a manager at PayPal was to make every person in the company responsible for doing just one thing. Every employee’s one thing was unique, and everyone knew I would evaluate him only on that one thing. I had started doing this just to simplify the task of managing people. But then I noticed a deeper result: defining roles reduced conflict. Most fights inside a company happen when colleagues compete for the same responsibilities. Startups face an especially high risk of this since job roles are fluid at the early stages. Eliminating competition makes it easier for everyone to build the kinds of long-term relationships that transcend mere professionalism. More than that, internal peace is what enables a startup to survive at all. When a startup fails, we often imagine it succumbing to predatory rivals in a competitive ecosystem. But every company is also its own ecosystem, and factional strife makes it vulnerable to outside threats. Internal conflict is like an autoimmune disease: the technical cause of death may be pneumonia, but the real cause remains hidden from plain view.*  February 15, 2016 | [113](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA113.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Every company culture can be plotted on a linear spectrum: The best startups might be considered slightly less extreme kinds of cults. The biggest difference is that cults tend to be fanatically wrong about something important. People at a successful startup are fanatically right about something those outside it have missed. You’re not going to learn those kinds of secrets from consultants, and you don’t need to worry if your company doesn’t make sense to conventional professionals. Better to be called a cult—or even a mafia*  February 15, 2016 | [114](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA114.w.0.0.0.1) | |

## *11. If You Build It, Will They Come?*

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| |  |  |  | | --- | --- | --- | |  | *EVEN THOUGH SALES is everywhere, most people underrate its importance. Silicon Valley underrates it more than most. The geek classic The Hitchhiker’s Guide to the Galaxy even explains the founding of our planet as a reaction against salesmen. When an imminent catastrophe requires the evacuation of humanity’s original home, the population escapes on three giant ships. The thinkers, leaders, and achievers take the A Ship; the salespeople and consultants get the B Ship; and the workers and artisans take the C Ship. The B Ship leaves first, and all its passengers rejoice vainly. But the salespeople don’t realize they are caught in a ruse: the A Ship and C Ship people had always thought that the B Ship people were useless, so they conspired to get rid of them. And it was the B Ship that landed on Earth.*  February 15, 2016 | [115](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA115) | |

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| |  |  |  | | --- | --- | --- | |  | *The Field of Dreams conceit is especially popular in Silicon Valley, where engineers are biased toward building cool stuff rather than selling it. But customers will not come just because you build it. You have to make that happen, and it’s harder than it looks.*  February 16, 2016 | [115](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA115.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *In Silicon Valley, nerds are skeptical of advertising, marketing, and sales because they seem superficial and irrational. But advertising matters because it works. It works on nerds, and it works on you. You may think that you’re an exception; that your preferences are authentic, and advertising only works on other people. It’s easy to resist the most obvious sales pitches, so we entertain a false confidence in our own independence of mind. But advertising doesn’t exist to make you buy a product right away; it exists to embed subtle impressions that will drive sales later. Anyone who can’t acknowledge its likely effect on himself is doubly deceived.*  February 16, 2016 | [115](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA115.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Nerds are used to transparency. They add value by becoming expert at a technical skill like computer programming. In engineering disciplines, a solution either works or it fails. You can evaluate someone else’s work with relative ease, as surface appearances don’t matter much. Sales is the opposite: an orchestrated campaign to change surface appearances without changing the underlying reality. This strikes engineers as trivial if not fundamentally dishonest. 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 miss is that it takes hard work to make sales look easy.*  February 16, 2016 | [116](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA116.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *There’s a wide range of sales ability: there are many gradations between novices, experts, and masters. There are even sales grandmasters. If you don’t know any grandmasters, it’s not because you haven’t encountered them, but rather because their art is hidden in plain sight. Tom Sawyer managed to persuade his neighborhood friends to whitewash the fence for him—a masterful move. But convincing them to actually pay him for the privilege of doing his chores was the move of a grandmaster, and his friends were none the wiser. Not much has changed since Twain wrote in 1876.*  February 16, 2016 | [116](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA116.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Like acting, sales works best when hidden. This explains why almost everyone whose job involves distribution—whether they’re in sales, marketing, or advertising—has a job title that has nothing to do with those things. People who sell advertising are called “account executives.” People who sell customers work in “business development.” People who sell companies are “investment bankers.” And people who sell themselves are called “politicians.” There’s a reason for these redescriptions: none of us wants to be reminded when we’re being sold.*  February 16, 2016 | [117](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA117) | |

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| |  |  |  | | --- | --- | --- | |  | *Even university professors, who claim authority from scholarly achievement, are envious of the self-promoters who define their fields. Academic ideas about history or English don’t just sell themselves on their intellectual merits. Even the agenda of fundamental physics and the future path of cancer research are results of persuasion. The most fundamental reason that even businesspeople underestimate the importance of sales is the systematic effort to hide it at every level of every field in a world secretly driven by it.*  February 16, 2016 | [117](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA117.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *The engineer’s grail is a product great enough that “it sells itself.” But anyone who would actually say this about a real product must be lying: either he’s delusional (lying to himself) or he’s selling something (and thereby contradicting himself). The polar opposite business cliché warns that “the best product doesn’t always win.” Economists attribute this to “path dependence”: specific historical circumstances independent of objective quality can determine which products enjoy widespread adoption. That’s true, but it doesn’t mean the operating systems we use today and the keyboard layouts on which we type were imposed by mere chance. It’s better to think of distribution as something essential to the design of your product. 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.*  February 16, 2016 | [117](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA117.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *HOW TO SELL A PRODUCT Superior sales and distribution by itself can create a monopoly, even with no product differentiation. The converse is not true. No matter how strong your product—even if it easily fits into already established habits and anybody who tries it likes it immediately—you must still support it with a strong distribution plan.*  February 16, 2016 | [118](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA118.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Two metrics set the limits for effective distribution. The total net profit that you earn on average over the course of your relationship with a customer (Customer Lifetime Value, or CLV) must exceed the amount you spend on average to acquire a new customer (Customer Acquisition Cost, or CAC). In general, the higher the price of your product, the more you have to spend to make a sale—and the more it makes sense to spend it. Distribution methods can be plotted on a continuum:*  February 16, 2016 | [118](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA118.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *If your average sale is seven figures or more, every detail of every deal requires close personal attention. It might take months to develop the right relationships. You might make a sale only once every year or two. Then you’ll usually have to follow up during installation and service the product long after the deal is done. It’s hard to do, but this kind of “complex sales” is the only way to sell some of the most valuable products.*  February 16, 2016 | [119](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA119.w.0.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Complex sales works best when you don’t have “salesmen” at all. Palantir, the data analytics company I co-founded with my law school classmate Alex Karp, doesn’t employ anyone separately tasked with selling its product. Instead, Alex, who is Palantir’s CEO, spends 25 days a month on the road, meeting with clients and potential clients. Our deal sizes range from $1 million to $100 million. At that price point, buyers want to talk to the CEO, not the VP of Sales.*  February 16, 2016 | [119](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA119.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Businesses with complex sales models succeed if they achieve 50% to 100% year-over-year growth over the course of a decade. This will seem slow to any entrepreneur dreaming of viral growth. You might expect revenue to increase 10x as soon as customers learn about an obviously superior product, but that almost never happens. Good enterprise sales strategy starts small, as it must: a new customer might agree to become your biggest customer, but they’ll rarely be comfortable signing a deal completely out of scale with what you’ve sold before. Once you have a pool of reference customers who are successfully using your product, then you can begin the long and methodical work of hustling toward ever bigger deals.*  February 16, 2016 | [119](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA119.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Personal Sales Most sales are not particularly complex: average deal sizes might range between $10,000 and $100,000, and usually the CEO won’t have to do all the selling himself. The challenge here isn’t about how to make any particular sale, but how to establish a process by which a sales team of modest size can move the product to a wide audience.*  February 16, 2016 | [120](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA120.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Distribution Doldrums In between personal sales (salespeople obviously required) and traditional advertising (no salespeople required) there is a dead zone. Suppose you create a software service that helps convenience store owners track their inventory and manage ordering. For a product priced around $1,000, there might be no good distribution channel to reach the small businesses that might buy it. Even if you have a clear value proposition, how do you get people to hear it? Advertising would either be too broad (there’s no TV channel that only convenience store owners watch) or too inefficient (on its own, an ad in Convenience Store News probably won’t convince any owner to part with $1,000 a year). The product needs a personal sales effort, but at that price point, you simply don’t have the resources to send an actual person to talk to every prospective customer. This is why so many small and medium-sized businesses don’t use tools that bigger firms take for granted. It’s not that small business proprietors are unusually backward or that good tools don’t exist: distribution is the hidden bottleneck.*  Difference between small, medium enterprises (SMEs) and large companies  February 16, 2016 | [121](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA121.w.0.0.0.1.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Viral Marketing A product is viral if its core functionality encourages users to invite their friends to become users too. This is how Facebook and PayPal both grew quickly: every time someone shares with a friend or makes a payment, they naturally invite more and more people into the network. This isn’t just cheap—it’s fast, too. If every new user leads to more than one additional user, you can achieve a chain reaction of exponential growth. The ideal viral loop should be as quick and frictionless as possible.*  February 16, 2016 | [123](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA123.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Whoever is first to dominate the most important segment of a market with viral potential will be the last mover in the whole market.*  February 16, 2016 | [123](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA123.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *The Power Law of Distribution One of these methods is likely to be far more powerful than every other for any given business: distribution follows a power law of its own. This is counterintuitive for most entrepreneurs, who assume that more is more. But the kitchen sink approach—employ a few salespeople, place some magazine ads, and try to add some kind of viral functionality to the product as an afterthought—doesn’t work. Most businesses get zero distribution channels to work: poor sales rather than bad product is the most common cause of failure. If you can get just one distribution channel to work, you have a great business. If you try for several but don’t nail one, you’re finished.*  February 16, 2016 | [124](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA124.w.0.0.0.2.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Selling your company to the media is a necessary part of selling it to everyone else. Nerds who instinctively mistrust the media often make the mistake of trying to ignore it. But just as you can never expect people to buy a superior product merely on its obvious merits without any distribution strategy, you should never assume that people will admire your company without a public relations strategy. Even if your particular product doesn’t need media exposure to acquire customers because you have a viral distribution strategy, the press can help attract investors and employees. Any prospective employee worth hiring will do his own diligence; what he finds or doesn’t find when he googles you will be critical to the success of your company.*  February 16, 2016 | [125](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA125) | |

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| |  |  |  | | --- | --- | --- | |  | *EVERYBODY SELLS Nerds might wish that distribution could be ignored and salesmen banished to another planet. All of us want to believe that we make up our own minds, that sales doesn’t work on us. But it’s not true. Everybody has a product to sell—no matter whether you’re an employee, a founder, or an investor. It’s true even if your company consists of just you and your computer. Look around. If you don’t see any salespeople, you’re the salesperson.*  February 16, 2016 | [125](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA125.w.0.0.0.2.0.1) | |

## *12. Man and Machine*

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| |  |  |  | | --- | --- | --- | |  | *computers are complements for humans, not substitutes. The most valuable businesses of coming decades will be built by entrepreneurs who seek to empower people rather than try to make them obsolete*  February 16, 2016 | [126](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA126.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *in theory the economy maximizes wealth when people specialize according to their advantages and then trade with each other. In practice, it’s not unambiguously clear how well free trade has worked, for many workers at least. Gains from trade are greatest when there’s a big discrepancy in comparative advantage, but the global supply of workers willing to do repetitive tasks for an extremely small wage is extremely large.*  February 16, 2016 | [127](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA127.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *People don’t just compete to supply labor; they also demand the same resources*  February 16, 2016 | [127](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA127.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *On the supply side, computers are far more different from people than any two people are different from each other: men and machines are good at fundamentally different things. People have intentionality—we form plans and make decisions in complicated situations. We’re less good at making sense of enormous amounts of data. Computers are exactly the opposite: they excel at efficient data processing, but they struggle to make basic judgments that would be simple for any human.*  February 16, 2016 | [128](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA128.w.0.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *The stark differences between man and machine mean that gains from working with computers are much higher than gains from trade with other people. We don’t trade with computers any more than we trade with livestock or lamps. And that’s the point: computers are tools, not rivals.*  February 16, 2016 | [129](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA129.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *The differences are even deeper on the demand side. Unlike people in industrializing countries, computers don’t yearn for more luxurious foods or beachfront villas in Cap Ferrat; all they require is a nominal amount of electricity, which they’re not even smart enough to want. When we design new computer technology to help solve problems, we get all the efficiency gains of a hyperspecialized trading partner without having to compete with it for resources.*  February 16, 2016 | [129](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA129.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Properly understood, technology is the one way for us to escape competition in a globalizing world. As computers become more and more powerful, they won’t be substitutes for humans: they’ll be complements.*  February 16, 2016 | [129](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA129.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *The fraudsters’ adaptive evasions fooled our automatic detection algorithms, but we found that they didn’t fool our human analysts as easily. So Max and his engineers rewrote the software to take a hybrid approach: the computer would flag the most suspicious transactions on a well-designed user interface, and human operators would make the final judgment as to their legitimacy. Thanks to this hybrid system—we named it “Igor,” after the Russian fraudster who bragged that we’d never be able to stop him—we turned our first quarterly profit in the first quarter of 2002 (as opposed to a quarterly loss of $29.3 million one year before).*  February 17, 2016 | [130](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA130.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *This kind of man-machine symbiosis enabled PayPal to stay in business, which in turn enabled hundreds of thousands of small businesses to accept the payments they needed to thrive on the internet. None of it would have been possible without the man-machine solution—even though most people would never see it or even hear about it. I continued to think about this after we sold PayPal in 2002: if humans and computers together could achieve dramatically better results than either could attain alone, what other valuable businesses could be built on this core principle? The next year, I pitched Alex Karp, an old Stanford classmate, and Stephen Cohen, a software engineer, on a new startup idea: we would use the human-computer hybrid approach from PayPal’s security system to identify terrorist networks and financial fraud. We already knew the FBI was interested, and in 2004 we founded Palantir, a software company that helps people extract insight from divergent sources of information.*  February 17, 2016 | [131](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA131) | |

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| |  |  |  | | --- | --- | --- | |  | *Why do so many people miss the power of complementarity? It starts in school. Software engineers tend to work on projects that replace human efforts because that’s what they’re trained to do. Academics make their reputations through specialized research; their primary goal is to publish papers, and publication means respecting the limits of a particular discipline. For computer scientists, that means reducing human capabilities into specialized tasks that computers can be trained to conquer one by one.*  February 18, 2016 | [133](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA133.w.0.0.0.1.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Today’s companies have an insatiable appetite for data, mistakenly believing that more data always creates more value. But big data is usually dumb data. Computers can find patterns that elude humans, but they don’t know how to compare patterns from different sources or how to interpret complex behaviors. Actionable insights can only come from a human analyst (or the kind of generalized artific*  February 18, 2016 | [133](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA133.w.0.0.0.4.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Today’s companies have an insatiable appetite for data, mistakenly believing that more data always creates more value. But big data is usually dumb data. Computers can find patterns that elude humans, but they don’t know how to compare patterns from different sources or how to interpret complex behaviors. Actionable insights can only come from a human analyst (or the kind of generalized artificial intelligence that exists only in science fiction).*  February 18, 2016 | [133](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA133.w.0.0.0.4.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *We have let ourselves become enchanted by big data only because we exoticize technology. We’re impressed with small feats accomplished by computers alone, but we ignore big achievements from complementarity because the human contribution makes them less uncanny. Watson, Deep Blue, and ever-better machine learning algorithms are cool. But the most valuable companies in the future won’t ask what problems can be solved with computers alone. Instead, they’ll ask: how can computers help humans solve hard problems?*  February 18, 2016 | [134](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA134) | |

## *13. Seeing Green*

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| |  |  |  | | --- | --- | --- | |  | *1. The Engineering Question Can you create breakthrough technology instead of incremental improvements? 2. The Timing Question Is now the right time to start your particular business? 3. The Monopoly Question Are you starting with a big share of a small market? 4. The People Question Do you have the right team? 5. The Distribution Question Do you have a way to not just create but deliver your product? 6. The Durability Question Will your market position be defensible 10 and 20 years into the future? 7. The Secret Question Have you identified a unique opportunity that others don’t see?*  February 18, 2016 | [138](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA138.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *Companies must strive for 10x better because merely incremental improvements often end up meaning no improvement at all for the end user.*  February 18, 2016 | [139](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA139.w.0.0.0.3) | |

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| |  |  |  | | --- | --- | --- | |  | *Only when your product is 10x better can you offer the customer transparent superiority*  February 18, 2016 | [139](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA139.w.0.0.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *Each of the casualties had described their bright futures using broad conventions on which everybody agreed. Great companies have secrets: specific reasons for success that other people don’t see.*  February 18, 2016 | [148](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA148.w.0.0.0.4.0.4) | |

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| |  |  |  | | --- | --- | --- | |  | *MONOPOLY. Tesla started with a tiny submarket that it could dominate: the market for high-end electric sports cars. Since the first Roadster rolled off the production line in 2008, Tesla’s sold only about 3,000 of them, but at $109,000 apiece that’s not trivial. Starting small allowed Tesla to undertake the necessary R&D to build the slightly less expensive Model S, and now Tesla owns the luxury electric sedan market, too*  February 18, 2016 | [150](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA150.w.0.0.0.3.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Elon describes his staff this way: “If you’re at Tesla, you’re choosing to be at the equivalent of Special Forces. There’s the regular army, and that’s fine, but if you are working at Tesla, you’re choosing to step up your game.”*  February 18, 2016 | [151](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA151) | |

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| |  |  |  | | --- | --- | --- | |  | *Energy is the master resource: it’s how we feed ourselves, build shelter, and make everything we need to live comfortably. Most of the world dreams of living as comfortably as Americans do today, and globalization will cause increasingly severe energy challenges unless we build new technology. There simply aren’t enough resources in the world to replicate old approaches or redistribute our way to prosperity.*  February 18, 2016 | [152](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA152) | |

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| |  |  |  | | --- | --- | --- | |  | *Cleantech gave people a way to be optimistic about the future of energy. But when indefinitely optimistic investors betting on the general idea of green energy funded cleantech companies that lacked specific business plans, the result was a bubble.*  February 18, 2016 | [152](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA152.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *The 1990s had one big idea: the internet is going to be big. But too many internet companies had exactly that same idea and no others. An entrepreneur can’t benefit from macro-scale insight unless his own plans begin at the micro-scale. Cleantech companies faced the same problem: no matter how much the world needs energy, only a firm that offers a superior solution for a specific energy problem can make money. No sector will ever be so important that merely participating in it will be enough to build a great company.*  February 18, 2016 | [153](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA153) | |

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| |  |  |  | | --- | --- | --- | |  | *Could successful energy startups be founded after the cleantech crash just as Web 2.0 startups successfully launched amid the debris of the dot-coms? The macro need for energy solutions is still real. But a valuable business must start by finding a niche and dominating a small market. Facebook started as a service for just one university campus before it spread to other schools and then the entire world. Finding small markets for energy solutions will be tricky—you could aim to replace diesel as a power source for remote islands, or maybe build modular reactors for quick deployment at military installations in hostile territories. Paradoxically, the challenge for the entrepreneurs who will create Energy 2.0 is to think small.*  February 18, 2016 | [153](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA153.w.0.0.0.2) | |

## *14. The Founder’s Paradox*

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| |  |  |  | | --- | --- | --- | |  | *A unique founder can make authoritative decisions, inspire strong personal loyalty, and plan ahead for decades. Paradoxically, impersonal bureaucracies staffed by trained professionals can last longer than any lifetime, but they usually act with short time horizons.*  February 18, 2016 | [171](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA171) | |

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| |  |  |  | | --- | --- | --- | |  | *The lesson for business is that we need founders. If anything, we should be more tolerant of founders who seem strange or extreme; we need unusual individuals to lead companies beyond mere incrementalism. The lesson for founders is that individual prominence and adulation can never be enjoyed except on the condition that it may be exchanged for individual notoriety and demonization at any moment—so be careful.*  February 18, 2016 | [171](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA171.w.0.0.0.1) | |

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| |  |  |  | | --- | --- | --- | |  | *Above all, don’t overestimate your own power as an individual. Founders are important not because they are the only ones whose work has value, but rather because a great founder can bring out the best work from everybody at his company.*  February 18, 2016 | [171](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA171.w.0.0.0.2) | |

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| |  |  |  | | --- | --- | --- | |  | *To believe yourself invested with divine self-sufficiency is not the mark of a strong individual, but of a person who has mistaken the crowd’s worship—or jeering—for the truth. The single greatest danger for a founder is to become so certain of his own myth that he loses his mind. But an equally insidious danger for every business is to lose all sense of myth and mistake disenchantment for wisdom.*  February 18, 2016 | [171](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA171.w.0.0.0.3.0.1) | |

## *Conclusion: Stagnation or Singularity?*

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| |  |  |  | | --- | --- | --- | |  | *Whether we achieve the Singularity on a cosmic scale is perhaps less important than whether we seize the unique opportunities we have to do new things in our own working lives. Everything important to us—the universe, the planet, the country, your company, your life, and this very moment—is singular. Our task today is to find singular ways to create the new things that will make the future not just different, but better—to go from 0 to 1. The essential first step is to think for yourself. Only by seeing our world anew, as fresh and strange as it was to the ancients who saw it first, can we both re-create it and preserve it for the future*  February 18, 2016 | [177](http://play.google.com/books/reader?printsec=frontcover&output=reader&id=md5kAgAAAEAJ&source=books-notes-export&pg=GBS.PA177) | |