



# How Does Amazon Stay At Day One?

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Visit the office of Amazon's head of Devices, Dave Limp, and you may get an offer to look at a piece of corporate history: the original short documents drafted by an internal team in 2011 to propose the development of Alexa, the intelligent personal assistant Amazon launched in late 2014. Call it an e-memento; Limp hasn't deleted it. And it's hardly the only memento. He can also call up dozens of other sets of documents, amazingly similar in format, setting forth the initial visions for what would become blockbuster products and services.

And if you keep looking, you might catch a glimpse of the new proposals he's considering, again all taking the same form. Each consists of a one-page "press release" (for an offering that doesn't even exist and might never be commercialized), a six-page set of FAQs (frequently asked questions that customers can be anticipated to have about the offering, and their straightforward answers), and often a bit more descriptive material, sometimes even a mockup or prototype. Over a hundred of these ideas arrive in Dave Limp's in-box every year. The same goes for leaders of other Amazon businesses, like Jeff Wilke, the CEO of Amazon's worldwide consumer business and Andy Jassy, the CEO of Amazon Web Services (AWS). And these leaders see only a fraction of the total number being circulated through the company.

If you wonder how Amazon keeps up its torrid pace of launching new products and services, you're looking at the heart of it. Amazon moved up this year to the third slot on *Forbes* "Most Innovative Companies" list – our objective, data-driven ranking of public companies based on the "innovation premium" investors grant them. ([See here for the methodology.](#)) It is a remarkable resurgence for a twenty-year-old company that was near the top (#2) on our first list in 2011 but in recent years has dropped further down the list. (In our 2016 list, it ranked eleventh.)

The process we're calling the heart of Amazon's renowned innovation prowess is called "working backwards" and it takes its cue from Amazon's long-established leadership principles. The first of them starts: "Customer obsession. Leaders start with the customer and work backwards ..."  
Following that principle, these documents constitute a visualization mechanism. They force a person with an inventive idea to get very clear on the objective, and to describe it in a way that others can also grasp without ambiguity. The documents don't just go into email boxes. Their authors present them internally with the kind of energy they would deserve if this were really the day the offering was launched.

If the discussion wows its audience – a manager or set of managers in a position to allocate resources to develop it further – then the question quickly becomes: how do we accomplish everything it would take to get there? It's fine if, as the work gets underway, discoveries suggest that the vision should change somewhat; and in that case the "PR/FAQ" gets revised. Wilke stresses that these are "living documents." But still, "as you begin to iterate on the product, and you revise those docs," he stresses, "you periodically compare them to the original ones to make

sure you haven't drifted so far from the vision that you're not happy with what you're actually building."

### **An Infrastructure Of Innovation**

Wilke told us how he reacted when Jeff Bezos first described the working-backward process and the documents at the center of it. *Invent and simplify* may be one of the company's leadership principles but, Wilke says, "I thought it was *too* simple," Soon he appreciated that is exactly its strength. The format creates a simple, standard interface for putting ideas in play. Once everyone becomes familiar with it, barriers to participation fall. Anyone in the ranks knows the process for proposing an invention. Well down into the organization, Wilke told us, "these working-backward documents are written by individual contributors with a passion." And when their projects are discussed, all the energy and attention is focused on the idea itself, not its packaging.

Amazon signals during an employee's first interview that it wants people inventing. Innovation starts, he says, with "hiring great people who in the core of their DNA want to invent." Amazon has a "builder's culture," and wants to make sure the people it brings in share that ethos. Once the hire is made, that signaled expectation continues. "Certainly Jeff [Bezos] has had his share of ideas," says Wilke, "but the individual SDE [software development engineer] who we *hired to be a builder* should achieve her level of innovation, as well."

Having a standard process also has the benefit of creating a kind of infrastructure, a backbone for developing people's skills and ambitions. Wilke told us the story of a woman who had just written a press release and FAQ which he thought was terrific. The employee was young and had just taken a new role, but Wilke "asked her at the end of reviewing it, if she wanted to run the business." She was taken aback but, a day later, accepted the challenge. "She's going to learn a ton," Wilke says, "and I'm going to mentor her along the way because I'm interested in her development. I think she's going to do great."

The fact that the "working backwards" process is so useful for leadership development is, we are sure, part of why such a large number of ideas get greenlighted to at least some degree — and yet so few get immediate approval. Wilke guesses that something like 50 percent do end up progressing. But "almost none of them, when they're reviewed by somebody who could allocate the resources, get a 'yes' on the first try. So one of the great things about this process is that iteration and refinement make these documents much more crisp. We only fund things that we can articulate crisply." Dave Limp says these crisp documents are useful because Amazon has a "written narrative culture." It's important to present the invention in prose rather than in formats that allow people to take away different interpretations of it. It should be possible, he says, that if the author simply handed it off to a team of engineers, they could get to work building. "It needs to be that crisp and specific."

### **SIDEBAR: Working Backwards from the Launch**

Amazon has institutionalized a "working backwards" process that starts with three short documents:

1. *Press release* (one page). The press release announces something new and valuable with a name that target customers will understand. It communicates in a compelling way what the offering is and who will be well served by it. It evokes the problems that customers have been experiencing in the absence of such a solution, and makes clear how this overcomes those. Like a real press release, it anticipates the kind of positive coverage that might appear in a media outlet impressed enough to share the news.
2. *FAQ list* (six pages). In the format of the familiar “Frequently Asked Questions” section, this document lays out details about the solution as they would be presented to customers starting to use it. To draft these, a team has to put itself in the shoes of busy, nonexpert users who are trying to solve a problem, and anticipate the issues they might encounter. To help teams draft FAQs, Amazon provides prompts, including: “What will customers be most disappointed about in version one of the offering?”
3. *A portrayal of the customer experience*. Additional materials, sometimes including screen-display mockups or even rough prototypes, make it easier to envision just how customers will access and work with the new offering. These might describe use cases, include code snippets, and/or describe how the product fits into broader processes or customer contexts. At its best, this is storytelling about customers facing problems and having a better way to solve them.

## Developing Innovation Leaders

Obviously, getting to the point of a greenlighted proposal is a good developmental process for a builder employee. Just as important, it develops the skills and mindset of the *decision-makers* who are sitting around a conference table.

A key concept for them to learn, for example, is the difference between “two-way doors” and “one-way doors.” The point is that committing resources to an invention allows you to make a foray into some new space; it’s like going through a door and discovering what is really on the other side of it. But what if you don’t like what you find there? No big deal if this was a two-way door and you can just retreat (walking through and then back); maybe you lost some initial outlay but on the other hand you learned something. “I’m totally happy with people saying yes and making mistakes” of that kind, Wilke says. But some investments are one-way doors, where the actions required to proceed render it impossible to go back again. Bezos believes the reason some decision-makers are too timid is because they mistake two-way doors for one-way doors. At Amazon therefore, as Wilke says: “We try to teach this distinction to everyone that can say yes.”

As long time researchers on the topic of innovation, the two of us are firm believers that breakthroughs often occur when people step back from a problem they are trying to solve and reframe it – that is, when they stop trying to refine their answer and start asking a different, better question. This strikes us as one of those situations. Most companies keep trying to solve the problem of how to get more people to come forward with more ideas. But Amazon’s leaders ask a different question: What if the real barrier isn’t the lack of imagination or initiative of people in the ranks, but the bureaucratic wall of naysayers they hit when they propose them?

Most of us are familiar with the typical hierarchical gauntlet: someone with an idea has to go up the chain of command, and a “no” at any level kills the idea. “It’s not because they’re ill-intended, or

evil people, or not creative,” Jassy says. “It’s just because companies tend to get more conservative, closed, and insular. And, because most companies organize in a really centralized fashion, it’s hard to think about another incremental five or six projects in the middle of the year, because it just feels like a lot to manage.” All those individual no’s, unfortunately, add up to a crippling deficit in innovation. Recognizing that, Amazon tries to cultivate a culture opposite to that, where “we walk into meetings trying to find ways to say yes to new ideas.” Wilke said the same: “We work very hard to set up an environment that is not a multi-level thing, where the only way to get a ‘yes’ is to get that from five levels, and any one of them can say ‘no.’ We set up an environment where basically anyone can say ‘yes’ as long as they have the resources to begin to support it.” That can be as minor a commitment as dedicating one full-time employee and some developers’ time.

Bezos has also worked to spread the idea that decision-makers can “disagree and commit” (the phrase is contained in another leadership principle). To say yes, the person positioned to allocate resources doesn’t have to be sold on the idea — he or she only needs to be willing to give it a chance to be tested. Over a decade ago, when Bezos was interviewed by *Harvard Business Review*, he used an odd phrase to capture what he was trying to build in Amazon’s culture (which became the title of the article): “the Institutional Yes.” He recognized very early that getting more experiments underway isn’t only a matter of getting the rank and file to suggest more ideas. Just as vital is getting the decision-makers to green-light more experiments.

Beyond concepts like “two-way doors” and “disagree and commit,” there are some basic criteria that decision-makers are taught to think about in evaluating an idea. *Does it have the potential to get big?* An invention can be perfectly workable but if it’s hard to imagine it ever being a large-scale success, it’s probably not worth the effort. *Could we really manage to build it?* Even without existing capabilities in-house, it should be clear that Amazon has a chance of succeeding. And the most important criterion of all: *Would customers love it?*

### **Building New Capabilities**

Limp revealed that if he is allocating points to a proposed invention based on those three considerations, nine out of ten go for customers loving it. In case we didn’t get the implication, he adds: “there’s a lot of other criteria, certainly, but basically, if we come out of a working-backwards document meeting and we’re fixed in on ‘customers will love it’ — we’re going to build that.” Hearing this, there could be no mistake: Amazon is adamantly not pursuing a competency-driven strategy — that is, making plans for new offerings based mainly on what it has a distinct operational strength in. “Amazon’s not afraid of opportunities that require stretching and developing new skills,” Wilke assured us.

Yet we would emphasize that this ends up being a competency-*building* strategy. Working backwards from a clearly articulated vision of something a customer would love forces the company to understand what capabilities it lacks to deliver that, and invest in getting them. Then, having developed that capability, the Amazonians start to get even more ideas for offerings that customers would love.

Amazon Web Services is the canonical example of this. As Andy Jassy describes its genesis, he notes that Amazon’s need for a scalable, reliable, cost-effective infrastructure platform to support

its own retail operations was one driver. There was also the fact that the company had started a business, [www.merchant.com](http://www.merchant.com), to provide other retailers like Target and Marks & Spencer with e-commerce technology — which required it to “untangle a bunch of the pieces of our technology platform that had really become jumbled up in the first ten years of running Amazon.” Figuring out how to deliver distinct solutions to business customers in decoupled APIs “was way harder than we thought it was going to be,” Jassy recalls, but the process of doing it “really changed the way we thought about software.” From that point, the company started expecting its internal teams to build in the new, service-oriented architecture fashion. Now, a distinct point of view about the future began to take hold: all kinds of companies and developers would do better to build applications from scratch on top of such infrastructure services, using the internet as operating system. Yet none of the key components of that internet operating system had been built. Jassy says: “When we thought about what we were good at — Amazon's always been a technology company, one that applied the technology to the retail space first, but always a technology company at its heart—we realized we could contribute all those key components” that were missing. “And we thought it had the chance to be a significant business.”

In many ways, Amazon’s renowned optimization of its operations was a competency that had to be built along the way. Jeff Wilke, a graduate of MIT’s Leaders for Manufacturing program (now a joint-program, Leaders for Global Operations, by the School of Engineering and Sloan School of Management), remembers early on helping to apply “lean” manufacturing processes and statistical process controls to Amazon’s retail environment.

As another example of capability-building, he mentions the Kindle, which as a manufactured electronic device represented a huge departure from Amazon’s internet retailing roots. It was, he recalls, one of those “disagree-and-commit moments” for him. “We’re a software company, not a hardware company,” he protested at the board meeting where the decision had to be made. He predicted all kinds of ways the company would pay the price for its lack of competence in manufacturing. But ultimately Bezos declared, “Well, I think we’ll do better than that, but I’m willing to concede that all those things might happen, and we’re still gonna do it.” So Wilke got on board. “Turns out, I was right on everything I called out,” he says. “And he was *still* right to say we should do it.” Amazon came out of that experience with a powerful new set of capabilities – and even more convinced that it should use its customer-centric strategy to drive competency-building, rather than let its existing competences drive strategy.

### **Single Threaded Leadership**

Once a proposal gets an OK to proceed, a “single-threaded leader” is assigned to it, who may or may not be one of the people who took the lead on bringing the idea forward. “We empower the single-threaded leader,” Dave Limp says, “to go off and make great things.” Clearly, the term (coined and, as far as we know, used exclusively at Amazon) is a nod to programming, and means that the leader isn’t expected to multitask. In Wilke’s words, this is “someone who wakes up and just worries about that thing.” That’s “super important to how we invent,” Dave Limp insists, because “the best way to fail at inventing something is by making it somebody’s part-time job.” The leader is then able to hire a team, usually beginning with one or two technical people – just enough capacity to begin to get started and begin building the thing.

If the initiative ends up falling short, the leader doesn't suffer from that failure. "Any of us who have built things that operate for a while with any great success know that you don't usually get it right in the first iteration," Jassy notes. "It usually takes time, iterations, listening to customers, and building to have something that succeeds." And certainly, Amazon has had its share of ideas that didn't work, including Amazon Auctions, Amazon Local, and the visible Fire Phone flameout.

Failure is constantly spoken of as something that is expected and even celebrated at Amazon, but what people have in mind is failure of a certain kind—the kind that is inextricably tied up with success. "To invent you need to experiment," [Bezos loves to say](#). "If you know in advance it is going to work it is not an experiment. They are inseparable twins, failure and innovation. You have to be willing to fail. It is embarrassing to fail. If I said to you, you have a 10 percent chance at a 100X return, you should take that bet every time. But you still are going to be wrong nine out of ten times. And you are going to feel bad nine out of ten times."

Andy Jassy shared with us his related take on Amazon's phone experiment, which although it "obviously did not work, was, in many ways, very reaffirming of the culture." Reviewing the experience, Amazon did something it always does: it looked at "both the outputs and the inputs." Great outputs like share price, free cash flow, revenue, and profitability boosts are of course the goal, but focusing on how they fell short doesn't give any guidance on how to manage better in the next round. "When we try a new project, we look at the inputs," Jassy explains. "Did we hire a great team? Did the team have thoughtful ideas? Did they think the idea all the way through? Did they execute in a timely fashion? Was the quality high? Was the technology innovative?" The key is that, regardless of the output, if the input quality was great, Amazon has a basis to reward the people involved and "make sure they have a great next role." Fail to do this, Jassy says and "you'll never get great people to take chances on new projects." By his account, all the people who worked on the phone landed in great positions afterwards, and "not only did we take the learning from that technology, but we also took all of the technology we built and applied it to a bunch of other services and capabilities."

The failure that is valued is the kind that comes with taking the initiative to pursue something that is far from a sure thing. Wilke took pains to stress this point: "I've said this a couple of times and in different ways, but perhaps not emphatically enough: We work *really* hard to create an environment where it is completely accepted to take a risk, try hard, and fail."

### **More At-Bats**

Leaders who don't hate failure understand that innovation is a numbers game, by which the majority of attempts end up going nowhere, but are redeemed by the minority of projects that pay off big. Quantity tends to yield quality. The analogy that comes to mind is the baseball player who would never expect to hit every ball out of the park, but still can become a homerun king. The key is to have a lot of "at bats"—repeatedly stepping up to the plate and learning with every pitch.

Amazon has succeeded in creating an environment with very high throughput of inventive ideas. It gets that extraordinary number of "at bats" because it achieves unbelievable engagement in the process by employees. This is especially important to [Jeff Bezos because the game of business](#) is actually quite different from baseball on a very important dimension. "Everybody knows if you swing for the fences you hit more home runs, but you also strike out more," says Bezos. "But with

baseball no matter how well you connect with the ball, you can still only get four runs. Your success is capped at four runs. But in business every once in a while you step up to the plate and you hit the ball so hard you get 1000 runs. When you have that kind of asymmetric payoff where one at bat can get you 1000 runs it encourages you to experiment more."

Dave Limp talks about all the "inputs" involved in the Amazon model for innovation—one, for example, is the focus on hiring "builders": Another input is the day-to-day use of the leadership principles: "They aren't posters hanging in hallways, with five people rowing crew," he says. "We hire around them, we promote around them, we think about them in how we plan the business." Jeff Wilke underscored the importance of a compensation scheme that "rewards doing the right thing for the whole company, not optimizing your part of the company because you have a bonus pool tied to the concocted P&L for your world." Wilke sums it up: "How do we get so many employees to be willing to write working-backward documents? I think we've built a culture that, through the leadership principles and other means, rewards and celebrates this kind of behavior."

Other keys are that Amazon offers its employees a different cost-benefit calculus than most organizations do. It lowers the "costs" of participation by making it easy to engage. Everyone is familiar with the simple "working backward" documents and process. And it raises the odds that an idea will get traction, and not turn out to have been a waste of an employee's time.

The outputs speak for themselves. Twenty years ago, Jeff Bezos announced it was "Day One" for the business and started selling books via the web. By 2002 Amazon was earth's biggest online store with revenues growing more than 50 percent per year. Over the next fifteen years Bezos and his team have launched a dizzying array of new products and services to boost retail sales to consumers, including Fulfillment by Amazon (the warehouse and logistics capabilities the company built to deliver books is available, for a price, to any business), Amazon Auctions (an eBay-like auction site), Amazon Local (a Group-on like service), Amazon Flex (a local delivery service for 2-hour Prime Now and restaurant deliveries like UberEats), Amazon Fresh, and perhaps most importantly Amazon Prime. But Amazon has moved way beyond being just an internet retailer. Amazon has entered the electronic devices business with Kindle, Kindle Fire (tablet), Fire Phone, Fire TV, dash buttons, and most recently Alexa/Echo.

As the company's types of customers keep expanding, and the technologies it uses keep advancing, Amazon will never lack for problems to address. And with its customer-obsessed "working backwards" process, it will continue to run hundreds of new experiments each year to find the products and services that solve them. These days, it seems every company out there is looking over its shoulder, sizing up Amazon as a competitor.

The thing is, none of the drivers of Amazon's innovation premium are kept under wraps. As far as the recipe for managing goes, there is no secret sauce. Every time Jeff Bezos writes a shareholder letter or grants an interview, he takes the opportunity to give away his best thinking on how to keep a company inventing new solutions for customers. You might call it open-source-code management. It's almost as if Bezos wishes every company were full of customer-obsessed inventors. We're betting he probably does. After all, if you truly dedicated yourself to being the most customer-centric company on Earth, isn't that what you would do?

How does Amazon use technology to increase efficiency? Apart from its near-universal appeal as a kind of one-stop-shop, Amazon has also taken advantage of the latest technological innovations to increase its efficiency and service to its customers. From the use of AI to handle and process orders or recruit to experimenting with drones and robots for order fulfillment and delivery, Amazon is certainly not afraid of testing out the latest innovation in tech. The main appeal of Amazon in its early days was one of pure convenience. No longer did a potential customer need to visit a physical bookstore to get the book they were looking for. The ability to search, select and purchase a book from the comfort of your own home was an amazing innovation at the time. Because Amazon Delivery Agents deliver products till 8PM. If the App shows it as delivery will be done by the end of the day, most customers will think of a time like 6PM or 7PM based of their assumptions. In worst cases where we need to reschedul... For UPS which is the most common carrier for 'Amazon Prime' shipments, shipments are generally delivered anytime between the hours of 9:00 a.m. and 7:00 p.m. (and sometimes later) to residences. The estimate of 8 pm mostly holds true for UPS evening deliveries. How do Amazon Payment Transfers Work and When Will You Get Your Funds? When all is said and done, you might not get your payouts for 17-19 business days after making a sale. Let's break it down While you may initiate Amazon payments each day that you click the button, it does not necessarily mean that you'll get daily payouts or any payout for that matter. This is because Amazon might choose to not release funds on the day you request or to only release a portion of it. The remaining 20% stays in a reserve to cover returns and chargebacks and is released to you when Amazon releases a payment (usually every 14 days). Businesses that use Instant Access always know exactly when they are going to get paid and that's the next day, every day. Bezos told employees that "Amazon is not too big to fail," and that the company must stay hungry. Amazon CEO Jeff Bezos told employees, in response to a question at an all-hands meeting last week, that the company is not "too big to fail." Bezos was asked a similar question at an internal meeting in March about Amazon's size and the potential for government regulation. Bezos is addressing the concerns as Amazon prepares to expand into two new headquarters locations in New York and Virginia. Just days before Amazon announced the big winners of its HQ2 sweepstakes, CEO Jeff Bezos had to address a separate but related concern among employees: Where is all this headed? At an all-hands meeting last Thursday in Seattle, an employee asked Bezos about Amazon's future.