Predicting the Future

The next Bill Gates won't develop an operating system and the next Mark Zuckerberg won't develop a social network. If that's exactly what you're trying to do and you already imagine the billions in front of you, you'd better take a few minutes to find out what Peter Thiel, the man who made a fortune by founding PayPal, has to say about the future.

Those who only stick to the familiar will only achieve the familiar and, in the best case, improve the world slightly. Those who instead create something new have the chance to make the leap from zero to one.

A chance because there are no concrete steps to innovation. Every person, just like every company, is an experiment. An experiment under unique conditions and circumstances and with unique prerequisites.

Thiel finds out whether his applicants share this opinion and focus on the the future with a simple job interview question: Which of your beliefs would few people share with you?

The answer to this mean question quickly separates the wheat from the chaff. Or, to give an example, applicants who would make a typewriter into a better typewriter from those who would invent a computer under the same circumstances. Thiel refers to the former as horizontal progress and thus a development from one upwards, and the latter as vertical progress - the successful leap from zero to one.

In our economy, horizontal progress is often called globalization. A development that, taken on its own, would at best be considered positive until the consumption in India approaches that of the United States and our environment is ultimately doomed.

But if people are simultaneously working on vertical progress with electric cars and optimized energy production in developed countries, this concept has the potential to take our species to a whole new level.

Vertical Entrepreneurship

The critical question is: How is it created, this vertical progress? By companies. Namely, those who believe they can create something new: start-ups.

In the 1990s, it was a piece of cake to found such start-ups - just add a .com to the company name and its value doubles. At least that was the prevailing mentality until the internet bubble collapsed around the turn of the millennium.

At the height of this euphoria, Peter Thiel's newly founded company PayPal was given 5 million dollars as an investment without any papers being signed. People founded five companies simultaneously and at the same time planned the IPO from their living rooms, just so as not to miss anything - including one of the biggest depreciations in human history.

But the fact that billions in investment money vanished into thin air is the lesser problem from today's perspective. Even worse are the lessons learned by founders all over the world from the supposed mistakes.

Anyone who has long-term ambitions today and plans more than one quarter into the future is declared crazy. Modern start-ups claim to be agile and flexible - wouldn't sound bad if both weren't code words for a lack of planning.

Just as naïve is anyone who wants to enter a new market. Why not grow on the competition and serve existing customers? Why risk steps from zero to one if small steps work just as well?

To aim for vertical progress like that of the 90s again, all these dogmas must be overcome. Ask yourself if your beliefs are reasonable or simply reactions to bygone failures.

The Downside of Competition

If you want to take your start-up to the top of its market, you will face increasingly strong competition on your way up. But what if you could already dominate the market right after the foundation?

Competition is often seen as the panacea of the free economy - and for good reason: increasing demand for any product immediately attracts new companies to produce that product. They compete for the cheapest offer, resulting in a wider choice of cheaper goods and services for the customer. So far so good.

The downside of this approach however becomes apparent by taking a closer look at the supply side: the companies. In theory, they are not only competing for the lowest price, but also for the most innovative product. The only question is if any fish in this competitive shark tank has enough time and financial resources left to focus on long term innovation.

Perfect competition therefore results in an equally perfect price for existing products, but from the customer's point of view. For companies, this simply means no profit and no profit means no innovation - no leap from zero to one. In the long run, this doesn’t do the end consumer any favors either.

According to Karl Marx, the more people differ from each other, the more they fight against themselves. Shakespeare makes the opposite claim with the families of Romeo and Juliet: We fight those who are most like us. In terms of today's economy, it is without question Shakespeare's statement that applies better.

The rivalry between the Montagues and the Capulets in the fictional world is embodied in reality by Google and Microsoft. Two companies that have lost their supremacy in terms of market capitalization to Apple through a years-long dispute over products that couldn’t be more similar.

Peter Thiel's PayPal and Elon Musk's X.com almost made the same mistake in their early days: two competent entrepreneurs, two young start-ups in the same city and two brilliant ideas. Or rather, the same brilliant idea twice.

Had the two not joined forces instead of continuing to tinker with plans for bombs to wipe each other out, it is not too likely that PayPal would have survived the dot-com crash and dominated the market for digital payments years later.

Successful startups tend to be unique, and the more they compete as everyday companies, the less they earn in the process. At the same time, unrivalled companies have more extensive opportunities to innovate and thus ensure long-term vertical growth. So the solution is as simple as it is unpopular: the monopoly.

The Monopoly 101

Monopolies are unpopular because they seem to make it impossible for more innovative start-ups to gain a foothold in the same industry. In fact, the opposite is true: monopolies enjoy their supremacy precisely because they themselves were innovative enough to achieve it.

On the other hand, those who focus only on horizontal progress are weeded out. Google certainly cannot maintain its market share of up to 90 percent because their last good idea was the search engine. What these decades of supremacy actually allow them to do is the creation of countless forward-looking products under the holding company Alphabet.

This brings us back to the entrepreneurial version of our question from the introduction: what valuable company is nobody building? A question that is no less difficult to answer, since there can be no step-by-step guide for something that has never been done before. What there is, however, are four characteristics of potential monopolies, the connection between which Thiel has recognized during his career as an entrepreneur and investor.

The first of these characteristics is a proprietary technology. You may have heard of the 10x rule, followed even by Google: if your idea is not at least ten times as good as the best alternative, don't even try to implement it. In the shadow of more established brands and better marketing, it’s quite likely that a doubling of a product’s quality is merely perceived as a minor improvement.

Equally important for any monopoly is rapid growth, driven by the network effect. No matter how inventive the features of that new social media platform appear on Kickstarter, most users will still prefer to sign up for Facebook. Not because the platform has a lot to do with innovation anymore, but because billions of users are already there.

Feature number three is an economy of scale, meaning that each additional user not only increases your company's revenue, but also its profit margin. Almost every software company serves as an example: A new user signs up, the costs remain the same. On the other hand, a traditional yoga studio, for example, cannot take on millions of members just because the costs for a single location are covered.

Last but not least, every monopoly stands or falls with a strong brand. Many have tried to copy the simplicity of the first iMacs, iPods and iPhones, but today there’s only one brand we all remember: Apple. Just as every successful company exists only once, every brand exists either only once - or not at all.

Many of the examples suggest a fifth characteristic of successful monopolies: being first. But this is more an option than a rule. Being first is not a goal, but a tactic - and not necessarily a good one. Competitors will try to grab your market share anyway. Don't waste your energy on fighting them, but on avoiding them in the first place by embedding the four characteristics deeply in your business.

A Solid Foundation

Google, Microsoft, Apple - all well and good, but every monopoly begins with a first step: the founding. Just as the laws of nature have been set with the big bang and your genetics have been set when you were born, the potential of each and every company is set the day it is founded. Either in the direction of an innovative future or directly towards bankruptcy.

The fact that most start-ups don't survive past a couple years or even months has at least one advantage: there are far more of them at any given time than there are billion-dollar organizations, and thus far more statistics we can learn from.

The biggest competitive advantage of a new company is its new thinking. Thiel describes a startup as the largest possible group you're able to convince of your plan for a better future - and that's exactly what it should be.

To make sure you set this course as early as possible, there are a few basics to keep in mind. The most important being the timing, because "a start-up messed up at its foundation cannot be fixed" - according to Thiel's Law.

At the very beginning is the founding team. At this point, it is usually not only the most valuable asset of a company, but also the only one besides the idea. So what does such a team look like? And while we're at it – do you even need a team?

Thiel describes founding a company like a marriage. At the beginning, everyone is optimistic and looking forward to the future, until the romance suddenly vanishes into thin air over the first seven-figure-arguments. While a marriage without a partner doesn't quite make sense, you can totally start a business alone, but at the cost of its growth: start-ups of this kind rarely make the step from zero to one.

At the other end of the spectrum of course, there's the danger of too many cooks spoiling the broth - or in this case, the vision. Supervisory boards are a good example of a position that in most cases becomes more inefficient with each additional member.

Whether a board member or co-founder: to avoid stagnation, the most visionary and assertive founder must take the lead and distribute all responsibilities in a way that everyone on the team has a very specific and unique task.

An equally important rule applies not only to the management level, but with few exceptions to all employees: each of them should be 100 per cent on board. Start-ups are often founded as side projects - but unfortunately not the successful ones.

Life is no Gamble

One topic we're not getting around when it comes to entrepreneurship is the influence of chance. For some it serves as an excuse for not having any success, while others use it as an excuse for allegedly having too much of it.

The book digs into this question in more detail, but with the unsurprising conclusion that it cannot be answered. That's because every company is a unique experiment. No one knows if Mark Zuckerberg would found another Facebook under similar conditions, or if the race would go to Myspace.

But whether luck accounts for one per cent or 90 per cent of every success story isn't even the point. If you assume it's less than 100 per cent you already have a decisive advantage: a reason to fight.

Whether you are an employee, a student, a friend, a partner, or the founder of a start-up, you always have two options for seeing the future: as an unspecified surprise that just happens as it is predetermined, or as an opportunity for improvement - an improvement that you can actively help to shape.

For decades, we have been living more and more in a world driven by the former: Uncertainty. Money is no longer seen as a means to an end but as an end in itself, pupils and students are prepared for everything and thus for nothing at all, and endless political debates have become a substitute for concrete and forward-looking plans.

And yet, a group of seemingly crazy people has survived: people who found and build start-ups to turn today's vision into the reality of tomorrow. Whether your life should be a gamble is not a question, but a decision. A decision you can make for yourself right now.