the amazon way

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3RD EDITION

AMAZON'S 14 LEADERSHIP PRINCIPLES

JOHN ROSSMAN

FORMER DIRECTOR, AMAZON.COM

FOREWORD BY TOM ALBERG
MANAGING PARTNER, MADRONA VENTURE GROUP

Praise for The Amazon Way

I first read *The Amazon Way* in 2014 at a time we were still early in our turnaround efforts at Best Buy and found it extremely stimulating at the time. In this new edition, John Rossman provides an updated, in-depth and invaluable view of the principles that are fueling Amazon's extraordinary business success. John's suggestion to add a new principle focused on the Golden Rule is a great one for every company, as, more than ever, we need business to serve the common good!

—Hubert Joly,
former chairman and CEO of Best Buy,
author The Heart of Business - Leadership Principles
for the Next Era of Capitalism

In The Amazon Way, John Rossman brilliantly illuminates Amazon's secretive corporate culture, using HIS rare insider's perspective to show how Jeff Bezos has created unique systems that facilitate good decision making at all levels of his company.

—Brad Stone,
Author of The Everything Store
and Amazon Unbound

"I helped recruit John to Amazon. Rossman has done a masterful job at capturing the heart and soul of Amazon, the leadership principles at Amazon, and making them available to all of us"

—Jason Child, CFO of Splunk,
former VP of Finance Amazon

The Amazon Way is an authoritative guide to the principles that drive and define one of most extraordinary organizations in human history. It's one of a small number of books that have fundamentally shaped my understanding of Amazon as a journalist covering this peculiar giant of the tech industry. John Rossman's perspective reflects the deep experience and informed understanding of someone who worked directly with Jeff Bezos and Amazon's senior leadership team. This new edition proposes an important

15th leadership principle that Bezos' successor as CEO, Andy Jassy, would be wise to consider adopting.

—Todd Bishop,
GeekWire editor and co-founder

"Rossman's 'super-powers' come from his capacity to translate Amazon's leadership principles success into business classic for any business that is seeking to become a more agile, customer-centric enterprise. The Amazon Way is his most captivating as Rossman creates a combination of story-telling and credibility based on his capacity to clearly articulate the practical value of the lessons learned from his experience running in the fastest of all fast lanes."

—Larry Hightower,
Chief Executive Officer Vxtra Health, Inc.

"In spite of its success and scale, Amazon continues to be one of the most innovative and agile enterprises in the history of business. In *The Amazon Way* John Rossman reveals the fundamental leadership principles that enable that success. It's a must read if you're in an industry that competes with Amazon, or aspires to be the Amazon of your industry."

—Jason Goldberg,
Chief Strategy Officer Publicis

The Amazon Way was an essential tool that I referenced often as I led Blue Origin. The stories and background behind each of the Amazon leadership principles provided both essential insight into Amazon and valuable context to the guidance I received from Jeff Bezos as we rapidly scaled Blue Origin in size and into new business areas. This book is a must-read for anyone who wants to know how one of the largest organizations in the world remains innovative and customer-obsessed while growing through ambiguity, uncertainty, and change.

—Rob Meyerson,
CEO of Delalune Space;
Former President of Blue Origin

"Any serious student of business has to marvel at the incredible story that is Amazon. How can one company be so successful in its efforts to redefine, and ultimately conquer, so many different industries? In this book, former

Amazon exec John Rossman shares the answer: a clearly articulated set of leadership and management principles that have guided Amazon since its inception. This is required reading for any leader who has aspirations of redefining markets and grabbing share from legacy competitors."

—Matt Dixon, Author,
The Challenger Sale and
The Effortless Experience

The Amazon Way is timeless and priceless. Amazon may be the most customer-centric company on Earth. But how they do it is almost impossible to replicate, until now. In Amazon Way, Rossman breaks down Amazon's leadership principles and simplifies them so any company can put them into play today. This is a textbook I wish I had when I first started in the Industry.

—Jesse Cole,
Owner of Savannah Bananas,
Author of Find Your Yellow Tux

Rossman delivers an insightful, insiders view of how Amazon changed the world and became the category king of massive B2C and B2B categories. Read this book!

—Christopher Lochhead,
#1 Apple business podcaster &
#1 Amazon marketing author

In The Amazon Way, Rossman clearly outlines the case to be relentlessly obsessed with customer experience and working backwards to innovate on their behalf. In healthcare, patients are becoming active consumers with an increasing focus on quality and improved affordability of treatments and care. While the idea of customer focus may sound like common sense – it is something many industries, including my own, can and need to learn from Amazon. This inspiring and pragmatic read will make any leader stop and think: How do you drive accountability to deliver on what matters most at all levels of the organization? Is your strategy being shaped by data driven decisions? How do you win as one for your customers, through bold collaboration, and thinking about your role beyond your role? My key takeaway: curiosity, culture and clarity are core to the success of any organization. Want to win? It starts with inspiring a future of customer-focused innovation.

—Marie-France Tschudin,
President, Novartis Pharmaceuticals

"I've long studied and admired Amazon's unique role in disrupting retail, supply chain, technology, and so much more. The Amazon Way brings an insider view into the leadership principles shaping the strategy and decision making of America's most innovative company of our generation. Rossman's viewpoint illuminates how Amazon's customer obsession guides its decisions and culture. Creating a fascinating leadership playbook principle by principle."

—Seth Waite, CEO at Handled

I observed John successfully integrate the 14 leadership principles into his client work on a daily basis during our 12 years together at Alvarez & Marsal. The 14 leadership principles can be used as a "Preflight CheckList". I refer to the principles before launching any critical initiative.

—Tom Elsenbrook,
CEO of Alvarez and Marsal Corporate
Performance Improvement.

"The Amazon Way is an essential read for executives seeking an understanding of the core pillars that have supported Amazon's phenomenal success."

—Mark Power, CEO Podean

THE AMAZON WAY

Amazon’s 14 Leadership Principles

Third Edition

JOHN ROSSMAN

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FOREWORD

By Tom Alberg–cofounder and Managing Partner of Madrona Venture Group

This latest edition of *The Amazon Way* contains valuable new material that expands its use as a practical guide to Amazon's business and operating principles that can be applied to improve the prospects for success of any business. The book is full of historical and informative nuggets about many of Amazon's principles and implementation tactics such as think like an owner, platform businesses, the Andon Cord, invent and simplify, bar raisers and regret minimization. Each is enlightening.

The best-known leadership principle, the one that dominates all others at Amazon and in Bezos' mind, is "Obsess over the Customer." In other words, always do what is right for the customer even if it harms profitability. This principle appears at the bottom of every press release. And Rossman saw it applied in action many times, as did I as an Amazon board member for 23 years. Of course, consistently applying this has not lessened Amazon's success in the long term but enhanced it and built the company into the world's leading e-commerce company.

Other principles are less well-known. For example, Rossman describes the Andon Cord, adapted from the Japanese manufacturer Toyota, which gives workers the ability to pull a cord to stop a production line to make sure a defect is fixed before it gets repeated in every auto. At Amazon it allows customer service representatives to remove a product from being displayed on the for-sale page (known internally as the detail page) so that the defective product is not sold to multiple customers.

There are so many important leadership principles that it is difficult to name the most important but Rossman admits that if forced to name one that is Amazon's most important and distinctive, it is "Invent and Simplify." Although related, these are in fact two principles. He sees inventing as not only the next "dreamy business" but also thousands of small innovations. If Amazon can reduce shipping costs by 1 cent across its entire business, this is a very big deal. If they can continue making those small innovations, it is even bigger. Inventions can also simplify processes, digital and human, to speed activity and save money. This is why Rossman explores the many facets of Invent and Simplify.

If I were forced to choose one, beyond customer focus, it would be “appointments of Single Focused Leaders” for important new initiatives. Rossman was hired to be such a Leader of Amazon’s expansion into allowing third parties to sell on an equal basis with Amazon’s own sellers. Amazon could have asked the head of online retail to expand into third party sales, but instead it hired a leader whose sole focus was on creating the best possible experience for third party sellers and, thus, retail customers, without the delays and compromises that might otherwise have been experienced. Not incidentally, Rossman relates he was hired after 23 interviews by Amazon team members–although he says many sessions focused more on brainstorming how best to launch the third party business which presumably was another way to judge Rossman as a potential Leader. The third-party business today is more than 50% of Amazon’s retail business.

Business platforms at Amazon not only allow Amazon to sell products but as Rossman points out are enablers of individuals and other businesses. The retail platform enables third party sellers (and for books, writers). AWS not only allows software developers and businesses to use Amazon’s vast computer and software systems but to build their own systems on top of it and, like Netflix, to compete with Amazon. By empowering entrepreneurs, they enable growth for thousands of individuals and small businesses and build virtuous cycles much the same way as the Amazon flywheel itself. Rossman wisely points out that healthcare is likely one of Amazon’s next big platforms.

Rossman has added a new preface that urges Amazon and other companies to pay more attention to constituencies beyond customers and shareholders, a “golden rule” to do unto others as you would want others to do to you. Many businesses, including Amazon, already recognize that long term success is jeopardized if they do not pay and treat their employees well and help the communities in which the operate. This corporate awareness has been heightened in recent years and Amazon has increased its efforts. Often it is more expensive in the short term but beneficial in the long term. For example, Amazon has ordered 100,000 electric delivery trucks which no doubt cost more than combustion engine vehicles but show Amazon’s commitment to doing more than its part to reduce global warming. Amazon is also making major efforts to improve K-12 education, and during the pandemic invested several billion dollars in ameliorating the impacts of the virus on the public. I have no doubt that businesses can and should do more, applying their leadership and innovation skills to take actions while governments often falter.

Lots of software companies tout their high profit margins, sometime running at 80 percent or more. Bezos has always argued that free cash flow is more important, not only because the physical retail business is a low margin business, but because as he says “percentages don’t pay the light bill, cash does!” On a macro scale, he would ask “Do you want to be a $200 million company with a 20 percent margin or a $10 billion company with a 5 percent margin?” In fact, this is how Amazon has grown, by emphasizing investing for free cash flow or cash margins rather than percentage margins or short-term earnings per share. Amazon’s quarterly earnings press releases always led with the amount of cash flow growth–although stories in the press always headlined whether Amazon had gained or lost a few cents per share. And the way Amazon maximizes the growth of free cash flow is rigorously focusing on inputs rather than outputs. Rossman justifiably includes an Appendix which goes into considerable detail on free cash flow and Amazon’s unit economic modelling which allows employees to understand how different buying decisions, process flows, fulfillment paths, and demand scenarios would impact FCF. Every student of business should read it.

One of Rossman’s (and my) favorite Bezos concepts is regret minimization. I think it is also likely Bezos’s most unique contribution to a person’s life philosophy as well as a fundamental business principle. I think this was first related by Bezos at a commencement address at his Princeton Alma Mater. As retold by Rossman, Bezos explained how he made his decision to leave his high paying job at D.E. Shaw & Co. in NYC, one of the leading hedge funds in the U.S., to move to Seattle to launch an unproven startup. Bezos projected himself forward to age 80: “Okay, now I’m looking back on my life. I want to have minimized the number of regrets I have. I knew that when I was 80 I was not going to regret having tried… this thing called the Internet that I thought was going to be a really big deal. I knew that if I failed, I wouldn’t regret that, but I knew the one thing I might regret is not ever having tried. I knew that that would haunt me every day, and so, when I thought about it that way it was an incredibly easy decision."

Good advice for all of us.

Tom Alberg is a co-founder of Madrona Venture Groupand actively works in support of Madrona and its portfolio companies. Tom is a director for Impinj, a former Madrona Portfolio Company that is now a public company. Tom has served on the boards of numerous public and private companies including Amazon.com on which he served for 23 years – since before it went public in 1997.

PREFACE

I first released *The Amazon Way* in 2014. At this point, it had already been eight years since I left Amazon as an executive responsible for launching its powerful third-party business. I was now advising and counselling global organizations. This book was the best way to scale and share what I'd learned.

A client at the Bill and Melinda Gates Foundation encouraged me to write *The Amazon Way* as he saw first-hand the impact of how I connected and used the Amazon leadership principles to advance the data and tech strategies I helped to build at the Gates foundation. He also predicted that the world would become increasingly interested in understanding how Amazon developed from an online book seller to a disrupter in so many industries. That story, the story of disruption and transformation, is likely your story, too.

In 2014, Amazon saw annual revenues of $88.94 billion, an employee count of about 150,000, a market capitalization of $144.31 billion. AWS, the groundbreaking cloud product, had revenue of $4.7 billion, and Jeff Bezos' Seattle-based company announced the Fire Phone for 99-cents with a two-year contract.

Since *The Amazon Way* was published, not only has Amazon enjoyed dramatic growth, but the world has experienced dramatic change. Amazon has a projected 2023 revenue of $780 billion,[1] worldwide employee count is over 1.2 million, and current market capitalization is over $1.5 trillion, and many predict will be the first company to reach $3 trillion in market capitalization. More importantly, the pandemic shook our world and accelerated the future by five to ten years. Among many accelerated trends, total ecommerce percentage of retail jumped from 10 percent before the pandemic to 20 percent in 2020.[2] The list of innovations, new businesses, acquisitions and strategies that didn't work for Amazon leading to this amazing business is too long, but a few to just remind us are drones, Prime Air, Alexa, acquiring Whole Foods–PillPack -Ring -Twitch and Zappos; Amazon book stores, Amazon Marketing Services, the more than 175 products and services of AWS,[3] Amazon Studios, Amazon China (Joyo.com), Amazon India and Amazon Delivery Service and more than 110 private label brands competing with the marketplace sellers and other brand owners. The year of the pandemic was capped off by two administrations transitioning–the first being the President of the United States, and the second with the surprise announcement that Jeff Bezos transitions to Executive Chairman of Amazon and Andy Jassy would transition from his role as CEO of AWS to CEO of Amazon the enterprise.

At the core of this book are several questions, most notably: *How do I continue to grow, to innovate, to forestall and postpone the potential downfall facing every company? How do I compete in the age of digital disruption?*” Bezos considers these questions in this way–“I predict one day Amazon will fail. Amazon will go bankrupt. If you look at large companies, their lifespans tend to be 30-plus years, not a hundred-plus years. We have to try and delay that day for as long as possible”[4]

What’s the common thread between the existential questions of postponing company decline, developing a strategy to compete in the age of digital disruption, creating a perpetual hit machine of innovation and growth, surviving and thriving through the pandemic? What is the “simple answer” to these questions? The answer is “leadership”. Of course, it is. Leadership is the most consistent and attributable factor in solving business challenges. Leadership (or the lack thereof) is the most predictable factor in successful innovation. Although it’s been over a decade since I left Amazon, what hasn’t changed is their leadership principles and I believe they are the simplest answer to what is Amazon’s secret to success. Perhaps the leadership principles need an adjustment given the big tech backlash we are experiencing? We are going to explore all of these topics here.

Amazon’s 14 Leadership Principles

The 14 leadership principles (also known as “LPs” at Amazon) play a critical role in everyday work at Amazon, for all employees, in everyday meetings, in every interview, for all debates and situations. They are *not* a poster on the wall. They aren’t for everyone or every company and they must be used with wisdom and care. The LPs are key to scaling leadership and allowing for seamless transitions from a founder and iconic CEO to his trusted longtime lieutenant.

At Amazon, you can’t pick and choose to pay attention to just a couple of the principles. Depending upon the situation, different ones must be emphasized, but you are accountable and will be evaluated against all of the principles. The leadership principles work together–they are a set. Each principle must be used at the right time. They are woven into Amazon’s fabric—they prepare Amazon for the future. They challenge Amazon employees to be nimble and execute best-in-class performances. My hope is that you can learn from these principles and help you answer vital questions for your organization and career:

- What are our principles?
- What is our mission?
- What do we expect from each other?
- How do we hold each other accountable?
- How do we make decisions?
- How do we grow and compete?

Don’t rush to set your principles in stone. *Etch them in Jell-O*. Practice them, try them on, debate them, keep working at them, but, most importantly, make them authentic and meaningful.

It’s been a long time since I was a leader at Amazon from early 2002 until late 2005. We were forming and testing the leadership principles during my tenure. They were not codified or formalized. During this phase of the business, our ambition to become a platform and multi-sided business were just taking shape but a flywheel beyond the Amazon retail flywheel was coming into focus. I was responsible for a key part of that larger flywheel–the launch and scaling of the Amazon Marketplace business, which Bezos has since referred to as one of Amazon’s three “dreamy” business offerings.[5] We hammered away at defining how to hold one another accountable, how to make decisions, expectations for leaders at Amazon, how to balance short-term results, and how to create long-term visions. We gave ourselves the luxury of thinking big and taking the time to envision a time when the company would be a titan, and we knew that leadership was going to be the key. The fourteen leadership principles were forged during the white-hot crucible of these years. A time when resources were scarce and headcount was held flat (that’s right, headcount was held flat back then!). What a great and impactful story Amazon has written. But what’s next?

The Next 25 Years

It’s been roughly 25 years since the company went public in 1997, yet it’s still “Day One” at Amazon. “Our approach remains the same as it was on Amazon’s very first day,” Bezos says. “To make smart, fast decisions, stay nimble, innovate and invent and focus on delighting customers.”[6]

In the early years, Amazon was an often-misunderstood startup. It had to fight to remain relevant, respected, and afloat. It’s hard to imagine today, but in 2000, Amazon experienced more than $2 billion in net losses, its balance sheet was a mess, and Barron’s magazine had just run its infamous “Amazon.bomb” cover story[7] or Slate’s 1997 “Amazon.con”.[8] It also developed a reputation as tricky business partner. Examples include a nasty 2003 lawsuit with Toys R Us (which I had to manage); a 2014 dispute with a book publisher Hachette which pitted authors and publishers against Amazon; and the 2015 *New York Times* article by David Streitfelt, which made claims bordering on employee abuse.[9] To understand the Amazon organization, you have to understand where they came from. They were doubted, they were ridiculed, they were mocked, they struggled–but they survived and forged their culture.

Today is no different and the attacks feel like they are accelerating and coming from many different angles. Amazon is currently under attack for unsafe and excessively pressured warehouse worker conditions, a controversial second headquarter strategy called HQ2, which called for large tax incentives to Amazon, and Amazon’s lack of paying federal taxes, despite generating more than $300 billion in revenue.

In December 2020, an international coalition of more than 400 politicians from 34 countries collaborating with a wide variety of labor and environmental organizations created a “Make Amazon Pay” campaign. This alleged that Amazon starves their host societies of tax revenue.

The call for regulatory oversite of Amazon is growing both in the US and Europe. The inherent conflict caused by the sheer size of the business, being the marketplace owner, the advertising company, and a private label owner (*Amazon has over 110 label brands with over 22,000 products–doubled from 2018 to 2020*[10]) and owning the data connecting all of these together gets the attention of the regulators. But it’s Amazon’s ethos for growth which leads to investigative reporting like the *Wall Street Journal’s* front-page headline of "Amazon's Problem: It's a Giant Acting Like a Startup[11]" with multiple examples of these conflicts results in potential unfair business practices.

This is just the beginning of the scrutiny and ridicule Amazon will face. Due solely to its success, size and breadth of business, Amazon draws far more attention, both good and bad, than any company. *How could Amazon leverage their leadership principles to take some of the steam out of the negative press? How do you stop playing defense and start playing offense on these criticisms?*

As Amazon has transitioned to a new CEO with a thriving business and culture but seemingly under attack from so many fronts, how does Amazon prepare for the next 25 years?

With this in mind, I submit a 15th leadership principle for the consideration of Amazon, its board of directors (including Jeff Bezos), and CEO Andy Jassy. It does not supersede the other leadership principles, yet it guides how they are administered. This LP, like all the other LP's, needs to be used in the right way, at the right time, and with wisdom because this LP must be met just as all LPs are met.

> ***Suggested Leadership Principle Fifteen—The Golden Rule***
>
> *Treat others as you would like to be treated—employees, vendors, partners, brands, small companies, competitors, press, critics, community. Contribute and be a leading steward of your community. Foster and lobby not for your best interests, but for future innovation and competition's best interests. Conduct yourself, both personally and as an organization, in a way your mom and your kids would be proud of. Always.*

Treat others as you would like to be treated. Be forthright. Respect brands, intellectual property and other businesses. Don't seek unfair business advantage. Invest and encourage your employees to contribute to their community. Be a leader in all matters related to employee safety, inclusion and well-being. *You are doing these things already!* This leadership principle is a message to all that leading on these topics is the expectation.

The programs and examples where Amazon demonstrate this leadership principle today are extensive and largely get overlooked by the press and policies makers today. It's donated more than $100 million dollars to charitable organizations through its AmazonSmile program.[12] Plus, it launched the Amazon Technical Veterans Apprenticeship[13] and the Career

Choice[14] program, both of which represent big investments in training and education for U.S. veterans. Amazon has also pledged more than $50 million to STEM and CS education.[15] When Senator Bernie Sanders and others called for improved wages and worker conditions, Bezos raised their minimum wage to $15. In a 2019 shareholder letter, Bezos explained that "it seemed like the right thing to do."[16] In January of 2021 Amazon announced a $2B loan and grant program to promote affordable housing in the three city locations where they have impacted affordability the most–Seattle, Arlington Virginia and Nashville.[17] Just as Bezos flipped the script by raising the minimum wage across the board, *The Golden Rule* would set a reference point for the future of Amazon. This leadership principle is needed for all big companies, especially technology companies, not just Amazon, as the power of data and algorithms is having such a profound impact in our society and competition.

While the first 25 years of Amazon have been historical, I am looking forward to the next 25 years. Guided by their leadership principles, hopefully with some version of *The Golden Rule*, Amazon is on course for both business success and positive impact on society. I hope all companies join in strengthening competition and leadership.

John Rossman
March 2021

INTRODUCTION

With less than a year under my belt as Amazon's director of merchant integration, I am still considered the new guy on the block. At the moment, I am sitting in a conference room in the company's Seattle headquarters, surrounded by what's called the S-Team, a group that includes Amazon's twenty most senior executives, and I happen to be the center of attention. Unfortunately, this is because the founder and CEO, Jeff Bezos, is frustrated.

All eyes turn in my direction when Jeff asks me a deceptively simple question: "How many merchants have launched since the first of the year?"

The question puzzles me since, at the moment, there simply aren't any third-party sellers ("merchants" in Jeff's parlance) to launch, which is out of my direct control.

A bit apologetically, I respond, "Well, you see, as of right now—"

Before I can finish, Jeff erupts, "The answer to that question begins with a *number*!"

Jeff's reputation for pyrotechnic displays of emotion is already part of his legend. Jeff doesn't worry about your feelings; he doesn't give a damn whether or not you're having a good day. He only cares about results—and they'd better be the right results. Everyone who joins Amazon understands this; it's part of the deal. But this is the first time I've found myself at the business end of his double-barreled fury, and I'm more than a little shell-shocked by the experience.

I hesitate, frantically juggling possible responses in my head. Finally, taking a big gulp, I offer the simple answer he is asking for, "Six, but—"

Jeff pounces like a lion tearing into the soft underbelly of its kill. "That is the most pathetic answer I have ever heard!"

The ensuing rant is neither a simple exercise in humiliation nor some sort of power play designed to reinforce Jeff's status as the alpha dog of Amazon. It's an educational exercise using this situation as an opportunity to set an example and to transmit a series of cultural, strategic, and operational messages to the leaders of the company. The lecture is classic Jeff because, despite its thunderous volume and tone, it contains valuable lessons about the principles that define Amazon. In the next five minutes, Jeff touches on a half dozen of these principles as he describes my shortcomings in painful detail. I am chastised for my failure to sufficiently obsess over the customer, for not taking complete ownership of my project and its outcomes, for not setting higher standards for myself and my team, for not thinking big enough, for not possessing a bias for action, and for not being firmly and vocally self-critical when it was clear my performance was lacking. Throughout, I am pinned to my chair as if by a hurricane-force gale.

When Jeff's rant finally ends, he simply leaves the room without another word and, just like that, the S-Team meeting has ended. As I allow myself to start breathing again, processing what has just happened, I notice that many of the other senior leaders are smiling at me—and not unkindly. A few make a point of congratulating me as they gather their things and file out of the conference room.

"He likes you," one explains with a pat on the shoulder. "He wouldn't take the time to embarrass you like that if he didn't."

In a fog, I stumble from the conference room, clutching my notes and half-questioning how it is that I am still employed. *How can anyone possibly withstand the white-hot crucible of Jeff's expectations?* I wonder.

The key, of course, is right in front of my nose. In fact, it's publicly available on the Amazon site if you know where to look.[18] And in that meeting, Jeff was all but hitting me over the head with it: the fourteen leadership principles that drive Amazon, from top to bottom. At this point, the leadership principles were not written down, and they were not codified. We were hammering them out, trying to understand what we believed in, how we worked together, how we made decisions, etc. In this lecture from Jeff, he was telling me to "Act Like an Owner" (LP #2), and even though my title was director of merchant integration, and many dependent functions for the marketplace business did not report to me, he expected me to ignore my commonly-respected conventions like "job titles" and formal organizational charts and RUN the marketplace business. I didn't need to be told twice—lesson learned.

How has Jeff Bezos built a company, a culture, and a legacy that meet his highest standards? Unlike most organizations, Amazon's leadership principles are not simply suggested guidelines for new hires or empty verbiage from a mission statement buried in the employee manual. They are core tenets on which company leaders are rigorously rated during their annual performance reviews and self-evaluations. In fact, as a leader or potential leader at Amazon, you are expected to record concrete examples of how you embody the fourteen leadership principles and to be prepared to cite them upon request.

This book is not a tell-all story of my time at Amazon. The fact is that, after I moved on from Amazon to start Rossman Partners, I didn't expect to think much about my years at Amazon at all. However, as I began to tackle the wide range of challenges presented by my clients in fields from technology and manufacturing to retail and even philanthropy, I found myself frequently referencing strategies, management techniques, and approaches I had experienced at Amazon. At first, I didn't even notice I was doing it. Then a colleague of mine said, "You know, you should really write those down."

"Write what down?" I asked.

"All those lessons from Amazon. You're constantly using them. Might as well capture them all in one place. I bet people would find them interesting. I know I would."

I decided to give it a try. I began roughly outlining the concepts, lessons, strategies, and approaches I'd learned, observed, and practiced at Amazon. To my surprise, although seven years had passed since I'd left the company, the content was all right there at the surface, ready to be transcribed and organized. Before long, I realized that the lessons had grouped themselves into fourteen leadership principles.

What makes Amazon's principles so unforgettable—even for a company alumnus who'd made no special effort to recall them? The answer has a lot to do with why Jeff Bezos was so livid at my status report on merchant integration in that 2003 S-Team meeting. Amazon's leaders work hard to make their thinking very clear—to be clear not only about what they decide but also about precisely why they decide as they do. This quest for clarity has created an organization whose actions are based on a specific philosophy and a consistent set of values and principles. It's a way to get the details right and scale the business successfully—something Amazon has arguably done better than any other company in history.

Encouraged by my colleague's suggestion, I decided to turn my notes into a book. I've deliberately kept it short and, I hope, enjoyable to read. I've strived to present the principles as clearly and directly as possible. When I discuss the book, I often say that my goal is that it can be completely read in one plane ride with a glass (maybe two) of wine. With

The Amazon Way, revised third edition, I've interviewed and researched hundreds of current interpretations and stories from Amazon executives about the Leadership Principles and added many new insights. But the power of quality principles is that while they change, it's a slow evolution as "what we believe in" does not change year-to-year. While it has been a long time since I've been at Amazon, how they think about leadership, the type of company they strive to be, and how they build culture is largely the same. These principles have informed my life and the businesses I have been involved with since Amazon. I hope you get great value from contemplating how to apply them in your life and business.

CHAPTER 1
CUSTOMER OBSESSION

Leaders start with the customer and work backwards. They work vigorously to earn and keep customer trust. Although leaders pay attention to competitors, they obsess over customers.

Jeff Bezos's customer obsession is really something beyond a mere obsession—it's a psychosis that has generated many of his most vitriolic tirades or, more often, sarcastic comments at Amazon associates who have fallen short of his own standard for customer service. It stems from Jeff's unique ability to put himself in the customer's position, deduce his or her unspoken needs and wants, and then develop a system that will meet those needs and wants better than anyone else has ever done.

This approach to business is at the core of Jeff's genius. Long before social media revolutionized the retail world with its vast, transparent networks linking companies, customers, prospects, and detractors; long before companies like Zappos.com made customer service the foundation of their business model; and even long before Jeff had fully realized his own vision for Amazon, he had profoundly internalized two truths about customer service:

- When a company makes a customer unhappy, she won't tell a friend or two or three; she'll tell many, many more, and
- The best customer service is *no* customer service—because the best experience happens when the customer never has to ask for help at all.

What I think they have learned since the early days of Amazon expands on the value of customer obsession. First, the best way to innovate is by thinking deeply and broadly about the expanded customer experience and customer needs. Second, that orientating around customer obsession is a great way to avoid bureaucracy, organizational silos, and finger-pointing.

Of course, an actual business model that doesn't require *any* customer service is about as realistic as a perpetual motion machine. But very early in the Internet revolution, Jeff saw that the online retail model raised the bar of what was possible. He long recognized that the biggest threat to the customer experience was human beings getting involved and mucking things up. The logical corollary was that the key to creating the most pleasant, frictionless customer experience possible was minimizing human involvement through process innovation and technology.

Of course, Amazon still needs human beings. Throughout this book, we will discuss the techniques Jeff developed to help him hire, evaluate, and retain the very best talent in the world. But Amazon's goal has always been to minimize the time and energy its talented people must spend on routine service interactions, freeing them to innovate new ways to delight the customer.

Jeff's insight led to some counterintuitive tactics. Back in the late 1990s, Amazon made it intentionally difficult for customers to find the customer service number, which momentarily confused some observers who thought this reflected an attitude of disdain for customers. But those customers quickly realized that Jeff's engineers had created a robust technology that enabled them to deal with their service requests almost instantaneously with no human intervention. This wasn't as difficult as it might sound. After all, 98 percent of all customer questions at a retailer like Amazon boil down to, "Where is my stuff?" An online tracking tool that lets the customer follow his shipment from the warehouse to his front door eliminates the need for a large, costly call center and the vast amounts of organizational friction it generates.

Jeff believed that people don't actually like to talk to customer service representatives. He was right. All he had to do was provide the data, tools, and retrain customers to answer their own questions. Now customers have come to expect and demand effortless self-service customer care technology, a concept explained by Bill Price and David Jaffe in their 2008 book *The Best Service is No Service*. The more frictionless the experience, the more loyal the customer and the lower the control costs. And this includes marketing and advertising costs as well. Price and Jaffe explain, “Amazon has enjoyed a 90 percent reduction in its CPO [contacts per order], meaning that it could keep customer care costs (headcount and associated operational expenses) flat with a 9x increase in orders (revenues), a major contributor to the company’s profitability beginning in 2002.”[19]

The best customer service *just works*, without effort—producing incredible benefits both for customers and for the company that serves them. Take, for example, Amazon’s revolutionary Free Shipping program, launched in November 2000. It was originally called the “Free Super Saver Shipping Offer” and was good only for orders over $100. Instead of paying for advertising, Amazon pumped its money into free shipping, which resulted in customer-driven word of mouth, the world’s most effective (and cheapest) form of advertising. This created a virtuous cycle: by sacrificing short-term financials for customer benefit, the strategy drove long-term competitive and financial benefit. “In the old world, you devoted 30 percent of your time to building a great service and 70 percent of your time to shouting about it,” Jeff explained. “In the new world, that inverts.”[20]

At the time, free shipping seemed like a wildly radical and risky strategy. Now customers expect it. In fact, most people assume that companies will pay for return shipping as well—just one of the ways Amazon has raised the bar on customer service for countless businesses.

The Virtuous Cycle Goes Fractal: The Flywheel Effect

Benoit Mandelbrot founded the field of fractal mathematics, which studies (among other phenomena) how patterns in nature have a tendency to repeat themselves at different scales—for example, the way spiral galaxies resemble the spiral of seashells, which in turn resemble tiny unfurling fern fronds. In a similar fractal fashion, the virtuous cycle is replicated throughout Amazon at macro and micro levels. It generates a set of self-reinforcing energies that continue to flow even when the energy source is discontinuous, much like a flywheel, a simple systems diagram of a business model, which is the favorite metaphor for this phenomenon at Amazon.

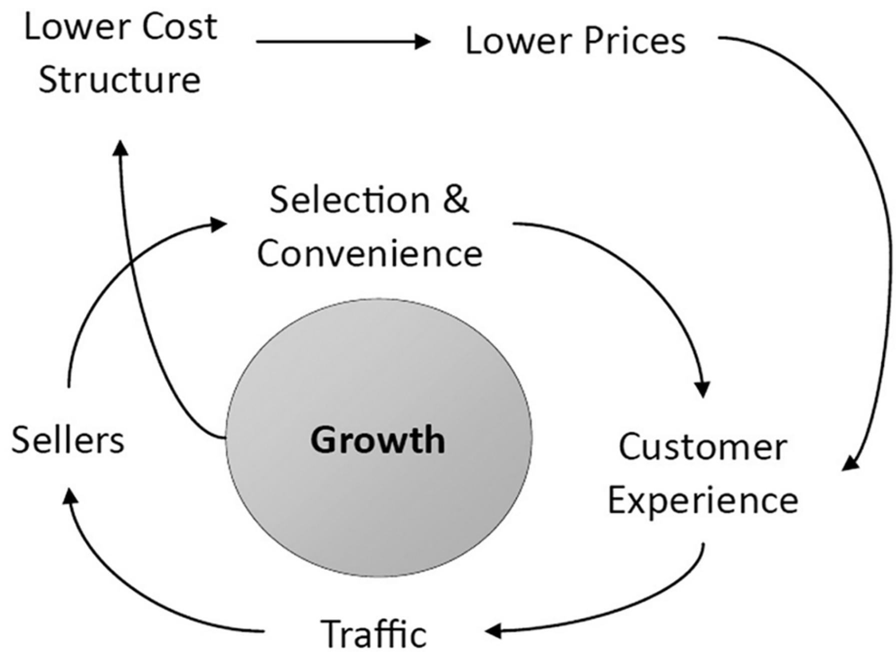

Figure 1.1. *The flywheel effect: How an improved customer experience and customer growth feed one another in a virtuous cycle.*

Here's a macro example of how the flywheel effect works (see Figure 1.1). Jeff doesn't focus on margins. He's more focused on free cash flow—that is, the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Why? Because he believes the Internet's potential for growth is gargantuan and still fundamentally unexploited. To Jeff, the year is 1889, and the Oklahoma Land Rush is on or, as he likes to put it, it's still Day One of the Internet. So, he's ready to slash prices and create programs like free shipping to cultivate customer loyalty and drive sales growth toward the unimaginable heights he foresees. Then he invests the revenues generated back into "the holy trinity": price, selection, and convenience (more on this later).

Sometimes, the lever you need to pull in order to create the flywheel effect can be sticky and difficult to budge. The effort involved can be costly, even painful. Jeff and the company's stockholders had to be willing to sacrifice a lot at the very beginning so long as the customer experience was the primary beneficiary. Not every CEO has the stomach this requires. But Jeff's readiness to pay the price has produced much of Amazon's success.

In July 1999, Jeff decided to move Amazon into the electronics business. The company was making a lot of money on book sales, but he knew that the push into electronics would be the first big step into a limitless world of new markets. Critics doubted it would work. Many said that customers needed to physically see and touch the equipment in a showroom and learn how to operate it with help from trained professionals. These critics—including many at leading manufacturers like Sony as well as analysts on Wall Street—needed to be convinced that Amazon was capable of selling electronics at a high volume and as an "Everyday Low Price" leader. Until they were won over, Amazon's electronics business would face tough sledding, including a cost structure much too high for the modest sales it would initially generate.

Many retailers aren't willing to operate in the red for a while. Jeff was. And while it was ugly for a number of quarters (seemingly validating the warnings of the doubters on Wall Street), by providing enough information and a frictionless return process, Amazon eventually built the type of volume that convinced the vendors and big-name manufacturers that people would buy complicated technology online. Jeff had wagered that his customers were intelligent enough to figure out electronics on their own, and he had won.

Once that flywheel was engaged, the energy generated was huge. Amazon's success in the electronics market kicked off a virtuous cycle of expanding e-commerce markets that continues to spin to this day.

Durable Customer Needs

Amazon's strategy includes great pricing on virtually every product it sells. But the strategy is not just about price. A wide selection and fast, convenient availability with great delivery and service are equally critical elements of long-term customer needs. price, selection, and convenience, these are the three durable and universal customer desires that Amazon thinks of as its holy trinity.

Offer everything, get it cheaper, and make it more easily available. Fashions, tastes, product types, and form factors change, but the holy trinity won't. That's why Jeff Bezos embraced this strategy from the earliest days of Amazon. Here's an excerpt from his very first letter to Amazon's shareholders in 1997:

> From the beginning, our focus has been on offering our customers compelling value. We realized that the Web was, and still is, the World Wide Wait. Therefore, we set out to offer customers something they simply could not get any other way and began serving them with books. We brought them much more selection than was possible in a physical store (our store would now occupy 6 football fields) and presented it in a useful, easy-to-search, and easy-to-browse format in a store open 365 days a year, 24 hours a day. We maintained a dogged focus on improving the shopping experience and in 1997 substantially enhanced our store. We now offer customers gift certificates, 1-Click (SM) shopping, and vastly more reviews, content, browsing options, and recommendation features. We dramatically lowered prices, further increasing customer value. Word of mouth remains the most powerful customer acquisition tool we have, and we are grateful for the trust our customers have placed in us. Repeat purchases and word of mouth have combined to make Amazon the market leader in online bookselling.[21]

price, selection, and convenience—all the elements of the holy trinity are there. Incidentally, Jeff has attached this original 1997 shareholder letter to the back of every shareholder letter he has written since. And he repeats the same mantra every chance he gets. In 2004, I accompanied Jeff when he gave a talk to the leadership team at Target, the large retailer. Jeff talked about "durable customer needs" and explained that if you define your business around a set of durable customer needs, you can have a better orientation as to how to grow and innovate. For Amazon, Jeff said that he could "never imagine a world where a customer wants less selection, higher prices, or slower delivery." He went on to say that these durable customer needs were how he saw Amazon continuing to grow and innovate. Guess what? More than fifteen years later, in the Amazon retail business, these are still the primary areas of investment and innovation.

Let's take a closer look at the three elements of the holy trinity and consider how Amazon has built its business around each one.

Price. Amazon's low-price strategy is well documented. For nearly two decades, Jeff has proven that he is willing to make less on an item—or an entire line of products—in the short term to guarantee the long-term growth of the business. Yet Jeff's obsession with pricing knows no bounds. Here's an example:

During my years at Amazon, everyone understood that our goal was to be an everyday, low-price leader. To do that, we had to make sure our prices matched those of our image competitors—Walmart, Best Buy, and Target. During one S-Team meeting, someone opined, "If the retailer with the lowest price doesn't have the item in stock, then we shouldn't match the price. Why bleed the margin for no reason?"

Jeff immediately objected, pointing out how this might backfire. If customers saw that our price was higher, they'd grudgingly buy an item unavailable elsewhere, but the transaction would leave a bitter taste in their mouth that they would associate with Amazon. Jeff rejected the idea of protecting our profit margin, emphasizing that what really mattered was what customers were thinking.

Of course, a low-margin pricing strategy is constantly under siege. Most recently, the pressure has been coming from some very unlikely competitors —brick and mortar retailers. An analyst for BB&T Capital Markets made waves in the media when he reported that the prices charged by retailer Bed, Bath & Beyond on a representative "basket" of thirty items had fallen from 9 percent higher than those charged by Amazon (in early 2012) to 6.5 percent lower than Amazon's (as of August 2013).[22] Other traditional retailers, such as Best Buy, are offering guarantees to match Amazon's pricing. Thanks to factors such as falling real estate prices, the gradual leveling of the sales tax playing field between online and offline retailers, and the greater leeway to reduce prices among old-school merchants with healthy profit margins (like those currently enjoyed by Bed, Bath & Beyond), Amazon's once-huge price advantage over brick-and-mortar retailers is fading. How Amazon will respond to this intensified competition is one of the big questions for the company's future.

Selection. From the beginning, Jeff Bezos's goal was to make Amazon a source for virtually anything a customer might want to buy starting with an unmatched assortment of books and other media products, which expanded to include a practically unlimited array of goods.

Of course, trying to become "the everything store" (as described in the title of Brad Stone's excellent 2013 book about Amazon's history) is far from easy. When Jeff couldn't figure out how to organically scale Amazon to provide the vast assortment of products he envisioned, the idea of the third-party marketplace was formed. The world was full of people already selling everything under the sun. Jeff hired me to figure out a way to cohabitate with them under the umbrella of the Amazon brand (see Chapter 7, "Think Big"). Long story short, we eventually figured out how to sell everything without carrying a huge load of inventory or the risk that goes with it.

Today, the scale at which Amazon operates is nearly infinite, providing a richness and variety of customer experience that would have seemed impossible a few years ago. What are you looking for? Uranium? Check. A fresh, whole rabbit? Sure. Bacon-shaped Band-Aids? Roger that. If you can imagine it, chances are it can be purchased on Amazon. And the more out-of-the-ordinary products customers discover when they browse Amazon's site, the more they make it their default location for any shopping they want to do, making the flywheel spin even faster.

Convenience. Any time Amazon takes a customer order, it offers a projected arrival time for the package using the Amazon-speak term "the promise." Why the heavy language? Because Jeff knows that in business, there are heavy consequences for those who don't have an item or can't get it to a customer quickly. Woe to those who fail to honor any element of the holy trinity—including convenient, timely availability.

One year, we ordered 4,000 pink iPods from Apple for Christmas. In mid-November, an Apple rep contacted us to say, "Problem—we can't make Christmas delivery. They're transitioning from a disk drive to a hard drive memory in the iPods, and they don't want to make any more using the old technology. Once we get the new ones made, we'll get you your four thousand. But it won't be in time for the holiday."

Other retailers would have simply apologized to their customers for the failure to deliver a product on time. That wasn't going to fly at Amazon. We were not the kind of company that ruined people's Christmas because of a lack of availability—not under any circumstances. So, we went out and bought 4,000 pink iPods *at retail* and had them all shipped to our Union Street office. Then we hand-sorted them, repacked them, and shipped them to the warehouse to be packaged and sent to our customers. It killed our margins on those iPods, but it enabled us to keep our promise to our customers.

During the next weekly business review, we had to explain to Jeff what we were doing and why. He just nodded approvingly and said, "I hope you'll get in touch with Apple and try to get our money back from the bastards." Ultimately, Apple did grudgingly split the cost difference with us. But even if they hadn't, it still would have been the right thing for Amazon to do.

Serving the Customer: The Andon Cord

The Andon Cord is not a unique Amazon concept; it is an idea borrowed from Japanese lean manufacturing. My Amazon colleague, Clifford Cancelosi, was in the room when the concept was originally adapted for use at Amazon. It's a lean manufacturing principle most famously used in car manufacturing. Say you're working in a busy Toyota assembly plant, and you notice that the widget you're installing doesn't fit or is broken. You immediately reach up and pull the Andon Cord, stopping the assembly line and forcing an inspection so that the defect can be ferreted out quickly. As consultant Todd Wangsgard explains, "The andon cord is literally a cord that workers can pull—a cord they should pull—any time something in the manufacturing process goes wrong that would compromise the quality of the product or safety of the people. The line stops immediately."[23]

The Amazon version of the Andon Cord started with a conversation about a customer care problem during a weekly business review. The issue centered on the way mistakes made by one set of employees—those working in the retail group—were creating headaches for a different set—those in the customer care department. "When the people in the retail group don't provide the right data for the customer or enter a product description that's inaccurate," the head of customer care explained, "the customer is disappointed with the purchase. And that means they call customer care, which lands us with the hassle of refunding the product."

We discussed the problem and left the folks in the retail group with some action items intended to fix it. But a couple of weeks later, customers reported that nothing had gotten better.

Frustrated, the customer care group took matters into their own hands, creating their own version of the Andon Cord. When customers began complaining about a problem with a product, customer care simply took that product down from the website and sent a message to the retail group that said, in effect, "Fix the defect, or you can't sell this product." Needless to say, in the world of retail, halting the sale of a product is a pretty disruptive step—the equivalent of shutting down an automotive assembly line. Yet Jeff was adamant in supporting the system. "If you retail guys can't get it right, you deserve to be punished," he declared.

The story of the Andon Cord underscores yet again the obsession with the customer that permeates Amazon. But it also illustrates the importance —and the challenge—of thinking about internal customers. When I was tasked with launching the third-party marketplace, I found it very difficult to get our internal people to think about the third-party sellers with the same amount of passion as shoppers. But for my group, these third-party sellers were customers who deserved to be treated with the same reverence as our website shoppers. The Andon Cord is one way to force people to pay attention to the needs of their internal or external customers—by shutting down the business until those needs are met.

Amazon literally has jobs titled “Senior Product Manager, Andon Cord,” whose role is to build cross-organizational processes and systems that detect and “pull the Andon Cord” when defects occur. It’s a form of real-time instrumentation to detect errors and force teams to fix them.[24]

The Voice of the Customer as a Driver of Innovation

In the early days of Amazon, Jeff Bezos would bring an empty chair into meetings as a constant reminder to his team that the customer, even though she might not be physically present in the room, still needed to be constantly acknowledged and heard. But Amazon also takes unusual steps to ensure that the literal voice of the customer is heard throughout the organization. The goal is to ensure that customer feedback is used to identify, examine, and fix root problems in Amazon’s operations. Jeff requires all of his managers to attend two days of call-center training each year. In fact, if you dial into the call center on just the right day, you may even get Jeff himself on the line. In theory, the resulting sense of understanding and empathy for the customer trickles up into the very highest echelons of the organization.

Of course, in the age of blogs, tweets, and Facebook posts, a single customer complaint that goes viral can have a devastating impact. Therefore, Jeff has invested millions in constructing systems that monitor the online feedback Amazon receives from its customers. For example, during my time heading up the third-party marketplace, we established an internal email system that facilitates and monitors conversations with customers and retailers, uses metrics to track customer complaints about third-party retailers, and implements a fulfillment capability (Fulfillment by Amazon), which lets merchants easily leverage Amazon's distribution channels.

Jeff's shareholder letter dated April 2013 describes another example of how the customer experience drives innovation at Amazon:

> We build automated systems that look for occasions when we've provided a customer experience that isn't up to our standards, and those systems then proactively refund customers. One industry observer recently received an automated email from us that said, "We noticed that you experienced poor video playback while watching the following rental on Amazon Video On Demand: Casablanca. We're sorry for the inconvenience and have issued you a refund for the following amount: $2.99. We hope to see you again soon." Surprised by the proactive refund, he ended up writing about the experience: "Amazon 'noticed that I experienced poor video playback…' And they decided to give me a refund because of that? Wow…Talk about putting customers first."[25]

The history of the company is studded with innovative triumphs driven by customer obsession. Pushing the publishing industry to make books available electronically provided readers with instant gratification at lower prices. Providing unlimited next-day delivery (the Amazon Prime loyalty program) for $79 (now $119) a year drove revenue by drastically reducing the friction involved in online shopping. And Amazon Web Services, the category leader and chief innovator in the field of cloud computing, was based on the idea of offering business customers the same sophisticated online infrastructure technology that Amazon has developed for itself.

Here is a closer look at some of Amazon's biggest customer-driven innovation hits:

Look Inside the Book.™ In 2001, Amazon launched this program based on a simple concept—the idea of emulating the bookstore experience by allowing Amazon surfers to look at pages inside the book before buying.

Of course, this required Amazon to house book content in online form on their site, which raised some questions about whether this would expose book content to piracy. Publishers were worried and skeptical. The program would also be very costly. Each book would have to be scanned digitally and indexed, a huge logistical challenge.

Jeff gave the go-ahead for a large-scale launch, recognizing that this was the only way to see whether it would go over with Amazon's 43 million active customer accounts.[26] The feature debuted with an astonishing

120,000-plus books. The database took up 20 terabytes, which was about 20 times larger than the biggest database that existed anywhere when Amazon was founded.

David Risher was Amazon's first vice president of product and store development, responsible for growing the company's revenue from $16 million to over $4 billion. He described the strategy behind the launch of "Look Inside the Book" this way, "If we had tried it in a tentative way on a small number of books, say 1,000 or 2,000, it wouldn't have gotten the PR and the customers' perception. There's an X-factor; what will it look like in scale? It's a big investment, and a big opportunity cost. There's a leap of faith. Jeff is willing to take those gambles."[27] Ultimately, the publishers embraced the "Look Inside the Book" program as an asset to sales.

Amazon Prime. Though many people think of Amazon Prime as a shipping program, it's really the world's best loyalty program. When we were coming up with this concept, Jeff referenced airline credit cards and how you never feel like you're being rewarded when you're using one. He wanted to create a loyalty program that provided very tangible benefits. With Prime, the customer is very clear on how they're being rewarded for shopping with Amazon. The benefits started with free two-day shipping; now, members also receive monthly e-book rentals on Kindle devices and can stream selected movies and television shows for no extra charge beyond Prime membership annual fees.

Since its inception in February 2005, Amazon Prime has become an increasingly important part of Amazon's broader strategy to retain customers and get them to spend more time and money on its services and products. Because they pay $119 per year, Amazon Prime members use the service more frequently. And Amazon Prime continues to up customer expectations. Amazon may soon introduce free same-day delivery in certain urban areas.

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In the end, Amazon's strategy for remaining the world's most customer-obsessed company leans heavily on another leadership principle: a bias for action (see Chapter 8). Rarely do you find Jeff Bezos reacting to a competitor's initiative. In his mind, it's preferable to launch a new innovation based on customer needs and experience and force your competitors to react—even if that innovation struggles or fails.

"If you're competitor-focused, you have to wait until there is a competitor doing something," Jeff explains. "Being customer-focused allows you to be more pioneering.[28] There are two ways to extend a business. Take inventory of what you're good at and extend out from your skills. Or determine what your customers need and work backward, even if it requires learning new skills."[11] This orientation to be "customer-focused" versus "competitor-focused" is seen throughout the organization even today. I have significant experience in working with the AWS business. It's almost impossible to get them to be critical or even evaluate a competitor's product, especially in front of a customer. They try to leave that to others unless they are really pressed.

CHAPTER 2
OWNERSHIP

Leaders are owners. They think long term and don't sacrifice long-term value for short-term results. They act on behalf of the entire company, beyond just their own team. They never say, "That's not my job."

Whenever I discuss the principle of ownership, I think about a famous story in Amazon company lore about a Christmas party early in the life of Amazon, which was held at a rented facility in downtown Seattle. When the employees responsible for setup realized they didn't have a stand for the Christmas tree, someone decided to nail its trunk directly to the wooden floor. *What the hell?* they thought. *We're just renting the place.*

Always on the lookout for symbolic gestures to drive home his principles, Jeff pounced on the incident. For years, he used this unfortunate solution to highlight the shortcomings of the renter's mentality. "Owners would never nail a tree into the floor."

One of the biggest mistakes you can make as a leader at Amazon is sacrificing long-term value for short-term results. Jeff wants his people to approach every business situation as an owner, not a renter.

Of course, Amazon enjoys the luxury of a CEO who can think about investments with a horizon that spans years, even decades. Why? Because he still owns more than 55 million shares of the company he founded – approximately 11%.[29] Most public companies must respond to the quarterly demands for steady growth in sales, profits, and stock value from the board, the shareholders, and Wall Street. Amazon is able to place long bets and nurture them to maturity without as much focus on short-term results. When you look at business opportunities through a lens that's in multiple years or longer, suddenly Jeff, as a personal investment, buying the *Washington Post* may not seem like such a crazy idea. And from the get-go, Jeff has sold investors on this idea of the long term. That's partially why Amazon gets very different—and much higher—stock valuations than other companies. It's also why investing in scale is so vital to Amazon.

Amazon isn't the only company to discover this secret. If you're looking for reliable indicators of enterprise value, take a look at the tenure of the leadership team. Successful organizations with long-term strategic visions tend to have a very low turnover rate at the top. The key, of course, is balancing a culture of long-term commitments with the need to deliver short-term excellence. You want a patient CEO, but you don't want an extremely patient workforce. Maintaining an atmosphere of urgency (see Chapter 8, "Bias for Action") is crucial. The best way to achieve that balance is with a sense of shared ownership. Amazon's culture rewards people who plead passionately for their projects or ideas and are empowered to respectfully challenge decisions. In other words, people who give a damn about what they're working on—and own results.

How does Jeff build and maintain this sense of ownership among his team members? One way is by hiring the right people. The company has built an effective and scalable system for recruiting, managing, and developing high-performing talent. Another way is by instilling a sense of accountability throughout every stratum of the organization. As co-owners of Amazon, every employee must be unflinching in his accountability and honesty. The highest level of customer service is impossible to achieve without a high degree of accountability and a willingness to be direct, open, and honest—especially when things are *not* going well.

During my time at Amazon, we had a philosophy called "the open kimono." If you weren't willing to be completely honest about where you, your project, or your numbers stood, then there was simply no chance of attaining your goals. You had to open your kimono and willingly expose the faults, errors, and limitations of your situation. And as I learned in that 2003 S-Team meeting, if you started caveating or waffling about why you were not hitting objectives, Jeff wouldn't hesitate to tear that kimono off for you. I distinctly remember him asking one poor soul who'd been rambling in an effort to explain away some mistake, "Which do you think you are exhibiting—gross stupidity or sheer incompetence?"

When asking for a report on a failed project, all Jeff ever wanted to know was the following, “Here’s what didn’t work, why it didn’t work, and how we’re going to change.” If a project looked as if it might be heading for disaster, all he wanted to hear was, “We don’t think it’s going to work; let’s try something else.” While an honest mea culpa didn’t guarantee that Jeff wouldn’t pounce, at least it allowed you to retain a certain measure of self-respect, and your job. This balance of driving for success and accountability while realizing that some ideas are not going to work lets the organization “fail forward.” Sometimes execution is poor, and that is a performance issue. Sometimes the idea is simply not quite the right idea, and so you learn, adjust, and move forward.

In *The Everything Store*, Brad Stone examines this culture of unyielding accountability and summarizes how Bezos’s incredibly high standards frequently overwhelmed his people: “Many just couldn’t take working for Bezos any longer. He demanded more than they could possibly deliver and was extremely stingy with praise. At the same time, many . . . would later marvel at how much they accomplished.”[30] Accountability is not painless, but it’s the only sure path to achievement.

Amazon’s Principles of Ownership

Simply declaring that everyone in the company is an owner and that he or she will be held accountable for decisions and actions is not enough, of course. There are a number of crucial connecting principles that help transform ownership from a vague aspiration into a daily reality.

The most direct manifestation is that every employee receives stock as part of their employment package. Every employee benefits when the Amazon stock value increases.

Yes, it is Your Job. Amazon employees quickly learn that the phrase “That’s not my job” is an express ticket to an exit interview. Ownership means not only mastering your domain but also being willing to go beyond the boundaries of your role whenever it’s needed to improve customer experience or fix a problem.

Such boundary-less behavior requires an understanding of details and metrics, which goes two to three degrees deeper than normal. It was not uncommon for senior people at Amazon to be able to talk with knowledge and authority about details of a project that was not in their own department, let alone under their direction. It also implies a readiness to speak up and contribute without having to be asked. For example, if you have something valuable to offer in regard to a specific program, you don’t wait to be invited to the next meeting about that program—you simply show up.

You Own Your Dependencies. Of course, everyone in business depends on others for success. Those around you—colleagues, team members, outside suppliers and partners, those in other departments who touch your work—contribute essential elements that make you effective. This means that when they let you down, they can also cause you to fail, sometimes miserably.

At Amazon, one of your primary directives is to identify and tenaciously manage every potential business-derailing dependency you have. It is not okay to fail because of a breakdown of dependencies. That’s a failure of leadership and, as you’ve seen, there is not much wiggle room for excuses at Amazon. When called to account for a problem caused in part or in whole by a dependency breakdown, you must be able to say, “I did these things to manage my dependencies. I went above and beyond the reasonable in my efforts to manage them.” That means having rock-solid contracts, service-level agreements, and penalties in place, as well as continual, active management of communications. You can assume nothing.

In that 2003 S-Team meeting, Jeff broke down the process of managing dependencies in three easy steps (while, of course, yelling and wildly gesticulating like a madman):

1. Whenever possible, take over the dependencies, so you don’t have to rely on someone else.
2. If that is impossible, negotiate and manage unambiguous and clear commitments from others.
3. Create hedges wherever possible. For every dependency, devise a fallback plan—a redundancy in a supply chain, for example.

Taking absolute responsibility for every possible dependency under your purview is no small task. This is one reason that very few have the rigor, determination, and tenacity to make it in a leadership role at Amazon. It is a company of control freaks run by control freaks and lorded over by the king of control freaks. As one ex-engineer famously said, Jeff Bezos is such a control freak he “makes ordinary control freaks look like stoned hippies.”[31]

And since your own team is one of the most important dependencies under your authority, your ability to mentor those around you is a key metric during your annual evaluation. That means your success is intrinsically linked to the success your people have acquired over the course of their careers at Amazon.

Compensation Rewards Long-Term Thinking. Finally, Amazon incentivizes ownership by designing compensation plans that reward it.

It’s well known that, compared to many Silicon Valley companies that offer lavish salaries and outlandish perks, Amazon likes to run lean. The company doesn’t pay for its employees’ cell phones, keeps salaries low, and even uses old doors as desks. (Frugality, as I will discuss in Chapter 8, has long been a forcing function for resourcefulness, self-sufficiency, and invention at Amazon). But that doesn’t mean employees aren’t well compensated. Amazon simply prefers to reward employees with RSUs (restricted stock units) rather than salary or cash bonuses.

Jeff explains his logic in the 1997 shareholder letter: “We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.”[32] Jeff incentivized us by letting us share in the rewards of company growth. In so doing, he got us constantly thinking about the long term.

Amazon’s Real Superpower—*Patience*

“The two most powerful warriors are time and patience.” –Leo Tolstoy

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Third Time is a Charm

When I started at Amazon, patience was a virtue because we had limited resources. Patience today seems less a virtue, but it is still a superpower. In joining Amazon to lead the launch of the Amazon Marketplace, my role as Director of Merchant Integration was directly responsible for creating the mechanisms for onboarding and managing the company's thousands of independent retailers. However, I also had major supporting responsibilities to the sales efforts to sign up these retailers as well as all the technical work impacted to launch the business including catalog systems, payments, detail page, search and browse, and order pipeline. Since our mission was to make buying from a third-party seller as seamless and trustworthy as buying from Amazon, the retailer, it felt like we impacted every technical team at Amazon.

Today, the Marketplace business is well over 50 percent of all units shipped and sold at Amazon and is a major contributor to Amazon revenue and profits. But it didn't come easy; it wasn't obvious that it would ever be this size of a business, and most importantly, the combination of capabilities and experiences that would be needed to flourish were not understood.

The Marketplace was Amazon's third attempt at a third-party selling platform. In the 2014 shareholder letter, Bezos gives the quick history:

> Marketplace's early days were not easy. First, we launched Amazon Auctions. I think seven people came, if you count my parents and siblings. Auctions transformed into zShops, which was basically a fixed-price version of Auctions. Again, no customers. But then we morphed zShops into Marketplace. Internally, Marketplace was known as SDP for Single Detail Page. The idea was to take our most valuable retail real estate–our product detail pages–and let third-party sellers compete against our own retail category managers. It was more convenient for customers, and within a year, it accounted for 5% of units. Today, more than 40% of our units are sold by more than two million third-party sellers worldwide."[33] An organization without commitment doesn't give it a third try.

But even when we launched in the fall of 2002, it wasn't clear that the business would become what it is. It took time for the different categories like apparel, sporting goods, gourmet, home and appliance, to really build the selection required to be "the everything store." It also took customers time to learn and adopt that Amazon was more than just books, music, and videos (yes, CDs and VHS tapes). But it was really the combination of two more innovations that created the combination, the updraft of forces creating exponential impact, that Marketplace became the force it is today.

In 2005, Amazon Prime launched. This “shipping program” quickly developed into a “loyalty program,” offering more than just second-day shipping on Amazon retail items. In 2006, with the launch of “Fulfillment by Amazon,” Marketplace sellers could leverage Amazon fulfillment and delivery capabilities for their inventory. Soon, Amazon decided to allow FBA items, Marketplace items, to be “Prime Eligible,” making Amazon’s most loyal customers highly vested in finding *everything* at Amazon. This combination—not even a concept when we launched Marketplace in 2002—created the vortex. Boom.

For innovation to work, many factors have to align. It has to fulfill a real customer need; the experience has to be great; the operations have to scale; the unit economics have to be in line; and market adoption has to be primed. It is rare that all of these factors (and more) are in alignment and ready to go from the start. How do you compensate? Patience.

The Hidden Superpower of Innovators

"One area where I think we are especially distinctive," Bezos wrote in Amazon's 2015 letter to shareholders, "is failure. I believe we are the best place in the world to fail (we have plenty of practice!), and 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. Most large organizations embrace the idea of invention but are not willing to suffer the string of failed experiments necessary to get there."[34]

Amazon's highest-profile failure was the Fire Phone. "What the hell happened with the Fire Phone?"[35] asked stock analyst Henry Blodget in a *Business Insider* discussion with Bezos. "The Fire Phone, like all of Amazon's projects, was an experiment," Bezos coolly replied. In his mind, its failure was a learning experience—another chance to iterate or pivot. "What really matters is, companies that don't continue to experiment, companies that don't embrace failure, they eventually get in a desperate position where the only thing they can do is a Hail Mary bet at the very end of their corporate existence. Whereas companies that are making bets all along, even big bets, but not bet-the-company bets, prevail. I don't believe in bet-the-company bets. That's when you're desperate. That's the last thing you can do."

But only the company board, the CEO, and perhaps a couple of select executives can create this heat-deflection shield around the teams and ideas you are trying to nourish. The average company executive, let alone middle management, just can't be brazen enough, and is not in the position to lead others down this perilous trip. "Sometimes companies embark on new projects and if it doesn't work out after a year or two, and they are losing a lot of money, they abandon it. Jeff is quite willing to take 10 years to make money on a new area that we go into. But if it looks like we are making progress, we're going to stick with it."[36] Long-term thinking and willingness to pioneer into new areas are a powerful force for breakthrough innovation.

The beauty of the ownership principle is that once you've established it in your organization, it sets the playing field, the foundational underpinnings to be successful with Leadership Principle No. 3: Invent and Simplify.

CHAPTER 3
INVENT AND SIMPLIFY

Leaders expect and require innovation and invention from their teams and always find ways to simplify. They are externally aware, look for new ideas from everywhere, and are not limited by "not invented here." As we do new things, we accept that we may be misunderstood for long periods of time.

Amazon's 2020 revenue is forecasted at ~$340 billion and is still averaging a 25% annual revenue growth increase. What's more, Amazon's sales are growing faster than internet sales as a whole. When I am asked to explain this unprecedented combination of size with dynamic growth, I go immediately to one of Jeff Bezos's key leadership principles: Amazon continues to grow by *inventing and simplifying* every single day. If forced to name what I believe is Amazon's most important and distinctive leadership principle, it is "Invent and Simplify" (combined with patience, combined with diving deep, combined with customer focus). It is their willingness to invest in now hundreds, if not thousands, of simultaneous innovations, the majority of which either won't succeed or won't make a major difference to their business. The combination of looking for the next "dreamy business"[37] and seeking out the smallest of free cash flow improvements on each order, which add up on a massive and scaling business, is what makes Amazon the imposing hurricane bearing down on so many industries and incumbents.

But "Invent and Simplify" is a multi-sided story, like a diamond with facets that reflex and change light through the prism. For this reason, this chapter explores the many facets of "Invent and Simplify."

Simplification Epitomized: Amazon's Platform Businesses

Jeff understands, to some degree, the same things Steve Jobs did. The best design is the simplest. Simple is the key to easy, fast, intuitive, and low cost. Simple scales much better than complex, which means that simplicity is intrinsically linked to another leadership principle: Think Big (Chapter 7). As a leader at Amazon, you are not expected to design and build a new innovation with ten to 100 people in mind. You must design it for millions of customers and tens of thousands of ecosystem partners, such as merchants and developers—"innovation at scale"—which means truly understanding the users and innovating with them in mind.

In the world of business, the term "platform" has come to refer to a state in which machines interact seamlessly to knit together complex processes and tasks performed by various parties. Amazon is a platform. It could have stopped at selling books—the "books platform"—but instead, it has cascaded its scope of service to all forms of consumer items and even to the enterprise itself.

My time at Amazon made me a big believer in the power of process automation to make workflows simpler and more productive. When a process is automated, it's not only easier to scale but also simpler to measure while manual effort, even when it begins at a seemingly insignificant level, can evolve into an expensive, non-scalable, and non-real-time capability. That is why automation, algorithms, and technology architecture are the engines behind game-changing platform businesses such as Kindle, Amazon Mechanical Turk, Third-Party Sellers, Fulfillment by Amazon, and Amazon Web Services.

The second page of Jeff's 2011 shareholder letter, entitled "The Power of Invention," is a manifesto about the undeniable impact of data science and computer science on the growth of Amazon's platform businesses:

> Invention comes in many forms and at many scales. The most radical and transformative of inventions are often those that empower others to unleash their creativity—to pursue their dreams. That's a big part of what's going on with Amazon Web Services, Fulfillment by Amazon, and Kindle Direct Publishing. With AWS, FBA, and KDP, we are creating powerful self-service platforms that allow thousands of people to boldly experiment and accomplish things that would otherwise be impossible or impractical. These innovative, large-scale platforms are not zero-sum—they create win-win situations and create significant value for developers, entrepreneurs, customers, authors, and readers.

> Amazon Web Services has grown to have thirty different services and thousands of large and small businesses and individual developers as customers. One of the first AWS offerings, the Simple Storage Service, or S3, now holds over 900 billion data objects, with more than a billion new objects being added every day. S3 routinely handles more than 500,000 transactions per second and has peaked at close to a million transactions per second. All AWS services are pay-as-you-go and radically transform capital expense into a variable cost. AWS is self-service: you don't need to negotiate a contract or engage with a salesperson—you can just read the online documentation and get started. AWS services are elastic—they easily scale up and easily scale down.
>
> In just the last quarter of 2011, Fulfillment by Amazon shipped tens of millions of items on behalf of sellers. When sellers use FBA, their items become eligible for Amazon Prime, for Super Saver Shipping, and for Amazon returns processing and customer service. FBA is self-service and comes with an easy-to-use inventory management console as part of Amazon Seller Central. For the more technically inclined, it also comes with a set of APIs [application programming interfaces] so that you can use our global fulfillment center network like a giant computer peripheral.
>
> I am emphasizing the self-service nature of these platforms because it's important for a reason I think is somewhat non-obvious: even well-meaning gatekeepers slow innovation. When a platform is self-service, even the improbable ideas can get tried, because there's no expert gatekeeper ready to say, "That will never work!" And guess what—many of those improbable ideas do work, and society is the beneficiary of that diversity.[38]

Amazon's business platforms are enablers. They enable writers and booksellers. They enable people who want to sell to Amazon's community. They enable businesses looking to outsource labor. They enable people and companies that want to use Amazon's technology and computing capacity. They enable smaller organizations to enhance their reputations by piggybacking on that of Amazon. They enable logistics, supply chain, and transportation expertise. By empowering entrepreneurs, they enable personal and professional growth for thousands of individuals. Amazon's business platforms build virtuous cycles that circulate and expand energy in much the same way as the Amazon flywheel itself.

So, if you want to understand how Amazon thinks about the principle of invent and simplify, you need to understand the platform opportunity.

As we've noted, technology makes the platform possible. But algorithms, automation, workflow, and technology are only part of how Amazon is inventing and simplifying. More important is the fact that capabilities are designed *from the user backward*. When we were building the third-party selling business at Amazon, creating a great experience for the seller was our goal. Building a simple seller registration process was difficult but essential to achieving that goal, and my job was to push engineering teams to integrate more than 40 different underlying systems to create a seamless and simple workflow for that process.

Willingness to rethink policies, rules, and other assumptions that are widely accepted in the business world is critical. So is asking and answering the question, “If I had to completely automate the process and eliminate *all* manual steps, how would I design it?” Instead of aiming for a ten-percent reduction in friction, push a much more radical rethinking of assumptions; ask “the five whys” (see Chapter 12, “Dive Deep”) and have the willingness to challenge the status quo. This is where all types of resistance, both active and passive, will be experienced, requiring a response from strong executive leadership. Some jobs will be changed; others will be eliminated. For all these reasons, it takes vision, creativity, desire, and courage to carry out the invent-and-simplify principle.

Process vs. Bureaucracy

Notice that the two halves of the principle—invent and simplify—are both equally necessary. Process innovation can be enormously powerful, but when it is practiced without an emphasis on simplicity, the result is bureaucracy—the multiplication of processes for their own sake.

One of the great observations I heard from Jeff came during one of our all-hands meetings, held at a local movie theater. Jeff took a question from an employee about avoiding bureaucracy while still ensuring that certain rules were put in place. Jeff responded with, “Good process is absolutely essential. Without defined processes, you can’t scale, you can’t put metrics and instrumentation in place, you can’t manage. But avoiding bureaucracy is essential. Bureaucracy is process run amok.”

Jeff understood that A-level performers hate bureaucracy and will leave organizations where it encroaches upon them. By contrast, C- and D-level performers, many of whom typically reside in middle management in any given organization, love bureaucracy because they can hide behind it, acting as gatekeepers and frequently creating the kind of friction that can bog down an entire company. Strong processes with measurable outcomes eliminate bureaucracy and expose underperformers.

So, how do you recognize bureaucracy and distinguish it from a well-defined process? When the rules can’t be explained; when they don’t favor the customer; when you can’t get redress from a higher authority; when you can’t get an answer to a reasonable question; when there is no service-level agreement or guaranteed response time built into the process; or when the rules simply don't make sense—when any of these circumstances occur, the chances are good that bureaucracy is beginning to spread.

I distinctly remember one particular S-Team meeting where Jeff looked east, out across Lake Washington to the Microsoft campus, and told us, "I don't want this place to become a country club." He truly feared that, with success and growth, Amazon would become complacent and bloated like Microsoft; that we would lose our spirit and our desire to take risks; that we would cease to insist on the highest standards and gradually entangle ourselves in a giant ball of red tape. He told us that if we became like Microsoft, we would die. "What's worse," he said, "is it won't be fun to come to work anymore."

As you work to invent and perfect processes, always remember that simplicity is an essential bulwark against the creeping onslaught of bureaucracy.

Other People's Work and the Mechanical Turk

Even Amazon can't automate everything. One of my favorite strategies for dealing with this fact is the mobilizing of Other People's Work (OPW). In many cases, the best way to scale an unavoidable residue of manual labor is to enable and motivate other people to do it.

Consider just two of the many tasks that must be done when building an e-commerce website with a virtually infinite array of products: evaluating the quality of a product image and writing clear and accurate product descriptions. Neither can be handled effectively by a computer. Instead of hiring a vast army of people to perform these small but essential and practically endless tasks, Amazon handed that task over to its customers and partners. It created a product image management tool that collected customer feedback, allowed customers to compare images, and enabled them to report offensive or irrelevant content. It worked extremely well. Before long, Amazon was using OPW to manage other processes that couldn't be automated. Customer reviews, which were controversial when Amazon first introduced them, are a great example of OPW—a way of allowing thousands of Amazon customers to handle the task of describing, rating, and categorizing products for the benefit of millions of other users of the website.

With the right approach, almost every company can find opportunities for OPW. Many of my current clients are finding that letting vendors, customers, or business partners carry out activities for which they have greater motivation and better expertise can be a powerful step toward transforming their businesses while dramatically cutting costs.

Eventually, Amazon's basic OPW concept was retooled into a platform for others to use, named Amazon Mechanical Turk. It's an online marketplace that provides businesses access to an on-demand, scalable, flexible army of freelancers they can hire to tackle small, manual tasks. Countless companies use this platform daily to leverage a worldwide employment base and, of course, Amazon makes money every time they do.

Third-Party Sellers: Inventing a Platform and Making it Simple

One of the best examples of the principle of invent and simplify is the project that brought me to Amazon in the first place—the development of the third-party seller program.

In late 2001, I was working at a technology startup and actively looking for the next big thing—both in my own career and in the world of business in general. Jason Child, a colleague of mine from my Arthur Andersen days (he's now the CFO of Splunk), introduced me to Jason Kilar (who later became the founder and CEO of Hulu). They invited me to interview at Amazon. The successful candidate, I was told, would lead a business responsible for designing and operating a capability that would allow third parties to sell at Amazon.

Over the next two months, I had twenty-three interviews at Amazon. It was, without a doubt, the most exhaustive, intense hiring process I have ever experienced. What we were really doing in these interviews was refining strategy and brainstorming the requirements of a third-party selling business. A precursor already existed. Unfortunately, zShops was largely defined by its horrible customer experience and shoddy inventory. I remember thinking, *Well, the idea is there, but I'm hearing some fairly unbaked plans and expectations.*

Eventually, I was hired to lead the launch of the third-party business as Amazon's first director of Merchant Integration. I had direct accountability managing all the merchants (a.k.a. sellers) that we were going to bring on board for the opening of the apparel category in late 2002, including brands like Nordstrom, Gap, Eddie Bauer, and Macy's. But I was also responsible for making the Amazon third-party seller experience as enjoyable and frictionless as the customer experience. We realized that, without a seller experience culture, the new business would not succeed, and we adopted "seller success" as our mission.

Marketplace's early days were not easy. First, we launched Amazon Auctions. I think seven people came, if you count my parents and siblings. Auctions transformed into zShops, which was basically a fixed price version of Auctions. Again, no customers. But then we morphed zShops into Marketplace. Internally, Marketplace was known as SDP for Single Detail Page. The idea was to take our most valuable retail real estate–our product detail pages–and let third-party sellers compete against our own retail category managers. It was more convenient for customers, and within a year, it accounted for 5% of units. Today, more than 40% of our units are sold by more than two million third-party sellers worldwide. Customers ordered more than two billion units from sellers in 2014.

The success of this hybrid model accelerated the Amazon flywheel. Customers were initially drawn by our fast-growing selection of Amazon-sold products at great prices with a great customer experience. By then allowing third parties to offer products side-by-side, we became more attractive to customers, which drew even more sellers. This also added to our economies of scale, which we passed along by lowering prices and eliminating shipping fees for qualifying orders. Having introduced these programs in the U.S., we rolled them out as quickly as we could to our other geographies. The result was a marketplace that became seamlessly integrated with all of our global websites.

We work hard to reduce the workload for sellers and increase the success of their businesses. Through our Selling Coach program, we generate a steady stream of automated machine-learned "nudges" (more than 70 million in a typical week)–alerting sellers about opportunities to avoid going out-of-stock, add selection that's selling, and sharpen their prices to be more competitive. These nudges translate to billions in increased sales to sellers. –Jeff Bezos[39]

At the time, the dominant third-party selling marketplace was eBay. Their mentality was very laissez-faire; they simply connected buyers with sellers, taking little accountability for customer experience or trust between merchants and shoppers. If you searched for a specific model of camera, you might get pages and pages of individual listings that offered no help in understanding how the items or the offers to sell compared. (Incidentally, eBay has since significantly changed and improved in many of these areas, primarily due to the pressure arising from the success of Amazon.)

By contrast, we defined three main design principles that were important to us in building our third-party marketplace business:

1. Present the customer with a single item accompanied by an easy-to-compare list of offers to sell that item. We called this design principle “item authority.” Create a single definition of the item, which would allow multiple sellers, including Amazon, to make offers to sell the item. We wanted to create a marketplace where sellers would be competing for the order in a way that worked to the customer’s benefit.
2. Make it possible for customers to trust our third-party sellers as much as they trusted Amazon itself. We operationalized the concept of “seller trust” in several ways.
3. Provide great seller tools, including multiple selling methods and rich data to help merchants operate their businesses at Amazon. For small sellers, simple tools were needed. For more sophisticated high-volume sellers, different types of integrated capabilities should be provided. Documentation, operational metrics, testing environments, and professional service partners should be developed to help sellers be successful while keeping the Amazon team small.

Obviously, this was an ambitious program that required a highly complex integration between sellers and Amazon. It was clear to me that Amazon simply didn’t have the human resources to manually govern a platform like this at scale. We had to make the third-party marketplace self-service. We had to provide a simple-to-use, highly intuitive tool for sellers as well as a system that would somehow cull subpar sellers from the marketplace in order to keep customer trust high.

We quickly realized that the only way to accomplish all this was by taking a page from the OPW book. Fortunately, Jeff Bezos smiles upon projects designed to scale a business on a self-service platform. One of Jeff’s favorite techniques is to create a *forcing function*—a set of guidelines, restrictions, or commitments that force a desirable outcome without having to manage all the details of making it happen. Forcing functions are a powerful technique used at Amazon to enforce a strategy or change.

One example of a forcing function was the concept of direct vs. indirect headcount. Direct headcount for a particular project would typically include software development engineers (SDEs), technical program managers, and people who negotiated contracts, such as vendor managers. In Jeff's mind, these were the essential skills to build a scalable company. All other headcount—all the people that don't directly create a better customer experience—was considered indirect. The forcing function was that acquiring direct headcount was relatively easy to get approved. However, indirect headcount was constrained and had to be justified by demonstrating that it would decrease with scale in the business.

In building the third-party business, my indirect headcount consisted of the account managers I hired to help assist merchants in completing their integration into Amazon. These account managers initially launched 15 to 20 merchants at a time, but before long, they were launching 50 to 100 merchants. Eventually, the number became astronomical. The forcing function did exactly what it was intended to do—it enabled us to build capabilities and processes that scaled well and became more efficient over time.

Under my direction, our team-built tools, metrics, dashboards, alarms, and other capabilities helped the sellers meet all of their contractual commitments to us and helped them live up to our marketplace's high standards and, ultimately, the expectations of their customers. We also built various technological and operational tools for monitoring their performance. For example, we policed the price and availability of an item on the seller's website to ensure it was not less expensive or easier to purchase than it was at the Amazon marketplace, and we flagged sellers who made unreasonable commitments or failed to keep their promises.

Eventually, we built a seller's trust index based on all the touchpoints between merchant and customer as well as all the promises a merchant made. Every seller could track the answers to questions like: Is my content good? Am I fulfilling orders on time? Am I managing returns correctly? Is my customer feedback good? All of this was then rolled into an aggregated index yielding a score for each seller. We used many functions and algorithms to reward high-performing sellers (for example, by having them vault to the top of search results). In this way, the third-party marketplace evolved into a highly efficient, self-governing meritocracy. If a seller's score was really low, our management team would have various discussions with him before eventually removing him from the platform.

Equally important was *Item Authority*. Deceptively simple at first blush, Item Authority was perhaps the merchant program's quintessential invent-and-simplify innovation and a major reason for our success. In order to increase item selection, availability, and price competition, we signed up multiple sellers of the same items. Item Authority reconciled onto one page all of the various content from sellers selling the same item. This forced sellers to compete on price, selection, and convenience while markedly improving the customer experience. Instead of having to look through pages and pages for the best deal on a single item—which is essentially how eBay worked at the time—customers were presented with the most competitive offers all in one place.

Taken together, all these innovations worked remarkably well. Today, there are over two million third-party sellers at Amazon, accounting for over fifty percent of all Amazon units shipped and sold. Here is how Amazon describes the mission and critical nature of Item Authority (the language comes from a job description):

> Item Authority is a mission-critical service at the heart of Amazon's business, and we are looking for a passionate, results-oriented, inventive software manager to head it up.
>
> When a merchant submits a product for listing in Amazon's catalog, Item Authority searches the catalog for matches. It either approves assigning that offer to a page, authorizes creation of a new page, or rejects the submission with an error. And it does this tens of millions of times per day.
>
> This "Matching" technology enables the creation of high-quality Single Detail Pages (SDP) that help Amazon provide a great experience for our customers. It relies heavily on search technology (using A9), auto-classification, custom rules, and machine learning techniques for success. The ideal candidate thrives in a fast-paced environment, understands elements of matching, search, and machine learning, and will help us build features that reduce merchant friction and drive revenue for Amazon.[40]

Described this way, it all sounds rather matter of fact, even obvious. But now that you know the story behind the story, you can see that inventing Item Authority and the other elements of Amazon's third-party seller program, and then simplifying them for the benefit of every user of the platform, was far from easy.

Fulfillment by Amazon

Many classic cases of invent and simplify at Amazon are behind-the-scenes processes and capabilities in fulfillment and customer service. One example is Fulfillment by Amazon (FBA), an idea driven by the success of the third-party seller business. Over the first decade of its existence, Amazon had built a vast system of physical storage space, technological systems, and processes that optimized item location in correlation with demand. As the third-party sellers' marketplace took off, it became clear that if we could allow others to leverage those capabilities, there would be increased benefits for both our new third-party business and for Amazon as a whole.

The idea germinated when Amazon signed partnership agreements with Toys "R" Us and Target to run their e-commerce infrastructures. When both companies began storing their items in the Amazon fulfillment network, it became clear that our capabilities offered an opportunity to create increased economies of scale and utilization for Amazon.

The concept was remarkably simple: "You sell it, we ship it." With FBA, you store your products in Amazon's fulfillment centers, and Amazon workers pick, pack, ship, and provide customer service for these products. Amazon had created one of the most advanced fulfillment networks in the world, and any business could now benefit from their expertise. In a 2013 survey, 73 percent of respondents reported that their unit sales had increased on Amazon by more than 20 percent since joining FBA.[41]

In addition, products listed through FBA also became eligible for free Super Saver Shipping and Amazon Prime shipping discounts, gift wrapping, 24/7 Amazon customer service, and up-to-the-minute countdown for one-day shipping. In other words, sellers are able to piggyback on arguably the most powerful retail brand in the world. This created a great, new flywheel!

Amazon Web Services

No discussion of Amazon's platform businesses would be complete without some analysis of Amazon Web Services (AWS). It is a prime example of Jeff's "invent and simplify" principle. AWS offers companies technologies and capabilities that provide the ability to grow infrastructure instantaneously and to shrink it back if the need diminishes. This elasticity in resource usage gives companies momentum on a vast new scale.

But even more brilliant is that Amazon took a critical capability for their own retail business and a massive expense line item, a capability they knew was critical for the customer experience and was concerned about dependencies on others, to build and innovate at the scale of their visions. They then flipped that need and expense into a core capability and turned it into a massive profit center. AWS was given a six-year head start by the incumbents and invented a business with approximately $45 billion in annual revenue and still growing at 30% a year.[42]

In his 2018 shareholder letter, Jeff writes:

The biggest needle movers will be things that customers don't know to ask for. We must invent on their behalf. We have to tap into our own inner imagination about what's possible.

AWS itself–as a whole–is an example. No one asked for AWS. No one. Turns out the world was in fact ready and hungry for an offering like AWS but didn't know it. We had a hunch, followed our curiosity, took the necessary financial risks, and began building–reworking, experimenting, and iterating countless times as we proceeded.

Within AWS, that same pattern has recurred many times. For example, we invented DynamoDB, a highly scalable, low latency key-value database now used by thousands of AWS customers. And on the listening carefully-to-customers side, we heard loudly that companies felt constrained by their commercial database options and had been unhappy with their database providers for decades–these offerings are expensive, proprietary, have high-lock-in and punitive licensing terms. We spent several years building our own database engine, Amazon Aurora, a fully managed MySQL and PostgreSQL-compatible service with the same or better durability and availability as the commercial engines, but at one-tenth of the cost. We were not surprised when this worked.

But we're also optimistic about specialized databases for specialized workloads. Over the past 20 to 30 years, companies ran most of their workloads using relational databases. The broad familiarity with relational databases among developers made this technology the go-to even when it wasn't ideal. Though sub-optimal, the data set sizes were often small enough and the acceptable query latencies long enough that you could make it work. But today, many applications are storing very large amounts of data–terabytes and petabytes. And the requirements for apps have changed. Modern applications are driving the need for low latencies, real-time processing, and the ability to process millions of requests per second. It's not just key-value stores like DynamoDB, but also in-memory databases like Amazon ElastiCache, time series databases like Amazon Timestream, and ledger solutions like Amazon Quantum Ledger Database–the right tool for the right job saves money and gets your product to market faster.

We're also plunging into helping companies harness Machine Learning. We've been working on this for a long time, and, as with other important advances, our initial attempts to externalize some of our early internal Machine Learning tools were failures. It took years of wandering–experimentation, iteration, and refinement, as well as valuable insights from our customers–to enable us to find SageMaker, which launched just 18 months ago. SageMaker removes the heavy lifting, complexity, and guesswork from each step of the machine learning process–democratizing AI. Today, thousands of customers are building machine learning *models on top of AWS with SageMaker. We continue to enhance the service, including by adding new reinforcement learning capabilities. Reinforcement learning has a steep learning curve and many moving parts, which has largely put it out of reach of all but the most well-funded and technical organizations, until now. None of this would be possible without a culture of curiosity and a willingness to try totally new things on behalf of customers.*[43]

You can see the pattern: the radical transformation of an industry aching for a new delivery model, in this case for cloud-based technology services, the development of a process for driving dramatically lower costs by providing self-service capabilities, and the drive toward scale as a platform business.

Imitate the Competition, and Don't Be Afraid to Fail

In business, innovation is great, but it's clear that in many high-risk fields, mimicry pays off even better. Let the other guy originate the idea, invest the capital, discover a market, and develop operating processes. Then slide in, steal the blueprint, improve upon it, and scale it until the other guy has been left in the dust. The copycat often has a distinct advantage in this competition; the original innovator is typically emotionally bound to the original idea and hesitant to change it. The mimic has the benefit of an objective perspective and a willingness to course-correct as needed.

Early on, Amazon tried to launch an auction business, but it couldn't out-auction eBay. Learning from our failure, we took the eBay concept and recast it with distinct Amazon values and technology, creating our ultra-successful third-party seller program. Jeff likes to say, "Failure happens." Stumbles are a part of life, but at Amazon, it is imperative that you learn something useful from them.

Don't be afraid to fail. Some of the best ideas at Amazon have emerged from the ashes of defeat. But if you expect to have a long career at Amazon, make sure that failure doesn't happen a lot—regardless of how much you may learn in the process.

A Deep Keel—Your System of Innovation

I speak to thousands of business leaders every year. I often ask an audience to raise their hands if they believe that sustained and systematic innovation is critical for their business success. Over 90 percent of the audience will raise their hands. I immediately follow up with the question, “Who here has a process or system for ensuring sustained and systematic innovation?” Typically less than 10 percent of the audience raises their hand. Stunned. We realize that innovation is key, but we are unwilling to make it a priority for budget, a priority for our time, a priority for applying senior leadership, a priority for breaking from tradition and calcification and making change happen, or a priority for being willing to be misunderstood. If you’re going to innovate, you often need to endure others (competitors, the financial market, press, etc.) laughing or being sarcastic or negative.

> *If you’re going to do anything new or innovative, you have to be willing to be misunderstood. And if you can’t tolerate that, then for god sake, don’t do anything new or innovative. Every important thing we have done has been misunderstood, often by well meaning, sincere critics. Sometimes, of course, by self-interested, insincere critics. A thousand years ago, we started this thing called customer reviews. We let customers review books. We only sold books at the time. Customers could come in and rate a book between 1 and 5 stars and they could write a text based review. You are very familiar with this. Now this is a very normal thing. But back then, this was crazy, and the book publishers did not like this because of course, not all the reviews are positive. I got a letter from one publisher that said “I have an idea for you. Why don’t you just publish the positive customer reviews.” And I thought about this. His argument that he was making to me was that our sales would go up if we just published the positive customer reviews. When I thought about this, I said I don’t actually believe that because I don’t think we make money when we sell something. We make money when we help someone make a purchase decision. And it’s just a slightly different way of looking at it because part of what people are paying us for is helping them make purchase decisions. If you think about it that way, then you want the negative reviews too. Of course it has been extremely helpful for people to have negative customer reviews and by the way, it’s come full circle now where the product manufacturers use the customer reviews to improve the next generation of the product. It’s actually helping the whole ecosystem. So now nobody criticizes customer reviews and here in the year 2018 if some Ecommerce company where to say “we are only going to publish the positive customer reviews that would be the craziest thing that would get criticized. So the new and innovative quickly becomes the new normal… I tell my employees that when we are criticized, there’s a simple process we need to go through. First, you look yourself in the mirror and decide “is your critic right?” “Do you agree?” “Are we doing something wrong?” If you are, change. And by the way, if you look yourself in the mirror, and decide that your critic is wrong as we did with customer reviews, then do not change no matter how much pressure is brought to bear. Do the right thing in that case as well. Have a deep keel. You have to have a deep keel.*[44]

So, what's your system for innovation? Amazon, known for its quirky culture of writing, believes in "working backward" from the customer—inventing on behalf of the customer (more on this in Chapter 12). Take something really hard, make it simple, and wrap it in a compelling consumption model. That's a portable innovation pattern that many businesses and industries have borrowed from Amazon's innovation playbook, and there is still so much more opportunity with this simple innovation pattern. But if you don't have a system for innovation—a playbook—what do you think the odds of repeatable innovation are?

CHAPTER 4
ARE RIGHT, A LOT

Leaders are right a lot. They have strong judgment and good instincts. They seek diverse perspectives and work to disconfirm their beliefs.

Make no mistake; there is a high degree of tolerance for failure at Amazon. A successful culture of innovation cannot exist without it. But what Jeff Bezos cannot tolerate is someone making the same mistake over and over or failing for the wrong reasons.

Therefore, leaders at Amazon are expected to be right far more often than they are wrong. And when they are wrong—which of course will happen when a company continually pushes the envelope, as Amazon does—they are expected to learn from their mistakes, develop specific insights into the reasons for those mistakes, and share those insights with the rest of the company.

The resulting culture of learning, growth, and accountability would be impossible without a high premium on *clarity*—clarity in the setting of goals, the communication of those goals throughout the organization, the establishment of metrics, and the use of those metrics in gauging the success or failure of any initiative. Practices like "fudging the numbers," "guesstimating," "approximating," and "bending the rules," as well as deadlines that aren't real deadlines and targets that are purely aspirational rather than firm objectives—all of these are anathema at Amazon.

As I've mentioned, one of the reasons I'm able to write out a description of Amazon's fourteen leadership secrets long after I left the company is the exceptionally clear way that we articulated our goals and processes as a team and as an organization. Great leaders (like Jeff Bezos) develop a strong, clear framework; then, they constantly apply that framework and articulate it accurately to their team. Get this right from the outset, and you've got an excellent mechanism for scaling good decision-making from top to bottom.

Interestingly enough, as leaders at Amazon, we were required to write our ideas in a long, narrative form, which may seem contrary to the value of clarity. After all, don't most business presentations involve a series of bullet-point PowerPoint slides that are supposed to boil down complex concepts into a handful of brief, vivid phrases?

But at Amazon, PowerPoint slides were not allowed. If you needed to explain a new feature or investment to the S-Team or Jeff himself, you began by writing what is called a "six pager" or narrative at Amazon. I can't tell you how many of my weekends were consumed by this writing and editing process. Then, at the beginning of the meeting, you would pass out this narrative and sit quietly for ten minutes while everyone read it.

The narrative was a useful tool for sharing a set of ideas with your colleagues. But even more important was the process of working on the plan or proposal, describing it in a narrative so that important nuances, principles, and features were clear is a critical goal. As Dwight D. Eisenhower said, "Plans are nothing; planning is everything." Jeff believes that reliance on PowerPoint presentations dumbs down the conversation and does not push teams to think all the way through their topic. As he explained in a 2013 Charlie Rose interview, "When you have to write your ideas out in complete sentences and complete paragraphs, it forces a deeper clarity of thinking." By contrast, in the typical PowerPoint show, "You get very little information; you get bullet points. This is easy for the presenter but difficult for the audience."[45] Written documents share more information without the need of additional explanation. When you have to be super specific, it further drives a culture of clarity, commitment, and accountability. With my clients and teams, I work in the narrative approach. It's rough. It doesn't go well at first. It takes practice not only in the development of the narrative but also in the use and discussion leading from a narrative. But it can be learned.

Jeff also believes that successful leaders, when presented with new evidence and data, are able to adapt their perspective. Accordingly, he looks for people who are constantly revising their understanding and circling back on problems they thought they'd already solved. He also looks for leaders who can maintain a remarkably granular understanding of their businesses through metrics, intensity, and great program execution. He believes that his system of corporate communication via written-out narratives will develop ideas much more effectively, deeply, and quickly than oversimplified bullet points and pie charts.

The Future Press Release

The style and format of Amazon project vision statements offer another excellent example of the narrative as a forcing function. Written as a short, simple, clear, digestible narrative, the Amazon "future press release" creates very little wiggle room and holds the highlighted team's feet to the fire by introducing specific parameters and deadlines that are expected to be met. So useful is this technique that an Amazon product launch almost always begins with what we used to call a future press release—an announcement of the product written before its development even began and used for internal purposes only. Crafting the future press release forced us to articulate for ourselves what would be newsworthy about the product at the very end of the development process.

This is a great way to define clear and lofty goals, requirements, and objectives and to build broad understanding from the start of a program or enterprise change. Any time your organization is beginning to undertake a critical enterprise or competitive endeavor—launching a new product, undergoing a transformation, or entering a new market—writing a future press release is a great technique. Follow these rules to make them effective:

- Write the release as if you are writing at some future point in time where success has been achieved and realized. For example, when looking forward to the introduction of a new product, writing a press release on the day of product launch is good, but even better is a date sometime after launch, where true success can be discussed.
- Discuss why the initiative is important to customers or other key stakeholders. How did the customer experience improve? What

benefits have customers received? Then discuss other reasons why it was important.

- Set audacious, clear, and measurable goals, including financial results, operating objectives, and market share.

Outline the principles used that led to success. This is the trickiest and most important step. Describe the hard things accomplished, the important decisions along the way, and the design principles that led to success.

The future press release is a type of forcing function. It paints a clear vision to galvanize understanding and commitment. Once it has been reviewed and approved, teams have a difficult time backing out of the promises it implies. As the project continues, a leader can refer to the press release and use it to remind and hold teams accountable.

Here is the future press release we might have written in 2002 when launching the third-party selling business:

Amazon Announces Huge Growth in Third-Party Selling, Delighting Customers and Sellers

Seattle, WA: Amazon announced results for the third-party selling business today. Using the third-party selling platform, Amazon customers can now shop across many categories of products today, including apparel, sporting goods, home decor, jewelry, and electronics, with incredible selection, price, and an experience equaling orders fulfilled by Amazon.

"The Amazon customer now thinks about Amazon for any retail need, thanks to the third-party selling business. Over 30% of all orders at Amazon are now third-party sold and fulfilled orders, across ten new and expanded product categories," explained Director of Merchant Integration, John Rossman. "We tackled several difficult hurdles to make this successful. First, we had to ensure that customers trusted buying from a third-party seller as much as they trusted buying from Amazon the retailer. The second was enabling complete self-service from sign-up to operations for sellers. Sellers can now register, list products to sell, take orders, and fulfill in the middle of the night, without ever having to talk to someone at Amazon."

In 2017, Andy Jassy, then-CEO of AWS, recalled the document for what has become AWS, which was written around 2003. It said, "If you read the document, the stated mental model was that an individual in his or her dorm room or garage would have access to the same cost structure and scalability of infrastructure as the largest companies in the world."[46] The clarity in defining the superpower that would be given to a customer in both are very similar.

If you want to increase your chances of achieving your goals when launching any important initiative, make sure you define and explain those goals with utter clarity from the very beginning. The future press release is a useful tool for making that happen.

Clarity and the Culture of Performance

There is no hiding from your failures in a culture that holds people accountable for their metrics. As Manfred Bluemel, a former senior market researcher at Amazon, once said, "If you can stand a barrage of questions, then you have picked the right metric. But you had better have your stuff together. The best number wins."[47]

Bluemel was referring to Amazon's "gladiator culture." Because the numbers provide crystal-clear, incontrovertible proof of which leaders are most often correct, Amazon operates as close to a true meritocracy as possible. I cannot overstate how important this is for minimizing bureaucracy in the organization. When Jeff purchased *The Washington Post* in 2013, a reporter at the paper interviewed me about this cultural phenomenon at Amazon. I explained how key judgments were made during my years at the company: "It was not the title but rather who's got the best idea. Who's bringing the solution to the table? That's what was most important."[48]

To be blunt, as an Amazon leader, you don't get the chance to make a lot of mistakes. Screw up for long enough, or for the wrong reasons, and the island will simply vote you off. It is the strongest culture of performance I have ever experienced, and it is directly tied to metrics, results, and being right, a lot.

"Did I Have a Good Day Today?" The Engineer's Answer

At Amazon, having a balanced, well-engineered scorecard of metrics that are consistently reviewed day over day, week over week, provides deep insights into what works and what doesn't. It also places sole responsibility for success and failure on you as a leader.

Repeatable, consistent performance reflected in metrics is the gold standard for success at Amazon. Without access to a consistent set of metrics, an Amazon leader would be flying blind, and such risky behavior is not acceptable at the company. Amazon relies on real-time metrics or instrumentation more than any other company I have ever been involved with. Real data and real insights from the customer experience are used continually to answer the question, "Did I have a good day today?" If your metrics are in place, they are real-time, and your team and processes use them, this question yields a simple "yes" or "no" answer.

It takes foresight to do leadership-by-the-numbers correctly. You must embed real-time metrics from the very start of a program because they are nearly impossible to retrofit. The Amazon experience shows us that the single biggest opportunity for companies operating today is to completely rethink their concept of metrics. Most companies use what's called batch architecture to record large sets of transactions or other quantitative updates and to process them periodically (daily or weekly is typical). Batch architecture is very last century. In this day and age, you need real-time data, real-time monitoring, and real-time alarms when trouble is brewing—not lag-time metrics that hide the real issues for 24 hours or longer. Your business should operate like a nuclear reactor. If a problem arises, you need to be aware immediately.

This is why the word instrumentation is useful. It gives a different feel than metrics or business intelligence. An airplane pilot needs accurate real-time data. There can be no latency because there is no "downtime" in a plane. Introducing the concept of instrumentation was a big and important change at Amazon, closely tied to our commitment to application programming interfaces (APIs) and service-oriented architectures (SOAs). Instrumentation as a critical feature provided the dashboard to understand performance and issues in a real-time manner. In pursuit of true instrumentation, Amazon is constantly developing its real-time capabilities. During my time at the organization, Amazon tracked its performance against roughly 500 measurable goals, nearly 80 percent of which had to do with customer objectives.[49]

While I was heading up our third-party seller business, we decided we wanted the customers to have as much trust in buying from a third party as they did in buying from Amazon itself. Only because we embedded real-time instrumentation from the very outset could we ask a third-party seller, “Why aren’t you fulfilling this on time?” or, “Why is this item available at your site but not through Amazon?” The key is that our measurement tools had to be actionable and current—as close to real-time as possible. We started with the concept of “perfect orders,” already used in Amazon retail as a way of measuring seller performance. The specific metrics we developed to measure seller performance included:

Order defect rate (ODR). This is the percentage of a seller’s orders that have received negative feedback (such as a one-star or two-star customer rating), an A-to-Z Guarantee claim, or a service credit card chargeback request (when a customer disputes a credit card charge with his or her bank). ODR allows Amazon to measure overall performance with a single metric. Obviously, a seller who maintains a high percentage of negative feedback is failing to live up to Amazon’s customer-centric philosophy.[50]

Pre-fulfillment cancellation rate. This is the percentage of orders canceled by a seller for any reason prior to shipment confirmation.

Late shipment rate. This is the percentage of orders with a shipment confirmation that is overdue by three or more days. Orders that are ship-confirmed late may lead to increased customer contacts and negatively impact customer experience.

Refund rate. This is the percentage of orders refunded by a seller for any reason.

All sellers should be working toward achieving and maintaining a level of customer service that meets the following performance targets:

- Order defect rate: < 1%
- Pre-fulfillment cancel rate: < 2.5%
- Late shipment rate: < 4%

Failure to meet these targets often results in the removal of the individual’s selling privileges. Internally, seller metrics become bundled with even more measures of effectiveness and quality of seller performance, including customer ratings and the number of customer service contacts.[51]

Systems and software engineers will always be at the top of the food chain in a culture of innovation and metrics because they create the proprietary algorithms that enable leaders to have their fingers on the pulse of their businesses every second of the day. Jeff Bezos and Amazon have a deep belief that small teams of world-class engineers can out-innovate massive bureaucracies. Why? It has a lot to do with the instinctive preference for clarity that engineers develop through a lifetime of working with numbers and system requirements. Whereas bureaucrats automatically obfuscate, engineers automatically clarify. Clarification is the Amazon way, and it is the basis for the culture of accountability that Jeff prides himself on creating.

These habits—narratives, future press releases, metrics—are championship habits. They are the prerequisite hard work that needs to be done for years if you want to stand atop the gold medal stand. These are some of the habits or mechanisms helping Amazon leaders “be right, a lot.”

CHAPTER 5
LEARN AND BE CURIOUS

Leaders are never done learning and always seek to improve themselves. They are curious about new possibilities and act to explore them.

Leaders at Amazon are not only expected to “be right, a lot,” but they are also expected to be experts in many diverse fields. The risk of “expertise,” however, is hubris and not seeing beyond conventional thinking. A closed mind cannot see new ideas or paths. To help avoid this, Amazon leaders are encouraged to learn, be curious, figure out a way to get to “yes,” and have a beginner’s mindset.

It’s Still Day 1

Bezos has a consistent message to investors, employees, and the rest of the industry: “This is Day 1 for the Internet. We still have so much to learn.” As constant reminders of this fundamental belief, two of the larger buildings at Amazon’s Seattle campus are named Day 1 North and Day 1 South.

While the “Day 1” motto serves as a reminder that the internet is still young and full of promise, the leadership principle “Learn and Be Curious” underlines a fundamental orientation that good leaders adhere to at Amazon—to stop learning is to stop innovating.

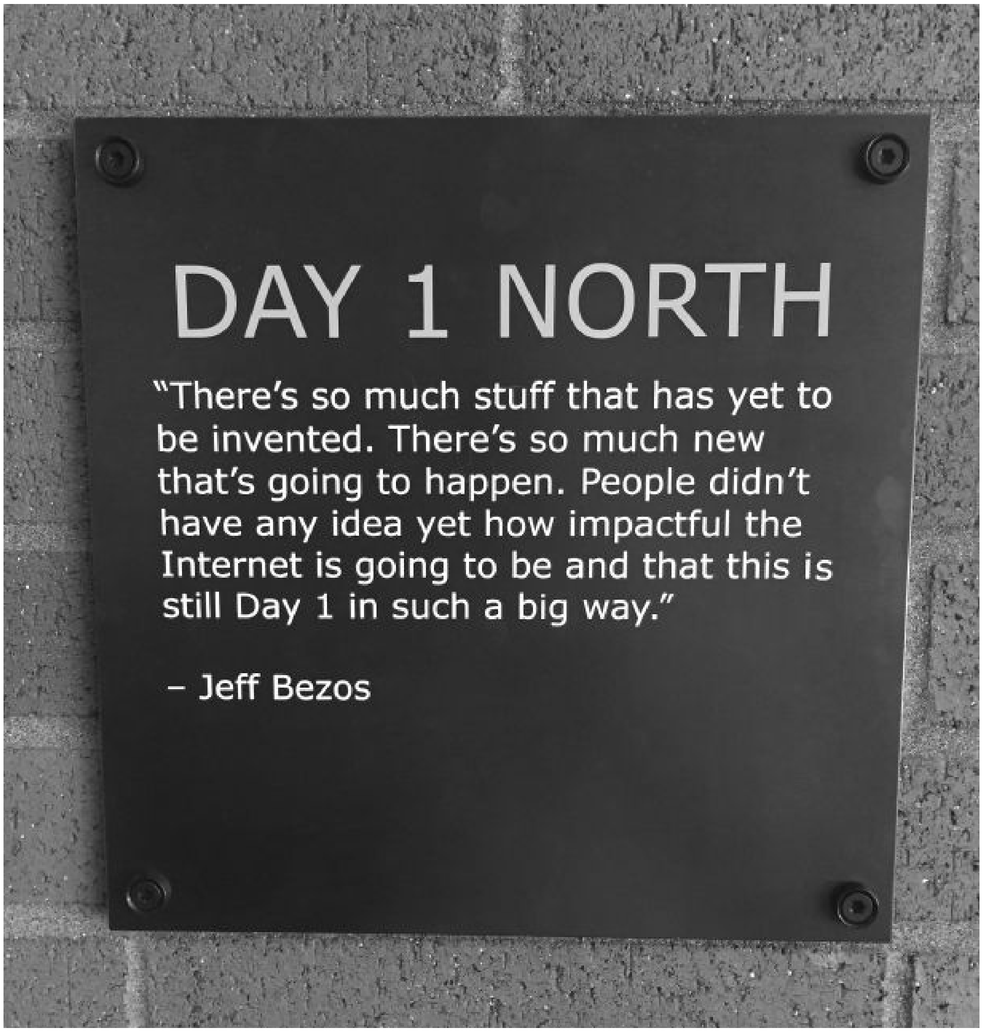

Figure 5.1. *Placard from Amazon Day 1 North Building*

Kimberly Reuter is a former Amazon leader with a long career in the customs and compliance function. She learned the ins and outs of international logistics and compliance over fifteen years at a number of leading freight-forward companies. Amazon tapped Kimberly to dramatically expand Amazon's cross-border business for customers and third-party sellers because of her expertise in the field. So, naturally, Kimberly assumed her new job at Amazon would leverage not only her expertise but also the processes and procedures she had used successively throughout her career.

Her experience and mentors had taught her that customs and compliance was a system of prescribed procedures and regulations. The job of a successful compliance leader was to know the proper process and regulations in order to clear and report imports and exports on a transactional level.

Welcome to Day 1 at Scale

Amazon offered other kinds of processes and procedures to Kimberly in her new role as director of Global Supply Chain and Compliance—processes and procedures that scaled. What she had long identified as an efficient and expeditious mental model was actually slow and entirely too transactional at her new company. Being an expert and staying on top of the regulations was just the start. She had to not only know the regulations but she also had to scale to millions and millions of transactions, all happening at a very fast pace. As Kimberly put it, “It was really disorienting. I spent the first few months saying, ‘No, that’s not possible,’ a lot.”

One of the senior leaders and Kimberly’s mentor at Amazon had an important lesson for her. “I was really frustrated when I first joined and no one was listening to my decisions, which were mostly no,” Kimberly shared. When she consulted her mentor for advice, he educated her on the word no. “My mentor sat me down and informed me that there is no ‘no’ at Amazon. If I was going to be successful, I had to figure out solutions, no matter how complicated, and I needed to do it quick.”

In addition, Kimberly still had the responsibility of maintaining compliant processes and procedures. If she was going to innovate, she had to be able to present options, choices, trade-offs, and opportunities. This required her to combine both her years of expertise and a “beginner’s mindset.” This beginner’s mindset is open, curious, and humble. “I had to completely shift my mental model, start fresh. I had to let go of the ego of being right and become curious again. I pushed myself to think of everything as possible in some way or fashion.” Kimberly embraced the Day 1 mindset. The Day 1 frame of mind prohibits preconceptions and expertise from becoming a hindrance to innovating and improving.

In Jim Collins’s book *Good to Great*, one of the keys to organizational greatness is the presence of Level 5 Leaders—leaders who blend humility and will. Collins says, “Like inquisitive scientists, the best corporate leaders we’ve researched remain students of their work, relentlessly asking questions—why, why, why?—and have an incurable compulsion to vacuum the brains of people they meet."[52] Hubris has been the downfall of many societies, companies, and leaders. Adopting a beginner's mindset by valuing learning, being curious, always asking why, and looking for opportunities and competitive threats in unusual places will help a successful team avoid hubris and the tragic downfall that surely follows.

Which Dog Is Not Barking?

A vital corollary of learning, humility, and the beginner's mindset is the readiness to recognize potential threats wherever they may be. No business is so powerful and successful that it can afford to overlook emerging competitors—even those that may appear innocuous or beneficent.

In the Sir Arthur Conan Doyle story "Silver Blaze," the legendary detective Sherlock Holmes must solve the mystery of a missing racehorse and the apparent midnight murder of its trainer. He eventually deduces that the crime was an inside job because the dog at the scene of the crime did *not* bark, indicating that the criminal was someone well known to the animal. Jeff likes to use this story of "the curious incident of the dog in the nighttime" as a departure point for a discussion about the urgent need for leaders to critically address Amazon's blind spots as a company.

An Amazon leader told me about how, at a Merchant Services leadership offsite meeting, one of Amazon's senior leaders recounted how the S-team had used the dog-not-barking exercise to recognize that one of the company's most significant long-term threats was none other than Google. On the surface, Google didn't seem like a direct competitor. In fact, they seemed like friends and potential allies. But as company leaders discussed Google's capabilities and some of the innovative products and services they'd been developing, they realized that Google had a growing capacity to migrate into Amazon's space. The exercise of looking for the "unbarking" dog helped reveal the possibility that a significant competitive threat was lurking right under their noses, invisible in plain sight.

In response, Amazon reduced its dependency on Google by improving its own search capabilities and creating places on the Web where customers could get to Amazon directly without Google.

The willingness to engage in constant self-examination—both as individual leaders and as an organization—is vital to maintaining success.

And you can't conduct such self-examination effectively without a large dose of humility and a willingness to look in the mirror and recognize honestly what you see there. In most organizations, the typical mentality is, "I have so many obvious needs and threats that I can't possibly spend time looking for the non-obvious threats—much less doing something about them." In 2018, Jeff Wilke, CEO of World Wide Consumer at Amazon, gave his impressions on the newest of Amazon's LPs:

> *"The most important driver of that addition was the notion that we were getting very good and successful, and the accompanying fear that we would become complacent.*
>
> *"A key source of complacency is laziness about learning. We were just talking about how companies transition from Day 1 to Day 2 companies. One thing that happens at successful companies is that executives start to believe their own press. You might say that's covered by the line in the Earns Trust principle that says 'leaders don't believe their body odor smells of perfume.' But that's a negative. It's not instructive. It doesn't address how to avoid complacency.*
>
> *"The 'how' is to focus on constant learning and staying curious about all things. Curious about defects, curious about things in the world that aren't right and you can improve, inventing for customers, the relationships among the people you lead. That's why we added 'Learn and Be Curious'—a 'how' among the leadership principles. I'm glad we did."*[53]

Through these types of exercises—constant questioning, not looking at competitors but at the newest of concepts in academia and start-ups—leaders and experts stay open to new ideas and keep the beginner's mindset. "Inventors have this paradoxical ability to have that 10,000 hours of practice and be a real domain expert and have that beginner's mind, have that look at it freshly even though they know so much about the domain and that's the key to inventing. You have to have both. I'm going to become an expert and I'm going to keep my beginner's mind."[54] That's Jeff Bezos giving the simple and devilishly hard habit to being a systematic innovator—be an expert, always be learning, and always be curious. Leaders typically need to put more effort into the learning and curious part, and being curious about emerging and perhaps seemingly unrelated technology advancements is the deliberate habit this leadership principle encourages.

CHAPTER 6
HIRE AND DEVELOP THE BEST

Leaders raise the performance bar with every hire and promotion. They recognize exceptional talent and willingly move them throughout the organization. Leaders develop leaders and take seriously their role in coaching others. We work on behalf of our people to invent mechanisms like Career Choice.

In 2009, Amazon acquired e-commerce footwear company Zappos.com for $807 million in Amazon stock, plus about $40 million in cash and restricted stock.[55] While many were shocked by the deal, it made perfect sense to me —though not for the reason given in Jeff Bezos's official statement, which read, "Zappos is a customer-focused company. We see great opportunities to learn from each other and create even better experiences for our customers." While that is true, the primary organic connection between the two firms lies in their hiring policies.

Former Zappos CEO (and tragically, recently deceased) Tony Hsieh has become the latest standard-bearer for a successful CEO-driven company culture. He has been quoted as saying that hiring mistakes had cost his organization $100 million. In response, he implemented a fairly radical policy of paying new hires to quit. It's a strategy that's so counterintuitive, yet so transparent in its thinking, that I was immediately reminded of Jeff Bezos.

What's the thinking behind paying employees to quit? Pretty simple, really. It's about testing for commitment. If you're willing to take $2,000 to leave Zappos (which was the offer the last time I checked), then you obviously haven't bought into what the company is trying to do. I don't know for sure, but I suspect that Hsieh's gutsy "all-in" requirement from his employees was a major driver in Jeff's decision to buy his company.

Jeff didn't offer me money to leave Amazon at any point during my tenure, but (as I've mentioned) I did endure twenty-three interviews over six weeks before being hired in the first place. I've heard others compare the process to the oral exam that a Ph.D. candidate must survive. I don't have a doctorate, but that sounds about right. The scrutiny is very, very intense. A typical interview day at Amazon can last nine hours. You may find yourself speaking to a group of people who will be working for you if you are hired. You may find yourself sitting in on a strategic meeting with company brass. You may be expected to contribute a solution to a real-time problem. You may even be shown the door before you ever get started. This is a test of commitment that is very comparable to Zappos's $2,000 exit offer and reflects the same belief in the crucial importance of hiring and retaining only the right people.

From the beginning, Jeff understood how important it was to seed Amazon with people who embodied the culture he wanted to create—that your people *are* your company. As a result, his standards are shockingly high. As Jeff often says, it's better to let the perfect person go than to hire the wrong person and have to deal with the ramifications. Why? Because it is a difficult, time-consuming, and expensive process to get rid of a bad hire, and in the meantime, they are dragging down those around them by their failure to help keep the flywheel of continuous growth and improvement humming at full strength.

Raising the Bar on Hiring

In the beginning, Jeff personally approved every hire. After a few years, for obvious reasons, that became impossible to do. Therefore, in order to maintain his own high standards within the rapidly expanding organization, he created what he called the *bar raiser*.

The bar raiser is an individual appointed to serve as the last line of defense to ensure Jeff's standards of excellence. The bar raiser has veto power over any potential hire—regardless of the candidate's pedigree or his popularity among the rest of the hiring group. The bar raiser's job is to ensure that the next hire should increase the company's collective IQ, capacity, and capability, not decrease it. He or she also has to gauge how "fungible" the candidate is—that is, how capable of expanding into new roles and new areas of the business. Jeff famously put the philosophy this way, "Five years after an employee is hired," he said, "that employee should think, *I'm glad I got hired when I did because I wouldn't get hired now*."[56]

It's quite an honor to be named a bar raiser. The selection is based on the success and retention of the hires you've already made. Yet, in having a veto over hiring, the role often puts you in direct opposition to the team doing the hiring. As an outside voice, your job is to be an independent force, free from the pressure of work demands that sometimes lead hiring teams to make hasty or shortsighted decisions.

Even if you are not the bar raiser, your role in the hiring process is vital. Jeff would frequently tell us all that a hiring decision was probably the most important decision we could make as a member of the organization. We all knew that every successful candidate's career was inextricably linked to our own. And this was, without a doubt, the most effective forcing function for excellence.

Another was our custom recruiting application, which forced every interviewer to provide a lengthy, narrative analysis of the candidate and a yes-or-no recommendation (with no "maybe" option available). Your notes were expected to be detailed enough to justify your answer; the after-interview questioning could almost be as intense and consuming for the interviewer as it had been for the interviewee. As an interviewer, it was at times impossible to intently listen to the candidate's answers because I was scribbling madly to record every detail of what was being said.

After the interviews were completed, the hiring manager and bar raiser would review the notes and the votes of every interview. If a debrief was required, it was mandatory that everyone attended. And, of course, the bar raiser could veto the hire without question, no matter how the team or hiring manager felt.

It was an absurdly rigorous process, one that would be considered wildly excessive at almost any other company. But if you really believe that your people *are* your company, why not invest the time and effort required to identify and hire only the very best?

Because standards are so high, hiring can be problematic. What many people don't realize is that Amazon almost went out of business in 2000, not long before I arrived. There was not enough revenue and way too much cost. The stock price plunged from $100 to $44 to $20 to below $5. The company had massive layoffs. Over the next few years, it was tremendously difficult to hire the best because we couldn't pay them what they deserved, and the stock options were far from enticing. There was a lot of risk, and we basically expected people to take a pay cut to join us.

Yet, the incredible commitment to hiring only the best remained unwavering. One colleague of mine wasn't able to find a suitable hire for over two months, so they axed the position and told him that, if he hadn't been able to make the hire, then he obviously didn't need the person in the first place.

Of course, Amazon isn't above taking advantage of shortcut methods for identifying great talent. In a 2012 *CNN Money* article, Adam Lashinsky explained how Amazon had gone on a "military hiring spree" because Jeff was impressed with veterans' logistical know-how and bias for action.[57] In fact, Amazon has a dedicated military recruiting website and highly consistent hiring and retention record for ex-military personnel.

This practice of hiring veterans isn't about expressing gratitude for ex-soldiers' service to our country. Veterans fit Jeff's business model. As a result, Amazon has not bothered to launch a huge PR campaign about its military employment program. Jeff simply realized it was good business.

The Passing Grade Is A

The kiss of death at Amazon is being known as a "solid guy." While this might seem like a perfectly acceptable description at another company, Jeff's perception was different. As far as he was concerned, everyone at Amazon is fortunate to be there. People who didn't excel at their jobs were failing to contribute appropriately. In effect, they were freeloading off the rest of us. As leaders, we were expected to work with laggards like these to improve their performance into the A+ category or create an incentive for these people to leave.

As a result, Amazon experienced systematic and significant turnover during my years there. Jeff told us to focus our positive reinforcement on our A+ people; he was comfortable with a high degree of churn below that standard.

This strategy was distinctly underlined by the compensation policy. At Amazon, the vast majority of stock options go to the A+ employees; only the crumbs go to the B and C players. And since the salaries were, relatively speaking, quite low (I think the top salary at the time was $155,000), a vast majority of our compensation came in the form of stock. Therefore, being "a solid B" meant a significant falloff in stock options and promotion opportunities. It was all part of Jeff's way of instilling a sense of ownership in the company—our financial fortunes were directly tied to the success of the company.

Only seeking out, hiring, and retaining the very best people make it possible to insist upon the highest standards of performance in the everyday activities of your company.

CHAPTER 7
INSIST ON THE HIGHEST STANDARDS

Leaders have relentlessly high standards—many people may think these standards are unreasonably high. Leaders are continually raising the bar and drive their teams to deliver high quality products, services, and processes. Leaders ensure that defects do not get sent down the line and that problems are fixed so they stay fixed.

In earlier chapters of this book, I outlined numerous ways Jeff Bezos and the leadership team at Amazon have maintained “unreasonably high” standards of quality. The question is, how has such a large, complex organization managed to embed these standards into the DNA of the organization, from entry-level customer service representatives to the CEO himself? The answer begins with the seriousness and consistency with which the company applies its stated values—the Amazon leadership principles. Those principles are challenging, even inspiring, but they are also exacting in their demands.

Here’s the most important thing about the principles: most of them refer to the expectations that Amazon has for leaders. (You’ve probably noticed that I’ve echoed that language in this book.) It sends a subtle but powerful message that empowers every Amazon employee to act and think like a leader. When everyone behaves like a leader, it acts as a forcing function for the relentlessly high standards that Jeff insists upon.

Jeff believed that his workforce, like his technology, should constantly be improving. He believed every new hire should improve the talent pool in the same way that every new technological process should improve efficiency and eliminate operational friction. And as the organization grew beyond the size where Jeff could personally enforce his high standards of performance, he developed instrumentation and metrics to play that role. One of these standards-enforcing tools is the *service level agreement*.

Service Level Agreements

A service level agreement (SLA) is a kind of contract that specifies the precise standards to which a particular service will be held. A well-written SLA will define the inputs, outputs, and metrics that will be used to define acceptable quality and performance. At Amazon, SLAs are used to define expectations for the services provided to both external and internal customers.

Because bad customer experiences are simply not acceptable at Amazon, SLAs are written in such a way that the worst experiences are still very, very good compared to the rest of the industry. When you settle for the median, mediocrity sets in. That's where many companies get SLAs wrong.

Jeff relentlessly conveys to his team that even small service failures are far from trivial. For example, one of Amazon's metrics shows that even a minuscule 0.1-second delay in a webpage loading can translate into a 1 percent drop in customer activity. For that reason, the Amazon SLA specifies that the worst page load time—experienced by customers no more than one-tenth of one percent of the time—must be three seconds or less. These SLAs are heavily negotiated. Part of the weekly metrics review is discussing and understanding the root causes of SLA failures and the planned fixes. What's probably most impressive is that everything at Amazon has an SLA—everything. For instance, the time between an image's upload and the moment it appears on the website has an SLA. So does the time it takes to change a third party's inventory from ten to eight. If it can be measured, it is—and an exceptionally high standard of service is attached to it.

This dedication to real-time metrics and SLAs is one of the most unique aspects of Amazon. Most organizations don't have the ability to collect and manage this much near-real-time data. They don't have the ability to insist on SLA instrumentation and agreements or the investment mentality to make this happen. Doing so is not cheap, but at Amazon, instrumentation is a non-negotiable launch requirement for any new program.

As a result, Jeff and his leadership team always have a very clear picture of the organization’s health. Needless to say, if your numbers don’t reflect Jeff’s expectations, you’ll hear about it soon enough.

“Cookies or Cookies & Crumpets?”

In 2003, I was helping with the launch of a third-party store devoted to gourmet food. Amazon uses a hierarchy of “browse nodes” to organize its items for sale. Each node represents a category of items for sale rather than the items themselves. For example, a browse node includes Harry Potter books rather than an individual title from the J.K. Rowling book series. Browse node IDs are positive integers that uniquely identify product collections, such as Literature & Fiction (17), Medicine (13996), Mystery & Thrillers (18), Nonfiction (53), or Outdoors & Nature (290060). Amazon uses over 120,000 browse node IDs in the U.S. market alone.

Anyway, Jeff and the small group running the launch were having a conversation about the relevant browse nodes for the gourmet food store. It was one of those times when Jeff was in a really good mood. He was enjoying himself. Perhaps partly for this reason, we spent literally twenty minutes deeply discussing whether or not one browse node should be “Cookies” or “Cookies & Crumpets.” A crumpet, Jeff argued, is actually a thick and flat savory cake, not a cookie, and thus deserved to be recognized as such.

The level of detail involved in this discussion bordered upon the absurd, but Jeff was entirely engaged and deadly serious about the decision’s importance. To this day, whenever I catch myself thinking that a decision is not that important, I ask myself, *Cookies, or Cookies and Crumpets?*

After reading this story, you might think, *Jesus, what a micromanager! How does anything ever get done?* You’d have a point. Many of Jeff’s standards *are* unreasonably high. And as a result, efficiency is occasionally sacrificed. In fact, some of the worst leaders I encountered at Amazon were the ones who hid behind ridiculous standard critiques. They became parrots of ideology instead of being pragmatic in its application. Like any good idea or concept, the idea of high standards can be carried to a non-productive extreme.

Most of these bureaucratic parrots didn't last long, however. Because Amazon is a culture of metrics and performance, everything eventually comes out in the wash.

More than a few ex-Amazon employees have described the organization as a large company that functions like a startup, which means, I believe, that they feel as if they were required to do excellent work at a frenetic, breakneck pace while still adhering to time-consuming processes like the long-form written narrative and other elaborate communication processes.

This is all true, I suppose. But here's the thing. If you want to work for Jeff, you have to understand that the leadership principles are more than just nebulous guidelines. None of the fourteen principles mention the need for a healthy work-life balance. That is not an accident. Jeff expects all of his people to function as both owners and leaders. He wants you to drive the business as if it were your own car, not some weekend rental.

In talking with current and former Amazon leaders for this third edition of *The Amazon Way*, I believe that this LP is the hardest one to consistently apply and be used properly. Like any doctrine, these principles can be twisted, misapplied, and become arbitrary. In a high-performance organization like Amazon, if one has a motive, you can typically use this principle to be critical of another employee. Wisdom and good intentions are needed, and the goal always needs to be "How do we get better?" But these high standards exist for many reasons and, in total, create an atmosphere where people know they can't skate by or deliver sub-excellence work.

One of the original names for Amazon was Relentless.com.[58] Eventually, this name was jettisoned because it had too many negative connotations, but that word lives on in Jeff's insistence on the highest standards. It takes a certain kind of personality to succeed in an organization like Amazon. As an employee, you really do have to adopt a long view, just like Jeff's, and truly believe you are part of something very big—something that is changing the world.

CHAPTER 8
THINK BIG

Thinking small is a self-fulfilling prophecy. Leaders create and communicate a bold direction that inspires results. They think differently and look around corners for ways to serve customers.

Jeff Bezos is closely associated with an organization called the Long Now, which is primarily made up of people concerned by society's ever-shortening attention span. On a Bezos-owned west Texas property, they are building a clock that ticks once a year. The century hand advances once every 100 years, and the cuckoo will come out once every millennium for the next 10,000 years.[59]

Jeff is big on symbols. The 10,000-Year Clock is symbolic of his desire to always be thinking big and looking long-term—as a company, a culture, and a world. Bezos recognizes that "a lot of people believe that you should live for the now." He's not one of them. He recommends that people "think about the great expanse of time ahead of you and try to make sure that you're planning for that in a way that's going to leave you ultimately satisfied."[60]

I'm reminded of this quotation whenever I read about Jeff's quest to salvage one of Apollo 11's F-1 engines from the bottom of the Atlantic Ocean. I'm extrapolating here, but I imagine he might consider the NASA space program—once the very definition of thinking big—as having lost its drive to really achieve anything as monumental as going to the moon. For him, dredging this symbol up from obscurity is a great metaphor for a renewed quest for greatness—a call to the American people to once again think big.

Or maybe he's just really into space stuff. I don't know.

Either way, it's clear that Jeff's emphasis on thinking big applies most of all to himself. You and I might consider Jeff a legend of entrepreneurial achievement and one of the greatest success stories in modern history. But in his mind, he still has a long way to go. He's openly said that he hasn't yet built "a lasting company" and that "the Internet in general and Amazon in particular, are still in Day One." Jeff is out to not only sell history books but also to rewrite them. And if you want a seat on his bus, be prepared to "go big or go home."

A colleague told me this story about one S-Team meeting in 2002 when they were discussing the selection of merchandise Amazon would make available to customers. Chief information officer and senior vice president Rick Dalzell asked Jeff when "enough would be enough." Jeff responded, "When a factory in Paraguay can buy a railroad boxcar full of bauxite from a mine in China and transact it over Amazon, then we *might* be done."

After a moment, Dalzell asked if we would ever sell bull semen. Jeff said, "Well, why not? There is lots of margin in it." Then he turned to Jeff Wilke, the senior vice president of consumer business, and said, "You *will* need refrigeration."

This story illustrates that there is probably nothing "too big" in the Amazon universe and why "think big" gets embedded into everyone's behavior.

Leaders create and communicate a bold direction that inspires results. As I've explained, my challenge was to design and operate a capability that would allow third parties to sell at Amazon, not for ten or a hundred users, but for tens of thousands. With that kind of scale in mind from day one, based on a vision that is massive, you're willing to invest in a way that you wouldn't with a modest vision of incremental change. This is one of Amazon's secret sauces—to think about the vast potential of a project from day one and create an inspired team that owns that.

Free Cash Flow—The Secret of Thinking Big

In his April 2013 letter to shareholders, Bezos addressed one of the most important factors in Amazon's massive success—the willingness to sacrifice this year's profits to invest in long-term customer loyalty and product opportunities that will create bigger profits next year and for years thereafter.[61] Writer and former Wall Street analyst Henry Blodget responded to Jeff's letter in an April 14, 2013, *Business Insider* article that contrasted his long view with the myopic focus on today's bottom line that characterizes most companies. Blodget observed:

> This obsession with short-term profits has helped produce the unhealthy and destabilizing situation that now afflicts the U.S. economy: The profit margins of America's corporations are now higher than they ever have been in history, while the employee wages paid by America's corporations are the lowest they have ever been in history. Meanwhile, a smaller percentage of America's adults are working than at any time since the late 1970s.[62]

Amazon has never put short-term profits ahead of long-term investment and value creation—a strategy many believe has the potential to boost the entire American economy. Sometimes overlooked is the fact that maintaining low margin and deliberately eschewing short-term profits is a brilliant strategy in the tumultuous age of the internet. Low prices not only drive customer loyalty but also discourage competition. If you want to jump into the fray against Amazon, you can't just match them on value; you must significantly beat them. But that's easier said than done. Jeff has left very little room to huddle beneath Amazon's price umbrella, leaving most competitors out in the soaking rain.

"We've done price elasticity studies," Bezos once said. "And the answer is always that we should raise prices. We don't do that because we believe —and we have to take this as an article of faith—that by keeping our prices very, very low, we earn trust with customers over time, and that actually does maximize free cash flow over the long term."[63]

Free cash flow is the key phrase in that comment. Jeff returned to the subject in a January 3, 2013, *Harvard Business Review* interview: "Percentage margins are not one of the things we are seeking to optimize. It's the absolute dollar free cash flow per share that you want to maximize. If you can do that by lowering margins, we would do that. Free cash flow, that's something investors can spend."[64]

The move towards free cash flow (FCF) as the primary financial measure at Amazon began in earnest when Warren Jenson became CFO in October 1999. That's the time when the finance organization began to move away from a percentage margin focus to a cash margin focus. Jeff loves to give his loud, guffaw laugh and toss out the axiom, "Percentages don't pay the light bill—cash does!” He then follows up with the question, “Do you want to be a $200 million company with a 20 percent margin or a $10 billion company with a 5 percent margin? I know which one I want to be!” Again, the guffaw.

As explained in his 2004 letter to stockholders, Jeff likes the FCF model because it provides a more accurate view of actual cash generated through Amazon’s operations (primarily retail sales) that is truly free to use in doing a number of things.[65] In the model Amazon uses, capital expenditures are subtracted from gross cash flow. This means that the cash is available to grow the business by adding new categories, creating new businesses, scaling through technology (done often and well at Amazon), or paying down debt (in 2004, Amazon had $4 billion in debt, and some FCF was used to pare that down). Of course, that extra cash could also be given back to stockholders in the form of dividends (never really considered) or given back to shareholders via stock repurchases (maybe someday—no, not really).

Jeff believed then, as he does now, that without constant innovation a company will stagnate. The wrong type of emphasis on finances and business cases will work against taking bets and innovating. “Finance team modeled Prime. It was horrible. Had to use heart and intuition. Getting it wrong is not that bad. Don’t have enough time to list all our failures. But a couple of big ideas pay for all the failed experiments.”[66]

This philosophy and the need to practice it successfully drove the creation of other capabilities, such as Amazon’s robust, extremely accurate unit economic model. This tool allows folks like the merchants, finance analysts, and optimization modelers (known at Amazon as quant-heads) to understand how different buying decisions, process flows, fulfillment paths, and demand scenarios would affect a product’s contribution profit. This, in turn, gives Amazon the ability to understand how changes in these variables would impact FCF. Very few retailers have this in-depth financial view of their products; thus, they have a difficult job making decisions and building processes that optimize the economics. Amazon uses this knowledge to do things like determine the number of warehouses they need and where they should be placed, quickly assess and respond to vendor offers, accurately measure inventory margin health, calculate to the penny the cost of holding a unit of inventory over a specified period of time, and much more.

While Amazon's short-term investors may grouse that Amazon should be "making more money," Jeff continues to build one of the most dominant, enduring, and valuable enterprises in the world. Meanwhile, other internet-boom companies have bit the dust, mostly because they put too much emphasis on short-term profitability and failed to invest enough in long-term value creation.

Jeff explains it this way: "Take a long-term view, and the interests of customers and shareholders align."[67] That's the philosophy that has made Amazon so successful. Another way of saying it is if you're inefficient and have fat margins, you die a Darwinian death.

On the Origin of Species—now, there's a business model that thinks big.

The Regret Minimization Framework

One of my favorite Jeff concepts is the idea of the *regret minimization framework*. It was something he referred to every once in a while, especially when we were thinking big and preparing to do something that everyone thought was crazy like launching the third-party seller division.

Apparently, when Jeff decided he was going to quit his job and start a company that sold books online, his boss at D. E. Shaw advised him to think about it for forty-eight hours before making a final decision. So, Jeff sat down and tried to find the right framework in which to make that kind of big decision. In typical Jeff Bezos long-term thinking manner, he referenced something he called his regret minimization framework. As he explained in a 2001 interview:

> I wanted to project myself forward to age 80 and say, "Okay, now I'm looking back on my life. I want to have minimized the number of regrets I have." I knew that when I was 80, I was not going to regret having tried this. I was not going to regret trying to participate in this thing called the Internet that I thought was going to be a really big deal. I knew that if I failed, I wouldn't regret that, but I knew the one thing I might regret is not ever having tried. I knew that that would haunt me every day, and so, when I thought about it that way, it was an incredibly easy decision. And I think that's very good. If you can project yourself out to age 80 and sort of think, *What will I think at that time?* It gets you away from some of the daily pieces of confusion. You know, I left this Wall Street firm in the middle of the year. When you do that, you walk away from your annual bonus. That's the kind of thing that in the short-term can confuse you, but if you think about the long-term, then you can really make good life decisions that you won't regret later.[68]

This is advice that works well when applied to a personal career decision. But it works just as well when making a decision about the future of your business. Which choice will look best when you consider it, not six months or one year from now, but decades in the future? Chances are that's the right option—the one that holds out the promise of doing really big things.

CHAPTER 9
BIAS FOR ACTION

Speed matters in business. Many decisions and actions are reversible and do not need extensive study. We value calculated risk-taking.

The physics of inertia shows us that a body at rest has a tendency to remain at rest. In his book, *The Wall Street Journal Essential Guide to Management*, Alan Murray points out that a corollary of that physical principle is this: It's usually easier to stop things from happening than it is to make them happen.[69]

At Amazon, there is a natural tendency to push forward at all times. The right kind of person for Amazon is somebody who is astute and contemplative yet avoids paralysis from analysis, the kind of person who is always moving forward on things without waiting to be asked to do so. This is one of the best aspects of working at Amazon. There is no status quo—just a continual effort to push ahead. I read somewhere that Hall of Fame NFL coach Bill Parcells posted a sign in his locker room that read "Blame Nobody. Expect Nothing. Do Something." He would make an excellent leader at Amazon.

Jeff has always reassured his people that they will never be punished for erring on the side of action. This has resulted in both huge wins (the creation of one-click shopping) and colossal failures (the creation of Amazon Auction). There's a common assumption that it's important to know the exact right action to take before doing anything. That's not how things are viewed at Amazon. As Jeff once said, "If you never want to be criticized, for goodness' sake, don't do anything new."[70] (Of course, this bias for action and willingness to be wrong doesn't mean you can also be wrong repeatedly. Unlike Thomas Edison, leaders at Amazon don’t get 2,000 tries at developing just the right filament for the light bulb.)

Sometimes the Mere Threat of a Big Idea Is Enough

In a December 1, 2013, television interview, Jeff sent the media into a tizzy by unveiling his plan to eventually use drones to facilitate same-day delivery of packages. While he admitted that this service was still some way off in the future and faced such obstacles as FAA regulations and limitations on package size, the drone story was great PR copy that was timed perfectly, the day before Cyber Monday, when reporters everywhere are focused on the retail industry. And it worked. Sales shot through the roof the morning after the interview aired, partly because Jeff’s sly smile and the Amazon brand seemed to be plastered across every news media page and blog.

The primary message I took from the interview was a simple one: Jeff’s focus on the long view and on thinking big has clearly remained unchanged. If you are not inventing for your customers and improving their experience every day—even in ways that may hurt short-term financial results—then someone else will.

Even if drones never deliver a single package for Amazon, they make a highly effective symbol of Amazon’s commitment to continuing to invent and simplify on fulfillment. As radical and controversial as drone delivery may seem today, the idea is perfectly in line with this strategy. And quite frankly, I wouldn’t be shocked if Jeff finds a way to make them work.

Don’t Let Simple Things Be Hard Things

A bias for action does have its downside. Many current and ex-employees at Amazon complained to me that they were occasionally not given the resources they needed to build things properly. This was especially common in the early days. There is continuous pressure to get things done as quickly as possible, which sometimes leads people to apply Band-Aids to problems rather than address the underlying issues. Some say Amazon would be better served by slowing down and moving at a more deliberate pace.

In response, Jeff would probably say, "If you double the number of experiments you do per year, you're going to double your inventiveness." You may or may not agree with this philosophy, but it's hard to argue with it when Jeff propounds it because he's proven it works.

Nonetheless, it is true that a bias for action tends to encourage decision-making that is based on gut instinct. There's a reason why a bias for action is often mentioned as a characteristic trait of successful start-ups. The time and money budgets of start-up companies simply don't allow for elaborate market analysis. And it's clear that Jeff has often followed his gut instincts over the years. He respects leaders who are willing to do the same.

However, this can cause a leader to run head-on into a paradox. Amazon has what I would call a *two-strike culture*. Leaders are expected to be right—a lot. They are encouraged to take risks, but they must be calculated risks. And a leader cannot completely blow it very often before being shown the door.

So how do you successfully balance a bias for action with the ability to be right a lot? By developing and monitoring the metrics. As Jeff lectured Neil Roseman and me one time, "Don't let simple things be hard things." Innovating products, increasing sales, recruiting great talent, these are hard things to do. Administrative and procedural tasks like collections should be simple. Therefore, a question like "Are we up to date on collections or not?" should be easy to answer. But at many companies, the information to answer questions like these is simply not available.

That's where the metrics come in. Creating an operational environment that automates processes and makes them clear and transparent allows you to invest more time and energy on the thornier issues that require more work and creativity.

A key to creating and sustaining a successful bias for action is having the right data in front of you at the right time. Of course, you have to trust that the data are trustworthy and accurate, and that's why Jeff puts so much stock into hiring world-class engineers.

The seriousness of Jeff's commitment to the bias for action is shown by the thought he has given to rewarding and honoring it. For example, Amazon's system of iconography rewards and engages employees who develop new skills or attributes. These "merit badges" take the form of highly visible icons on their phone tool, the internal phone directory on the intranet of Amazon. You'd be surprised how effective this is at motivating people to take on new challenges.

Then there's the *Just Do It* award, which is presented at the quarterly all-hands meeting to employees who exemplify the values of a bias for action, ownership, frugality, and self-starting. The award may just be an old tennis shoe that's been mounted and bronzed, but it's also a highly-coveted, visible icon that winners display proudly in their offices.

Leaders understand that 100 percent certainty about the prospects for any new venture is almost never available. No matter how much research and analysis you do, the future can never be guaranteed. That's why Amazon rewards leaders who just do it—who respond to uncertainty by taking a (smart) risk and learning from the results.

CHAPTER 10
FRUGALITY

Accomplish more with less. Constraints breed resourcefulness, self-sufficiency, and invention. There are no extra points for growing headcount, budget size, or fixed expense.

Amazon has always been tremendously deliberate about keeping a cost-conscious (even cheap) culture. Jeff firmly believes that frugality drives innovation. It is one of his favorite forcing functions. As he puts it, “One of the only ways to get out of a tight box is to invent your way out.”[71] Every dollar saved is another opportunity to invest in the business. Eliminating cost structure from the business drives low prices, which drives the virtuous cycle flywheel.

When I was at Amazon, nobody flew first class. Everybody stayed in budget hotels. The company didn’t pay for anybody’s cell phone bill. Most important, this low-cost culture was executed consistently from top to bottom. Jeff drove the same little Honda for years after he founded Amazon. Perhaps most extraordinarily, Jeff’s salary is $81,840, which is only $14,000 more than the average Facebook intern makes.[72]

Just as he did in 1997, Jeff fundamentally believes that Amazon is still in day one, and so he runs it with the cost-minded discipline normally applied to a brand-new start-up. More than anything else, he fears and loathes complacency—especially since the company still operates on razor-thin profit margins, relying on high and growing volume to pay the bills. Keeping costs down is one way of fending off complacency. It also discourages employees from measuring their importance by the amount of money they spend. No extra points are awarded for headcount or budget size. Empire-building by managers is virtually impossible, in part because there's just no money for it.

The Legend of the Door Desk

From the beginning, Jeff was adamant that Amazon was not going to create offices with big, elaborate desks. He figured all anyone needed was a place to work—and that included senior leadership as well. Early on in the company's history, someone came up with the idea of hammering legs on to doors to create more desks. Eventually, the "door desk" became Jeff's symbol for the low-cost, egalitarian culture he was trying to create. In fact, the company still hands out the Door Desk Award, a title given to select employees who have a "well-built idea" that creates significant savings for the company and enables lower prices for customers.

Ironically, the door desk, one of Jeff's supremely effective symbols for company frugality, later became a symbol of mindless bureaucracy that nearly gave him a conniption fit. I found out about it at an all-hands meeting where Jeff was ranting about bureaucracy. What had set him off? Apparently, someone had shipped door desks to our London office. "You know you're becoming a bureaucracy when you decide to spend money to ship [expletive] symbols to Europe!" he yelled. I'm fairly certain someone lost their job over that one.

That hasn't stopped Jeff from searching for opportunities to create fresh symbols of frugality. For example, at the company's annual shareholders meeting in 2009, Bezos revealed that all the light bulbs had been taken out of the cafeteria vending machines. "Every vending machine has light bulbs in it to make the advertisement more attractive," Jeff explained. "So, they went around to all of our fulfillment centers and took all the light bulbs out."[73] Amazon estimated that the measure saved tens of thousands a year on electricity. Not a huge sum in itself, but the gesture speaks volumes about the way this multi-billion-dollar company thinks.

No More Free Advil

Like any goal or policy, a good idea can go too far. Frugality can have a downside when it sends a message of not caring to employees or customers. Just visit Glassdoor.com, the website dedicated to employee comments about the companies they work for and read about how many Amazon ex-employees cite the company's cheapness as the number one reason they jumped ship. Many people have warned that Amazon's policy of hiring temporary-contract workers could lead to low-quality work and inconsistent productivity and waste resources on extra training.

Amazon has also been criticized for outsourcing its customer chat support to India. In one particular instance, an American customer went so far as to post the transcript of his wildly dysfunctional discussion with an Amazon chat support representative named "Farah," a woman who clearly had a tenuous relationship with the English language.[74] While this is hardly an uncommon problem in customer service among many U.S. companies, critics pointed to the unfortunate interaction as a sign that Amazon was growing too big to adhere to its stated principles.

To my mind, the fact that this story made the pages of *Business Insider* suggests that Amazon is still the gold standard when it comes to high customer service standards. But it also suggests a challenge I'm sure Jeff Bezos is focusing on.

In *The Everything Store*, Brad Stone writes about how employees are impacted by the emphasis on frugality:

> Parking at the company's offices in South Lake Union costs $220 a month, and Amazon reimburses employees—for $180. Conference room tables are a collection of blond-wood door desks shoved together side by side. The vending machines take credit cards, and food in the company cafeterias is not subsidized. New hires get a backpack with a power adapter, a laptop dock, and orientation materials. When they resign, they're asked to hand in all that equipment—including the backpack.[75]

Stone goes on to report that, in the late 1990s, a newly installed executive "cut a rare office perk, free Advil, which he viewed as an unnecessary expense." The move set off "a near insurrection among employees" but was upheld.

All of that said, it's probably important to note that Amazon has industry-typical health insurance and dental plans, as well as its yearly employee stock grants and matching 401k program. The company pays enough to attract quality talent—but not enough to make people fat and happy or to create the country-club atmosphere Jeff trys to avoid. It's a delicate balance to strike for both customers and employees.

In 2020, Amazon was no longer the scrappy start-up struggling to survive. As I stay current with many employees at the corporate groups, as I visit the Amazon Spheres building in Seattle, I ask myself, *Is frugality still a leadership principle at Amazon? What role does it play?* In interviewing employees for this book, here's what I've learned about how frugality influences Amazon today.

The explanation for the Frugality Leadership Principle was recently changed. The prior, long-term explanation was:

"A leader at Amazon tries not to spend money on things that don't matter to customers. Frugality breeds resourcefulness, self-sufficiency, and invention. No extra points are awarded for headcount or budget size."

The emphasis on frugality is now less on managing everyday expenses and more as an emphasis on designing and building capabilities and services that scale in efficient manners. Designing to a cost or efficiency is a type of constraint, much like designing to a quality specification or a speed requirement. Amazon emphasizes frugality as a key element tackling problems and operations with cost in mind because pennies per order quickly become billions of dollars when you have scale like Amazon.

But frugality is not just about budget and monetary resourcefulness; it's about conserving other resources too—especially time. A lot has changed at Amazon since I left. The company is not as frugal on employee expenses, travel, and benefits. A longtime Amazon leader told me that frugality is often evaluated by how a leader uses the one non-replenishable asset: time. Amazon leaders try to apply more of their time at "working in the future." In a 2018 interview, Bezos stated, "All of our senior executives operate the same way I do. They work in the future. They live in the future."[76]

Frugality is also a mindset for helping to avoid bureaucracy and non-value added management and activities. Being frugal is a mindset of getting more done faster and with fewer resources. Keeping projects lean, having everyone add value, and contributing in a flexible, multidisciplinary manner helps to get more projects delivered at Amazon than the typical organization. "If you look at the continued pace of innovation in AWS this year, we'll launch a little over 1,800 significant services and features in 2018 up from 1,400 a year ago. And a thousand the year before that. The pace of innovation is getting faster and faster," says Jassy. The pace of innovation is improved by staffing lean, enabling decision-makers, breaking organizations into small independent teams, and infusing a “get it done” frugal mentality. [77]

The spirit of frugality and customer obsession is behind the tremendous operational improvement efforts at Amazon. Every algorithm improvement, reduced error, and eliminated warehouse move all add up to a business. Frugality forces innovation to occur in your operations and helps an organization to stay humble. Add a dose of frugality to your organization along with other ingredients to change the tone and tempo.

CHAPTER 11
EARN TRUST

Leaders listen attentively, speak candidly, and treat others respectfully. They are vocally self-critical, even when doing so is awkward or embarrassing. Leaders do not believe their or their team's body odor smells of perfume. They benchmark themselves and their teams against the best.

I've already talked about how important it is for the customer to trust the company. Amazon devotes itself single-mindedly to earning the customer's trust every day. But equally important is trust within the business, which means that leaders at Amazon must learn both to trust their colleagues and to earn their trust through transparency, commitment, and mutual respect. For many people, learning to do this isn't easy.

When I first arrived at Amazon, I felt exposed and vulnerable. I worried that I might be fired at any time because the standards and the stakes were so high. As a result, I insisted on personally handling too much of my team's work, feeling too anxious and untrusting to delegate enough to my colleagues.

Of course, I quickly learned that overloading myself was a recipe for disaster—I simply didn't have the time, energy, or skill to do everything well. I also wasn't sufficiently developing my people; I was hurting the organization by not training the leaders of the future, which is a cardinal sin at Amazon. I simply had to learn to trust.

Flourishing companies are filled with incredibly bright people who have the authority to achieve but also the confidence that, if they fail, someone will be there to pick them up off the floor, dust them off, and give them another shot. Amazon is such a company. One reason that I really enjoyed my time there was the ability to work collaboratively without worrying about titles, organization charts, and official roles. All of those things got ditched at the door so we could devote our energies to attacking problems. This is very different than at most organizations where teams and individuals waste time playing a game of chicken, pointing fingers, and trying to seize political advantages from one another.

Six Keys to Earning Trust

True collaboration is only possible in an atmosphere of trust. And that atmosphere is always set by a leader who has earned his team members' trust and who trusts them in return.

Unfortunately, almost everyone has had a boss at some time that simply didn't deserve to be trusted. He may have been gifted with MENSA-level intelligence and the charisma of George Clooney, but you were always waiting for the blaming, the backtracking, and the backstabbing to begin.

Jeff understands that a lack of trust perpetuates fear. If you fail to earn the trust of your team members, fear eventually becomes their primary driver. They will fear your opinions. They will fear your decisions and evaluations. They will fear failure. They will fear you. Once fear becomes dominant, the organization can barely operate, let alone be vocally self-critical.

Fortunately, there are proven ways to earn the trust of others. Here are six I have adapted from the blog of intentional leadership guru Michael Hyatt:

- *Open your kimono*. Learn to take accountability and admit faults—not recklessly or in a way that lets people exploit you but rather in a way that demonstrates honesty and pursuit of improvement. Be willing to admit your own failures. If you put up a wall around yourself, your team will too.
- *Take the hit.* When bad things happen, resist the temptation to point the finger. As the leader of a team, you need to accept responsibility for both the good and the bad. When your team members see that you are willing to take the blame even for mistakes that are not directly your fault, they will start to let go of fear and begin to trust you.

- *Build up your team members*. This is the opposite of taking the hit. Whenever appropriate, make sure you praise your team members in front of their peers and superiors. Never try to take sole credit for something good that your team did.
- *Ditch the leash*. Allow your team members freedom to explore new ideas and to be creative. If people feel that you are micromanaging them, they will stop trusting you. Make room for failure and, more importantly, the opportunity to learn from failure.
- *Accept confrontation*. Fighting is not good, but neither is false agreement. When there is a difference of opinion, promote open discussion. Explore solutions with the intent to solve problems. If disagreement never occurs, it's a warning sign that your team is afraid to tell you the truth.

Find the value in each person. We all have weaknesses, but we also have strengths. Everyone brings something different to the table. Find what is unique in each individual and use that unique strength for the good of the team.[78]

Trust and the Two-Pizza Team

In his 2011 shareholder letter, titled "The Power of Invention," Jeff Bezos wrote, "Invention comes in many forms and at many scales. The most radical and transformative of inventions are often those that empower others to unleash their creativity—to pursue their dreams."[79]

Jeff was talking specifically about the ability of the platform business as a tool for empowering people, but I think the same description applies to trust in the workplace. Trust is the platform to truly empower your team.

Much has been written about Amazon's famous Two-Pizza Teams—working groups whose size is limited to six to ten individuals—the number of people that can be fed by an order of two pizzas. However, most people miss the point. What truly matters isn't team size; it's autonomy and accountability. The Two-Pizza Team is about trusting a small faction within an organization to operate independently and with agility.

At Amazon, Two-Pizza Teams work like little entrepreneurial hothouses. Insulated from the greater organization’s bureaucracy, the Two-Pizza Teams encourage ambitious young leaders, provide opportunity, and instill a sense of ownership.

Should every organization in the world start authorizing the creation of Two-Pizza Teams to tackle its problems and creative challenges? No, because not every organization has the underlying culture of trust needed to make autonomous teams work effectively. If you work in a company that is dominated by fear, start trying to turn that atmosphere around. Once trust begins to flourish, creativity and innovation can flourish as well.

CHAPTER 12
DIVE DEEP

Leaders operate at all levels, stay connected to the details, audit frequently, and are skeptical when metrics and anecdotes differ. No task is beneath them.

At Amazon, ownership means accountability. The leader is responsible for the entire lifecycle of a project or transaction and for all its possible outcomes. If you are a leader, you must be willing to go beyond the parameters of your job to improve the customer experience.

The corollary is that leaders understand details and metrics two to three degrees deeper than senior executives at most companies. They are keenly aware of their dependencies and therefore can discuss the details of any given project under their jurisdiction.

One driver of the dive-deep philosophy is the pure, relentless sense of curiosity that Jeff Bezos exemplifies and that he encourages among all those who work for him.

It's been widely reported that Jeff spends time working in Amazon's fulfillment centers.[80] This is not just an excellent PR ploy. In fact, Jeff does not generally invite the media to join him on these trips. Jeff likes working alongside the hourly employees because he's curious about what they have to say and wants to see for himself precisely how efficient the process of fulfilling orders is.

Jeff's relentlessly inquisitive mind is one of his most prominent and distinctive features, and he demands the same from his people. As a result, experiments are encouraged, but the results must be rigorously measured.

This combination of free-thinking and disciplined analysis is very productive and makes diving deep a daily reality at Amazon.

The dive-deep philosophy is also driven by Jeff's awareness that a company is very much like an ecosystem. It is complex, constantly evolving, and thrives on diversity. This means that numerous possibilities for failure are continually emerging.

For this reason, as any major initiative unfolds at Amazon, Jeff stays as close to the project team and its data as he can, not only monitoring it but also questioning it, poking holes in it, and examining every facet down to the smallest detail. Every leader in the company is expected to behave the same way. Every manager is expected to maintain a strong presence throughout a project's implementation, making continuous deep dives into the data, the processes, and the performance of every team member. It's a practice that enables every leader at Amazon to overcome traditional organizational barriers—another form of bureaucracy busting that crashes through the obstacles that might delay or distort progress or learning along the new performance dimensions. Leaders who are constantly digging deep into a challenge—*curious* leaders—dismantle silos and bureaucracy.

Of course, to dive deep, you need metrics and systems designed to collect and analyze them accurately, consistently, and quickly. Leaders must have a willingness to dive deep, but Amazon's remarkable culture of metrics provides the data that rewards the effort. As SVP of Consumer Business Jeff Wilke once said, "Math decisions always trump opinion and judgment. Most corporations make judgment-based decisions when data-based could be made."[81]

The desire to dive deep is also why (as I discussed in Chapter 4) Jeff has banned PowerPoint and demands clear decision-making narratives. Putting together a slideshow makes it all too easy for employees to only skim the surface of their ideas while creating the illusion of an intelligent argument. On the other hand, knowing they must publicly present an in-depth essay to their peers and their boss forces them to dive a little deeper. It helps create an atmosphere of accountability because it means that you have to know your stuff when you present to others.

The Five Whys

Working under deadline pressure often feels as if we don't have enough time to dive deep and truly understand a problem, technology, or situation. There is a balance between knowledge exploration and exploitation; it takes experience to learn when it's necessary to dive deep and when it's better to leave things at an abstract or aggregate level. The Five Whys is an iterative question-asking technique we used at Amazon to explore the cause-and-effect relationships underlying a particular problem. It is so called because experience suggests that five is the number of iterations typically required to identify and fix the true root causes of a problem. Here's how it works:

- Write a description of the problem. This helps you formalize the problem and helps ensure the entire team understands and is focused on the same problem.
- Ask why the problem happens and write the answer below the problem description.
- If the answer you just provided doesn't identify the *root cause* of the problem, ask "why?" again, and write that answer down.

Loop back through the second and third steps until the team is in agreement that the problem's root cause has been identified. This may take fewer than five whys or more, depending on the complexity of the problem.

Here's an example of how the Five Whys might work in practice. Suppose you have suffered from a technology outage. The problem description might read, "Customers were unable to access our service for forty-five minutes on Saturday evening." When you ask why, the first answer might be, "There was an unprecedented demand from other services."

However, you and your team might agree that this does not identify the root cause of the service outage. Therefore, you ask a second why, which yields the answer, "Our service was dependent upon another service that could not handle the demand."

This, in turn, forces you to ask a third why, for which the answer is, "The service we were calling did not meet their service SLA."

Which leads to a fourth why, whose answer is, "The other service did not have adequate service capacity to meet their SLA." But so far, this leads us to simply put accountability on someone else. *What is* our *accountability?*

And this leads to a fifth why, which elicits the answer, “Because I have not engineered it to handle these conditions and exceptions.”

Ah! And there we have it. Finally, after starting with a vague sense of the cause of the problem that basically boils down to finger-pointing and saying, “It was their fault,” the real answer finally emerges: “I need to engineer my technology service to gracefully handle any condition that it might be required to address. Now, how do we build that?”

By diving deep into the real conditions and managing the dependencies of others, true answers to problems are found.

Rolling Up the Details

The Amazon annual planning process starts in August and wraps in October. It’s an organization-wide deep dive that is designed to create alignment around where resources (including people and capital) are going to be allocated in the coming year. Teams build six-to-eight-page narratives describing their businesses, growth opportunities they envision, their plans for taking advantage of those opportunities, and the resources required.

These narratives work their way up the food chain of leadership, culminating in two-pagers that are read at the S-Team level. At each step of the journey, the narratives are examined at strategy meetings, which start with a 15 to 30-minute period of quiet while everyone reads the plan being reviewed. Then discussion begins, which may be far-ranging or focused on one or two features or capabilities out of several. Armed with the detailed written narrative and all the pre-meeting collaboration required to get to this point, the discussions, and ultimately the decisions, are much deeper and more refined than those that emerge from many corporate planning processes.

The enterprise bias for avoiding PowerPoint presentations in favor of written narratives (typically six pages long, sometimes as short as two pages) is a great example of a forcing-function to create an organization that dives deep. As Bezos noted in a 2012 interview with Charlie Rose, “When you have to write your ideas out in complete sentences and complete paragraphs, it forces a deeper clarity of thinking.”[82] Narratives force clarity, prioritization, and accountability to deliver, and they force your audience to understand at a deeper level.

Conversely, the dumbing-down of organizations and decision-making by overreliance on PowerPoint is well recognized. A retired marine officer voiced his opinions in an essay titled "Dumb-dumb Bullets." He said, "PowerPoint is not a neutral tool—it is actively hostile to thoughtful decision-making. It has fundamentally changed our culture by altering the expectations of who makes decisions, what decisions they make, and how they make them."[83]

The combination of forcing clarity by using narratives and the roll-up process of planning is how Amazon gathers ideas and inputs from throughout the organization, allows innovation to sprout, and brings it all together in order to make the big bets on its future. The moral is clear. At Amazon, no big decision is made without first ensuring that it is based on a deep dive into the underlying details that will determine its success.

"In God We Trust, All Others Must Bring Data"

This well-known management slogan isn't an Amazon leadership principle, but it could be. The ability to combine data, facts, and a customer-centered approach along with an uncanny ability to dive deep into the details are the fundamental tools of leadership at Amazon.

CHAPTER 13
HAVE BACKBONE; DISAGREE AND COMMIT

Leaders are obligated to respectfully challenge decisions when they disagree, even when doing so is uncomfortable or exhausting. Leaders have conviction and are tenacious. They do not compromise for the sake of social cohesion. Once a decision is determined, they commit wholly.

Jeff Bezos likes to describe the Amazon culture as friendly and intense but adds, “If push comes to shove, we’ll settle for intense.”[84] If you’re a member of his S-Team, he expects you to challenge him. He demands a robust conversation.

This is not common in corporate America. In most organizations, senior executives too political to practice dissent in the C-suite. I can’t tell you how many CEOs have complained that “no one ever challenges me.” Equally as damaging is that “collaboration” has morphed into a workplace norm where “getting along” is more important than knowing your details, being right, or making sharp and timely decisions. In 2020, I was quoted in the BBC special “Inside the Brain of Jeff Bezos.”

> This notion of having healthy debate then making a decision and committing to it is key. That’s the opposite of what happens in most organizations. Most organizations don’t actively debate; they hold back what their real position is, they don’t lead with customer obsession and data, they don’t respect the decision-maker, and when a decision is made, they are typically passively-aggressive if they didn’t agree to the decision. They don’t wholeheartedly buy into making the decision successful.[85]

By contrast, Amazon can be a gladiator culture. No one leaves the coliseum unbloodied, but if you fight hard, you may obtain glory and, at the worst, live to fight another day. But if you refuse to do battle for the emperor altogether, you’re guaranteed to be carried out on your shield.

At Amazon, I learned that disagreeing with Jeff and the other senior executives was not only beneficial to me personally (as an “owner”) but also my obligation to the customer, to the shareholders, and the company. “If I drive us over a cliff,” Jeff would say, “you’re as much at fault as I am.”

During my years at Amazon, I probably won or witnessed as many gladiatorial combats won with Jeff as lost. More important, my willingness to engage him helped encourage others to do the same. People who watched us interact took heart and began to have the same kinds of robust conversation with him and with others, cautiously at first, more naturally later. That’s how you create a healthy top-to-bottom culture—by demonstrating the principles, not just posting them on a wall.

The Importance of Mental Toughness

The backbone necessary to disagree with some of the smartest business minds in the world and commit to your own vision requires an immense amount of mental toughness. Psychotherapist Amy Morin compiled a list of traits that characterize mentally strong people. When I read it, I immediately thought of Amazon’s gladiator culture. If you want to succeed in Jeff’s relentless and fiercely competitive world, you cannot:

- Feel sorry for yourself
- Give away your power
- Shy away from change
- Waste energy on things you cannot control
- Worry about pleasing others
- Fear taking calculated risks
- Dwell on the past
- Make the same mistakes over and over
- Resent others’ success
- Give up after failure
- Feel the world owes you anything

- Expect immediate results[86]

In a similar vein, psychologist and author Angela Duckworth has done some remarkable research on the importance of what she calls “grit.” She argues that success is only partially defined by talent—one’s ability to naturally play the piano, hit a curveball, or catch a twenty-foot wave. The real test of someone’s ability to rise to the top rests more in perseverance—the tenacity they display when confronted by obstacles or conflict.[87] While Duckworth’s research focused on the success rates of West Point graduates and spelling bee contestants, I believe her theories would be proven true at Amazon as well. The most successful are those who can excel in the pressure cooker, week in and week out, shaking off the occasional failure and the subsequent tongue-lashing, put their heads down, and keep on driving.

CHAPTER 14
DELIVER RESULTS

Leaders focus on the key inputs for their business and deliver them with the right quality and in a timely fashion. Despite setbacks, they rise to the occasion and never settle.

At the end of the day, delivering results matters at Amazon. This simple fact, however, belies a wildly complex reality. These delivered results are neither arbitrary nor do they overemphasize revenue. Carefully crafted and thoroughly debated, this set of “controllable inputs” clearly ties the individual’s goals to those of the team, the business unit, the executive team, and the organization as a whole. Here are four subtle-but-critical lessons to help build a culture of accountability and pioneering based on Amazon’s mission to consistently “deliver results.”

1. Focus on the Inputs

Ever struggled to achieve goals or felt that your goals were overly ambitious? After I left Amazon, I was a partner at a global consulting firm. As a partner, the goal was simple—develop and deliver new business every year with a specific revenue target directly tied to our compensation. Quality, mentoring, IP development, and assisting others were all important, but 90 percent of the goals and focus were on revenue. This simple approach possessed a certain elegance, yet most partners felt detached from the outcome because they did not have *direct* control. Instead, we controlled a wide variety of proven inputs, including client relationships, business development meetings, white papers, and how we developed and marketed our expertise inside and outside the firm, which would ultimately lead to the output: consulting projects and revenue. I focused on the inputs and advised other partners to do the same. If applied consistently, they should lead to the correct output.

Amazon has a deep belief in setting goals that stretch teams and individuals but defining them in a way that puts the team in control of hitting these lofty goals. This empowers teams and stretches them to great achievements. Of course, many of the goals have a direct customer experience component and rarely are they revenue-oriented. “Senior leaders that are new to Amazon are often surprised by how little time we spend discussing actual financial results or debating projected financial outputs,” wrote Bezos. “To be clear, we take these financial outputs seriously, but we believe that focusing our energy on the controllable inputs to our business is the most effective way to maximize financial outputs over time.”[88]

Amazon’s annual goal-setting and initiative review process hasn’t changed in many years. It begins in the fall and concludes early in the new year following the peak holiday quarter. These “lengthy, spirited, and detail-oriented” goal-setting sessions are designed to raise the bar on customer experience, operations and initiatives it will proceed on. In 2010, for example, the sessions produced 452 detailed goals, each with its own set of owners, deliverables, and targeted completion dates. These aren’t the only goals the teams set for themselves, but they are the ones that are most important to monitor. None of these goals are “low-hanging fruit.” Many can’t be achieved without assistance. What’s more, senior leadership reviews the status of each goal several times during the year, adding, removing, and modifying them as necessary. “Taken as a whole, the set of goals is indicative of our fundamental approach,” explains Bezos. “Start with customers and work backwards. Listen to customers, but don’t just listen to customers—also invent on their behalf. We can’t assure you that we’ll meet all of this year’s goals. We haven’t in past years. However, we can assure you that we’ll continue to obsess over customers. We have strong conviction that that approach—in the long term—is every bit as good for owners as it is for customers.”[89]

2. Intensely Debate and Coordinate

In 2020, I interviewed a fifteen-year Amazon leader for this book about the goal-setting process. Each annual goal required four multi-hour reviews before they could be submitted. The debate is a combination of clearly understanding what they are trying to achieve, understanding the "controllable input" to achieve that goal, and then setting a stretch but achievable target. These goals never have an "earning per share" and often don't have other output financial metrics attached to them. Leaders who think like owners are crucial to this process because you don't want people who prioritize short-term results at the expense of long-term enterprise value. When organizations prioritize output financial goals, they often sacrifice the big picture. As a result, it's important to debate and coordinate annual goals more intensely than ever before.

3. Good Teams are Gritty

At Amazon, a stretch objective is called a "BHAG," or "Big, Hairy, Audacious Goal." Amazon empowers its teams with BHAGS. By removing all excuses as a fallback position, Amazon allows high-performing teams to overachieve and underperforming teams to fail, inevitably improving their performance. When the goals are clear, achievable, and within your control, good teams double-down, recommit, and overcome—regardless of challenges and obstacles. They have grit.

4. The Closed-Loop Management Process

Once you focus on controllable inputs, create SMART goals (Specific, Measurable, Achievable, Relevant, Time-bound), and set stretch initiatives for individuals and goals, you must commit to a closed-loop performance management approach. Amazon has had several different approaches to the performance review, including a system providing employees daily feedback from their peers. However, Amazon's performance management philosophy is rooted in three principles:

1) *A BIG difference exists between "A" and "B" performers.* As a result, "A" performers receive a majority of the company's compensation rewards, primarily in the form of stock.

2) *Promotions are heavily scrutinized.* They require multi-page written documents with hard evidence rationalizing the promotion. They must be debated and read all the way up the chain of command to the CEO. These promotion documents can also be audited to ensure claims are not inflated. Finally, every year, Amazon terminates five to eight percent of the organization for not reaching the required standards of excellence.

3) *Live the leadership principles.* Annual reviews factor in how well an employee "has lived up to the leadership principles." This review metric requires employees to account for "how" they reached their goals while perpetuating and reinforcing the leadership principles as the company's North Star. If you violate the leadership principles by failing to obsess over the customer, communicating vaguely, or failing to hire or develop a first-rate team or if you allow low standards, ignore details, or fail to "think big," you won't deliver the right results.

There is tremendous pressure to deliver results at Amazon. Being a pioneer doesn't come easy. I think it's the fourteenth principle to put the "end point" on it. Leaders have to get results the right way, but results matter—a lot.

CONCLUSION

As you may have noticed, the leadership principles presented here are not secrets; they are publicly posted for the world to study, or not. The key to these principles lies in the combination of principles and the way they are used in making everyday decisions at Amazon. Let me reiterate that *these principles are referred to every day, in real decision-making scenarios, in every corner, and at every level of Amazon*.

Like any effective dogma, the leadership principles should be used as a guide, not a blueprint. Even the most enlightened doctrines are going to crash and burn when fundamentalists get their hands on them. Ultimately, Jeff gets this. He probably put it best when he said, “If you’re not stubborn, you’ll give up on experiments too soon. And if you’re not flexible, you’ll pound your head against the wall, and you won’t see a different solution to a problem you’re trying to solve.” Jeff understands that striking a common-sense balance is crucial—not trying to follow a set of rules as if they constitute a recipe for success.

Lending too much importance to any one of the principles can destroy the entire framework and ruin the desired effect. For example, if you attempt to understand all the details in your business, micro manage and have exacting standards on frivolous topics (Principle Twelve–*Dive Deep* and Principle 7–*Insist on the Highest Standards*) and your team might slow down and not deliver the scope it needs to deliver (Principle Nine–*Bias for Act*ion and Principle Fourteen–*Deliver Results*). You get the picture.

When I was at Amazon in the early to mid-2000s, the leadership principles were used and discussed, but there was no training on them, and I don’t remember a formal, written list being presented. Today, the principles are referenced and actively used in orientation, training, performance reviews, and so on. A client of mine who ran major technology operations at another high-tech company did a yearlong stint at Amazon and then decided to return to his former employer. Reflecting on his lessons learned as we enjoyed a beer together, he told me “At my current company, I can’t even tell you what the company leadership principles are. They were likely developed by a consultant. They certainly aren’t used to actively make decisions. What is so unique about Amazon’s leadership principles is that they are tactical in nature—they are used every day to make better decisions.”

With that, I leave you with one final Jeff-ism on developing your own company culture: “Part of company culture is path-dependent—it’s the lessons you learn along the way.”[90] These fourteen leadership secrets are some of the lessons that Jeff Bezos and Amazon have learned along the way. I hope you’ll find them useful as you make your own journey through today’s challenging, dynamic, complex, and incredibly promising business world. May you enjoy some measure of the success that Amazon.com has experienced. I’m optimistic about the next 25 years and hope that a number of companies consider their version of the Golden Rule just as I hope Amazon considers it for their leadership principles.

APPENDIX A: NIMBLENESS AND LEADERSHIP DURING A GLOBAL PANDEMIC

"Bad companies are destroyed by crisis, good companies survive them, and great companies are improved by them." –Andy Grove

Like a black swan crash-landing in a rain puddle, the COVID-19 pandemic forced every business to jump out of the way and conduct evasive maneuvers. It was a real-time exercise in organizational agility.

With more than one million employees and more than 175 fulfillment centers, Amazon faced an enormous challenge maintaining operations while keeping those employees safe. To complicate matters, Amazon had to wrangle a truly global supply chain with significant exposure to China. The supply chain results weren't perfect, and Amazon's fulfillment centers have experienced many health-related matters. Despite the supply chain disruption and labor strife, Amazon adjusted, shifted, prioritized, stretched, and hustled to serve a country in great need.

The pandemic was the final nail in the coffin for many organizations. Most did well to simply survive. Yet others, like Amazon, thrived. As access to brick-and-mortar stores of all kinds became limited or stopped altogether, consumers increasingly relied on Amazon's ability to provide essential products. When governments and public entities asked Amazon to help distribute medical supplies, Bezos eliminated non-essential merchandise from its supply chain to focus exclusively on essential goods.[91] Although delivery times initially suffered, Amazon successfully reinvented their retail organization and supply chain to accommodate the pandemic's constraints and needs. During a period when 33 million Americans filed for unemployment, Amazon also provided much-needed jobs, vetting and hiring roughly 175,000 additional workers and upping their minimum wage to $17 an hour.

In a letter to shareholders from late April of 2020, Jeff Bezos described the pandemic as “the hardest time we’ve ever faced.” So, how did Amazon respond with such speed and agility? First, senior leadership communicated clear, direct decisions. Recognizing the pandemic as historically disruptive, Bezos changed his priorities to resume daily meetings with his S team. He didn’t say, “COVID-19 is important,” or, “COVID-19 is a priority.” He declared, very publicly, that he was “wholly focused” on Amazon’s COVID-19 response. “My own time and thinking is now wholly focused on COVID-19 and on how Amazon can best play its role,” he said. “But making and communicating the decision is just the start.”[92]

To be a fast-acting organization, Amazon believes in small teams, decentralized decision-making, and the fourteen leadership principles outlined in this book. When Bezos communicates that Amazon will do all they can to address the pandemic, leaders like Dave Clark, CEO of World-Wide Consumer Business, are responsible for communicating the directive to every Amazon leader in such a way that they not only understand it but can also communicate it equally clearly to their own direct reports. Minimal lag time transpires in part because minimal permission is sought. While they understand the financial impact, optimizing for profitability is not on the top of the list. This process acts like a spinal cord connecting the brain (senior leadership decisions) to the muscles (the teams), which have been conditioned to react and optimize without the burden of micromanagement or even instruction. In other words, Amazon leadership “thinks,” and the body responds. Amazon senior leadership communicates the context, and the rest of the organization interprets that context and makes decentralized decisions.

Meanwhile, processes, systems, and data are constructed in well-defined, scalable pieces, owned by small pods called Two-Pizza Teams that allow for surge demand and capacity to happen. They invest in infrastructure—computing, logistics, stores, channels—well ahead of actual need. Their business model is multi-sided. If one business has a negative impact, others will likely have a positive impact. How did Amazon get to be a multi-sided business model? By investing in and exploring new businesses. Granted, many of these ventures failed, and all took investment before returns could even be understood.

An unfailing orientation on the long term underpins all of this. Bezos famously told his company’s shareholders to “take a seat” because the company planned to spend $4 billion or more in the next three months on coronavirus-related expenses, including getting products to customers and keeping employees safe.[93] It's in Amazon's DNA to do the right thing for customers in the short term, sacrificing short-term profits to focus on the long term. This is nothing new. In his 1997 Amazon shareholder letter, which is still referenced in every subsequent Amazon shareholder letter, he states, "We believe that a fundamental measure of our success will be the shareholder value we create over the long term…Our decisions have consistently reflected this focus."[94] But it's not altruism that drives them. This is good business. *This is how you innovate!*

Throughout the pandemic, I answered numerous media inquiries such as, "How does Amazon respond the way they do?" The short answer is they're built for the black swan event. Such preparation doesn't happen by accident, come cheaply, or quickly. Amazon was built for variable and rapid shifts of demands, fast action, and decisive leadership.

Start taking bets on how this pandemic will shape Amazon's future investments and opportunities. I expect them to double down on healthcare, where they were already focused. Haven, the much-publicized joint venture with JP Morgan and Berkshire Hathaway, closed down in 2021, but between Amazon's own employee needs and the market opportunity, healthcare is and will be a multi-sided, massive set of businesses for Amazon. Since Amazon's supply chain remains the most innovative and nimble in the world, expect them to lead the way in supply chain tracking and transparency. "Bezos outlined a vision for at-home COVID tests, plasma donors, PPE equipment, distancing, additional compensation, and protocols to adapt to a new world," says Scott Galloway, influential marketer and NYU Stern professor. "Jeff Bezos is developing the earth's first 'vaccinated' supply chain."[95] Rest assured, Amazon will turn the next-gen supply chain into their next "magical business."

So, how does Amazon do it? Consider the fact that, during the pandemic, Amazon was granted a patent titled "Distributed Ledger Certification." This patent is the first step towards "providing digital trust from the first mile of an item's supply chain."[96] The leadership principles answer the question of "How do they do it?" They think big, they think long term, they invent and simplify, they measure everything, and they put the customer at the center of it all.

It doesn't happen by accident.

APPENDIX B: DEVELOPING YOUR LEADERSHIP PRINCIPLES

"Operate by principles that are so clearly laid out that their logic can easily be assessed, and you and others can see if you walk the talk."
Ray Dalio, Principles

The process of identifying and articulating your team's leadership principles should be a collaborative, iterative, and strategic activity. What it should not be is either rushed, delegated, or outsourced. Here are my thoughts on developing your leadership principles.

Working Backward

Start the process by motivating your team with a vision exercise. Craft a future press release dated five years out that imagines your team's successes over that time period. Before writing it, consider questions such as:

- How did your organization grow in that time?
- What changes occurred in the culture and organization norms?
- What do daily interactions (e.g., employee experiences, meetings, decision-making) look like?
- How did you scale? Move quickly? Become agile?
- What were the greatest obstacles to overcome?
- What were the leadership principles that made these successes possible?

Remember, your future press release doesn't have to be perfect. In fact, it can't be because it's about the future. Think of it as a living document, something you can return to as often as you'd like. Once it's drafted, imagine where gaps may exist between the ideal and the real world. In other words, assess your culture with an objective and critical eye. It’s common for a culture to work significantly different from how we say we want it to work. Now is the time for a brutal self-critique via “truth-seeking.” Address problems. Define clear and tangible goals.

Build Out Your Principles

Without human beings to actualize them, leadership principles are only words on a page. Each principle is just a frame on which you hang real-world scenarios. Start building a portfolio of potential scenarios and outcomes based on your vision of the future to build out these leadership principles further. Principles are foundational by definition. Here are some questions to help see this foundation from different angles and perspectives:

- Who are your customers, and what value will you bring them? What problems will you solve? Get crisp on your value proposition(s). Spot the principle driving them.
- Who are your stakeholders, and what should they expect of you? For example, if partners are central to your business, what should partners expect from you? What do you expect from partners?
- What are your beliefs about the future? How does this define our organization?
- Do you have a strong or central mission? How does the mission outline potential principles?
- What are the non-negotiables in your organization? For example, perhaps you have a “no brilliant jerks” rule that needs to be reflected in principles.
- What do you prize in terms of how work is done in the organization?
- How do you hold each other accountable?
- How does an employee know if they’re making the right decision? Or are empowered to make a decision? Or are doing the right thing?

- What should the organization be famous for on employee review sites like Glassdoor?

Consider questions like these to add dimensions to what types of topics need to be addressed via principles. These ideas are unshaped iron needing to be worked and reworked, tooled and retooled, finally burnished to a shine.

Brainstorm Candidate Principles

Make sure your team knows there are no “bad ideas.” Nurture a free flow of concepts. Press participants to further define each principle by providing examples of what the principle looks like in practice. Ask them to lobby on behalf of the principle on why it should become “one of the few.” Write paragraph-length explanations for each principle to give it more context and dimension.

Research on other companies and their principles can be done here or perhaps before you start building your principles. Study, critique, or copy leadership principles and tenets from companies you admire. At this point, ideas and options are just being developed and looking externally for benchmarks and examples helps for this purpose.

Rationalize and Consolidate a First Draft

This needs to be done by the decision-makers, meaning senior leadership accountable for the organization. These company leaders will not only be asked to get these principles “right” but also to be their primary champions. For leadership principles to drive an organization, its leaders must communicate them and also hold others accountable to them.

Once established, the leadership team must use the principles in a recognized, featured manner in all of their dealings together. The rest of the organization is watching closely, and true adoption must happen at the executive team level first.

In other words, make sure you totally understand and believe in these principles by contributing to their formation. Meet multiple times to draft them. Don't rush. Picture yourself writing them in pencil or "etching them in Jell-O." Keep refining and give them the time they need to properly bake.

I hesitate to say you can have too many principles, but you can have too many principles. Rationalize the list to the essential cultural attributes that you want your company to be famous for. This is the reason why obvious principles don't add a lot of value. They don't differentiate your culture or strategy.

Avoid Empty Calories

The goal of having company principles is to distinguish how your culture helps you compete and win. Real principles are difference-makers in your business and not a "feel good" exercise. They are not a poster. Don't make them too vague or one-size-fits-all. If your principles could be used in almost any company; if they don't create a competitive edge for you; if they are, as they say, "apple pie and motherhood," then they are empty calories.

Of course, "being ethical" is non-negotiable. Of course, "treat others with respect" is expected. But in both cases, do they help you compete and identify the right people for your organization? Are they difference-makers?

In his *Harvard Business Review* article, "Make Your Principles Mean Something," Patrick Lencioni writes, "Take a look at this list of corporate values: Communication. Respect. Integrity. Excellence. They sound pretty good, don't they? Maybe they even resemble your own company's values. If so, you should be nervous. These are the corporate values of Enron, as claimed in its 2000 annual report. And they're absolutely meaningless. Indeed, most values statements," says the author, "are bland, toothless, or just plain dishonest. And far from being harmless, as some executives assume, they're often highly destructive. Empty values statements create cynical and dispirited employees and undermine managerial credibility."[97]

Like junk food, these principles are worse than nothing. Live long enough on nothing but junk food and empty calories and the food actually becomes the disease.

Build Mechanisms

How does one practice or manifest a principle? In many cases, your organization likely has ways that demonstrate the principle. At times, you may need to incorporate new practices to bring the principle to life. But if you can't identify a set of recognizable techniques for a principle, then it will be harder to train, recognize, and put into practice. Here's an example:

1. Principle. "We will be data-driven in our operations."
2. Mechanism. Every process or service that could impact the customer experience has to have a high-bar SLA (service level agreement), which is calculated on a daily basis. If the SLA fails, the team has to complete a "correction of error" to drive root cause analysis and improvement.

Adding mechanisms to each principle allows you to flesh it out from mere concept to a defined approach.

Draft Your Principles and Communicate

It's time to draft your principles, announce, and communicate them. Set the expectations that you are hoping for and live with them for a while at first. Adjustments will be considered in the future. Like public policy or laws, adjustments will be diligently performed with due process, not just because someone is uncomfortable or upset. If you've done your hard work getting to this point, your belief and conviction behind this set for your organization should be extremely high and explainable.

Consistent communication is the key. Every senior person needs the talk-track. If one of your senior people is reluctant, pessimistic, or passive-aggressive, you have a real problem on your hands. Everyone will sense the toxicity, and it may give others the impression they can opt out of the initiative. My recommendation is to fire at least one. Let the organization know why they were fired. This sets the tone that these principles are real.

Team Tenets Can Do the Trick

Many teams at Amazon have a set of tenets. These are principles and goals specialized for that team in support of their mission. If your organization has principles, but you want to sharpen them up for your team, think of team tenets. Or if you're a team leader and can't tackle the entire enterprise, team tenets can be a way to lift your team to a higher level of performance. The process is the same; we've just scaled the application down a bit.

The Amazon human resource team has published their tenets. They have many of the same traits of Amazon's LPs: clarity, definition, ability to act and judge against them. However, they are tailored for the mission of this team instead of the entire organization:

AMAZON'S HR TENETS:
WE BUILD A WORKPLACE FOR AMAZONIANS TO INVENT ON BEHALF OF CUSTOMERS.

Employees come to Amazon to do meaningful work, and we make that easier by removing barriers, fixing defects, and enabling self-service. Applying to, working at, and leaving Amazon should be frustration-free experiences.

We seek to be the most scientific HR organization in the world. We form hypotheses about the best talent acquisition, talent retention, and talent development techniques and then set out to prove or disprove them with experiments and careful data collection.

As we develop new programs and services, we work backward from the employee and candidate, understanding our work has a direct impact on customers. We prioritize work that results in measurable impact for our customers.

We acknowledge that no process or policy can be so well designed as to properly cover every situation. When common sense is at odds with one of our policies or practices, we make high-judgment exceptions.

We seek to be the most technically proficient HR organization in the world. Our team includes dedicated engineers, computer scientists, and principals who develop world-class, easy, and intuitive products for candidates and employees.

We manage HR as a business, and we must scale faster through technology and simplified processes rather than through HR headcount growth. We rigorously audit ourselves to disrupt and reinvent HR industry standards.

We favor straightforward, two-way communications. When we talk about our work, we use plain language and specific examples over generalizations and corporate-speak.[98]

A Warning About Culture

Like most things in life, culture is what you and your team do naturally, not just what is said. Culture is based on articulated, accepted, and practiced principles. If you don't personally adhere to a principle-based culture, everyone, including leadership, will be observed in that context and held accountable.

For example, I was part of a team that claimed to have a "no-asshole policy," but that policy was completely overlooked. The "brilliant jerks" among us weren't just tolerated, they were promoted, especially if they were the key to large revenue gains. But that was then, and this is now. One key reason why Amazon's leadership principles make an incredible difference is that leaders like Jeff Bezos, Andy Jassy, and Jeff Wilke are the defenders of these principles. They won't apologize for them. They ensure that they are used and hold themselves to these principles.

Are you ready to get started?

APPENDIX C:
FREE CASH FLOW

Author's Note: I wrote this document with my former Amazon colleague and good friend Randy Miller. It offers a more detailed discussion of free cash flow (FCF), including more background and examples than I had room to provide when introducing the topic in Chapter 8: Think Big.

• • •

Mass retail is a notoriously low-margin, efficiency-based business. Keeping large margins over a long period is difficult and likely results in a smaller market share. From the beginning, Amazon has set a course and vision to be "the biggest store in the world," starting as a bookstore and now including all categories. Tied to this philosophy is a perspective about optimizing financial results. Jeff Bezos sums up the strategy this way, "Percentage margins are not one of the things we are seeking to optimize. It's the absolute dollar free cash flow per share that you want to maximize. If you can do that by lowering margins, we would do that. Free cash flow, that's something investors can spend."

Free Cash Flow Defined

Free cash flow (FCF) can be calculated in a few ways, with most calculation methods designed for investors who are looking to untangle the accounting tricks used to generate financial statements. For the business manager, we will focus on the following definition:

$$FCF = (Revenue - Cost - Depr.) * (1 - \tau_c) + Depr. - CapEx - \Delta NWC \qquad \textbf{[Eqn. 1]}$$

where: τ_c = tax rate
Depr. = depreciation
NWC = Net Working Capital

[Note that depreciation is added back in because it is a non-cash expenditure. It is for this reason that FCF is not the same as other measures commonly used by investors to evaluate the health and success of a business, such as EBITDA, net earnings, and profit margin percentage.]

$$FCF = \underbrace{(Revenue - Cost) * (1 - \tau_c)}_{\text{Cash from Operations}} - \underbrace{CapEx - \Delta NWC}_{\text{Operating Expenditures}} + \underbrace{\tau_c * Depr.}_{\text{Tax Shield}} \qquad \textbf{[Eqn. 2]}$$

Rearranging terms in Eqn. 1, we arrive at a basic definition of free cash flow:

"Revenue–Cost" represents cash generated from operations. CapEx and ΔNWC is the money spent to keep the business running, and the final term in Eqn. 2 is the cash contribution that "depreciation as a tax shield" represents.

A business's day-to-day operations, such as the sale of products or services, are the source of FCF, and operating expenditure is cash spent to run and maintain the business on a day-to-day basis. FCF, however, is the remaining cash available, and is free to be spent in ways that add value for the business. Stated simply, FCF is free to be spent in ways that grow real value for shareholders.

In his 2004 Letter to Shareholders, Bezos explains the reason for Amazon's focus on FCF: "Why not focus first and foremost, as many do, on earnings, earnings per share or earnings growth? The simple answer is that earnings don't directly translate into cash flows, and shares are worth only the present value of their future cash flows, not the present value of their future earnings."

Our ultimate financial measure, and the one we most want to drive over the long term, is free cash flow per share.

Free Cash Flow as Amazon's Business Engine

Free cash flow can be a powerful engine for driving shareholder value. At Amazon, it is both the proverbial North Star that managers use to guide operations, and the fuel that leadership uses to drive business strategy.

The following figure shows how FCF moves from operations to business strategy, which in turn grows and improves operations.

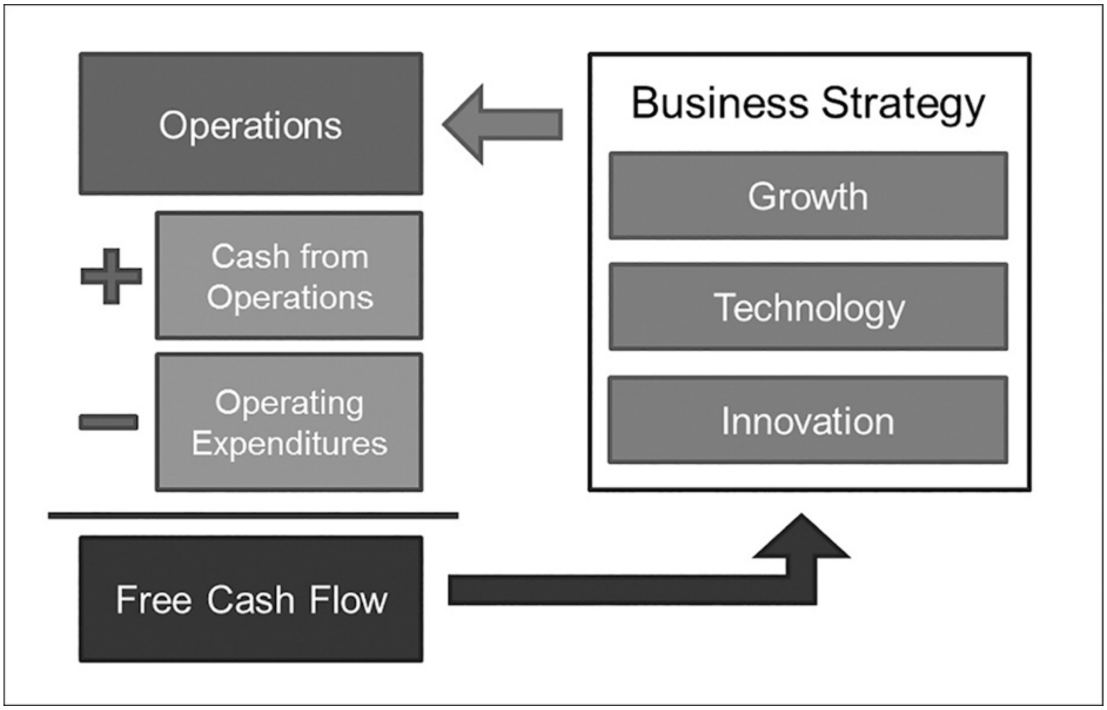

Figure B-1. *Free Cash Flow as a Business Engine*

Operations Generate Free Cash Flow. Now that we've established that operations are the source of free cash flow, the next step is to set up appropriate measurements and KPIs. A few examples from Amazon include contribution profit and total sales rather than contribution margin as a percentage.

This focus on FCF as the primary financial measure at Amazon began in earnest when Warren Jenson became CFO in October of 1999. As noted above in Jeff Bezos's quote, it is also the time when the Amazon finance organization began to move away from a percentage margin focus to a cash margin focus. Bezos loved to toss out the axiom "percentages don't pay the light bill, cash does!" He would then ask, "Do you want to be a $200 million company with a 20% margin or a $10 billion company with a 5% margin? I know which one I want to be!"

This new direction of putting FCF at the center of Amazon's strategy, as well as the need to manage it successfully, drove the creation of powerful measurement and modeling capabilities. One powerful example of this is the robust and extremely accurate "unit economic" model that was developed. This tool allows merchants, finance analysts, and optimization modelers to understand how different buying decisions, process flows, fulfillment paths, and demand scenarios will affect a product's contribution profit. This, in turn, gave Amazon the ability to understand how changes in these variables would impact FCF and has allowed them to react accordingly.

Very few retailers have this type of in-depth financial view of their products, and thus have a difficult job truly making decisions or building processes that optimize the economics. Amazon uses this knowledge to determine the number of warehouses they should have and where they should be placed, to quickly assess and respond to vendor offers, to develop a better understanding of inventory margin health, to know how much it will cost them to hold a unit of inventory over a specified period of time down to the penny, and so on.

Free Cash Flow as the Fuel for Business Strategy. Let us now assume that operations are running efficiently and FCF is being generated. As a leader, it is your responsibility to spend this cash in whatever way creates the most value for shareholders. Your options fall into four basic categories:

- Investing in growth
- Paying down debt
- Buying back shares
- Paying out dividends

Investing in growth is the most interesting option here and has been the core of Amazon's business strategy to date. Bezos believes that a company will stagnate without constant innovation and that the primary ingredient for strong innovation is free cash flow. Many would argue that spending FCF on buying back shares or paying out dividends is a signal that senior leadership has run out of positive NPV projects and that shareholders are better off finding better uses for their money.

At Amazon, common areas of investment have included adding new categories, new businesses, new infrastructure (such as fulfillment centers), and scale through technology. New businesses are incubated for a period of time in order to prove their viability and optimize operations before FCF is invested to scale to a national or global level. Amazon Fresh is a perfect example of this; it was run locally in Seattle since 2007 before expanding to other cities in 2013.

Free Cash Flow as a Decision Driver

As a business leader, one of your main responsibilities is to make sound and reasonable decisions for the management of your company. It's a given that these decisions should be based on data, goals, KPIs, and competitive insights, but which ones? Let's take an in-depth look at how a C-level decision can vary with the following two goals:

- Maximize Net Earnings
- Maximize Free Cash Flow

To compare these alternative decision drivers, let us analyze a hypothetical business scenario from Jeff Bezos's 2004 Letter to Amazon Shareholders:

> Imagine that an entrepreneur invents a machine that can quickly transport people from one location to another. The machine is expensive—$160 million with an annual capacity of 100,000 passenger trips and a four-year useful life. Each trip sells for $1,000 and requires $450 in cost of goods for energy and materials and $50 in labor and other costs.
>
> Continue to imagine that business is booming, with 100,000 trips in Year 1, completely and perfectly utilizing the capacity of one machine. This leads to earnings of $10 million after deducting operating expenses including depreciation—a 10% net margin.

Although overly simplified, this business scenario allows us to take a closer look at the decision process.

Maximize Net Earnings. It is now the end of Year 1, and the entrepreneur must make a decision. If the company's primary goal is to maximize earnings, then the best course of action is to invest more capital to add additional machines, fuel sales, and grow earnings. Let us assume that the entrepreneur decides to grow the business by 100% each year, purchasing an additional machine in Year 2, two more in Year 3, and four more in Year 4.

Here is the income statement for the first four years of business when earnings growth is the company goal:

	Earnings			
	Year 1	Year 2	Year 3	Year 4
	(in thousands)			
Sales	$100,000	$200,000	$400,000	$800,000
Units sold	100	200	400	800
Growth	N/A	100%	100%	100%
Gross profit	55,000	110,000	220,000	440,000
Gross margin	55%	55%	55%	55%
Depreciation	40,000	80,000	160,000	320,000
Labor & other costs	5,000	10,000	20,000	40,000
Earnings	$ 10,000	$ 20,000	$ 40,000	$ 80,000
Margin	10%	10%	10%	10%
Growth	N/A	100%	100%	100%

Table B-1. *2004 Letter to Shareholders*

If this transport machine is truly revolutionary, it is reasonable to assume that demand can keep up with capacity. In the first four years of operation, the company sees 100% compound earnings growth and $150 million of cumulative earnings! It appears that the sky is the limit for this company. Let's see what things look like when maximizing FCF is the goal.

Maximizing Free Cash Flow. To analyze this business through the free cash flow lens, let's take a look at the cash flow statement for Years 1 through 4 with the additional machine purchases included:

	Cash Flows			
	Year 1	Year 2	Year 3	Year 4
	(in thousands)			
Earnings	$ 10,000	$ 20,000	$ 40,000	$ 80,000
Depreciation	40,000	80,000	160,000	320,000
Working capital	—	—	—	—
Operating Cash Flow	50,000	100,000	200,000	400,000
Capital expenditures	160,000	160,000	320,000	640,000
Free Cash Flow	$(110,000)	$ (60,000)	$(120,000)	$(240,000)

Table B-2. *2004 Letter to Shareholders*

Free cash flow tells a very different story from the one told by Earnings. FCF is negative in Year 1 because of the massive capital expenditure on the transport machine. The machine is already being run at full capacity and only has an operating life of four years, so even with 0% growth, the net present value of cash flows (assuming 12% cost of capital) is still negative.

To improve FCF, we can focus on improving cash from operations or on reducing operating expenditures. Probing in these two areas leads to questions such as:

- How much would the production cost of the transportation machine need to be reduced for this to be a positive FCF business?
- How much should the price of a ticket be raised for this to be a positive FCF business? What is the price elasticity of near-instant transportation?
- Would the transportation machine last longer if it wasn't run at full capacity? What if it turned out that running at 80% capacity doubled the operating life of the machine? How would this affect FCF?

With maximizing FCF as the goal, our manager would have made very different investment decisions than when maximizing earnings was the goal. Without other options or modifications to this business model, we see that, in this scenario, committing capital to growth is a poor choice. Rather than investing in growth, the best course is to invest in improving and optimizing the business model to see if this business model can become FCF positive.

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