



Transforming Your Capabilities—The Amazon Way

John Rossman, Managing Director, Alvarez & Marsal; Author, *The Amazon Way: 14 Leadership Principles of the World's Most Disruptive Company* and *The Amazon Way on IoT: 10 Principles for Every Leader from the World's Leading Internet of Things Strategies*

Amazon has made its success by creating a business model entirely focused on the consumer. Mr. Rossman, who previously ran Amazon's third-party selling and enterprise services businesses, shared some of the key leadership principles that allow Amazon to succeed.

Obsess About the Customer

Amazon leaders pay attention to competitors, but literally obsess about customers. The general approach is to start with the customer and work backwards, focusing exclusively on what the customer wants and values. This approach has led to a variety of programs that make the shopping experience easier at Amazon:

- **The Internet of Things (IoT):** IoT makes shopping as simple as possible, including the ability to take a photo or push a button to order a commonly used item. At present, hundreds of items already have such buttons available. The next step will allow for automatic order replacement through embedded technologies, such as a water filter reordering itself when it reaches the end of its useful life.
- **Coordinated delivery:** This service allows an item to be delivered into the trunk of a customer's car while he or she is at a particular location, such as work. Technology allows the delivery person to open the trunk one time only, solely for the purpose of placing the item in it.
- **Contact avoidance:** Amazon executives wrote a book called *The Best Service Is No Service*. Most customers want to do things on their own, with no need for complicated explanations. Amazon constantly assesses the root cause(s) of all customer contacts and works to eliminate the need for them. This strategy simultaneously reduces costs and improves the customer experience. The

healthcare industry is ripe with opportunities to eliminate unwanted customer contact.

Invent and Simplify

Amazon's leaders see themselves as explorers and inventors. More than just inventing, however, these leaders always strive to make things simpler. Simplified approaches and rules scale better, produce lower costs, and can be more easily managed and monitored. As an exercise, organizational leaders should think about the worst possible customer experience and then seek to simplify and improve it.

Measure and Monitor

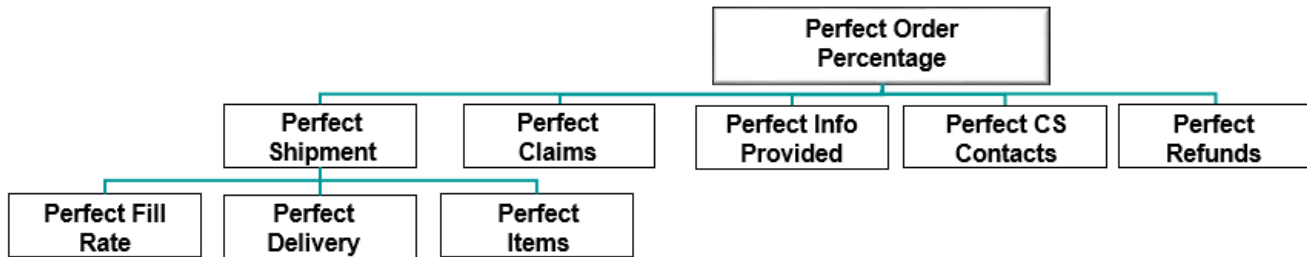
Everything can and should be measured. Amazon will not launch a product without a full instrumentation plan (i.e., measurement system) in place. Amazon leaders strive for data that is as granular as possible, since data can generally be rolled up to greater levels of aggregation, but often cannot be rolled down to finer levels of detail. The goal is to have as close as possible to real-time information on the customer experience and all related processes, system components, and financial drivers.

An example of Amazon's commitment to measurement can be seen with the perfect order percentage (POP) metric. POP assesses the proportion of orders that are perfectly accepted, processed, and fulfilled. As shown in **Exhibit 1** on the following page, it encompasses a variety of other measures.

One person at Amazon has overall responsibility for each metric; this individual is charged with understanding and driving continuous improvement, and, importantly, has the authority to go across department lines in order to do so. By assigning accountability, Amazon makes sure that the organization itself does not get in the way of improving performance.

Exhibit 1. Example: Perfect Order Percentage (POP)

Measures percentage of orders that are perfectly accepted, processed, and fulfilled.



Avoid Bureaucracy

The aforementioned strategy of making individuals accountable for performance on specific metrics gets at Amazon CEO Jeff Bezos' biggest concern: bureaucracy. Rather than being obsessed about what competitors could do to Amazon's business, Mr. Bezos is more concerned about what internal bureaucracy might do to it. Consequently, Amazon has put in place many initiatives to prevent bureaucracy from getting in the way. First and foremost is the concept of using small teams to innovate. These teams take ownership over core processes from start to finish. They oversee anything of importance, including payments, promotions, forecasting accuracy, and inventory. The team becomes accountable for everything about that process, including related technologies and operations. Processes often hide embedded bureaucracies. The goal should be to avoid such bureaucracies by ensuring that all processes have written definitions, a customer focus, a roadmap for internal and external adoption, a written instrumentation panel that lays out both short- and long-term measures of success, and a roadmap for improvement over time. Every function and process at Amazon has such a roadmap for improvement; the teams attempt to "sell" the case for improvement to senior leaders, who then decide whether to allocate resources to the effort.

Strive for Self-Service Platforms

Because internal stakeholders are never as demanding as external customers, Amazon continually seeks critical feedback from customers. The goal is to make as much as possible self-service in nature. As Jeff Bezos

wrote to Amazon shareholders in 2011: "When a platform is self-service, even improbable ideas get tried, because there's no expert gatekeeper ready to say 'that will never work.' Guess what? Many of those improbable ideas do work."

"Amazon's principles work well for Amazon. They create consistency and scalability and help to avoid bureaucracy. Leaders need to think through the principles that will work for their organizations and then use them on a daily basis. The key is to embrace change—as Jeff Bezos has said, 'the death knell for any organization is to glorify the past, no matter how good it was.'"

—John Rossman

Think Big

Thinking small is a self-fulfilling prophecy. Instead, leaders need to develop and communicate a bold vision that inspires results. They need to think differently and look for new ways to serve customers. Thinking big, however, is not the same as betting big on a particular idea. Failure is to be expected, and companies need risk-mitigation processes that anticipate such failures. To that end, the bold vision should be broken down into small steps implemented in an agile manner, with learning along the way.

“To innovate and to fail are two sides of the same coin.”

—John Rossman

Create Algorithms to Automate

Amazon continually reinvents the way work gets done, looking for ways to automate based on real-time data and rules. The goal is to depress cycle times, drive down costs, and improve quality and the customer experience. Forcing functions are an approach for systematically enforcing a strategy and hence automating it. Amazon puts them in place upfront to ensure the right results without the need for anyone to pay a lot of attention. In other words, forcing functions become another way to avoid bureaucracy. Focusing on the right metrics is one type of forcing function. Other forcing functions help to create a culture of innovation and make sure that orders get out the door quickly. For example, Amazon has outlawed the use of slide presentations internally, as slides are by definition a poor medium to explain complex plans, requirements, and projects. Instead, all plans start with a written narrative. People take a lot of time to develop these narratives, which provide clarity as to what exactly is going to be done. At the beginning of every meeting, attendees spend 15 minutes reading the narratives, which are supposed to stand on their own without the need for dialogue. This forcing function makes people avoid the temptation to “dumb it down,” which in turn leads to better ideas.

Another Amazon-developed forcing function is the future press release, a document written early on that explains why a new idea is good for the customer. The press release also lays out the business case for the idea, the metrics to be used to assess success, and the hard work required and risks that must be overcome to achieve the predicted results. In other words, the press release serves as a forcing function to ensure that sensitive topics get written down and discussed. For example, one press release laid out the ambitious goal of allowing third-party enterprise partners to register, list, sell, and ship an item without any input whatsoever from Amazon. The goal was to allow partners to initiate these actions in the middle of the night, using a self-service platform. Not surprisingly, realizing this goal imposed huge technological

and logistical requirements on many parts of the business. Laying that out in the future press release helped make sure it happened, as it gave the assigned internal team the license to pursue the work that needed to be done to realize the articulated vision.

Similar to the future press release, other forcing functions used at Amazon are the development of written FAQs (frequently answered questions) and owner’s manuals. These documents lay out the various requirements that different stakeholders have and hence bring to light issues that might not have otherwise surfaced.

“Some things will work and others will not, but the customer experience is never done. You need to focus on the customer experience constantly, always working to refine and improve it.”

—John Rossman

Key Takeaways for Healthcare

Attendees highlighted the following lessons from the Amazon experience that can be quickly applied to the healthcare industry.

- **Focus on low-hanging fruit:** Too many easy things in healthcare are difficult, such as scheduling an appointment, getting test results, or paying a bill.
- **Create innovation improvement teams:** Healthcare organizations have generally not focused on innovation. Getting a critical mass of people to do so should be a high priority.
- **Allocate resources:** Boards and CEOs must recognize the importance of allocating resources to innovation, reinvention, and simplification. Investing in these areas is as—if not more—important than investing in new technologies and clinical programs.
- **Address fragmentation:** Just as Uber has integrated the taxi experience, healthcare organizations need to take a longitudinal view of the customer experience that goes beyond a single transaction. The goal should be to integrate all customer touchpoints.

Deliver Results

The final leadership principle speaks to the expectation that results will be delivered, in spite of any setbacks and dependencies. To deliver results, good leaders emphasize that there is no “no” allowed. The job of a leader is to get to “yes”—to figure out feasible solutions that drive innovation. As Jeff Bezos says, “it’s not okay to

fail because of a breakdown of dependencies. That is a failure of leadership.” To manage dependencies, Amazon puts in place service level agreements with all partners that cover issues such as costs and throughput. The goal is to manage critical dependencies and hence reduce operational risks that could jeopardize efficiency and the customer experience.

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