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CIO's book review; takeaways¹

April 2014

The Everything Store

Jeff Bezos and the age of Amazon

Brad Stone

Little, Brown and Company

Hachette Book Group²



Brad Stone is an executive and journalist at Bloomberg News. He has covered Silicon Valley for almost two decades. This book garnered him best book of the year awards from the Financial Times and Goldman Sachs Business Book of the Year.

Introduction

If you wondered why Amazon has been so successful, this is the book you should read. There are valuable insights into Amazon's management practices, strategy selections as well as a close look at Bezos' thinking. The 'secret sauce' may be not so secret anymore!

Contents

- Introduction
- Read 'takeaways' by topic

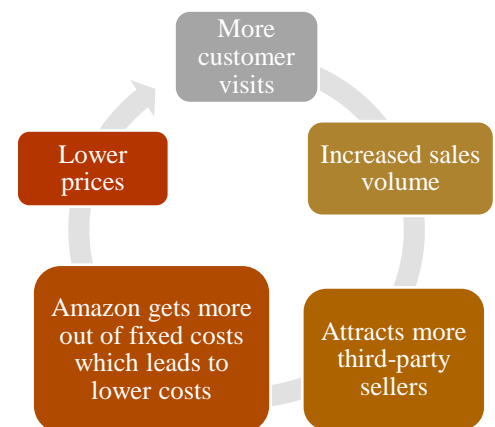
CIO is attracted to the book because of Amazon's and Bezos' astounding success and a suspicion that they may have a unique set of management practices which impact innovation.

Amazon, at the moment, has the 'secret sauce'. Amazon, i.e. Bezos and Jenson, drawing on Collin's concept of a flywheel, or self-reinforcing loop, took the view that this cycle (see diagram) 'powered their business'. Bezos took the view that this 'flywheel' should not be included in presentations as it represented Amazon's 'secret sauce'. Feeding any part of the flywheel should accelerate the loop!

Bezos believes that Amazon has three elements which make a difference;

- other companies are focussed on the competitor rather than the customer,
- they prefer to be close-followers rather than inventors and
- Amazon is long-term oriented, and 'we' genuinely like to invent.

Perhaps that's four elements!



¹ a conclusion to be made based on presented facts or information: a main point or key message to be learned or understood from something experienced or observed

²Note from book. If you would like permission to use material from the book (other than for review purposes), please contact permission @hbgusa.

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CIO believes that there are additional ‘elements’, *more than the three/four that Bezos has identified*, which make a difference and, because of their combination, make Amazon unique. Joy Covey articulated part of the secret sauce when she wrote. ‘Can we really think of any other company approaching Amazon’s size or age that continues to move forward with the boldness, risk-taking, innovation, and the long-term perspective that Amazon shows.’

With a net worth of some \$19 billion, the 48-year-old is one of the 30 richest men in the world. Yet he still dashes around Amazon with the intensity of a start-up boss trying to make his first payroll, as well as the glee of a teenager discovering all the fun you can have at overnight camp. “I’m a legitimately happy person” Bezos explains.”

Jeff Bezos should be there a long time. He just turned 48 in January and could easily run Amazon for another two decades. That’s good for stability. It could also be a challenge in terms of retaining other executives with aspirations of becoming a CEO.

Amazon’s core values somewhat belatedly include ‘innovation’. The first identified five were; customer obsession, frugality, bias for action, ownership and high bar for talent. Later a sixth value was added, i.e. innovation.

By dissecting the book by topic, CIO provides additional insight and perspective on the subject.

Read ‘takeaways’ by topic

On hiring top talent. Hiring top talent from the retail sector – Walmart is mentioned - or from the tech sector has always been a priority for Bezos and he has been very successful at it. The book spends considerable time on new hires as well as those who has been fired or who have left. The author addresses the negative comments on the working environment at Amazon which has come under some criticism but at the same time also notes those that comment favorably even if the internal pressure is admittedly extreme.

Bezos didn’t care. He was looking for versatile managers - he called them “athletes” - who could move fast and get big things done. They were among the first business school graduates hired at Amazon, which previously favored local, technical talent.

On expense control. Bezos keeps an eerily tight rein on expenses, eschewing color printers in favor of trusty old black-and-white models. No one flies first class (though Bezos sometimes rents private jets at his own expense). Although Bezos is known to be frugal and a micro manager, there is no sense that ‘rationing’ is the priority over seeking new opportunities.

‘Takeaways’ by topic

- hiring top talent
- expense control
- decision making
- attitudes to risk
- culture
- growth versus short-term profit
- measurement
- decentralization
- on compensation and rewards
- on communications internally
- failure
- organic versus growth by acquisition

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Innovation management best practices

Bezos has imbibed Walton's book thoroughly and wove the Walmart founder's credo about frugality and a "bias for action" into the cultural fabric of Amazon.

On decision making. Bezos approach to decision making is discussed³. Some decisions are consequential and irreversible or nearly irreversible – one-way doors – and these decisions must be made methodically, carefully, slowly, with great deliberation and consultation. If you walk through and don't like what you see on the other side, you can't get back to where you were before. We can call these Type 1 decisions. But most decisions aren't like that – they are changeable, reversible – they're two-way doors. If you've made a suboptimal Type 2 decision, you don't have to live with the consequences for that long. You can reopen the door and go back through. Type 2 decisions can and should be made quickly by high judgement individuals or small groups.

Bezos felt that coordination among employees wasted time, and that people closest to the problems were in the best position to solve them. Experiments are hatched and managed by the smallest teams possible. "Because Amazon has so much volume, it's a way to make very quick decisions and not get into subjective debates. The data does not lie", so says Dave Cotter, who spent four years at Amazon as a general manager in various divisions. One reason was that the time and money spent on communication increased in proportion to the number of people on a project.

On reading Stone's portrayal of the working conditions at Amazon, it is evident that major decisions are made by a relatively small group of senior executives; i.e. those constituted as the 'S Team' at the time. The belief was that as organizations get larger, there seems to be a tendency to use the heavy-weight Type 1 decision-making *process* on most decisions, including many Type 2 decisions. The result of this is slowness, unthoughtful risk aversion, failure to experiment sufficiently, and consequently diminished invention. We'll have to figure out how to fight that tendency. And one-size-fits-all thinking will turn out to be only one of the pitfalls. We'll work hard to avoid it... and any other large organization maladies we can identify.

Bezos personality traits are clearly set out. His manic drive and boldness trumped other conventional leadership ideals, such as building consensus and promoting civility. While he was charming and capable of great humor in public, Bezos could bite an employee's head right off. He had this unbelievable ability to be incredibly intelligent about things he had nothing to do with, and he was totally ruthless about communicating it.

On attitudes to risk. There is an extremely high tolerance for uncertainty as evidenced by top managements' (perhaps focussed on Bezos himself) record of decision making regarding acquisition and new business ventures. Many losers were amongst the winners to the point that Bezos current view, after the period of unsuccessful acquisitions, is that organic growth is the better route to growth. "It was just a question of staging the opportunities at the right time". "We will make bold rather than timid investment decisions.

³ 2015 Letter to shareholders

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Bezos believed that high margins justified rival's investment in research and development and attracted more competition, while low margins attracted customers and were more defensible.

Jeff's clarity, intensity of focus, and ability to prioritize, which has no doubt become ingrained in his key team, is unusual and behind his ability to keep leaping forward versus protecting existing ground'.

Bezos direction to staff is to invent and be successful. The dreamer side of Bezos wants to be at the frontier.

On culture. To quote Bezos; 'You can write down your corporate culture, but when you do so, you're discovering it – not creating it. It is created slowly over time by the people and by events – that become a deep part of the company lore'. *Innovation is part of the core value of Amazon and expressed in the form of new ideas, acquisitions and the hiring of top talent.* Innovation has been a value since the beginning, but Amazon formalized this as the sixth core value relatively recently. We want to be a large company that's also an invention machine.

Amazon's culture is notoriously confrontational, and it begins with Bezos, who believes that thought springs forth when ideas and perspectives are banged against each other, sometimes violently.

He's also very concerned with the company culture at Amazon. In one very tough meeting with his directs on a very difficult and contentious issue, Jeff just sat back listening, then we talked in the hallway afterward and Jeff commented on how it was a really tough decision and I agreed, but I said it was a culture decision. The light bulb went on with Jeff and he said, "You're right, it is a culture decision!" When he framed the decision that way (instead of the financial impact view being presented in the meeting), he looked at it more as an internal customer. Getting the culture right drives a lot of his decision making.

On growth versus short-term profit. Since its inception, Amazon has focussed more on growth and much less on profit maximization. As a start up this is expected but most would now regard Amazon as being beyond the start up stage and believe it should refocus efforts to maximize its profits without, of course, sacrificing growth and investment in new ventures. With his consistent proclamations that he is building his company for the long term, Jeff Bezos has earned so much faith from his shareholders that investors are willing to patiently wait for the day when he decides to slow his expansion.

Clearly, the strategic focus has been on establishing new ventures, gaining a dominant market share in key markets, and 'world' dominance, without the same concern for profitability. "We are comfortable planting seeds and waiting for them to grow into trees," says Bezos. "We don't focus on the optics of the next quarter; we focus on what is going to be good for customers. I think this aspect of our culture is rare."

Bezos insisted the company needed to master anything that touched the hallowed customer experience, and he resisted any efforts to project profitability. "There are two kinds of

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Innovation management best practices

companies: those that try to charge more and those that work to charge less. We will be the second.”

On measurement. Metrics are a big part of Amazon’s success and this characteristic is driven by Bezos. Measurement of everything is a core management concept. Big numbers or small; all get attention from the management team and particularly Bezos. Bezos is the guardian of what he calls the “culture of metrics” that tries to give that inanimate objects a loud, clear voice. For example, Amazon tracks its performance against about 500 measurable goals.

For Bezos a data-driven customer focus lets him take risks to innovate, secure in the belief that he’s doing the right thing.

On decentralization. Amazon styles itself as highly decentralized and promises that new employees can make decisions independently. But Bezos can stop any process dead in its tracks if it creates a problem for even a single customer. “There can be only one head of marketing at Amazon, and his name is Jeff, says Diane Lye, a British senior manager who led Amazon’s data-mining department and helped run the advertising tests.

Bezos says he knows when to avoid meddling so that his project leaders can find their own paths. Yet it’s congenitally hard for founders to be hands-off for long - an effort to bring in a chief operating officer to work directly under Bezos didn’t work out a decade ago.

The Innovators Dilemma by Clayton Christenson was a book devoured by Amazon executives. The companies which solved the dilemma “set up autonomous organizations charged with building new and independent businesses around the disruptive technology”. Lab126 was soon given extensive resources but it also had to contend with the unfettered imagination of Bezos.

At that meeting and in public speeches afterward, Bezos vowed to run Amazon with an emphasis on decentralization and independent decision-making. “A hierarchy isn’t responsive enough to change” he said. “I’m still trying to get to do occasionally what I ask”. In her ruling (Judge Margaret Mary McVeigh re testimony from a Toy “R” Us executive) stated “It was certainly my perception that nothing major happened at Amazon without Jeff Bezos approval”. “I don’t think you can even fart in the Kindle building without Jeff’s approval” quipped one long-time executive.

On compensation and rewards. The compensation packages at Amazon are designed to minimize the cost to the company and maximize the chance that employees stick around through the predictable adversity that comes with joining the firm. Employees typically get 5 percent of their shares at the end of their first year, 15 percent their second year, and then 20 percent every six months over the final two years.

There is little in the way of perks or unexpected performance bonuses at Amazon. Managers may grumble, but they learn to bring sandpaper to work so their merino sweaters don’t get shredded by splinters. None of the company’s five top officers earns more than \$175,000 in cash a year. Bezos last year took \$81,840 in salary and hasn’t had a raise since 1998. He has raised at least

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CIO - Corporate innovation online

Innovation management best practices

\$750 million since 2010 by selling Amazon shares, but that's how you make your money at his company. Stock and options are the big honeypots; many on the leadership team have \$20 million or more in unvested shares.

On communications internally. Employees are required to write six-page narratives (with room for footnotes) laying out their points in prose, because Bezos believes doing so fosters critical thinking. He wanted people to thinking deeply and taking the time to express their thoughts cogently. As part of his quest for a better allocation of his time he declared that he would no longer have one-on-one meetings with his subordinates.

Bezos' personality and attention to detail drives the style and, for many employees, its difficult. It means people aren't working together in a close, organic way. We should be trying to figure out a way for teams to communicate less with each other, not more.

Former employees frequently complain that Amazon has the bureaucracy of a big company with the infrastructure and pace of a start-up but with lots of duplicate efforts and poor communication that makes it difficult to get things done.

On failure. By his own admission, failure is a part of the business. "If you want to be inventive, you have to be willing to fail." Early on the company hired a lot of editors to write book and music reviews—and then decided to use customers' critiques instead. A foray into auctions flopped. Bezos regards such stumbles as a part of life, as long as Amazon can learn something useful. And that's a big difference between Jeff and Steve Jobs. Steve couldn't and wouldn't accept failure at any level, while Jeff is actually OK with it, as long as it brings you closer to success.

"Given a 10 percent chance of a 100-times payout, you should take that bet every time. Failure and invention are inseparable twins. To invent you have to experiment, and if you know in advance that it's going to work, it's not an experiment."- Jeff Bezos⁴.

On organic versus growth by acquisition. The company lost hundreds of millions on these investments. "Amazon had to be focussed on its own business" says Tinsley. "Our biggest mistake was thinking we had the bandwidth to work with all these companies".

Old "gatekeepers" of the media, whose business models were forged during the analogue age and whose function it was to review content and then subjectively decide what the public got to consumer. "Even well-meaning gatekeepers slow innovation"

⁴ First annual letter, (1997)