



## STOCK STORY: AMAZON

### The secret sauce of an ever-evolving innovation machine



Amazon's almost 30-year journey has been one of constant evolution, driven by innovation, and guided by the long-term vision of its founder, Jeff Bezos. The business developed in its early years with an initial focus on selling books before eventually expanding into other product categories, including music, electronics and beyond. Over time it has shifted from a goods retailer to services platform as it gave external parties access to its marketplace (3P sellers account for ~55% of all unit sales) and other operational capabilities (such as Fulfilled by Amazon or Buy With Prime). The company has a long track record of creating disruptive products – as it did with the Kindle and Alexa – and entirely new markets – as it has done with AWS and cloud computing. So, what's the secret sauce? At the heart of this ever-evolving innovation machine lie three key elements: a distinct and well-defined corporate culture, a decentralised and nimble operational structure, and a willingness to invest and remain focused on the long term.

Amazon has a distinct corporate culture enshrined in 16 leadership principles, which provide a framework for decision-making, problem-solving and collaboration across the organisation. These principles are deeply ingrained in the company's DNA and influence how employees approach their work. While all are important, we would highlight just two that are particularly pertinent to innovation. Principle #3, "Invent and Simplify", encourages employees to continuously seek inventive solutions and challenge the status quo. It instils a mindset of constant improvement and the pursuit of ground-breaking ideas that can reshape industries. Principle #8, "Think Big", empowers employees to envision ambitious, audacious goals and imagine possibilities beyond what may seem achievable. It also expresses Amazon's appetite for taking bold risks and making substantial investments in emerging technologies and ventures.

Amazon's corporate workforce largely consists of small, autonomous "two-pizza" teams (named because they should be small enough to be fed with as much) that utilise a common set of standardised, shared functions or "services". Teams comprise a mixture of multi-disciplinary roles and are empowered to make decisions quickly, iterate on ideas, and drive innovation in their respective areas. By keeping teams small, Amazon minimises bureaucracy and encourages a sense of ownership and agility. The structure fosters a culture of experimentation and learning from failures, as teams can quickly iterate and adapt their strategies based on real-time feedback. Importantly, it also

enables rapid scaling into new areas of focus or opportunity without introducing unnecessary complexity and dependencies.

Amazon has consistently demonstrated its willingness to forgo immediate profitability in favour of maximising future opportunities. In 2011, in response to a shareholder question regarding Amazon's willingness to take bold bets, Bezos commented, "We are willing to invent. We are willing to think long term. We start with the customer and work backwards. And, very importantly, we are willing to be misunderstood for long periods of time". This quote reflects Amazon's commitment to pursuing its long-term vision, and its sentiment is often conveyed by other leaders within the company, including the current CEO, Andy Jassy. The company famously took >8 years to realise its first annual profit, prioritizing the development of its platform and improvement of the customer experience. Facing capacity constraints in 2014, Amazon decided to embark on the build-out of its own logistics network. While this weighed on profitability in the short term, it established a strong competitive advantage, and by 2021 Amazon was shipping more parcels across the USA than FedEx. Similarly, Amazon's cloud computing business, AWS, was initially met with scepticism, but the company persisted in investing heavily in its development and expansion, and today the division generates over \$80bn revenue per annum. Looking forward, we expect the company will continue to invest in big bets across healthcare, advertising, media and logistics in pursuit of its next growth pillar.

In summary, Amazon's success lies in its constant evolution and drive to innovate. Its distinct corporate culture promotes entrepreneurship and challenges the status quo. A decentralised operational structure empowers agile teams and enables rapid scaling without adding complexity, and Amazon's capacity to invest for the long term, exemplified by the buildout of its fulfilment and logistics infrastructure and AWS, is a key competitive advantage versus more myopic competitors. With a commitment to thinking long term and willingness to be misunderstood, we expect Amazon will continue to thrive.

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