Stanford eCorner

Beating Competitors - and the Conventional Wisdom

Max Levchin, *Paypal***; Peter Thiel,** *Paypal*

January 21, 2004

Video URL: http://ecorner.stanford.edu/videos/1032/Beating-Competitors-and-the-Conventional-Wisdom

The concept of digital cash had been around long before Paypal. Paypal was unique in that it was successfully able to create a compromise between security, privacy and convenience that was acceptable to the customer.

Transcript

Super quickly, we were not the first company in digital payments. In fact a decade of digital payment attempts have just been capped off with a very spectacular flameout by a company called DigiCash. And literally, a couple of nights before I met Peter I went to the shutdown party of DigiCash, which was on Stanford grounds and it was a bankruptcy, the CEO brought in to dispense with employees and disposed of the intellectual property, it was really bad news. It was quite a number and the whole concept of digital cash has been around for about 25 years. So certainly we were not the first ones. I think we were the first ones to compromise wisely on the notion of user interface being actually useful as opposed to complicated or just purely secure, which is sort of one of the... It was a three-way trade-off between privacy, security and convenience and if you get two of them 100%, the third one you will be at 0% and that would be bad. I remember Max and I went to this financial crypto-conference in Angola. We have all these people to try and develop new payment system. They have a conference on this and in February 2000, we went there and we decided, you know, all of these people have been working in this for 10-15 years and we announced we have figured out the formula for how to do payments online and how to actually create a new digital currency.

And it is hard to understate the degree of anger and resentment that the people felt. Yes, so... There were people presenting theoretical papers that explain why it could never be done and proof this could never be done because the smartest people in the world have been trying this for 10 years and so on. Yes, this was February '99. The first time you went. Yes. So the first time I went was February '99, which was basically when the DigiCash has collapsed. It was just a dark day in digital cash. So when Peter and I went there, I made a promise in February '99 that I will come back and I'm going to do something very obnoxious if they found us successful because I wanted to make a point that, you know, we've figured it out. Because people are really not very friendly and the whole digital cash side of things and all.

So I actually gave a talk at Financial Crypto 2000 and I think Peter was in the audience cause he slept through but I forgave him later on. The talk was titled 'No One Needs Anonymous Digital Cash' and the whole point of the talk was really, "Look, there's this trade-off. There's privacy, security, and convenience and if you get the security perfectly and privacy perfectly, convenience is going to go to hell and you just have to deal with that and compromise." The talk was fairly academic and I was really trying to make a point and they sort of involved a lot of Math but I basically had two slides. The first slide had all of Math and all of my academic stuff in it. And the second slide I had a dramatic pause and I said, "Look, if you don't believe me, look my slide had said a total of 50,000 users, which is what we had at the time." The largest number of users DigiCash has ever seen was I think 2000 so it was a very quiet moment in the audience and the people started to boo me off my stage.

They were not willing to believe that the whole thing worked out and I was going to go next year and to show them that we had about seven and a-half million users by then but the point might... It might be dangerous for your health. It might be dangerous because they'll probably throw things at me.