

## **The Everything Store by Brad Stone (372pp, 2013)**

### **Highlights**

“When you are 80 years old, and in a quiet moment of reflection narrating for only yourself the most personal version of your life story, the telling that will be the most compact and meaningful will be the series of choices you have made. In the end, we are our choices.” - Jeff Bezos’ commencement speech at Princeton University, 2010

Bezos’ regret-minimization framework; used by him to decide the next step in his career in 1994. “When you are in the thick of things, you can get confused by small stuff. I knew when I was 80 that I would never think about why I walked away from my 1994 Wall Street bonus right in the middle of the year at the worst possible time. At the same time, I might sincerely regret not having participated in this thing called the Internet that I thought was going to be a revolutionizing event. When I thought about it that way...it was incredibly easy to make the decision.”

Amazon’s miserly PR style is called the ‘Bezos theory of communication’ by John Doerr. Bezos takes a red pen to press releases, product descriptions, speeches and shareholder letters, crossing out anything that does not speak simply and positively to customers.

PowerPoint decks or slide presentations are never used in meetings. Instead employees are required to write 6-page ‘narratives’ laying out their points in prose, as Bezos believes that this fosters critical thinking. He wanted people thinking deeply and taking the time to express their thoughts cogently. Each meeting starts with the narratives being handed out, and everyone silently reading the document for 15mins. Subsequently discussion commences.

Bezos believed that PowerPoint concealed lazy thinking. According to Jeff Holden, one of the early employees, “It is fantastically easy to hide between bullet points. You are never forced to express your thoughts completely”.

For each new product or feature, the narrative is crafted in the style of a press release, to frame a proposed initiative in the way a customer might hear about it for the first time. The goal was to get employees to distill a pitch into its purest essence, to start with something the customer might see – the public announcement – and work backward. Bezos didn’t believe anyone could make a good decision about a feature or a product without knowing precisely how it will be communicated to the world, and what the customer would make of it.

What makes Amazon different?

- It is customer-centric, while most companies are focused on the competitor

- They are long-term oriented
- They are inventors, and not followers

Bezos enumerated 6 core values for Amazon

1. Customer Obsession
2. Frugality
3. Bias for Action
4. Ownership
5. High Bar for Talent
6. Innovation

Later this evolved to 14 leadership principles.

Narrative fallacy – a term coined by Nassim Nicholas Taleb in his 2007 book *The Black Swan* to describe how humans are biologically inclined to turn complex realities into oversimplified and comforting stories. Taleb argues that the limitations of the human brain lead to us squeezing unrelated facts and events into cause-and-effect equations and then convert them into easily understandable narratives. These stories, Taleb wrote, shield humanity from the true randomness of the world, the chaos of human experience, and to some extent, the unnerving element of luck that plays into all successes and failures. According to Taleb, the way to avoid the narrative fallacy was to favour experimentation and clinical knowledge over storytelling and memory.

D. E. Shaw recruitment process (adopted later by Amazon) involved asking puzzles in the interviews to test the thinking skills of the candidates. After the interviews, the interviewers gathered together to express one of four opinions about each candidate: strong no hire, inclined not to hire, inclined to hire or strong hire. One holdout could sink an applicant.

Amazon later introduced the concept of Bar-raisers (borrowing on a similar practice from Microsoft). Bar-raisers are senior employees who have proven themselves to be intuitive recruiters of talent. At least one anointed Bar-raiser would participate in every interview process (typically meeting the candidate last) and would have the power to veto a candidate who did not meet the goal of raising the company's overall hiring bar. Even the hiring manager was unable to override a Bar-raiser's veto.

John Wainwright, an early employee at Amazon is credited with being the first customer on Amazon. He purchased *Fluid Concepts and Creative Analogies* by Douglas Hofstadter on 3 Apr '95.

“We don’t make money when we sell things. We make money when we help customers make purchase decisions.” – this is a key insight behind Amazon’s business model. It has underlain the introduction of key innovations which have the potential to cause loss of sale (negative reviews) or lower revenues (Amazon Marketplace where customers see used books for a lower price beside the full-price version. These sales only provide Amazon a commission.)

Bezos’ obsession with customer experience can also be seen in the 2000 launch of Harry Potter and the Goblet of Fire, where they offered the book and express delivery at a 40% discount, ensuring customers got their book on the day of the launch. While this was money-losing it created huge customer delight ensuring great PR and consumer loyalty.

Lower prices that attract customers are the first step in Amazon’s flywheel (a concept pioneered by Jim Collins his book *Good to Great*), or self-reinforcing virtuous loop. Lower Prices attract customers which attract more sellers which enable Amazon to leverage its fulfillment centres, servers and this greater efficiency allows it lower prices further. Apple’s flywheel is different – great products attract customers and lead to profits which are reinvested into making greater products etc. For Apple profitability is a means to the end: making great products. For Amazon high profitability is an indication that it can cut prices further and create greater customer delight.

Feeding any part of the flywheel, and it should accelerate the loop. Thus Amazon Prime / Express Shipping etc encouraged the customer to place bigger orders. Features such as 1-click shopping removed friction for the consumer encouraging him to again spent more. Amazon Prime was especially successful in this context, turning customers into Amazon addicts who gorged on the almost instant gratification of having purchases reliably appear two days after they ordered them.

In 2003, Bezos came up with the concept of ‘Unstore’ to describe Amazon. Being an unstore meant Amazon was not bound by the traditional rules of retail. It had limitless shelf space and personalized itself for every customer. It allowed negative reviews in addition to positive ones, and it placed used products directly next to new ones so that customers could make informed choices. In Bezos’ eyes it offered both everyday low prices as well as great customer service. It was both Walmart and Nordstrom’s. Being an Unstore meant that Amazon had to concern itself only with what was best for the customer.

Bezos’ reading list (space books)

- Entering Space : Creating a Space-faring Civilization - Robert Zubrin

- The Case for Mars - Robert Zubrin
- The History of Space Vehicles - Tim Furniss
- Rare Earth: Why Complex Life is Uncommon in the Universe – Peter Douglas Ward & Donald Brownlee

Bezos's favourite books (influenced his and Amazon's thought significantly)

- The Remains of the Day – Kazuo Ishiguro
- Made in America – Sam Walton with John Huey
- Memos from the Chairman – Alan Greenberg
- The Mythical Man-Month – Frederick P. Brooks Jr
- Built to Last – Jim Collins
- Good to Great – Jim Collins
- The Innovator's Dilemma – Clayton Christensen
- Creation: Life and How to Make it – Steve Grand
- The Goal – Eliyahu Goldratt and Jeff Cox
- Lean Thinking – James Womack & Daniel T. Jones
- Data-driven Marketing – Mark Jeffery
- The Black Swan – Nassim Nicholas Taleb

Institutional No – a term used by Bezos to describe any and all signs of internal resistance to unorthodox moves. Even strong companies, Bezos said, tended to reflexively push back against moves in unusual directions. Bezos continuously battled the Institutional No when he drove Amazon to launch innovative services such as Amazon Web Services, Kindle etc.

In the design of the Kindle, Amazon strove to achieve the same subconscious qualities that made it feel like you are reading a book. While researching and deconstructing the reading experience, the designers found that in a great reading experience, the feeling of holding a book disappears from a reader's hands. Bezos called this the top design objective, stating "Kindle also had to get out of the way and disappear so that you could enter the author's world."

Amazon has a division called Competitive Intelligence, that reports in to Finance. The role of CI is to buy large volumes of products from competitors and measure the quality and speed of their services. Its mandate is to investigate whether any rival is doing a better job than Amazon and present the data to a top committee led by Bezos, who ensure that the company addresses any emerging threat and catches up quickly.

Amazon.love memo – In this memo written by Bezos, he strove to understand why some companies are seen as cool and loved (Nike, Apple etc) while others are feared and disliked (Microsoft, Walmart). He concluded subjectively that being perceived to be an inventive company (not enough to be inventive – the pioneering spirit must come through and be perceived by the company’s consumer base) was critically important to be loved and seen as cool.

Amazon has two bi-annual operating reviews – OP1 done over the summer, and OP2 just after the Holiday Season. These are personally run by Bezos and the S (senior) Team.

Every Tuesday, various departments, meet with their managers to review spreadsheets of data critical to their business. No anecdotes are shared. The numbers alone are a proxy for what is working and what is broken, how customers are behaving, and ultimately, how well the company overall is performing.

And every Wednesday, there is a Weekly Business Review run by Wilke (SVP and North America Retail head), where about 60 managers gather in one room to review their departments, share data about defects and inventory turns, and talk about forecasts and complex interactions among different parts of the company. Bezos doesn’t attend the weekly meetings.