

# Peter Thiel on How to Build a Creative Monopoly

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## SUMMARY

*Peter Thiel and Blake Masters' "Zero to One" emphasizes the importance of long-term planning and the creation of unique, innovative businesses, or "creative monopolies." The book argues that successful entrepreneurs must think from first principles rather than follow conventional wisdom, focusing on building something new and valuable rather than merely competing in existing markets.*

- Every great entrepreneur is primarily a designer of their business, with a focus on long-term planning rather than short-term gains.*
- Creative monopolies are defined as companies that are so good at what they do that no close substitutes exist, providing unique value to customers.*
- Successful entrepreneurs think from first principles, seeking out valuable truths that few others recognize, rather than relying on formulas or trends.*
- Startups should begin by dominating a small niche market before gradually expanding into broader markets, as exemplified by companies like Amazon.*
- Sales and distribution are as critical as product development; superior sales strategies can create monopolies even without product differentiation.*
- Founders with extreme traits can drive innovation but may also pose risks; the right founder can inspire and lead a company to extraordinary achievements.*
- The book underscores the necessity of building durable businesses that can thrive over decades, rather than focusing solely on immediate growth metrics.*
- Thiel advocates for a culture of recruiting talented individuals who share a mission and vision, emphasizing that a strong team is foundational to a startup's success.*

It's true that every great entrepreneur is first and foremost a designer. Anyone who's held an iPhone or a MacBook has felt the result of Steve Jobs' 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 definitive 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 groups or copying other people's success. Long This is one of my favorite sentences in this entire section. Long-term planning is often undervalued by our indefinite short-term world. When the first iPod was released in October 2001, industry analysts couldn't see much more than quote a nice feature for Macintosh users that doesn't make any difference to the rest of the world. Jobs plan the iPod to be the first of a new generation of portable postPC devices. But that secret was invisible to most people. One look at the company's stock chart since then shows the harvest of this multi-year

plan. The power of planning explains the difficulty of valuing private companies.

When a big company makes an offer to acquire a successful startup, it almost always offers too much or too little. Founders only sell when they have no more concrete visions for the company. Definitive founders with robust plans don't sell. When Yahoo offered to buy Facebook for a billion dollars in July 2006, I thought we should at least consider it. But Mark Zuckerberg walked into the board meeting and announced, "Okay guys, this is just a formality. It shouldn't take more than 10 minutes.

We're obviously not going to sell here." Mark saw where he could take the company, and Yahoo didn't. A business with a good definitive plan will always be underrated in a world where people see the future as random. A startup is the largest endeavor over which you can have definitive 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. Okay, that is an excerpt from the book that I'm going to talk to you about today which is *Oero to1* notes on startups or how to build the future and is written by Peter Teal and Blake Masters. So I was actually shocked. I think this is probably the only business book, maybe the only business book worth reading. And I was actually shocked that it's been four years since I read it. I think I've read this three or four times by now. But what I wanted to do this time is I didn't want to be influenced since it's been four years since I read it. And since then, I probably read I don't know what 200 more biographies of history's greatest entrepreneurs. I didn't want to be influenced by any notes or highlights I left in the previous copies of the book. So I bought a new copy of the book and went through it brand new. And really what I want to talk to you about today, which I think is really one of the most interesting things is the way I think about this book now, it's it doesn't really tell you what to do. It's like more of like a prompt for your think your own thinking. But I think the main message that Peter is trying to get across is you should be focused on trying to build a creative monopoly. And so I'm going to go to that idea over and over again. I think Apple is one of the best examples. So, you know, I started our conversation today with Apple. I'm going to end our conversation today with Apple. I think the preface of this book is a good outline on what we should try to be doing as founders and that's really line from one of my heroes Edwin Land who's founder of Polaroid which his personal motto was don't do anything someone else can do and you hear Peter Teal echo that sentiment in the very first lines of the book where he says every moment in business happens only once. The next Bill Gates will not build an operating system. the next Larry Page or Sergey Brin won't make a search engine and the next Mark Zuckerberg won't create a social network. If you are copying these guys, you aren't learning from them. The act of creation is singular as is the moment of creation and the result is something fresh and strange. Unless, and he's talking about American businesses here, but this really applies to every business in the world. Unless they invest in invest in the difficult task of creating new things, American companies will fail in the future. No matter how big their profits remain today, today's best practices lead to dead ends. The best paths are new and untried. If American business is going to succeed, we're going to need hundreds or even thousands of miracles. And I love I forgot the section when I read it previously, and I love his definition of miracles. This would be depressing but for one crucial fact. Humans are distinguished from other species by our ability to work miracles. We call these miracles technology. And then he has in my opinion the best definition of technology and the one I've been using for several years I just got from this book. Gets into that in one moment. Says technology is miraculous because it allows us to do more with less.

Ratcheting up our fundamental capabilities to a higher level. By creating new technologies we rewrite the plan of the world. It's easy to forget in a world where so much of what we do is repeat what has been done before. Zero to one is about how to build companies that create new things. And I absolutely love this. It says this book offers no formula for success. The paradox of teaching entrepreneurship is that such a formula necessarily cannot exist because every innovation is new and unique. No authority can prescribe in concrete terms how to be innovative.

This is what I mean about this book is really best used and best thought of as a prompt for your own thinking. Indeed, it's also funny to me because something I've told you over and over again that we forget that we forget and you know people are always like why why' you read James Dyson's first autobiography five times? Well, I was like well I've actually read it way more than that. I've read it five times all the way through, but I've read highlights from that book, I don't know, hundreds of times. And I got actually got to meet James Dyson for my other show and got to sit down and record a conversation with him for two straight hours. So, it's like, how many times have I really read the book? Way more than than five. But the reason I bring that up is because even though I haven't read this book in four years, there's certain lines that just stick in your thinking. And this is one of them. This is one of the most important lines of the book. So he says indeed the single most powerful pattern I have noticed is that successful people find value in unexpected places and they do this by thinking about business from first principles instead of formulas. So I read that line I think about this book but I think about almost every single person you and I have talked about on founders. Obviously James Dyson being a great example Steve Jobs where Peter was just saying the greatest thing that Steve ever designed was act his actual business. Edwin Lant all of these people thought about business from first principles. And then when I got to this section where he's like, hey, you know, there's this book offers no formula for success. The paradox of teaching entrepreneurship is that such a formula necessarily cannot exist. It's that idea that what this book gives you is some questions to ask yourself only you can answer those questions for yourself and the result of those answers can help lead you to build a creative to build a creative monopoly. I I just read this book of Elon that my friend Eric Jorgenson wrote and there was a line in there that I really love because Elon talked about this and Elon was reading The Hitchhiker's Guide to Galaxy and he said something that he read in that book stuck out to him and he says a lot of times the question is harder than the answer. And if you can properly phrase the question, then the answer is the easy part. Before we get back into this, I want to tell you about the presenting sponsor of this podcast, RAMP. I have been reading a lot about SpaceX lately.

SpaceX is one of the most valuable businesses in the world and one of the main themes in the history of SpaceX is constantly attacking and questioning your cost. Ramp helps many of the most innovative businesses in the world do exactly that and they do this by using first principles thinking. The median company running on ramp cuts their expenses by 5%. And one thing that SpaceX has demonstrated is that a religious dedication to controlling your cost helps increase revenue because you can pursue opportunities you couldn't otherwise. And we see that in the ramp data too. The median company running on ramp also grows their revenue by 16%. So when you're running your business on ramp and your competitors are not, you have a massive competitive advantage that compounds over time. Ramp is the only platform designed to make your finance team faster and happier. Many of the top founders and CEOs that I know run their business on ramp. I run my business on ramp and you should too. Go to ramp.com today to learn how they can help your business save time, save money, and grow revenue. That is ramp.com. So then the book gets into like the fact that you can build if you

there's a series of questions that that Peter's going to propose. And if you can answer them, you can build a company around that answer. So he t he calls this the contrarian question, which what important truth do very few people agree with you on? And he says it's really hard to answer because even if you have an answer, you could be afraid to state it honestly because it bucks the trend of what other people around you believe.

It might be controversial. And so he has this great line here that I think is good framing for this. Brilliant thinking is rare, but courage is even in shorter supply than genius. A good answer to this question takes the following form. Most people believe X, but the truth is the opposite of X. No one can predict the future exactly, but we know two things. It's going to be different and it must be rooted in today's world. Most answers to the contrarian question are different ways of seeing the present. Good answers are as close as we can come to looking into the future. And so when I got to this part where he says good answers are as close as we come to looking into the future. There's this great line by Edwin Lan I want to read to you this quote that he would repeat inside as he was building Polaroid. He says the present is the past biting into the future. And then Peter gets into the fact that technology is just a better way of doing something. And this is my favorite definition of technology I've ever heard. There's no reason why technology should be limited to computers. Properly understood. Any new and better way of doing things is technology. And then I love this part because he's describing the environment in which new technology is normally created. So you have small teams engaged in new thinking. And then he gives a couple historical examples.

says, "New technology tends to come from new ventures, which we call startups. From the founding fathers in politics to Fairchild semiconductors, traitorous 8 in business, small groups of people bound together by a sense of mission have changed the world for the better." And so, history is full of examples of that line where he says, "Small groups of people bound together by a sense of mission have changed the world for the better." And then he describes the environment in which when you're starting small, that is one of your main advantages to engaging in new thinking and then developing new technology. He says startups operate on the principle that you need to work with other people to get stuff done. But you also need to stay small enough so that you actually can 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. That is one of the most unique ideas in the book. This is what startup has to do. Question received ideas and rethink business from scratch. So you've already seen this several times. I would say there's only a handful of ideas in this book. He will repeat them and then as the book continues, he ties them together. And this idea of thinking from first principles, rethinking business from scratch is something he'll repeat over and over and over again in the book. And so what I love that Peter does is before he gets into how he thinks about building a creative monopoly, which again is the main point of what I want to discuss with you today, he talks about what the opposite of building a creative monopoly looks like. And he at the time he's he's building PayPal during the com boom in the late '90s, early 2000s. And he's describing this environment of people essentially just this mass mania of everybody copying what everybody else is doing. So it says, "When I was running PayPal in late 1999, I was scared out of my wits because it seemed like everyone else in the valley was ready to believe anything at all. Everywhere I looked, people were starting and flipping companies with alarming casualness. One acquaintance told me how he planned an IPO from his living room before he'd even incorporated his company. That is insane." And he didn't think that was weird. In this kind of environment, acting sely began to seem eccentric. So saying after the.com bust people started to rewrite the way

to build companies cuz and they did this out of fear which again is not think rethinking business from scratch not thinking from first principles they came up with basically four ideas that he saw repeated over and over again and Peter's going to take the opposite. So they said hey you know just make number one make incremental advances number two stay lean and flexible number three improve on the competition number four focus on product not sales and in Peter's mind he's like well that's what people say right this is what I think people should do and so he says the opposite principles are probably more correct number one it is better to risk boldness than triviality number two a bad plan is better than no plan number three competitive markets destroy profits, why you should be building a creative monopoly, and number four, sales matters just as much as product. And he believes number four so much, he has an entire chapter in this book dedicated to sales and distribution. now everything that he's been writing up until this point has been building up to this. The most contrarian thing of all is not to oppose the crowd, but to think for yourself.

And the way to do that is to ask yourself this question. What valuable company is nobody building? So now Peter gets into what a creative monopoly is and why you want to build one. In this book, 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. The lesson for entrepreneurs is clear. If you want to create and capture lasting value, do not build an undifferentiated commodity business. I'm building a new studio for founders right now, and I'm very tempted to just have a giant portrait of Edwin Land sitting behind me. So every time I look at him, I can just think, don't do anything that somebody else can do. So then a few pages later, Peter continues on why this is so important. And he's going to define this again. 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. This is an important point. We're not talking about monopoly is in the term of, you know, how most people think about it. Think about like Cornelius Vanderbilt or the robber barons where essentially they monopolize you know phys in in Vanderbilt's case you know I own all the ships if you want to get across this river you have to pay whatever I I decide the prices that's not what we're talking about here we're saying be so good that no one else can offer what you're doing I think of Apple as a creative monopoly obviously creative monopoly the list Google the list goes on and on the history of progress is a history of better monopoly businesses replacing incumbents Here's how you know if you're not building a creative monopoly. 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 if you stop doing what you're doing. Could somebody else do just pick up where you left off?

And then this line is so important that he italicized it. He says monopoly is the condition of every successful business. Toltoy opens anina by observing all happy families are alike. Each unhappy family is unhappy in its own way. 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.

He opens the very next chapter continuing his point. Creative monopoly means new products that benefit everybody and sustainable profits for its creator. And then this point is really important. You build a creative monopoly by being customer obsessed and different. 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. Rivalry causes us to overemphasize old opportunities and slavishly copy what has worked in the past. And then he gets into the fact that so many people that have built creative monopolies might have aspergers or they might be on the spectrum somewhere. I I obviously think that's not necessary, but the way I think about this, the maximum I have for this is just mute the world and build your own.

So he talks about this. The hazards of imitative competition may partially explain why individuals with an aspergers-like social ineptitude seem to be at an advantage. 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, you'll be less afraid to pursue those activities single-mindedly and thereby become incredibly good at them. I never met Steve Jobs. I don't know if people considered him that said thought he, you know, had aspergers. I don't I never heard that before. I actually spent a bunch of hours with Ed Catmill who worked with Steve for like 24 consecutive years. Actually got to go to Ed's house and have a conversation and recorded a conversation for my other podcast with Ed. If you haven't listened to it, I highly suggest you do. It's on my other feed. I'm assuming you're already following it if you're listening to this, but if not, just search David Senra wherever you're listening to this at. But I the point about this is like I find this section very interesting. I have a very maybe a slightly different view than Peter does. And it's just as simple as this line that he just said.

Are you just interested in making things? Like if you're interested in making things like all a business, right? A business is just an idea that makes somebody else's life better. In my case, I like to read. I like history. I like podcasts and I like entrepreneurship. If you look, if you've plotted my four interests out in ven diagram, what is going to sit at the center? Founders podcast sits at the center. I am obsessed with making these things. If I don't podcast, I get depressed. I get sad. I literally just I'm I feel compelled to do this. I don't necessarily I'm defin I'm not autistic.

I don't have aspergers. I just like making things that make other people's lives better. And I think that is like key. Like there's a lot of people that get into business for all kinds of other reasons. you know, they want to make a lot of money, maybe they want to have control over their schedule, they, you know, whatever the case is. But I think this is almost like the apex of entrepreneurship if you're interested in making other people's lives better. It's just like you're just obsessed with making things. And if you just focus on I want to make something and then think about how you want to make it and kind of ignore how other people think you should be doing it, I think that path could lead to a creative monopoly. It's as simple as that line. If you're interested in making things, you'll be less afraid to pursue those activities single-mindedly and thereby become incredibly good at them. This is another line I think of Charlie Mer had this great line that you know he thought that if you just like learn the the few big ideas and all the important disciplines, right? You know, there might be two, three, four big ideas in all these different disciplines, you you master those, you get that in your head.

He says those handful of days carry most of the freight, right? When I heard him say that, I kind of flip that and my line of this is that time carries most of the weight. That if you're obsessed with making things and assuming what you're making is making somebody else's life better and you just single-mindedly focus on that and you do



it for a long time, time carries most of the weight. So, he says you'll be less afraid to pursue this activity 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. So again, the way I think about this is just mute the world and build your own. And then when I just said time carries most of the weight, I forgot what the next section is and it's perfect. This is another idea. Again, I haven't read this book in four years. This idea sticks out to me. The fact that you see this entrepreneurs make this mistake all the o over and over again. They overoptimize for growth at the expense of durability.

But think about how he opened the book. Apple think Apple's a multi-t trillion dollar company today was founded 50 years ago 1976. So he says a great business is defined by its ability to generate cash flows in the future. Simply stated the value of a business today is the sum of all money it will make in the future. Most of a tech company's value will come at least 10 to 15 years in the future. I was just reading about Jensen this morning.

Think about in Jensen's case. He's been running somebody for 33 years. It wasn't 10 in Nvidia's case, it wasn't the value came 10 to 15 years into the company. They came 25 to 30 years into the future. so I know I've already quoted Charlie Mer once, but I have to put him on almost every podcast. If I could only learn from one person, it'd probably be that that's passed away, it'd probably be Mer. When I was reading poor Charlie's Almanac, they were talking to his kids for the book and it says that in their dad's eyes, one of his sons says that his dad thought that durability was a first rate virtue. And I love that. So if you go back to what Peter is saying here, hey, most of the tech company's values coming a decade, decade and a half, two decades into the future, he expounds on that. The overwhelming importance of future pro profits is counterintuitive.

For a company to be valuable, it must grow and endure. He did he italicized endure. He did not italicize growth. So for a company to be valuable must grow and endure. But many entrepreneurs focus only on short-term growth. Growth then he tells us why this is so good. Growth is easy to measure. Durability isn't. Those who succumb to measurement mania obsess about weekly after active user statistics, monthly revenue targets, and quarterly earning reports. However, you can hit those numbers and still overlook deeper, harder to measure problems that threaten the durability of your business. If you focus on nearterm growth above all else, you miss the most important question you should be asking. Will this business still be around a decade from now? Amen.

I feel like throwing the book across the room if I'd had to get up and go grab it. I love this part. The most important question. I don't give a if you're successful for a year or for five years. It's like what is the whole point of what you and I get together every week and we're talking about we're not talking about and they don't write books about people that run a business for 5 years. It's they they they grow a business and the business endures decade after decade after decade. Look at what he said. This is the most important question you should be asking. Will this business still be around a decade from now? And before we get back into this, I want to tell you about Applov. One of my all-time favorite quotes is from the book 0ero to1. In that book, Peter Teal writes, he says, "The single most powerful pattern I have noticed is that successful people find value in unexpected places.

And they do this by thinking about business from first principles instead of formulas." And that is exactly what Apploven has done with their advertising platform.

Apploven connects you with over a billion potential new customers in mobile games. Apploven allows you to capture undivided attention. Apploven ads are full screen videos that are watched for an average of 35 seconds. That is retention that blows other ad platforms out of the water. And you can launch on Apploven in minutes. You set the goal and Apploven achieves it. No complex setup, no expertise needed. And Apploven scales quickly. They can put your ads in front of over a billion potential customers. Other businesses have seen immediate results, scale to hundreds of thousands of dollars of spend per day and increase their revenue by millions. So, you want to get started quickly before all of your competitors are on Apploven. And you can do that by going to [apploven.com](http://apploven.com).

That's [apploven.com](http://apploven.com). And then I want to tell you about Vanta. Vanta. Vanta. Vanta. Vanta helps your company prove your secure so more customers will use your product or service. Vanta is an AI powered security expert that scales with you. The more your business grows, the more complex your security needs get. And that complexity turns into chaos. Vanta tames that chaos for you. Vanta automates compliance, continuously monitors your controls, and gives you a single source of truth for compliance and risk. So whether you're a fast growing startup or an enterprise company, Vanta fits easily into your existing workflows. Many companies won't sign contracts unless you're certified, and this is causing you to lose out on sales. That is why the average Vanta customer reports a 526% return on investment after becoming a Vanta customer. Automate your compliance, security, and trust with Vanta. Vanta will help you win trust, close deals, and stay secure faster. and with less effort. Go to [vanta.com/founders](http://vanta.com/founders) and you'll get \$1,000 off. That is [vanta.com/founders](http://vanta.com/founders).

There's a great line from Drake that I loved. he says, "Just give it time. We'll see who's still around a decade from now." Drake happened to say that in 2013. I think that's a very interesting idea. And I say this over and over again where you like, you know, people ask my opinion on this startup, this startup over here or that startup over there. It's like, I don't know, like let's see if they're around a decade from now? Let's see who's around a decade from now. I love this idea. every monopoly is unique but they usually share some combination of the following characteristics proprietary technology network effects economies of scale and branding. though he is going to use I love there's a reason I started today's discussion with Apple because he uses Apple basically as the perfect example of a creative monopoly and so I think for branding you know we don't have to you understand that Apple has one of the best brands in tech and I think at the writing of this book I actually went back and looked I was shocked even this book think about he's talking about hey the value of a company is going to happen a decade decade two two decades in the future this book is already over a decade old. I think it was published in 2014. So this time he says, you know, Apple has the best brand in tech. So that takes care of point number four.

Let's go over how Apple's an example of the other three characteristics. Proprietary technology, network effects, economies of scale. And he says right here, Apple has a complex suite of proprietary technologies both in hardware and software. Then he gets to scale. It manufactures products at a scale large enough to dominate pricing for the materials it buys. Then it gets into network effects 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. And so that is where Apple is 40 years after its founding right at the time of the writing of the book. But he talks about that's not where these creative monopolies start. These creative monopolies always start excessively small and they then they monopolize. So he says 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 heir on the side of starting too small. If you think your initial market might be too big, it almost certainly is. Small doesn't mean non-existent. The when I got to that part made me laugh because Apple's first sale was for 50 computers for \$25,000 and it was sold to this this com this shop in I think Palo Alto called the bite shop. And one of my favorite pieces of Apple lore is that Apple's first sale was made barefoot because Steve Jobs walked into the bite shop barefoot. So then Peter gives us a perfect example of starting small and monopolizing. The perfect target market for a startup is a small group of particular people concentrated together and served by few or no competitors. Once you create and dominate a niche market, then you should gradually expand into related and slightly broader markets. Amazon shows how this can be done. Jeff Bezos's founding vision was to dominate all of online retail, but he very deliberately started with books. This is so fascinating cuz people like I can't believe you know how how Amazon grew just from this idea of being the world's largest bookstore. If you go back and read all the books and you can listen to the podcast I've done I've done what I don't know 10 or 15 podcasts on Jeff Bezos by now but when he was working at De Shaw this hedge fund in New York City him and David Shaw would talk about how what are businesses we can build that can take advantage of this crazy insane growth that we see on the internet. And the code name for what turned out to be Amazon was actually called the everything store. We might start with books, but eventually we're going to start we're going to sell everything.

Amazon continued to add categories gradually until it had become the world's general store. 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 just like Amazon did. And then Peter repeats something over and over again. He says competition is for losers. There's lines like this, the one I'm about to read to you all throughout the book. Avoid competition as much as possible. Then he gets into the fact that really you don't want to be the first mover, you want to be the last mover. Then he says the last will be first. You probably heard about first mover advantage, 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 unseat you. It is 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. In this one particular elase, business is like chess. And so then he quotes his grandmaster who says to succeed you must study the endgame before everything else. And so then Peter has advice. He thinks you should be a definitive person. And this is really interesting. He says the definitive person determines the one best thing to do and then does it. The definitive person strives to be great at something substantial. They strive to be a monopoly of one. So if you go back to where we started this discussion where he said the greatest thing that Steve Jobs designed was his business. Apple imagined and executed definitive multi-year plans to create new products and distribute them effectively. So then he goes back into this is in the chapter called that you're not a lottery ticket that Peter's perspective is you know that you can actually make

definitive plans and optimistically run down those plans make those plans real turn them into from a vision into a reality and that too much of society or other people will tell you oh it's just all comes down to luck and so he gives some examples where the first explorer to reach the south pole after he reached the south pole has this great line and he said victory awaits him who has everything in order. Luck people call it. And when I was reading this section, I reread the section several times because I love this idea of being a definitive optimist. I think if you're listening to this, you're most likely definitive optimist. I would classify myself as this as well. And I think Napoleon actually has some of the best quotes on this. There's this great book. I think I did all the way back on episode 301. It's called The Mind of Napoleon. It's published in like 1957.

And the book is very hard to find, but it's like 300 pages of just Napoleon in his own words. And he says something in that book that was interesting. He says, a consecutive series of great actions never is the result of chance and luck. It is always a product of planning and genius. And then Napoleon asks the question, what is luck? And his answer is the ability to exploit accidents. He has another Napoleon and later in the book has another line about this. All great events hang by a single thread.

The clever man takes advantage of everything and neglects nothing. The way I think about this is do everything and you will win. And so then Peter goes into definitive optimism. To a definitive optimist, the future will be better than the present if he plans and works to make it better. And he thought for a long period of time, for several decades, America was like this. And he gives examples of this. Even the Great Depression failed to impede relentless progress in the United States, which has always been home to the world's most farseeing definitive optimists. gives several examples. 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 1944 and had already produced the world's first nuclear bomb by 1945. Americans continued to remake the face of the world. Then he talks about the interstate highway system which began construction in 1956 and the first 20,000 m of road were open for driving by 1965.

NASA's Apollo program began in 1961 and put 12 men on the moon before it finished in 1972. Big plans for the future. This is his critique of present modern-day society. Big plans for the future have become archaic curiosities. And then a few pages later, I think this is a summary of this entire chapter. Definitive optimism works when you build the future that you envision. And then the next chapter is about the power law. I think one of the great ways I think about what he's telling us here is that power law power laws rule everything around us and this is why building a monopoly is so important if you want to have obviously financial success too.

Monopoly businesses capture more value than millions of undifferentiated competitors. 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. We do not live in a normal world. We live under a power law. And as a result, company outcomes follow a power law. A small handful of companies radically outperform all others. So assuming you and I agree what Peter is saying here, that power laws rule everything around us. The next obvious question is, well, what do you do with the power law? And Peter has some ideas here. When you choose a career, you act on your belief that the kind of work you do will be valuable decades

from now.

Your life is not a portfolio. An entrepreneur cannot diversify himself. So therefore, 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. If you do start your own company, you must remember the power law to operate it well. This is one of my favorite lines in the entire book. The most important things are singular. One market will probably be better than all others. One distribution strategy usually dominates all others, too. Time and decision-making themselves follow a power law and some moments matter far more than others. 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 a secret. And so then he goes into his chapter all about secrets. This is why it's so important. Every one of today's most famous and familiar ideas was once unknown and unsuspected. A conventional truth can be important, but it won't give you an edge. It's not a secret. One of my favorite tweets I've ever seen, maybe my favorite tweet of all time that I saw was somebody that said that they think the the most interesting careers are somebody that found an earned secret and they exploit the hell out of it for multiple decades. And so the example in that tweet was Mark Leonard was the founder of Constellation Software was working in VC at the time and he was coming across all these vertical market software companies and realizing hey these are terrible fit for venture capital but if I was to buy them never sell them build a conglomerate of them and keep compounding I can create a lot of value and so that was his earned secret that he wouldn't have come across if he if he didn't have the previous job that he had. And one prompt for your thinking to find a secret is going back to that question that he asked earlier.

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 worldchanging companies yet to be started. And then Peter gets into why creative monopolies are so rare, why people are not looking for secrets. 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. There is a ton of quotes from, you know, the last 10 years of doing this podcast, all these founders talk about the inevitability of making mistakes, the inevitability of problems, flipping problems into opportunities. But when I read that line, if your goal is to never make a mistake in your life, you shouldn't look for secrets. I think the best quote I've ever come across about about this, at least for entrepreneurs, comes from the founder of IKEA. He reframed that if mistakes are inevitable, which they are, every single person building a company is going to make mistakes and gonna make ton of them and some are going to be, you know, massive mistakes. But he reframed this.

He says, "Making mistakes is the privilege of the active. The only way to make no mistakes in your life is to do nothing." Peter continues, "Belief in secrets is an effective truth." The truth is that there are more, many more secrets left to find, but they will yield only to relentless searchers. What a great line. They will yield only to relentless searchers. There is more to do in science, medicine, engineering, and in technology of all kinds. Great companies can be built on open but unsuspected secrets about how the world works. And then he gets into, well, what do you do with secrets? And he says, it's rarely a good idea to tell everybody everything that you know. When I got to this section, there's going to be a lot of this what Peter's thinking here and his writing here really echoes to me Rockefeller and Rockefeller was I came up with this maximum when you study Rockefeller that

bad boys move in silence. He shrouded his entire organization in secrecy. But one of my favorite things, one of my favorite stories from Rockefeller is you know he obviously built Standard Oil by acquiring a bunch of other companies and sometimes a potential acquirer was resisting and in one time Rockefeller kind of snapped at the guy and he says, "I have ways of making money you know nothing about." So it's really a good idea to tell everybody everything you know. Rockefeller would agree with that.

So who do you tell? Whoever you need to and no more. There's always a golden mean between telling nobody and telling everybody and that's a company. That is a very unique idea, unique framing of what a company is. The best entrepreneurs know this. Every great business is built around a secret that is 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.

That is excellent. And then he ends the chapter with a very simple and direct piece of advice. Take the hidden paths. So we have a secret. We're going to start a new company. He has this entire chapter called foundations. He has this thing called Teal's law which he says that a startup messed up at its foundation cannot be fixed. He says every great company is unique, but there are a few things that every business must get right at the beginning. And he says he stresses this over and over to his friends. And this is very fascinating because there's this great book called In the Company of Giants.

I think it's episode like 208 or something like that. It's I really recommend buying it and reading it. I'm shocked I come across people that haven't. The reason I say this is because it was written in 1997 by two Stanford MBA students at the time. you know they're in Silicon Valley and they interview the the book is essentially transcripts of I think 16 interviews with technology company founders at the time. So like Michael Dell's the book, Steve Jobs in the book, Bill Gates is in the book and a bunch of other founders that had a company at the time and then disappeared are also in the book. And I just find it one infinitely readable and it's just full of great advice. But when I got to this section, Peter is going to talk about how important obviously like the success of your company is dependent on who like who's inside the company. Like who are the people you're able to recruit for your mission? Who are the your co-conspirators? Who are the ones you're letting in on your secret is the way to think about this. So he says 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. As a founder your first job is to get the first things right because you cannot build a great company on a flawed foundation. When you start something the first and most crucial decision decision you make is who to start it with. Let me pull out this quote from In the Company of Giants because I think Steve Jobs again is the clearest communicator I've ever come across and he was asked I I love this idea. So he's asked again these are these are you know just Stanford MBA students they don't really know much and at the time and that's why they're writing the book they're trying to learn so he you know they're like hey you know in a typical startup you're so busy like you're not going to have time to spend recruiting other people and Steve's like what this is his answer I disagree totally I think it's the most important job this is so good assume you're by yourself in a startup and you want to partner you take a lot of time finding the right partner right he would be half of your Why should you take any less time finding the third or the fourth or the fifth person you hire? When you're in a startup, the first 10 people will determine whether the company succeeds or not. Each is 10% of the company. So why wouldn't you take as much time as necessary to find all a players? If three were not so great, why would you run a company where

30% of your company was not so great? A small company depends on great people much more than a big company does. Going back to Peter, when you start something, the first and most crucial decision you make is whom to start it with. And then I just have one more insight from this chapter. I love this insight. This is a great way to think about it. And I think I missed this the first two or three times I read the book, too. This leads us to a second less obvious understanding of the founding. It lasts as long as a company is creating new things, and it ends when creation stops.

Another great idea and another unique insight. No company has a culture. Every company is a culture. A startup is a team of people on a mission. And a good culture is just what that looks like on the inside. One of my smartest friends has this great line that he repeats. He says that your life is your relationships. And I love this unexpected insight from Peter Thiel here. He says, "Since time is your most valuable asset, it is odd to spend it working with people who you don't envision any long-term future together.

If you can't count durable relationships among the fruits of your time at work, you haven't invested your time. Well, then he goes back to this idea of how important recruiting is. He calls this section recruiting conspirators, which I absolutely love. He says, "Recruiting is a core competency for any company. It should never be outsourced. You have to figure out why your 20th employee should want to join your company. Talented people do not need to work for you. They have plenty of options. So, 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. Everyone at your company should be different in the same way. It should be a tribe of like-minded people fiercely devoted to the company mission.

And then he's just got this one random idea that I've never forgot either. His very interesting way that he manage he was managing PayPal at the time. It's called do one thing. He says 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 employees 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. So he's talking about in fact this is really interesting. He says internal peace. So he's he's trying he he was trying to simplify his job as a manager and then realized the really valuable byproduct is that it reduced internal conflict that is excessively valuable because it allows you to keep working together for a long period of time. Internal peace is what enables a startup to survive at all. Internal conflict is like an autoimmune disease.

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 on the outside world have missed. And so then we get to this chapter I mentioned earlier that he thinks that sales is so important. He dedicated an entire chapter to it. If you only remember one line from this chapter, I'm going to tell you up front what I think is the most important line. Superior sales and distribution by itself can create a monopoly even with no product differentiation. The converse is not true. So he opens the chapter. says, "Even though sales is everywhere, most people underrate it's important. Silicon Valley underrates it more than most."

And he states the obvious truth here. Customers will not come just because you build it. You have to make that happen and it's harder than it looks. Advertising matters because it works. It works on nerds and it works on you. You may think that you're the 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. I got that's so important. I got to repeat that.

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. I absolutely love what he goes what he says here. Sales works best when it's hidden. This explains why almost everyone whose job involves distribution has a job title that has nothing to do with those things. Here's these great examples. 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.

The most fundamental reason that even business people underestimate the importance of sales is a systemic effort to hide it at every level of every field in a world secretly driven by it. And then this is something again I've already pointed out several lines to you that you know even though I haven't read this book in many years that have always stayed with me. The fact that he thinks about distribution as part of product design. Very fascinating. 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. Superior sales and distribution by itself can create a monopoly even with no product differentiation. The converse is not true. Again, distribution is essential to the design of your product is the summary of that section. And then remember how I told you he's got a small handful of ideas that he weaves throughout the entire book. He now ties the power law to distribution. Distribution follows a power law of its own. This is counterintuitive for most entrepreneurs who assume that more is more. 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. And then finally, I have one last idea that I want to talk to you about, and it's the idea that founder-led companies are more powerful and at the same time more dangerous. And it starts with the fact that many founders have these extreme traits. And so he's going to give a cautionary tale in Howard Hughes and then I feel a positive optimistic tale in Steve Jobs.

But let's go to this idea that many founders have extreme traits. Normally we expect opposite traits to be mutually exclusive. And so in the book there's some graphs and some examples like okay on one side on the left hand side you have this weak nerd and on the other hand you have this strong athlete. Maybe you have this idiot savant on one side and a polymath on another. You have somebody that's disagreeable on one side and charismatic on the other. somebody that's an outsider on one side, an insider on the other and so on and so forth. And so in normal society, normal people, these opposite traits are mutually exclusive, but not in founders. And so Peter Teal says when you plot out founders personality traits, they appear to follow an inverse normal distribution. And this is why it's so important to get in your mind.



It's more powerful, but at the same time more dangerous for a company to be led by a distinctive individual instead of an interchangeable manager. And so Peter uses the life story of Howard Hughes as an example of these the dangers of having these extreme traits over a long period of time if they get out of your control. So Howard Hughes arc from fame to pity is the most dramatic of any 20th century tech founder. He was born wealthy but he was always more interested in engineering than luxury.

He built Houston's first radio transmitter at the age of 11. The year after that he built the city's first motorcycle. By the age of 30, he had made nine commercially successful movies at a time when Hollywood was on the technological frontier. But Hughes was even more famous for his parallel career in aviation. He designed planes, produced them, and piloted them himself. Hughes set world records for top air speed, fastest transcontinental flight, and fastest flight around the world.

Hughes was obsessed with flying higher than everyone else. He liked to remind people that he was a mere mortal and not a Greek god. Something that mortals say only when they want to invite comparison to gods. Hughes was quote, "A man to whom you cannot apply the same standards as you can to you and me." His lawyer once argued in federal court. Hughes paid the lawyer to say that. When Hughes, I love this part. When Hughes was awarded the Congressional Gold Medal in 1939 for his achievements in aviation, he didn't even show up to claim it. Years later, President Truman found it in the White House and mailed it to him. The beginning of Hugh's end came in 1946 when he suffered his third and worst plane crash. Had he died then, he would have been remembered forever as one of the most dashing and successful Americans of all time. But he survived barely. He became obsessivempulsive, addicted to painkillers, and withdrew from the public to spend the last 30 years of his life in self-imposed solitary confinement. Hughes had always acted a little crazy on the theory that fewer people would want to bother a crazy person. But when his crazy act turned into a crazy life, he became an object of pity as much as awe. So that is the danger of founder companies and these extreme traits. I want to get to the example of Steve Jobs is really the best example of this. And before I get to what Peter Teal writes in this book, there's this great book that I've told you about multiple times called The Return to the Little Kingdom. And the updated version is written by Michael Moritz. It's really a I would say a history on the first handful of years, maybe the first six to eight years of Apple. In the updated version on the copy that I have, Michael Morz described Steve Jobs in one of the best ways I've ever heard. And I think Mors is a phenomenal writer. So I want to read this to you and I think it perfectly sets up the final thing I want to talk to you about and really the whole crux of the book and the importance of being this definitive optimist that is going out and intentionally building creative monopoly which is the whole point of I think reading this book at this point.

So this is what Michael Mort said. Many are familiar with the reemergence of Apple. They may not be as familiar with the fact that it has few if any parallels. When did a founder ever return to the company from which he had been rudely rejected to engineer a turnaround as complete and spectacular as Apples? While turnarounds are difficult in any circumstances, they are doubly difficult in a technology company. It is not too much of a stretch to say that Steve founded Apple not once but twice. and the second time he was alone. And then this is what Peter Teal says about this. Steve Jobs returned to Apple, demonstrated the irreplaceable value of a company's founder. In some ways, Steve Jobs and Bill Gates were opposites. Jobs was an artist, preferred closed systems, and spent his time thinking about great products above all else. Gates was a businessman, kept his products open, and wanted to run the world. But both were insiders and outsiders and both pushed the

companies they started to achievements that nobody else would have been able to match. Then he goes into Steve Jobs. Steve was a college dropout who walked around barefoot and refused to shower. Jobs was also the insider of his own personality cult. He could act charismatic or crazy, perhaps according to his mood or perhaps according to his calculations. But all this eccentricity backfired him in 1985.

Apple's board effectively kicked Jobs out of his own company. Jobs returned to Apple 12 years later shows how the most important task in business, the creation of new value cannot be reduced to a formula and applied by professionals. When he was hired as an interim CEO of Apple in 1997, the impeccably credentialed executives who preceded him had steered the company nearly to bankruptcy. Instead, Jobs introduced the iPod in 2001, the iPhone in 2007, the iPad in 2010 before he had to resign in 2011 because of poor health. By the following year, Apple was the single most valuable company in the world.

Apple's value crucially depended on the singular vision of a particular person. This hints at the strange way in which the companies that create new technology often resemble feudal monarchies. 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.

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. Founders are important not because they're the only ones whose work has value, but rather because a great founder can bring out the best work from everybody else at his company. And that is where I'll leave it. Highly recommend reading the full book. That is 424 books down, 1,000 to go. And I'll talk to you again soon.