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Implementing Lean Marketing Systems



A Path for Future Innovation

Guest was Blake Masters

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Transcription of the Podcast

Joe Dager: *Welcome everyone. This is Joe Dager, the host of the Business901 podcast. With me today is Blake Masters. He's the co-author of Zero to One and an entrepreneur, a lawyer, a cross-fitter, a Stanford grad, a co-founder at Judicata, a former employee of Box and Founders Fund and, Blake, I have to ask you, how old are you? You've seemed to accomplish a lot so far. Did I miss anything?*

Blake Masters: Well, I think you've caught it all there, Joe. I'm fortunate to have just had a 28th birthday.

Joe: *You've done a lot, and your Zero to One is your new book, and I thought it was quite enjoyable. You were Peter Thiel's student, and I can think of another famous student lately called Eric Ries that wrote a pretty good book. Are there any similarities?*

Blake: Yes, I don't know, there's something to it. What I mean, not to compare, Peter Thiel to Socrates or anything like that, but there is this rich tradition actually of some of the freshest thinking coming from sort of student-teacher relationships, interactions. Peter taught a class in 2012, Stanford, and about what he knew, about start-ups and creating tech businesses in Silicon Valley. I took that class and I took class notes, very detailed

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class notes and what happened is I just posted them online and they sort of became very popular, spread far and wide beyond the reaches of just the Stanford campus and we were pretty pleased at that. We thought maybe we should take this material and sort of condense and polish it into a book. That's where Zero to One comes from.

Joe: *Would it be fair to say you were the narrator of the book?*

Blake: Yes, you could say that. I mean, or certainly like in the class I was sort of this amanuensis type figure scribe writing down what was happening so that everybody outside of the classroom could follow along. With the book, we wound up, I mean it really is a co-written effort, I'd meet with Peter every day for the better part of a year, invested ton of time with me and to just polishing, not only the content and the ideas, do a fresh example that is articulated in the right way but also just the style. I mean, so he cares about the details a lot. So, it was less, I'd say I was more of the narrator of the notes and then we co-wrote the book together.

Joe: *In the story, it seems like you had a lot of practical examples in it. And, was Peter's class that way then? Did he dig into like real life situations and compare what he was talking about to real life scenarios?*

Blake: he did. The class worked because it had the right balance of sort of abstract, more philosophical, approaches to business and, it kind of married that with the very practical. So, you can read a lot of, academic especially at work and maybe if you go to business school or you study what professors of Management are saying can be very academic and

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could be very theoretical. You can also find books that refer a chockfull of, blocking and tackling advice, how to interview people, how to think about getting things done, sort of productivity philosophies. The cool thing that I thought about the class is that it was this real back and forth between the philosophy and practical stuff.

The analogy I'd like to give is there's this sport called Chess Boxing, actually it is exactly what it sounds like. You play a round of or you have around in the ring where you're actually boxing. When the round is over, each sort of opponent retreats to their side of the chess board and they make a move and the first person to either to get knocked out or to get checkmated loses. I think that is actually a lot like business. You have to be thinking at a high level, which should be your chess, obviously, and then you have to be an execution master. You really have to know how to work with things practically in the real world. I think the best sort of approach is combining these or an outline of the notes that we got from the class I thought.

Joe: *Your title was very interesting and at one point in time of the book, I was like, it could have been named How to Build a Monopoly. How did you come up with the title Zero to One?*

Blake: The Zero to One is sort of, it's basically a shorthand for doing new things. So, we contrast the zero to one construction with going from one to N, which is copying things that already work. If you wanted to think of these, you could say zero to one is sort of a Y axis. It means doing new things, going from nothing to something, creating new technology. Whereas, one N would be sort of on an X axis doing more of what we already

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know how to do, which in an abstract sense, you could say its globalization. The book is our call to people to, to encourage them to do new things, to create new technologies, new and better ways of doing things as opposed to merely repeating or iterating on, past successes.

Joe: *I think that this book is somewhat similar to the Blue Ocean type of strategy. Is it or is it an updated version of that strategy or is it something different?*

Blake: Well, there're some key similarities, which I think you're right to recognize. For example, in the book, we come out unabashedly, unapologetically in favor of monopoly. So, from the inside every entrepreneur should want to build a monopoly business because you'll make lots of profit, and those profits won't be competed away. There's this question on, from a social perspective, whether monopolies are good, sometimes they are, sometimes they aren't.

In the Blue Ocean strategy, the idea is, Yes, find a blue ocean right, not a red ocean that's sort of bloodied by competition, so to the extent that a few books are coming out against competition. One thing I think is really interesting, a lot of the books in the business literature have this idea that you should avoid competition, is somewhat novel and also it's, people write about this stuff but usually when they do, people write books about how you should gain a competitive advantage or how you should compete even harder. Here's a book, that's competing with other books to tell you how to compete better. If you can just compete better, then you'll sort of, leave the competition in the dust.

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We say it's subtle but we think that a rhetorical, shift where we say, "Don't even think about beating the competition. It's about leaving the competition behind. It's not about finding, a super competitive advantage. It's about ignoring the competition or doing something so different that you actually transcend competition." You never want to have a frame of reference be competitors that are doing something like you, and you don't want to be focused on beating them. I think that's one instance where Zero to One is very different from most business books that take on competition as a theme.

Joe: *You remind me of this one story about the Google founders, when they sat and back in the day when they were just first starting out. There was a catalog on a CD. It was a big thing back then. The guys sat down to talk to some guy on how to put their concept on a CD and they both looked at each other and said that, "We knew we had something because it was going to take a million CDs to do it."*

Blake: Right.

Joe: *That's what you're saying to do is that there are opportunities out there to still find that spot you could own yourself.*

Blake: Yes, I think there are tons and then at the cool anecdote because it shows how, Yes, if you're doing something that just under, conventional practices makes no sense. Well, you're rather insane, it's not going to work or like the Google guys, you're doing something that, is sort of unquantifiable better than the competition. I think when you're quantitatively, so far ahead of everybody else that shades into a real qualitative

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improvement. That's what we think we need to be striving for more in the business world.

Joe: *I think a lot of people think, "Oh, I have this bright idea, and we got to come out. We got to discover it." But, you kind of refute the fact that to do this, you actually have to be first in the marketplace.*

Blake: Yes. You hear a lot about first-mover advantage and, the idea there it makes sense. It makes sense for a lot of businesses. The idea of being that if you're first in a key market, especially a fast-growing market, you can gain a lead that no one else can ever hope to take away. The first-mover advantage can be very valuable. But, that's only true in so far as first-mover advantage translates into last-mover advantage. The way I like to frame this is a first-mover advantage is the tactic, not a goal. The goal is always to be the last-mover in a market, that terminal monopoly. Google, for example, is the terminal monopoly probably in the search engine space, search engine advertising space. No one is probably going to come along and do to Google what Google came and did to AltaVista and Lycos in late 90s, early 2000. Moving first can make sense for a lot of businesses. It's just important to remember it's a strategy. It's a strategy towards a larger goal, and many businesses would be better served.

Apple is the classic counterpoint. Apple just released phones with a sort of, big screen iPhone 6 and 6 plus. Android phones had had huge screens for many years and yet they still don't quite work as well as Apple. So, what Apple does is they're content to let other people come out with stuff first, and then Apple reflects on those user experiences. They make sure that they get the technology sort of perfect. And then, they release, their

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product which is almost invariably better in all these different ways. Apple's going to probably be the last-mover in an important sense in the smart phone market. The important thing for every entrepreneur to think of is, "Okay, how can I be the last-mover?" Maybe moving first is a part of that but quite often it's not.

Joe: *I'm very familiar with the Lean start-up and we talk so much about the MVP and pivoting and what I take from your book is I need to create and own a certain space. It's got to be mine. How do I know when I find that space? Is it just that light bulb comes on for me or is there any secret of knowing I got it? I did it.*

Blake: I don't think there's anyone straightforward secret. It's a very tricky question how when you have it. , certainly I think the Lean Startup is a good book and teaches many important practices and certainly it's important to, you don't want to work on something for ten years alone in your basement without talking with real customers or, creating some sort of MVP to test your theories in the market. What we do in the book is we push back though against the less the Lean Startup as a book and more the sort of, movement or misinterpretations that people might have of it and the indication here in Silicon Valley is that Leanness has become too much of a default methodology.

The idea is maybe you shouldn't know what you're going to do when you start a startup. You should sit in a room with some friends and, co-ideate and develop something. See if it sticks, iterate and I do think this can be taken too far. That what we're trying to take to task this Idea that you could just sort of iterate your way to success without any strong convictions or, by listening only to focus groups or something like that. We think those

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approaches are likely to lead you to perhaps a local maximum. You might build like the best version of some app within the narrow confines of the path that you've sort randomly stumbled upon, but it's probably not going to help you build the next really great business.

It's always tricky to know how much did you plan in advance, how much conviction should you have without listening to other people, versus sort of engaging in the Lean iterative process but we do want to suggest people have gone too far down the Lean road and we do well to sort of reclaim a sense of definite optimism and planning when we think about our ventures.

Joe: *One of the things I really liked about your book is that, and I'm a sales and marketing guy so you're going to see where this comes from really easily, but is you truly believe that product just does not sell itself or that that's a dangerous, maybe a dangerous path to take even if you just created the best widget and you think sales and marketing has some value, correct?*

Blake: Tremendous, tremendous value and, everyone knows the product is important, and I think in the wake of the .com crash, at the end of '99, 2000. People in Silicon Valley really retreated to thinking about product, so '99, smart non-engineers were doing business development and sales and there is a sense in which today smart non-engineers are sort of judged as they go into sales product or working on a product scheme is somehow more of the moment in Silicon Valley today. I think the product is definitely important. I mean it's very hard to sell something that's bad, but it is possible, and it's certainly, a lot easier to sell something that's good. What engineers try to do in Silicon

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Valley is, they fall victim to what we call the field of dreams conceit.

If we build it, this will sell itself. If we build it, the customers will come. That's almost always false and what we suggest in the book is sales and marketing are underrated precisely because they're so hard to see and the skill set that makes one good at these things is very opaque in contrast to engineering or product. You look at a product, you can see what it does. You can see how it integrates to your life. If you look at a computer program or that code, either works or it doesn't. Things are very transparent on the surface. Sales is really quite hidden. A lot of the sales people running around in Silicon Valley don't call themselves salesman anymore. So, we do have an allergy to sort of obvious sales pitches. , no one wants to get sold and go to a used car lot and the dealer comes out to talk to you as a sort of an architect of shadiness.

It's really important to remember sales is happening all the time. You can't move your product to a wide audience without some sort of sales strategy. And, the best way to fail in business is probably to, focus all your time and energy on creating a great product without spending a corresponding amount of energy, focused on 'how do we get it out to people'. Because, I think this is a huge correction in the wrong direction of the over-correction. Startups, especially, need to think really long and hard about their sales strategies because you can build a really good business with just sort of a decent product if you figured out how to sell it to people.

Joe: *Is that one of the most important piece of advice you can give someone? Because, I think we are very, at development, the innovation that's taking place, so much of it is*

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around product or a certain service and less of it is about the sales and marketing side of it.

Blake: I think it's a huge piece of advice, no matter even if you're, I mean everybody's a salesperson, right? So, even if at the individual level, even if you're expert in some technical discipline like Tax Accounting or, Computer Programming, you still have to be a salesperson. You have to advocate your own agenda internal with your organization. If you're a tax lawyer, you still have to get clients. They're probably not just going to magically show up. If you're a computer programmer, you have to advocate your product division, certainly have to work with actual sales people. I think, Yes, always paying attention not to underwrite sales in a sort of product obsessed world is a huge piece of advice. You're right.

When you do think of innovation, you think of innovation on the product side, less on the sort of distribution model side. I mean the great internet companies in the last 15, 20 years we have seen some innovation in the distribution side with things like viral marketing and at the same time a lot of sales really is about, personal characteristics and how you relate to other people and how you're able to think about whether your product will fit into consumers' lives or how you can help accelerate that. There's this humanistic side of it that makes it very valuable I think to acquire skills in that domain, but also very tricky to generalize about what sort of innovations on that side of things we might see in the future.

Joe: *You talk about owning that space. I think of the analogy of a T-shape person is that you have to have a long vertical line in place and own that space before you start*

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spreading horizontally. Is that a good accurate description or could you define that for me a little bit?

Blake: Yes, exactly. We say every business, to be successful wants to get to this monopoly estate where you really own this really valuable space. You want to own your entire market or as much of it as possible. Well, a startup, especially, starts small. It follows then that the best way to become a monopoly as a small business entrepreneur or as a startup is to start with a very small market. When you start with an extremely small market, you want to dominate it. I think some of the most, fascinating businesses in the last 15 years have started with markets so small that they probably didn't even appear to be good business opportunities at the beginning.

Mark Zuckerberg started Facebook at Harvard, where the goal was to sign up, the 10,000 students of Harvard at first, not like everybody in the world. You think about a target market of 10,000 people, for free internet product and, in 2004, an MBA Tech might even say that, it doesn't look like a business opportunity at all." And yet, what Zuckerberg was able to do with them, not only get, 60% of the target market signed up in a week. All of a sudden that looks like a very auspicious start and then he can sort of, scale out of Ivy League. This becomes an Ivy League phenomenon, kind of scale out in concentric circles to hit colleges, but you don't let anybody without a .edu e-mail address sign up. Gradually, start from this core that you dominate, and you build out in concentric circles. That's a really a powerful model. If you start thinking about expanding too quickly, precisely that lack of focus, that can hold you back.

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Joe: *If I have a mature company, is it too late to read your book? Do I need to go to another book?*

Blake: We hope not. We don't think so. The book is addressing what we know about Silicon Valley. Startups talking to, I mean narrowly to technology entrepreneurs, but probably, I think it's sort of important for everybody, perhaps especially people in mature companies or especially people in larger organizations to read because I mean at these kind of places the innovation is actually most difficult and yet somehow the most necessary. What startups have taught us, I think is that small groups of people who are rallied around a mission are really the sort of agents of change. We need to see more of that. I think it's always hard to get a mature company that's sort of doing one thing, sort of coasting on the inherited success, of its prior state.

Even the biggest businesses are going to succeed in the future, it's probably not going to be just from the inertia of the past. It's going to be because they found some way to act more like startups to sort of refocus their energies and shift away from cultivating what's been received to redeploying their resources to the possibilities of tomorrow. I mean that's what an executive should be doing. , just like Jeff Bezos said at Amazon, I mean Amazon can't be said to be a startup anymore. I mean it's a giant technology company, and yet they're so relentlessly focused on the future and future innovations that they don't even have any profits. , they take all their cash flow and they reinvest it in making the company bigger and bolder, in the future. I think there's a lot to learn from Silicon Valley. I think there's a lot to learn from startups and, if we're going to have any sort of good economy in the future, it's probably the biggest companies and the sort of most traditionally successful

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companies they're going to have to show us the way.

Joe: *Where can someone learn more about the book? , of course, the book Zero to One is on Amazon, but is your blog or where you were publishing articles, is there still information there or where should someone go on the web?*

Blake: Yes, so I've kept my class notes online, so the sort of source material, which the book is based. That's all there. It's all free, kind of a perpetual reference for entrepreneurs. And at the same time, I think maybe the best way to engage with these ideas is to read the book. I mean the book is half as long as the notes, and we really tried to take a discipline when we looked through all this content and distill it down. So, I think most business books are probably really like a 30-page essay on one topic that, for one reason or the other the authors have to stretch it out into a 250 or 300-page book. I think Zero to One is sort of the opposite. Not much repetition, its 200 disciplined pages, sort of everything Peter and I have learned about business from working in Silicon Valley. People are telling me that it's a 3, 4-hour read. So, maybe that's even the quickest way to do it.

Joe: *I think that sounds excellent, and I thought it was a great book, Blake. I enjoyed it, and I think there's a lot of lessons to be learned in it.*

Blake: Well, thank you. Thank you.

Joe: *Is there anything you would like to add to this conversation that maybe I didn't ask?*

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Blake: It's always a hard message to communicate because it sounds so banal but I really think the most important thing in business or at least what I've learned so far is that there is no authority to listen to. There's no concrete prescription that exists for you or for your life or for your career, let alone for something as big and as important as a company. What you have to do. Yes, you can read Zero to One but it's not going to tell you answers, so much as help you think of the questions. I think the most important thing is to just think for yourself and, if our book or any other book can sort of catalyze some of that, then I think their success is, but the temptation always to resist is to look at what other people are doing and to try to, magnetically copy it or to try to, pretend that there's some formula to follow. There isn't. That's not always what people want to hear. And yet, I think that means that there's just way more opportunity. There's just way more opportunity that we don't always see, but it's sort of there for the taking and we can exploit it in all this different ways. We just have to always be willing to think freshly and originally about our future and about business.

Joe: *I have to ask someone that is familiar with startups as you are this question. Can I learn anything from Shark Tank?*

Blake: Absolutely. You can learn how Silicon Valley doesn't work by watching Shark Tank, but that's probably about it.

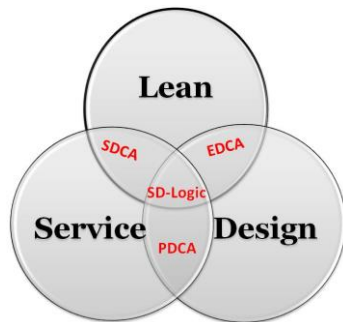
Joe: *I want to thank you very much, Blake. It was my pleasure having you. This podcast would be available in the Business901 iTunes store and the Business901 blog site. So, thanks again, Blake.*

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Joe Dager is president of Business901, a firm specializing in bringing the continuous improvement process to the sales and marketing arena. He takes his process thinking of over thirty years in marketing within a wide variety of industries and applies it through Lean Marketing and Lean Service Design.

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