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The Invincible Company

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WILEY



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Amazon

“Failure and invention are inseparable twins,” says Amazon CEO Jeff Bezos. Mistakes are where learning comes from and understanding this has been at the heart of Amazon’s rampant success. Amazon has been able to build their entire organization’s culture through embracing failure from leadership and incentivizing experimentation from every single employee.



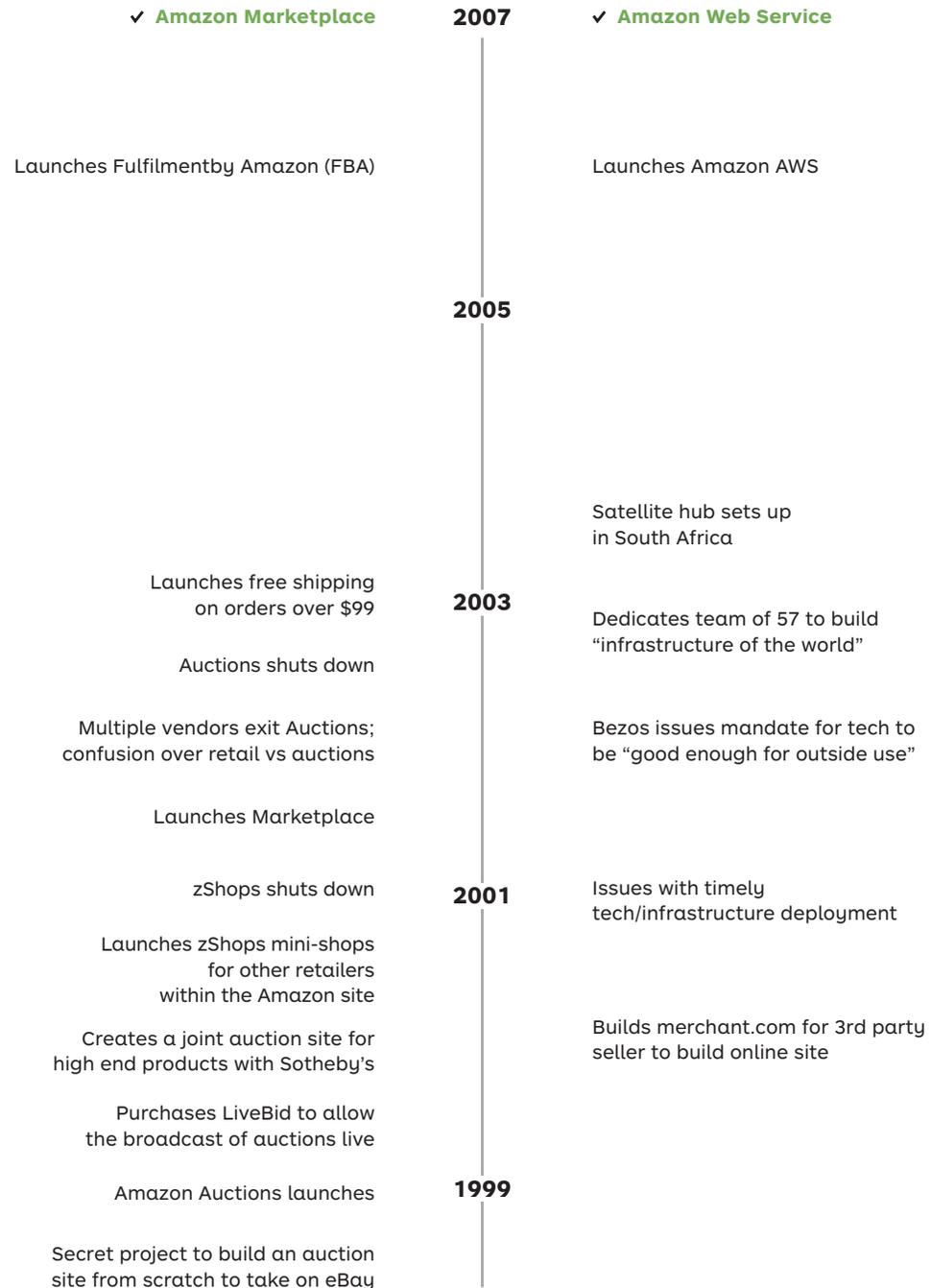
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MANAGE

Bezos understands the road to success is scattered with failures. What’s clever about Amazon’s strategy is its ability to create value out of a culture of failure. Externally, it has accustomed investors to its many costly failures so that the company’s value is not tied to its losses but to its potential successes. Internally, it has rewarded employees who take initiative to pursue something that is far from a sure thing by making it completely “acceptable to take a risk, try hard, and fail.”

Bezos has also indicated that the larger Amazon becomes, the larger its failures will be. In order for an organization to truly push its innovative boundaries, smaller “safe” failures won’t really move the needle. Making a lot of mistakes, even disastrous failures (writing off \$170 million for the Fire Phone), is what will keep Amazon relevant in the future.¹

Read more about Amazon’s culture of innovation on p. 302.



Embrace Failure to Let Winners Emerge

This is a selection of businesses that Amazon has explored and retired since 2001.



JEFF BEZOS
Amazon founder & CEO

“The big winners pay for thousands of failed experiments.”

- × Amazon Wallet
- × Endless.com
- × Amazon Destination
- × Amazon Music Importer
- × zShops
- × Amazon Local Register
- × Kozmo.com
- × Amazon Spark
- × Askville
- × Instant Pickup
- × Amazon Local
- × Dash Buttons
- × Testdrive
- × Auctions
- × Quidsi
- × Storybuilder
- × Webpay
- × Fire Phone
- × Amazon Webstore
- × Amazon Restaurants



Amazon's Innovation Culture

Amazon's stellar growth and constant reinvention aren't magic, they're ingrained in the company culture. Read Jeff Bezos's letters to shareholders to understand how Amazon built a company culture that constantly pioneers in new spaces.



302

CULTURE

"We want to be a large company that's also an invention machine [...] with the speed of movement, nimbleness, and risk-acceptance mentality normally associated with entrepreneurial start-ups."

JEFF BEZOS

Amazon founder & CEO



amazon.com

1997 LETTER TO SHAREHOLDERS (Reprinted from the 1997 Annual Report)

To our shareholders:

Amazon.com passed many milestones in 1997: by year-end, we had served more than 1.5 million customers, yielding 838% revenue growth to \$147.8 million, and extended our market leadership despite aggressive competitive entry.

But this is Day 1 for the Internet and, if we execute well, for Amazon.com. Today, online commerce saves customers money and precious time. Tomorrow, through personalization, online commerce will accelerate the very process of discovery. Amazon.com uses the Internet to create real value for its customers and, by doing so, hopes to create an enduring franchise, even in established and large markets.

We have a window of opportunity as larger players marshal the resources to pursue the online opportunity and as customers, new to purchasing online, are receptive to forming new relationships. The competitive landscape has continued to evolve at a fast pace. Many large players have moved online with credible offerings and have devoted substantial energy and resources to building awareness, traffic, and sales. Our goal is to move quickly to solidify and extend our current position while we begin to pursue the online commerce opportunities in other areas. We see substantial opportunity in the large markets we are targeting. This strategy is not without risk: it requires serious investment and crisp execution against established franchise leaders.

It's All About the Long Term

We believe that a fundamental measure of our success will be the shareholder value we create over the long term. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital.

Our decisions have consistently reflected this focus. We first measure ourselves in terms of the metrics most indicative of our market leadership: customer and revenue growth, the degree to which our customers continue to purchase from us on a repeat basis, and the strength of our brand. We have invested and will continue to invest aggressively to expand and leverage our customer base, brand, and infrastructure as we move to establish an enduring franchise.

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

- We will continue to focus relentlessly on our customers.
- We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.

- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.
- When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.
- We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.
- We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.
- We will balance our focus on growth with emphasis on long-term profitability and capital management. At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.
- We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. 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.

We aren't so bold as to claim that the above is the "right" investment philosophy, but it's ours, and we would be remiss if we weren't clear in the approach we have taken and will continue to take.

With this foundation, we would like to turn to a review of our business focus, our progress in 1997, and our outlook for the future.

Obsess Over Customers

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-ClickSM 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.com the market leader in online bookselling.

By many measures, Amazon.com came a long way in 1997:

- Sales grew from \$15.7 million in 1996 to \$147.8 million – an 838% increase.
- Cumulative customer accounts grew from 180,000 to 1,510,000 – a 738% increase.
- The percentage of orders from repeat customers grew from over 46% in the fourth quarter of 1996 to over 58% in the same period in 1997.
- In terms of audience reach, per Media Metrix, our Web site went from a rank of 90th to within the top 20.
- We established long-term relationships with many important strategic partners, including America Online, Yahoo!, Excite, Netscape, GeoCities, AltaVista, @Home, and Prodigy.



Amazon

Each Culture Map is based on an analysis of Jeff Bezos's letters to shareholders between 1997 and 2018. We captured the main outcomes, behaviors, enablers, and blockers related to innovation that Bezos mentions in his letters and visualized them in a Culture Map.



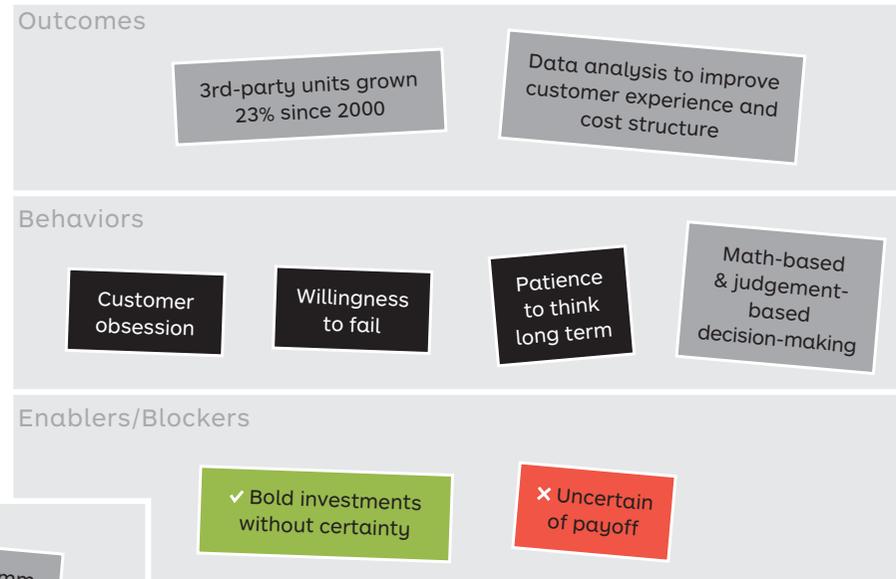
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CULTURE

1997

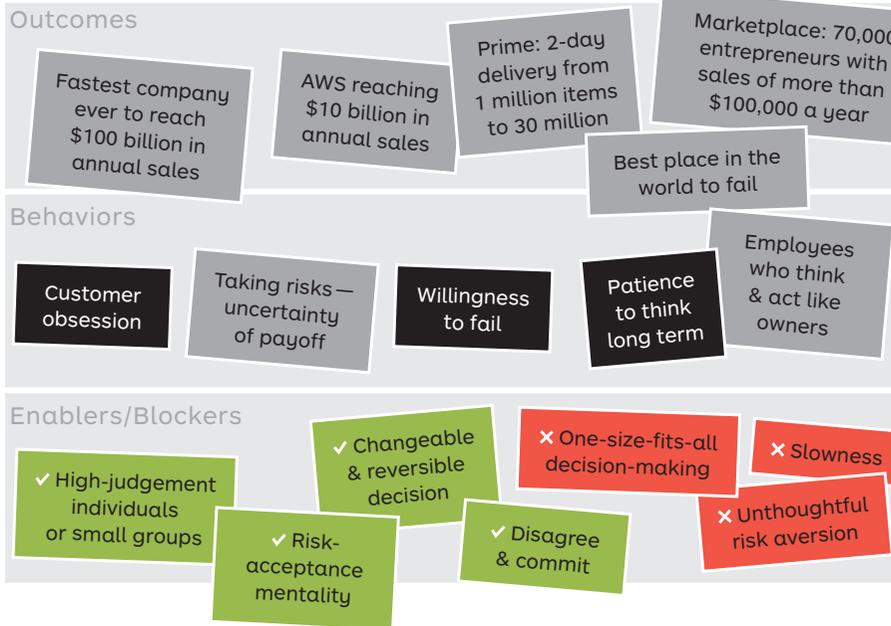


2005



The foundation of Amazon's corporate culture was laid out in Bezos's 1997 letter to shareholders in the first annual report. The pillars of this culture (customer obsession, willingness to fail, patience to think long term) remain fundamentally unchanged and a copy of the 1997 letter has been attached to every subsequent annual report. We analyzed the annual shareholder letters for you to visualize and highlight the consistency of its innovation culture and show the progression of results and outcomes.

2016



2018

