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20 Years of Wisdom From Amazon's Jeff Bezos

His quote from 2013 highlights the difference between normal businesses and those that change the world.

Over the last 20 years, Amazon's Jeff Bezos has been putting pen to paper and churning out the same type of actionable wisdom we should all be reading.

Here's the most important nugget from each one of those 20 letters.

1997: We're focused on the long term

From the outset, Bezos made it clear that he would ignore Wall Street's modus operandi and focus on the uber-long-term:

Because of our emphasis on the long term, we may make decisions and weigh trade-offs differently than some companies. ... We will continue to make investment decisions in light of long-term market leadership ... rather than short-term ... Wall Street reactions.

1998: Here's how you hire right

This year's snippet is somewhat out of context from the rest, but it still offers insight into how the company hired some of the brightest minds available in the late 1990s:

During our hiring meetings, we ask people to consider three questions before making a decision:

- Will you admire this person? ...
- Will this person raise the average level of effectiveness of the group they're entering? ...
- Along what dimensions might this person be a superstar?

1999: E-shopping is as bad as it'll ever be

It might seem obvious now, but Bezos very clearly foresaw how e-commerce would change over time.

The current online shopping experience is the worst it will ever be ... but it will get so much better.

The real Jedi mind trick is accepting this: Bezos would probably say the online shopping experience right now is much worse than it will be moving forward.

2000: We're learning from our mistakes

Like all dot-coms, Amazon suffered when the tech bubble burst. Bezos admits that he, too, got carried away:

In retrospect, we significantly underestimated how much time would be available to enter these categories and underestimated how difficult it would be for single-category e-commerce companies to achieve the scale necessary to succeed.

2001: Here's why we've started cutting prices

Starting in 2001, the company started lowering prices on goods. The "loop" he mentions below will be covered in MBA classes for decades:

Focus on cost improvement makes it possible for us to afford to lower prices, which drives growth. Growth spreads fixed costs across more sales, reducing cost per unit, which makes possible more price reductions. Customers like this, and it's good for shareholders. Please expect us to repeat this loop.

2002: We can have our cake and eat it, too (low prices and customer service)

If a brick-and-mortar wants outstanding service, it needs to spend more money on hiring and bells and whistles. Not so with e-commerce:

One of our most exciting peculiarities is poorly understood. People see that we're determined to offer both world-leading customer experience and the lowest possible prices, but to some this dual goal seems paradoxical if not downright quixotic.

2003: Let's revisit what long-term thinking looks like

Bezos comes back to long-term thinking a lot. Here, he explains the difference between "owners" of Amazon stock and "tenants."

Owners are different from tenants. I know of a couple who rented out their house, and the family who moved in nailed their Christmas tree to the hardwood floors instead of using a tree stand. ... No owner would be so short-sighted. Similarly, many investors are effectively short-term tenants, turning their portfolios so quickly they are really just renting the stocks that they temporarily "own."

2004: Free cash flow is more important than earnings

While the example he uses is a bit far-fetched, Bezos provides an example of a business that can generate outstanding profits on paper and be a cash-losing business when it comes to money in the bank.

A company can actually impair shareholder value in certain circumstances by growing earnings.

2005: Data is good, but long-term judgement is better

Another long-term differentiator of Bezos is that he balances when to use data to make decisions, and when to ignore it and focus on what data can't measure:

We can estimate what a price reduction will do this week and this quarter. But we cannot numerically estimate the effect that consistently lowering prices will have on our business over five years or ten years or more. Our judgment is that ... [this] creates a virtuous cycle that leads over the long term to a much larger dollar amount of free cash flow.

2006: How to decide to go after a new opportunity

Optionality -- i.e., being able to pursue multiple lines of business moving forward -- is a key characteristic of Amazon. Bezos looks for three things in such lines of business.

We must convince ourselves that the new opportunity can generate the returns on capital our investors expected when they invested in Amazon...that the new business can grow to a scale where it can be significant in the context of our overall company... [and] that the opportunity is currently underserved and that we have the capabilities needed to bring strong customer-facing differentiation to the marketplace.

2007: Can we really replace a 500-year old invention (the book)?

To get an idea for the kind of outside-the-box thinking that happens in Amazon's C-Suite, look at how Bezos described the mindset used when designing the Kindle.

We identified what we believe is the book's most important feature. It disappears. When you read a book, you don't notice the paper and the ink and the glue and the stitching. All of that dissolves, and what remains is the author's world.

2008: Should we focus on our unique skills or our customers? Customers -- always customers!

Lots of companies like to focus on their strengths. There's nothing wrong with that. As Bezos describes, though, there's a better long-term way.

However, if used exclusively, the company employing it will never be driven to develop fresh skills. Eventually the existing skills will become outmoded. Working backwards from customer needs often demands that we acquire new competencies and exercise new muscles.

2009: How to set goals

Amazon sets a lot of goals. Almost none of them have to do with financial outcomes. Instead, they focus on what they can control: the process.

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. ... Focusing our energy on the controllable inputs to our business is the most effective way to maximize financial outputs over time.

2010: We're using AI, and it's making a difference

This is the biggest sleeper (for non-IT folks) of these letters. Bezos gets into the nitty-gritty of how Amazon constructs its technology to make the business better. The most important takeaway: its forging into unexplored territory.

Many of the problems we face have no textbook solutions, and so we -- happily -- invent new approaches.

2011: Eliminating gate-keepers helps the world...and us

Some believe Amazon is a monopoly that needs to be disbanded. But detractors must acknowledge that Amazon Web Services (AWS), Kindle Direct, and Fulfillment by Amazon (FBA) have eliminated gate-keepers and allowed smaller businesses and authors to flourish for a relatively small fee:

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

2012: Be customer-focused, not competition-focused

Amazon worries more about fulfilling its mission than about what the competition is up to.

One advantage -- perhaps a somewhat subtle one -- of a customer-driven focus is that it aids a certain type of proactivity. When we're at our best, we don't wait for external pressures. We are internally driven to improve our services, adding benefits and features, before we have to. We lower prices and increase value for customers before we have to. We invent before we have to.

2013: How we invent at Amazon

The embrace of failure at Amazon is legendary, leading to lots of small failures...and a few huge wins.

Failure comes part and parcel with invention. It's not optional. We understand that and believe in failing early and iterating until we get it right. When this process works, it means our failures are relatively small in size (most experiments can start small), and when we hit on something that is really working for customers, we double-down on it with hopes to turn it into an even bigger success.

2014: Amazon is now married to these three businesses

Starting in 2014, Bezos made it clear that three lines of business were driving most of Amazon's results: the online market place, Prime, and AWS.

A dreamy business offering has at least four characteristics. Customers love it, it can grow to very large size, it has strong returns on capital, and it's durable in time -- with the potential to endure for decades. When you find one of these, don't just swipe right, get married.

2015: Two-way doors vs. one-way doors

Bezos realizes that most decisions are reversible. You can use his advice below in almost every facet of your life.

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

2016: How to make high-velocity, high-quality decisions

Continuing last year's two-way door theme, Bezos makes it clear that he intends to continue pushing very hard to make such decisions as fast as possible.

To keep the energy and dynamism of Day 1, you have to somehow make high-quality, high-velocity decisions. Easy for start-ups and very challenging for large organizations.

2017: Got standards?

Finally, Bezos reflects on high standards. While most people can identify what those standards look like, there's a missing piece.

To achieve high standards ... you need to form and proactively communicate realistic beliefs about how hard something is going to be.

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