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Tiny has been called the Berkshire Hathaway of the internet.
The founders, Andrew and Chris have spoken about
how the thinking of Warren Buffett and Charlie Munger
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Stick around to the end of this episode.
The last six minutes is actually a masterclass
on product differentiation from Warren Buffett.
I compare the ideas that Warren writes about
in his shareholder letters to Tiny's approach
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And one more thing before we jump into today's episode,
do me a favor.
Whatever podcast player you're listening to this on,
do me a favor and search for Invest Like the Best
and follow that show.
Invest Like the Best is one of my favorite podcasts.
My friend Patrick is a world-class interviewer.
I was just listening to his podcast yesterday with Dan Rose.
It's episode 316.
It's called How Stunning Founders Operate.
Dan worked directly with both Jeff Bezos and Mark Zuckerberg
at the beginning of Amazon and at the beginning of Facebook.
He shares a lot of lessons,
what he learned from both Zuckerberg and Bezos
on the episode.
It's absolutely excellent.
And if you want to listen to the episode

that I did with Patrick,
it is David Senver Passion and Pain Episode 292.
David Packard rejected the idea
that a company exists merely to maximize profits.
I think many people assume wrongly
that a company exists simply to make money, Packard said.
While this is an important result of a company's existence,
we have to go deeper to find the real reason for our being.
Do our products offer something unique?
Are people's lives improved because of what we do?
If the answer to any of these questions is no,
then Packard would deem HP a failure.
Most entrepreneurs pursue the question,
how can I succeed?
From day one, Packard pursued a different question.
What can we contribute?
As a result, HP attained extraordinary success.
This success, in turn, enabled them to invest more
in making a contribution,
which produced even greater success,
which led to increased contribution,
which created even greater success.
This virtuous cycle eventually enabled Packard and Hewlett
to personally contribute at levels far beyond
what they would have dared to imagine as young men.
In 1995, Packard attended a dinner at Stanford University.
The Dean of Engineering mentioned to Packard
that he and Hewlett had donated on a present value basis
as much to Stanford as Jane and Leland Stanford
had given to fund the university.
Upon his death, Packard bequeathed nearly all
of his $5.6 billion estate to charity.
But if you were to think of David Packard
and the HP way as being all about benevolence and charity,
you would be terribly mistaken.
Packard and Hewlett demanded performance,
and if you could not deliver, HP held no place for you.
Customer satisfaction, second to none,
is the only acceptable goal, admonished David Packard.
If you cannot lead your organization to achieve that goal,
we'll find somebody who can.
That is an excerpt from the book
that I'm gonna talk to you about today,
which is David Packard's autobiography.

It is called The HP Way,
How Bill Hewlett and I Built Our Company.
And so nearly all the words from here on in
are going to come directly from a very wise,
82-year-old founder.
What's amazing to me is how many times you and I've seen this,
David Packard publishes this book in 1995
and he passes away in 1996.
There's at least 20 episodes in the Founders' Archive
where you'll find the exact same thing.
This desire to document what they learned over,
in David's case, over 50 years, half a century,
as an unbelievably successful entrepreneur,
to document what he learned during that time
and pass it down to future generations of entrepreneurs.
And so I'm gonna put this book down.
I wanna revisit that section from the introduction though,
because really if you read between the lines
of what he's saying over those several pages is,
it's gonna be very similar to the lesson
that you and I just went over in episode 282.
The third time I read Jeff Bezos' Shareholder Letters,
something Jeff repeats over and over and over again
in those letters is that you need to obsess over customers.
That's the exact same message that David Packard
is writing in that introduction.
So I'll come back to that in one second.
In the meantime, I have another book in my hand.
It is called The Intel Trinity,
how Robert Noyce, Gordon Moore, and Andy Grove
built the world's most important company
and is written by Michael Malone.
I read this book like four or five years ago.
I'm going to eventually reread it in the next few weeks
and make another episode about it.
And the reason I wanna start here is because I think
a lot of people can look at HP and its current state
and not realize how important David Packard
and Bill Hewlett were to the history of Silicon Valley.
And so the author of the book that I hold in my hand,
Michael Malone, you can consider him
like a historian of Silicon Valley.
He's written, I think at least 10 books
on Silicon Valley history.

This paragraph that he has towards the end of this book
is an excellent overview on why you and I should spend time
learning from David Packard.
He says, in the Valley, the ultimate career standard
was set by David Packard.
Start a company in a garage,
grow it into a leading innovator in its field,
take it public, and then take it into the Fortune 500,
then take it into the Fortune 50,
then become the spokesman for your industry,
then go to Washington,
and then become a historic global figure.
Only Packard had accomplished all of this.
He set the bar and the Valley had honored his achievement
by making him the unofficial mayor of Silicon Valley.
And then I want to pick up the biography of Steve Jobs
written by Walter Isaacson and just read you this paragraph.
Steve called me late on the afternoon of New Year's Eve, 2009.
He was at home in Palo Alto with his sister.
His wife and his three children had taken a quick trip
to go skiing, but he was not healthy enough to join them.
He was in a reflective mood.
And we talked for more than an hour.
He began by recalling
that he had wanted to build a frequency counter.
Remember this for later in David's autobiography.
He began by recalling that he had wanted
to build a frequency counter when he was 12.
And he was able to look up Bill Hewlett,
the founder of HP in the phone book,
and call him and get parts.
Bill also gave a young Steve Jobs a summer job
working on the assembly line, assembling frequency counters.
Back to this.
Jobs said that the past 12 years of his life,
since his return to Apple had been the most productive
in terms of creating new products.
But his more important goal, he said,
was to do what Bill Hewlett and David Packard had done,
which was to create a company that was so imbued
with innovative creativity
that the company would outlive them.
And so if you think about the context around that paragraph
in that biography, Steve has less than two years to live.

He is so sick, he cannot travel with his family on vacation.
And one of the things on his mind is how much Bill Hewlett
and David Packard influenced his building of Apple.
I think that speaks to why you and I
should learn from David Packard.
So let's go back to the introduction,
which in my opinion is just really several pages of,
hey, you need to obsess over your customers.
And I think David demonstrates the importance of that
by some of the phrases that he uses.
These are spread over multiple pages,
but the theme is consistent.
Do our products offer something unique?
Our people's lives improve because of what we do.
What can we contribute?
And finally, customer satisfaction,
second to none, is the only acceptable goal.
And then the autobiography starts,
and the first thing he does,
the first page in the first chapter,
he highlights an institution and a person
that changed the course of his life.
As we get older, we have the opportunity to look back
over many years and see how certain events,
seemingly unimportant at the time,
had a profound effect in shaping our business
and our professional careers.
The first event that he's referencing
is the fact that he was admitted
into Stanford University.
The second was who he met at Stanford.
The second event was becoming acquainted
with Professor Fred Terman at Stanford.
It was Fred who sparked my interest in electronics
and who later encouraged and helped Bill and me
go into business for ourselves.
His interest and faith in our abilities,
even at a young age,
and in the midst of the Great Depression,
gave us confidence and helped set a course for us.
And then he tells us a little bit about his childhood,
the fact that his love of reading and experimenting
was something that was present from a very early age.
You'll see that he has,

HP has founded on the fact
that they want to produce electronics.
He was interested in electrical equipment
since he was a little kid.
He says, even as a young child,
I spent hours curled up
with the family world book Encyclopedia.
I got a thrill from looking at pictures of railroads,
bridges, motors, generators,
and other mechanical and electrical equipment.
I tried to simulate some of these devices
with small scale models in our backyard.
So this idea where he's sitting down,
he's reading the entire Encyclopedia as a child
and teaching himself about the world around him.
We just saw this last week,
a young Bill Gates did this exact same thing.
His mom in that book says,
I think when he was like seven or eight years old,
he read the entire collection of Encyclopedias
that the family owned.
One of the things that you'll find if you read this book,
spread throughout the pages,
is there's these random hints
that has polite and well thought out
as he appears to the reader.
There'll be these flashes where you understand,
oh, underneath all that is a person
that possesses this steely level of determination.
You don't live the life and build the career
that Michael Malone described that David Packard did
without turning yourself into a formidable individual.
And this is the first hint of the extreme levels
of determination that David Packard possessed
while he was alive.
When I was 11 years old, my father bought me a horse.
I would saddle him up in the morning
and when I got on him, he would buck and rear up.
Then my father would hit him on the behind with a broom
and the horse would go out of the driveway at full gallop.
The horse would spot a patch of alfalfa,
race up to it at full speed
and then plant his legs to stop and eat.
I would go flying overhead and hit the ground.

Remember, he's 11 years old when this is happening.
He knew, the horse knew, all the tricks
to get rid of its rider,
such as running next to a barbed wire fence
to scrape him off.
And this is the most important sentence in this section
and describes a very important lesson
that his father is teaching him.
My father wouldn't let me quit, however.
So I finally learned how to handle the horse.
And so I think that's David's preferred method of teaching.
He's gonna tell you these little stories,
those little anecdotes,
and from there you'll infer the lessons
that he's trying to impart to you.
And so then he moves the timeline forward.
He talks about what he learned
from competing in high school sports
and we're gonna see again another inclination
that he's a very determined individual.
I enjoyed athletics and learned some lessons
that were helpful in managing Hewlett Packard.
And so then he tells us a lesson
that he learned from his coach, Mr. Porter.
Mr. Porter said that many times,
two teams playing for a championship
each have equally good players.
In this case, teamwork becomes very important.
Given equally good players and good teamwork,
the team with the strongest will to win will prevail.
I have remembered that advice
and it has been a guiding principle
in developing and managing HP.
Get the best people,
stress the importance of teamwork,
and get them fired up to win the game.
And so we see another example of one of my favorite quotes,
this idea that Jeff Bezos says that
we don't choose our passions, they choose us.
And so David Packard said,
I had decided as far back as grade school
that I wanted to be an engineer.
And because of my interest in radio and electrical devices,
I had narrowed that to electrical engineering.

That's actually a really important sentence
because this interest leads him to going to Stanford,
which then leads in turn to the founding of HP.
Because when he's at Stanford,
he is still pursuing this grade school interest
in radio and electrical devices.
It says Stanford had an amateur radio station.
The radio station was near the laboratory
of a new young professor named Fred Terman.
Fred invited me into his office
and suggested that I take his graduate course
in radio engineering during my senior year.
That was the beginning of a series of events
that resulted in the establishment
of the Hewlett Packard Company.
And so Stanford is also where David
is going to meet his co-founder, Bill Hewlett.
He gives us a brief overview of Bill Hewlett
and something that pops out that I can't really explain,
I'll tell you that in one minute.
It says, as a youngster, Bill gave early evidence
of what became a prominent trait, an insatiable curiosity.
He wanted to know how things worked
and why they did what they did.
And he often conducted homemade experiments to find out.
Some involved explosives, and like me,
he was lucky to survive.
And so what David's referencing there is,
earlier in the book, he mentioned that he liked to experiment
with explosives as well when he was young
and that one of these experiments
actually exploded in his hand.
And then he says the fact that he,
ever since that experiment, he had lived his entire life
with a distorted left thumb.
And so when I said, this is something
that I can't really explain, what I'm referencing there
is how many times this comes up in the early lives
of these company founders,
the fact that they like building bombs.
This was front of mind because a few weeks ago,
I think on episode 278, I just reread Peter Teal's book,
Zero to One, and there's a line in that book
that talks about this.

He says, of the six people who started PayPal,
four had built bombs in high school.
And now we see with David Packard and Bill Hewlett,
they did the same thing, but even younger than high school.
So then David goes back to this idea
where that HP will likely not exist
if him and Bill did not meet Professor Fred Turman.
A lot of the people that he's going to actually meet
in Turman's class are going to form,
he says it's the nucleus of the management team at HP.
And he says, largely because of Turman's classes,
the four of us, Bill, him and these two other guys
became fast friends.
It is not a coincidence that a few years later,
this group would become the management team of HP.
Many of them working for over 30 years in the company.
Fred Turman's keen interest in radio engineering
induced him to become acquainted
with almost all the pioneers in that industry,
many of whom were located in the Palo Alto area.
Now, why is that important?
Fred becomes friends with all these early company founders.
Then he takes his students on tours.
He says Turman's course included visits
to some of these firms.
And Turman makes the point,
since this is the beginning of the industry,
a lot of these company founders,
it's not like you could be an expert in the field,
they're creating the field, right?
So it's like, what if you actually studied the field
intently, then what could you actually do
if you founded your own firm?
I remember Turman saying something like,
well, as you can see, most of these successful radio firms
were built by people without much education,
adding that business opportunities would likely be greater
for someone with sound theoretical background in the field.
That got us thinking.
And so even before they're graduating,
this small group of guys is like, okay,
why don't we start our own company?
And so they have tentative plans
to start an unnamed company.

They don't know what products they're gonna make,
they just know that they wanna build electrical components,
but the Great Depression is gonna give this diversion.
Says, our plans were set aside
when I received a job offer from General Electric.
The country was then in the throes of the Great Depression
and jobs were scarce.
Turman encouraged me to take the GE job,
pointing out that I would learn a great deal
that would prove useful in our own endeavor.
And so he drives across the country,
he goes to the East Coast.
There's two stories that he's gonna tell.
He's gonna be a GE for a few years,
but there's two main stories that he tells
about his time working for General Electric.
That he's gonna use later at HP.
The first one is that you should follow
your own intense interest.
And at the beginning of industries or markets,
you can't possibly predict how large they're gonna be.
So it says on my first day,
I met with a Mr. Boring,
who as you'll see is aptly named.
He knew of my interest in electronics,
his intense interest in electronics.
But he told me there's no future for electronics
at General Electric and recommended
that I concentrate my work and interest
on heavy components for public utility plants.
And why was this conversation so important
that David is telling us we're laying it 40 years
after it happened?
I have often thought of the irony of Mr. Boring's advice
because our electronics firm, HP,
has become larger than the entire General Electric company
was at the time that he gave me this advice.
And then the second important story about his time at HP
is really this is how David is able to succeed
where other people's failed and he's gonna use this idea
over and over again when he's building HP.
The background here is he is responsible
for quality control, they're producing,
General Electric is producing these things called

mercury vapor rectifier tubes.
And the quality of the tubes are not good,
a lot of them are failing, a lot of them are blowing up.
And so this is how he figured out how to fix that.
I learned everything I could about possible causes of failure
and I decided to spend most of my time on the factory floor
to make sure every step was done properly.
And so what he's gonna realize is the engineering department
where he's working right, they're not communicating
properly with the people that are actually making it,
the factory people.
It soon became apparent that the instructions
the engineering department gave the factory people
were not adequate to ensure that every step
would be done properly.
I found the factory people eager to do the job right.
We worked together to conduct tests
and identify every possible cause of failure.
And as a result, every tube in the batch
passed its final test without a single failure.
That was a very important lesson for me.
That personal communication was often necessary
to back up written instructions.
That is his punchline, let's repeat that.
That personal communication was often necessary
to back up written instructions.
That was the genesis of what became management
by walking around at the Hewlett Packard Company.
And so after a few years, he's still talking to Bill,
he's still talking to Fred, they still have these ideas
like, hey, we should start our own company.
So he's on like a break from General Electric.
He drives all the way back across the country,
back to Palo Alto and he has what they consider
the first official meeting of what's gonna turn into HP.
We had our first official business meeting.
The minutes of the meeting are headed
tentative organization plans and a tentative work program
for a proposed business venture.
Must be a riveting document to read.
The product ideas we discussed included
high frequency receivers and medical equipment.
And it was noted that we should make every attempt
to keep up on the newly announced technology of television.

And so the reason that is important is because
he's telling you, hey, we started a company
before we knew what product we wanted to make.
And so they decided to start the company in Bill's garage.
This garage is gonna become really famous.
This goes on for like, there's like about a year,
year and a half, while he's on like a break from GE
until he actually formally resigned.
So before I wanna get to the founding of their company
in the garage, which becomes like Silicon Valley lore,
I just wanna read this one paragraph that I thought
was fascinating and it really talks about like this,
the feeling that you have when you're taking your jump
from employment to I'm gonna run my own business.
I'm gonna take this giant risk.
And so even though this is just one paragraph
and a few sentences, it's like, I paused here
and I just stared at it after I underlined
and made notes on it.
It's just like, what is David's life if he never did this?
What if he just stayed at GE?
What if he just played it safe?
And so he writes, I didn't formally resign from GE
until nearly a year later.
Lucille, which is his wife, always remembered the moment
she dropped my letter of resignation in the mailbox.
Mailing that letter cut our financial ties,
but we were hopeful and excited
about what the future had in store.
And so this is his schedule
at the very beginning of the company.
He's also going to school and working.
And so it says, Bill found a two-story house in Palo Alto.
There was also a one car garage and that became our workshop.
In 1989, so 50 years later, the state of California
designated that garage as a California historical landmark
and the birthplace of Silicon Valley.
My schedule then was to go to classes at Stanford
in the mornings, work with Bill
and also find time to study in the afternoon
and then go to Lytton laboratories in the evening.
And so this is his first mention of Charlie Lytton,
who's actually, he's working for,
but it's also going to become a competitor in the future

and really a friend.
He learned a lot from Charlie Lytton.
They wind up exchanging information
and Lytton actually becomes really important in his life.
But there's something that jumped out to me
that you realize when you read all these founder biographies,
especially the American founders around World War II,
they didn't really believe that they had limits
on what they could do or what they could learn to do.
And they would do so many things themselves.
And so when I got to this section,
I actually thought of this book,
this biography of Edwin Land that I read for the first time
probably like four years ago, I think it was episode 40.
It's called Insisting on the Impossible.
I just reread it probably, I don't know,
maybe like a year ago.
But this is what David is learning from Charlie.
Says, Charlie was able to do everything better
than anyone else.
When he wanted to build a new plant,
he didn't hire a contractor to do the excavating.
Instead, he bought a caterpillar, like a bulldozer,
and excavated the site himself.
I helped him and then I became fairly proficient
with a bulldozer.
When Bill Hewlett and I acquired a ranch in 1954,
so it was at 15 years later,
I bought a bulldozer and then helped build
more than 20 miles of roads.
And so I have no idea why,
but when I got to that paragraph,
I thought about this paragraph that I've never forgot
since I read it four or five years ago
whenever episode 40 came out.
And I'm gonna read it to you.
And what's fascinating, now, this is crazy
how all these things fit together, right?
So David Packard and Bill Hewlett are building their company
at the exact same time in history
that Edwin Land is building Polaroid.
And back on page 437 of this giant biography,
almost 500-page biography of Edwin Land that I read,
there's this young guy named Ken Olson

who's going to wind up being an entrepreneur.
He was gonna wind up founding
DEC Digital Equipment Corporation.
Now, here's the crazy part.
He is describing, actually,
I'll tell you the crazy part after this.
Let me read this paragraph
from Insisting in the Impossible.
It's Ken Olson who's a generation younger
than Packard and Edwin Land is.
And he's describing just how different they were.
Says, lands represented a generation of scientists
that Olson encountered as a young researcher
in the late 1940s.
These older generation scientists blew their own glass.
They did their own machining.
They made their own parts.
They knew everything and they were independent.
They created radar and the atomic bomb
and all these wonderful electronics.
These self-reliant old-timers came up
against the fearful challenges of World War II
and said, you know, this war is not going too well.
What problem should we solve for them?
And so what Ken is picking up there
as a young researcher, right,
looking at these older generations,
this generation older than him,
he's like, this is extreme levels of self-reliance
which is exactly what David Packard
is describing what he learned from Charles Litton
in the book.
Now, here is how this always blows my mind
how this all connects.
This is why I think about founders
just as one giant conversation you and I are having
on the history of entrepreneurship
that just spread over,
has to be separated in episodes
but it's just one conversation, right?
Ken Olson is quoted in the Edwin Land book
that I'm holding in my hand.
Later in David Packard's autobiography,
he talks about meeting with a young Ken Olson

and trying to buy his company
Digital Equipment Corporation.
So let's go back to this book.
There's several pages that goes on.
They're trying to figure out, okay,
we know we want to develop electronics.
What do we want to build?
They're not too sure.
They're going to do a bunch of different things.
They're going to do contract work just to pay the bills.
Oh, interesting to note,
HP was profitable from the very first year
and it was profitable every year for 50 years after that.
That's crazy, but the reason it's called HP
is because that was a result of a coin flip.
They couldn't decide is it going to be Packard Hewlett
or Hewlett Packard.
We flipped a coin to see whose name
would come first in the company.
Needless to say, bill one.
And so eventually they think they have an idea for a product.
It is called an audio oscillator.
And we see very, very humble beginnings
to what is going to become a very valuable company.
So it says the audio oscillator represented
the first practical low cost method
of generating high quality audio frequencies.
We built one model and then we took it
to a radio engineers conference.
The response was positive.
So we decided to take pictures of it
and produced a two page sales brochure
that we sent to a list of about 25 potential customers
provided by Fred Turman.
There's Fred again.
We designated this first product, the model 200A.
This made me laugh.
We designated this first product, the model 200A,
because we thought that the name would make it look like
we had been around for a while.
We were afraid that if people knew
we never actually developed, designed,
and built a finished product, they'd be scared off.
We weren't expecting much from our first mailing,

but amazingly enough, in the first couple of weeks,
several orders came back and some were accompanied by checks.
And so they don't have a bunch of money at this time.
So this is where Charlie Linton does them another favor.
He was a tremendous help in getting us started
in production.
He gave us access to his shop so we could do things
we weren't able to accomplish in the garage on our own.
And this is what I meant.
That technically they're competitors,
but they're sharing information and they're friends.
Charlie Linton and his equipment made an important difference
during a period when time and money were very tight.
He never saw us as competitors, but always as compatriots.
And he also thought it was very important for them
to get together and share ideas.
He also did something else that was very important.
He loved to expound and philosophize on new ideas.
And whenever he wanted to learn more about something,
he'd organize a seminar at his shop
and he would invite me and a few other people.
These seminars occurred several times.
We also talked about business philosophy.
So in addition to mailing and trying to do outbound sales
for their audio oscillator,
they actually take it to all these conferences.
So they take it to another technical conference
and this is where they're gonna get their first big sale.
They actually sell a batch to Walt Disney.
And more importantly, David tells us
why he's able to get the sale.
There was people who expressed considerable interest
in our audio oscillator.
One of them was Bud Hawkins.
He was the chief sound engineer from Walt Disney Studios.
Hawkins was developing the sound equipment for Disney,
the Disney movie Fantasia.
He was planning to buy audio oscillators
from another company for $400 each.
Our model would cost less than $100.
Hawkins decided to buy our oscillator
instead of general radios.
And so David summarizes the advantage
that his young company had and why he received Disney's money

as opposed to general radios.
We enabled Disney to buy a good product
at a price considerably less than our competitors.
And so one of the things I loved
as David takes us to the history of the company
is they grow, they need more space
and every time they need more space,
it's like we can't possibly need more space than this.
And so this is the first of many examples.
I says by 1939, our business had grown
to the point where we needed additional space.
We set up an office in the front section of our new building
while the back room held a few machine tools
and assembly benches.
It seemed as if we had all the space
that we would ever need.
In those early days, Bill and I had to be versatile.
We had to tackle almost everything ourselves
from inventing and building products,
to pricing, packaging and shipping them,
from dealing with customers and sales reps,
to keeping the books, from writing the ads,
to sweeping up at the end of the day.
And so essentially what he's describing there
is this is a form of education.
Many of the things I learned in this process
were invaluable and not available in business schools.
Cash flow was a frequent problem during those early days
and he's gonna give us advice
that you need to shop around for your financing options.
So he goes into the largest bank in California,
the largest bank in California at the time,
is Bank of America.
We tried to establish some credit with the Bank of America.
They sent a man out to look us over.
He was not impressed, so that's a no from Bank of America.
So then David walks over to his little local bank,
which is called Palo Alto National.
And I introduced myself to its president,
this guy named Judd Crary.
I described our initial success and then I explained
how we now needed a loan to expand our business.
He listened carefully, asked some questions,
and then wrote out a note for me to sign.

That little leap of faith on Crary's part
was the beginning of a long and happy relationship between us.
When we finally grew to the point
where our financing requirements
went beyond the bank's legal limits,
we went to Palo Alto Nationals Associate Bank, Wells Fargo.
The Wells, this is so important, he's gonna repeat,
this is one of the greatest lines I've ever heard,
but he's gonna repeat this piece of advice
that he gets from the gentleman at Wells Fargo
a few times throughout the book.
The Wells Fargo bank sent a retired engineer to visit us.
I spent a full afternoon with him
and I remembered ever since some advice that he gave me.
He said that more businesses die
from indigestion than starvation.
I have observed the truth of that advice many times since then.
More businesses die from indigestion than starvation.
So at this point in the company history,
America gets pulled into World War II.
Bill Hewlett gets called into service in the Army.
So now David's gotta run the company while Bill's gone.
And it says Bill and I decided
that we were going to reinvest our profits.
This is something he repeats over and over again,
grow from profits, grow from profits.
He is very, because he grew up in the depression,
which he goes into more detail, very wary of debt
and growing way faster than you should.
Bill and I decided we were going to reinvest our profits
and not resort to long-term borrowing.
I felt very strongly about this issue.
We found we were clearly able to finance 100% growth
per year by reinvesting our profits.
And then we see an example of good guy David,
the note I left myself when I read the sentence
that he's about to describe here,
that you need to, it's very important to work with people
that you like, admire and trust.
I kept my salary at a lower level than it should have been
because I did not think it was fair for my salary
to be higher than Bill's army salary.
So as you can imagine, the demand for the war,
their business is gonna grow

because they're selling a lot of these,
like their devices and electronic equipment
to the US government, but even then,
even when they were selling them to companies,
they kept their, he talks about keeping the importance
of like keeping control of your costs.
Obviously a main theme for history or entrepreneurship,
but he's like, just because we're selling to the government
doesn't mean like we can artificially inflate
like what these things cost.
He says we had controlled our cost
to the extent that the government could not get better products
from anyone else at a lower price.
And then they also did something very smart here.
They're building products for the Naval Research Laboratory
to US government and they just asked them,
like what else do you need us to make?
What else do you guys wanna buy?
We were interested in selling them our standard products,
but also interested in finding out
what other instruments they might need.
When I got to that section,
I thought of Jeff Bezos in the early days of Amazon,
he sent 1,000 emails to some of,
to 1,000 early customers in Amazon.
I was like, well, okay, you bought a book for me,
like what else would you buy?
One guy replied back, he's like,
what do you learn about that, those emails
or the email interactions, was the fact that the answers
that people, the answers to Jeff's question
were whatever they happened to want
at that particular moment.
And that's where he realized,
he's like, oh, like one guy's like,
hey, I really wish that you would sell,
that I'd be able to order windshield wipers from Amazon
because I need to replace the windshield wipers on my car.
And Jeff's like, oh, like I can sell,
we can sell anything this way.
And so as a result of asking this question
to the Naval Research Laboratory,
they wound up being able to build
a bunch of different products for the Navy.

And more importantly, the knowledge
on how to develop these instruments
that they previously did not know how to manufacture.
And so he's describing all these different things
that they're building in the war.
And he's like, listen, they may seem,
it almost seems like counter to the advice
he's about to give us,
which is like the importance of maintaining a narrow focus
and then optimizing for the longterm.
But he's like, these products may look different
but they're all complimentary.
So he says, those these instruments differ
from one another, all were designed
to measure and test electronic equipment.
That is their main focus in the early days of HP,
measuring and testing electronic equipment.
They reflected our strategy to concentrate
on building a group of complimentary products
rather than becoming involved
in a lot of unrelated things.
I believe this decision to focus our efforts
was extremely important.
I felt that we should take on no more
than we could reasonably handle,
building a solid base by doing what we did best,
designing and manufacturing high quality instruments.
And I think that's one of the main themes
of the story that he's telling us
is the fact that they were very methodical.
They were not trying to rush their growth.
They're very, it says we had built a good foundation
on which to grow.
So do you remember early in the book
where David is talking to,
I think he's the Dean of Engineering at Stanford?
It's like, hey, it's pretty incredible
that you guys actually donated more to Stanford
than the actual founders of Stanford.
And part of that is because Packard felt he,
oh, not only did him and Bill attend there,
but they got so much value
from their close relationship with Stanford University
and all of the talent that came out of that school.

And so this program that David and Bill
are about to start with Fred Terman,
you can actually think about like, what's happening here?
It's like, they're figuring out how to create an edge
in hiring talent.
And so they start this thing with the university
called the Honors Cooperative Program.
And this is what it is.
It allowed qualified HP engineers
to pursue advanced degrees at Stanford.
This program made it possible for us
to hire top level young graduates from around the country
with the promise that if they came to work for us
and we thought it appropriate,
they could attend graduate school
while on full HP salary.
The company would pay all of their tuition
more than 400 HP engineers
have obtained masters or doctor degrees through this program.
It has enabled us to hire the top engineering graduates
from universities all across the country
for a number of years.
This was an important factor
in the ultimate success of our company.
And so in addition to building a company with Bill,
David and Bill also purchased ranches
and they actually in like their spare time
would actually act as full on cattle ranchers.
And so this is another example of what I mentioned earlier,
the fact that a lot of the way
that he's conveying these lessons to the reader to you and I
is the fact that he tells like these little stories
of experiences that may not be directly related to business
but they're actually lessons he drew
from those, these life experiences
and applied them to his business.
I've enjoyed many pleasures
as a result of my experience as a rancher.
I've learned a thing or two.
Every season we would round up the cattle from the range
and drive them to the corral.
Along the way, we'd come to a gate.
The trick was to get them through the gate
and not stampede them.

I found after much trial and error
that applying steady, gentle pressure from the rear
worked best.
That is the most important sentence in the section
that applying steady, gentle pressure
from the rear worked best.
Eventually, one would decide to pass through the gate,
the rest would follow.
Press them too hard and they'll panic,
scattering in all directions, slack off entirely
and they just head back to their old grazing spots.
This insight was useful through my management career.
And so this is where he goes more
into his company building philosophy.
One theme that he repeats over and over again,
the one I mentioned earlier,
it's his belief in the growth,
growing your company from profit
and he's gonna tie this into his experience
during the Great Depression.
And so he goes into the fact,
all companies, they have access to people,
materials, facilities, money and time.
These are the resources available to us
for conducting our business.
By applying our skills, we turn these resources
into useful products and services.
And if we do a good job,
customers will pay us more for our products
than the sum of our costs and producing and distributing them.
This difference, our profit represents the value
that we add to the resources that we utilize.
It is impossible to operate a business for long
unless it generates a profit.
The profit we generate from our operations
is the ultimate source of funds we need to prosper and grow.
It is the foundation of future opportunity
and employment security.
And then he states why he optimizes
for growing for profit as opposed to like growing from debt.
60 years ago, our country was in the depths
of the Great Depression.
Thousands of businesses had shut their doors.
Bill and I were raised during that depression.

We had observed its devastating effects on people,
including many families and friends who were close to us.
And a matter of fact, when I got to the section
and maybe realized, or maybe remember that
in one of the biographies I read on Warren Buffett,
talks about the fact that he keeps newspapers
from the Great Depression on his office wall
to serve as a reminder about how bad things can get.
So back to David, my father had been appointed
as a bankruptcy referee for the state.
I often held my father in looking up the records
for those companies that had gone bankrupt.
I noted that the banks simply foreclosed on firms
that had mortgaged their assets
and these firms were left with nothing.
Those firms that did not borrow money had a difficult time,
but they ended up with their assets intact
and they survived during the depression years that followed.
So that is something like a main theme of this book.
That experience he's having with his father,
this idea is like, okay, well, who are the companies
that actually went under during the depression?
Like why did they fail and who are the ones that survived?
I noted that the banks simply foreclosed on the businesses
that mortgaged their assets
and those businesses were left with nothing.
The businesses that did not borrow money,
they had a difficult time,
but they ended up with their assets intact
and they survived.
From this experience, I decided our company
should not incur any long-term debt.
For this reason, Bill and I determined
we were operating the company on a pay-as-you-go basis,
financing our growth primarily out of earnings
rather than borrowing money.
And we have for more than half a century.
And so eventually HP is gonna go public,
but what he says, he did not like that Wall Street
had this like fixation on quarterly earnings.
And he points out that those are really easy to manipulate,
that like you could cut back on like R&D
and suddenly you have more profits
and Wall Street's like, oh, that's fantastic.

This company may be doing well.
He's like, no, this is a description of short-term thinking.
You have to avoid that
because you're a technology company
and technology companies need to constantly create
great new products.
It is always possible to improve profits for a time
by reducing the level of your investment
in new product design and engineering.
But in the long run,
we will pay a severe price for overlooking
any of these areas.
Good new products are the lifeblood of technical companies.
And so then he has an entire chapter
on his commitment to innovation, right?
And so go back to the beginning of this podcast
where it's like one of the first things he says is like,
are our products offering something unique?
And if the answer to that question is no,
and if people's lives are not being improved
by our unique products,
then he would consider HP a failure
even if it made a lot of money.
And so there's just a single sentence here
in the chapter on commitment to innovation
that spawned an entire,
like I just filled up the page with notes.
And it says, Bill and I knew
we didn't want to be a Me Too company,
merely copying products already on the market.
And so that biography of Edwin Land
that I was reading from earlier,
insisting on the impossible,
there's a line in that that says the exact same thing.
Edwin Land clearly did not wish to waste his powers
on Me Too products.
They use the exact same language.
And then that line also made me think
of something I learned
when I was reading Johnny Ives biography.
This is episode 178.
You've got to listen to that podcast,
listen to it.
If you haven't listened to episode 178,

Johnny Ives, the genius behind Apple's greatest products,
listen to it after this episode.
I think you'll really like it.
But there's a story that they tell
that Johnny's telling in that book
where at the time,
I think this is like late 90s, maybe early 2000s,
there was this computer product called a netbook.
And so at the time,
netbooks accounted for 20% of the laptop market
and Apple never seriously considered making one.
And so this is Steve Jobs explaining
in the Johnny Ives biography
why he doesn't want to make a netbook.
Netbooks aren't better than anything.
They're just cheap laptops.
Johnny tells the story.
Steve directs the energy
instead of using Apple's resources, time and resources
to make a netbook.
They actually start doing development
and experimentation on a product
that eventually turns into the iPad.
And then the last thing that popped to mind
is in Jeff Bezos to share our letters.
He talks about, this is a couple of like,
probably like 15 years into Amazon.
We talked about like,
we have a lot of experience.
There's a lot of company history
where people inside of Amazon have seen
what starts out as like a small business,
you know, maybe a $10 million a year business
grow into a billion or 10 billion a year business.
And he had a line in there
that stuck in my mind.
He's like, listen, we don't demand
that these new businesses that are born inside of Amazon
are big on the day that they are born,
but we do demand that they're differentiated.
And that's just Jeff's way of saying,
I'm not wasting my powers making me two products.
And we see that exact same thinking,
you know, 40, 50, 60 years ago with Bill and David.

Bill and I knew we did not want to be a Me Too company
merely copying products already on the market.
Let's go back to this idea
that David repeats over and over again.
Hey, your company should have a very solid foundation
that you can build upon for, you know,
half a century in David's case.
And so he does this fantastic description
of like why that's so important
because he talks about HP survive long enough.
You know, they started in the 1930s.
There is no such thing as what we think
about computers at that point.
He's like, and yet we've successfully transitioned
into the computer age.
It's not that he designed this.
He was actually, he says he's pulled into the computer age.
But look what he says here.
He's like, in 1994, HP sales and computer products
were $20 billion, 30 years earlier.
Okay.
So 1994, they're making 20 billion from computer products.
In 1964, 30 years before our sales total
were just 125 million and they were entirely in instruments.
Not a penny was from computer sales.
And I think that's another example
of something you and I see in these books
over and over again.
And you have to do the best
with the opportunities in front of you.
And if you do the best
with the opportunities in front of you,
it will unlock, in some cases,
giant opportunities in the future
that you cannot possibly predict.
When David was operating, he's already, think of it,
he's 30, almost 30 years into his business in 1964.
He's got a successful company, he's doing $125 million a year
in 1964 dollars, that's insane, right?
Making entire, only instruments.
He was able to succeed to hold on to the best of his ability
with the opportunities in front of him.
So 30 years later, the company is doing,
and that's 20 billion in computer products.

That's only 80% of their total revenue.
That's incredible.
They're doing 20 billion a year and 30 years earlier,
not a penny was from computer sales.
And then we get to what might be my favorite story
in this book, it is titled A Maverick's Persistence.
Or another way to think about this,
this is the type of teammates that you want to hire.
Sometimes management's turn down of a new idea
doesn't always effectively kill it.
One of our bright energetic engineers, Chuck House,
was advised to abandon a display monitor
that he was developing.
Okay, so he's told by his bosses, including David,
hey, don't do that, this is what he does instead.
Instead, he embarked on a vacation to California,
stopping along the way to show potential customers
a prototype model of the monitor.
Their reaction spurred him to continue with the project,
even though he found that I had requested it
to be discontinued.
And so what happens?
Not only is he not going to stop,
he's going to speed it up.
He persuaded his R&D manager to rush the monitor
into production, and as it turned out,
HP sold more than 17,000 display monitors,
representing sales of $35 million for the company.
Several years later, I presented Chuck with a medal
for extraordinary contempt and defiance
beyond the normal call of engineering duty.
So how does the company distinguish
between insubordination and entrepreneurship?
To this young engineer's mind,
the difference lay in the intent.
I was not trying to be defiant, he said.
I really just wanted a success for HP.
He started the book saying,
hey, we're going to obsess over customers.
We're going to create new differentiated products.
They're going to make the custom lives
of our customers better, customer satisfaction.
Second to none is the goal.
He repeats it again.

The fundamental basis for success in the operation of HP
is the job that we do in satisfying the needs
of our customers.
We encourage every person in our organization
to think continually about how their activities
relate to the central purpose of serving our customers.
And then he's got another great story
about the lesson he learned.
So this is how the Japanese division of HP
is going to teach David Packard and the rest of the company
the importance of working with people
with excessively high standards.
So they have this joint venture going on in Japan.
It's like middle of the pack in performance.
It's not the best, not the worst.
They're thinking, okay, I guess this is just what this thing is.
And then this is going on for a few years.
And then it says a bright young Japanese manager
named Kenzo Sasako cornered Bill and me one day.
He said, why don't you let me run this?
You send an American manager to us to oversee our work.
We think we can do better.
And so Bill and David are like, okay,
you're going to run the operation.
The following year, this division grew at a faster rate
than ever before, but that is not the most important part.
This is the most important part.
This is how they find a 400X improvement.
We had been making printed circuit boards.
Our best failure rates were about four and a thousand.
We thought that was pretty good, a little less than 0.5%.
And that was the rate we found
a lot of other companies were achieving.
So remember, this is a story about how David
and the rest of the company are going to realize
the importance of working with people
with excessively high standards.
So okay, we have a half of a percent failure rate.
We think that's good.
We stick our head up.
We look around the industry.
They're about accomplishing the same thing.
This must be as good as it can get.
Wrong.

Our Japanese unit, on the other hand,
came in with a failure rate of only 10 per million.
So they were doing four per thousand, right?
Now the Japanese are doing 10 per million.
That is 400 times better
than anything we had been able to do.
That shook a lot of people up
and it changed a lot of thinking within the company.
It clearly showed that our targets on quality
just were nowhere near what could be achieved.
The result was that the thinking and the work
that they were doing in Japan
was soon reflected all over our company.
We were able to raise quality targets
in many divisions far beyond anything
that we thought we could have done before.
And it was an issue of how much time you're willing
to put in.
They just analyzed how the hell did you guys do this?
The people in our operation in Japan
spend considerable time making sure
that every adjustment was done just as accurately as possible.
That same adjustments were done at HP and Palo Alto
just as quickly as possible.
So one had the goal of being as accurate as possible.
The other had the goal of being as quick as possible.
And this is the main punchline
to what David learned from this.
Gains in quality come from meticulous attention to detail
and every step in the manufacturing process
must be done as carefully as possible,
not as quickly as possible.
This sounds simple, but it is only achieved
if everyone in the organization is dedicated to quality.
And one of the things I absolutely loved
about David Packard's perspective
is the fact he's writing this book
when he's in his 80s very close to the end of his life
and he's still relentlessly optimistic.
When I think of the phenomenal growth
of the electronics industry over the last 50 years,
I realized how fortunate Bill and I
were to be in on the ground floor.
But it reminds me of a story I like to tell on myself.

In my sophomore year at Stanford,
I took a course in American history
and had the opportunity to study the westward movement
beginning with the early pioneers
and continuing throughout the 19th century.
I remember lamenting that I had been born 100 years too late,
that all the frontiers had been conquered
and that my generation would be deprived
of the pioneering opportunities offered our forebears.
But in fact, we went on to make breathtaking advances
in the 20th century.
In the 20th century, we have experienced dizzying progress.
Everywhere look, I see the potential for growth,
for discovery, far greater than anything
we have seen in the 20th century.
Exponential growth is based on the principle
that the state of change is proportional
to the level of effort expended.
The level of effort will be far greater
in the 21st century than it has been in the 20th century.
Just as it has in the past, growth in the future
will come from new products.
By new products, I mean products
that make real contributions to technology,
not products that copy what someone else has done.
This must be our standard in the future,
just as it has been in the past.
The 21st century will be an age
in which many kinds of new products
contribute to a better life for all the people in the world.
And that is where I'll leave it for the full story.
Highly recommend picking up this wonderful little book.
If you buy the book using the link
that's in the show notes in your podcast player,
you'll be supporting the podcast at the same time.
The link's also available at founderspodcast.com.
You can also support the podcast
by signing up for the founder's premium feed.
I just recorded another AMA episode.
I'm getting excellent questions.
One of my favorite questions that I've gotten
is who would be on my seven-person personal board
of directors, which I just answered that
and along with other questions from listeners

in the latest episode.
That link, if you're interested in that,
is down below in the show notes, as with every other link,
and is also available at founderspodcast.com.
That is 291 books down 1,000 ago,
and I'll talk to you again soon.
Okay, so I'll be back on episode 227.
I read this fantastic book called
The Essays of Warren Buffett.
So all the way back on episode 88,
I read every single one of Warren's shareholder letters.
But what this book that was put together by Lawrence Cunningham
called The Essays of Warren Buffett
did that was so smart is that he took the shareholder letters
and instead of organizing them by year, which is standard,
he organized them by topic.
And so in the original podcast I did on this book,
which again is episode 227,
one hour and 28 minutes into the podcast that they're about,
I go over this letter that I'm about to read to you now.
It's under the heading titled On Selling One's Business.
And the reason I'm bringing this up
is because one of the sponsors of this episode is Tiny.
And one way that Tiny has been described
is that they're building the Berkshire of the internet.
And you can go to tiny.com and read the testimonials
and see all the founders that have sold their business to Tiny
and how their main differentiation,
just like Warren Buffett and Charlie Munger is,
there's no BS.
We're going to make this transaction as simple
and easy as possible,
where a lot of people that buy businesses
make you jump through hoops and it's just a headache.
And so if you think about what Warren is doing here
in this letter is his business is buying businesses.
And so his customer or founders or managers of businesses.
And so he is essentially writing a letter to a guy.
So he wrote this letter in 1991 to a guy who indicated
he might want to sell his family business.
And so I'm just going to pull out a few highlights here
and really think about what Warren's doing is
he is differentiating his services
from other people that also buy businesses.

He says, if you should decide to sell,
I think Berkshire Hathaway offers some advantages
that most other buyers do not.
Practically all of these buyers
will fall into one or two categories.
And so now Warren is going to describe his competition.
If you go to tiny.com, you'll see they described
their competition in some ways,
their competition, which is typically VCs
or private equity companies.
So Warren says, number one, a company located elsewhere
but operating in your business
or in a business somewhat akin to yours.
Such a buyer, no matter what promises are made,
will usually have managers who feel they know
how to run your business operations
and sooner or later will want to apply some hands-on.
And he puts the word help in quotation marks.
Obviously, Warren does not think that the managers
that are going to install in that business
are actually going to be helpful at all.
The second other option, a financial maneuverer
invariably operating with large amounts of borrowed money
who plan to resell either to the public
or to another corporation as soon as the time is favorable.
Frequently, this buyer's major contribution
will be to change accounting methods
so that earnings can be presented
in the most favorable light just prior to his bailing out.
And then listen to this persuasion technique that he uses
because he's writing to somebody
that he knows it's a family business,
which means they put a lot of their time
and life energy into.
So he says, if the sole motive of the present owner
is to cash their chips and put their business behind them
and plenty of sellers do fall into this category,
either type of the buyer that I just described to you
is satisfactory.
But if the seller's business represents
the creative work of a lifetime
and forms an integral part of their personality
and sense of being buyers of either type have serious flaws.
So he's just described his competitive landscape.

He says, listen, there's option one, there's option two,
but then there's a new option,
something that's completely different and better.
And he's describing the services
that he provides to founders, right?
So he says, Berkshire is another kind of buyer,
a rather unusual one we buy to keep.
Tiny does too, by the way.
All of the businesses we own are run autonomously
to an extraordinary degree.
When we buy a business, the sellers go on running it
just as they did before the sale.
We adapt to their methods rather than vice versa.
And in Tiny's case, it's up to the founder
if they wanna stare, if they wanna go.
Tiny's fine with either solution.
And then Warren does something fantastic.
He's like, listen, you know who the past businesses
that we bought.
In fact, I'm including in this letter
a list of every single person we've ever bought a business from.
Tiny does something very similar on their website
which you can go see.
You know some of our past purchases.
I'm enclosing a list of everyone from whom
we have ever bought a business.
And I invite you to check with them
as to our performance versus our promises.
And then Warren says, hey, I'm gonna keep it simple with you.
If you should decide to do business with Berkshire,
we would pay in cash.
Tiny says the exact same thing on their website.
Your business would not be used as collateral
for any loan by Berkshire.
There would be no brokers involved.
Warren also says, you deal with me.
And finally, you would know exactly
with whom you are dealing.
You would not have one executive negotiate the deal
only to have someone else in charge a few years later
or have the president regretfully tell you
that his board of directors required this change
or that change.
And because Warren has hacked away at the unessential,

all that is left is simplicity.
And his pitch is simple.
Do you want a great home for your business?
Then call me and I will do a cash transaction really fast.
Same thing that Tiny does.
I will not pester you.
If you have any possible interest in selling,
I would appreciate your call.
I would be extraordinarily proud to have Berkshire
along with the key members of your family own blank.
So he took out any identifying information
of who he's writing to, okay?
I believe we would do very well financially
and I believe you would have just as much fun
running your business over the next 20 years
as you have during the past 20.
Sincerely, Warren Buffett.
I think reading the entire letter is worth your time.
If you buy the book, it's on pages 230 through 233
and makes you go back and listen to episode 227,
the essays of Warren Buffett.
If you have not done so already.
And if you have a business that you're interested in selling
now or in the future, make sure you go to tiny.com.