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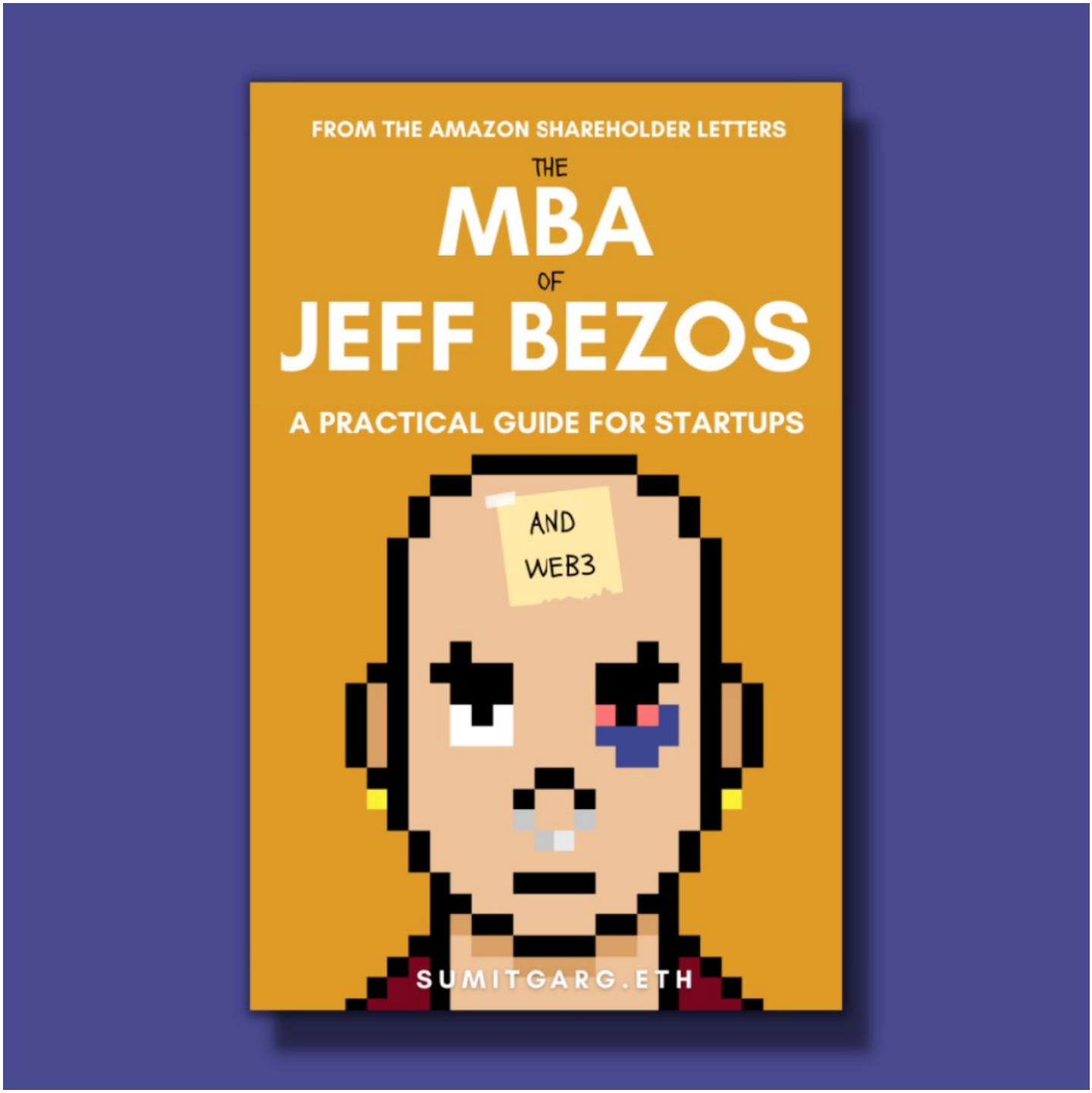
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I read two-and-a-half decades worth of Jeff Bezos's Amazon shareholder letters.

It's like a mini MBA.

Here I've pulled out a free guide for startups, investing, marketing, and "web3"■

(It's a thread, not an ebook)



First, why the focus on web3?

It's the mid 90's. A 30-year-old Jeff Bezos is trying to raise money for Amazon. And investors are wondering,

"What's this internet thing?"

Fast forward, the year is 2022, and folks today are wondering,

"What's web3?"

Now, a little background…

In 1994, Bezos quit a well paying job to start Amazon.

It wasn't an easy decision. But Bezos used his famous "regret minimization framework."

In other words, he didn't want to be 80 and regret not doing what he really wanted to do.

But what did he want?

Bezos didn't set out to disrupt retail from the outset.

He simply wanted to come up with a business idea based on the internet and then let the internet grow around it while he kept working on it.

Today, that idea is worth $1.7 trillion and counting.

Moving on to the lessons…

Each year since 1997, Bezos has written an annual letter to Amazon shareholders.

These letters reveal a great deal of lessons and secrets behind his massive success.

So what are they?

1/

How to focus on the long-term:

In his 1999 letter, Bezos writes,

"The current online shopping experience is the worst it will ever be.

It's good enough today to attract 17 million customers, but it will get so much better."

Think Day 1.

Only Bezos could've used 17 million and good enough together in the same sentence.

But he was right.

It were early days for the internet. And as adoption would pick up, Amazon would grow.

Still, Bezos's Day 1 thinking wasn't restricted to the early internet days.

Why is it always Day 1?

Because here's what Day 2 looks like:

Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline.

Followed by death.

How to avoid death:

If Day 2 means death, then how can we avoid it?

Here’s a Day 1 starter kit:

• obsess over customers
• resist proxies
• embrace external trends
• make decisions fast

Let’s talk about them in detail:

1.1/

Obsess over customers

There are many ways to center a business.

• competitor focused
• product focused
• technology focused
• business model focused etc.

But obsessive customer focus is the most protective of Day 1.

Why this customer obsession?

Customers are loyal to you right up until the second that someone else offers them a better service.

Here’s what you can do:

Set a high bar for the experience your customers deserve and display a sense of urgency to improve that experience.

Customers don’t always know what they want (yet)

Even when they don’t yet know it, customers want something better, and your desire to delight them will drive you to invent on their behalf.

So listen to customers, but don’t just listen to customers — invent on their behalf.

1.2/

Resist proxies

As companies get larger they tend to use proxies.

Like using process as proxy.

Here the process becomes the proxy for the result you want — you stop looking at outcomes and just make sure you're doing the process right.

But the process is not the thing.

Here's an example:

A junior leader defending a bad outcome with something like,

"But we followed the process."

An experienced leader will use this opportunity to investigate and improve the process.

Always ask,

"Do you own the process or does the process owns you?"

1.3/

Embrace external trends

Big trends are easy to spot — machine learning, AI, and lately blockchain, NFTs etc. — but they can be hard for large organizations to embrace.

If you fight these trends, you're fighting the future. Embrace them and you have a tailwind.

1.4/

Make decisions fast

Speed matters in business. To keep the energy and dynamism of Day 1, you have to make high-quality decisions.

But you've to make them fast.

Here's more on how to do it:

• never use a one-size-fits-all decision-making process

• move fast and course correct

• disagree and commit

• recognize misalignment issues and escalate them

First, never use a one-size-fits-all decision-making process.

Some decisions are irreversible — one-way doors — and these must be made slowly. We can call these Type 1 decisions.

But most decisions are reversible, two-way doors. Let's call them Type 2.

Type 2 decisions can and should be made quickly.

As organizations get larger, they tend to over-use the Type 1 process on most decisions, including Type 2.

The end result is slowness, risk aversion, failure to experiment, and diminished invention.

Second, move fast and correct course along the way.

Most decisions should be made with around 70% of the information you wish you had. If you wait for 90%, you're being slow.

Plus, either way, if you're good at course correcting, being wrong may be less costly than being slow.

Third, "disagree and commit."

If you have conviction on a particular direction even though there's no consensus, it's helpful to say,

"Look, I know we disagree, but will you gamble with me on it?"

At this point, no one knows the answer for sure, and you'll get a quick yes.

Fourth, recognize misalignment issues early and escalate them.

Sometimes teams have misaligned objectives. And no amount of meetings can resolve this misalignment.

In fact, it's tiring and awful. Go for quick escalation instead.

2/

How to stay ahead of ever-rising customer expectations?

Insist on the highest standards.

Here's something from the Amazon leadership principles:

"Leaders have relentlessly high standards — many people may think these standards are unreasonably high."

The essentials of high standards:

• intrinsic or teachable?

• universal or domain specific?
• recognition and scope
• skill

Let’s dig them in detail:

2.1/

First, are high standards intrinsic or teachable?

Teachable.

In fact high standards are contagious — bring a new person onto a high standards team, and they’ll adapt.

The opposite is also true. If low standards prevail, those too will quickly spread.

2.2/

Universal or domain specific.

In other words, if you have high standards in one area, do you automatically have them elsewhere?

According to Bezos, high standards are domain specific — you have to learn them separately in every arena.

Why understanding the above point is important:

It will keep you humble — as there can be whole arenas of endeavor where you may not even know that your standards are low or nonexistent, and certainly not world class.

It’s critical to be open to that.

2.3/

Recognition and scope

What do you need to achieve high standards in a set domain?

1. You’ve to recognize what good looks like in that domain.

2. You must have realistic expectations for how much work it will take to achieve that — the scope.

Here are 2 examples:

First, perfect headstands

People think they should be able to master a handstand in about two weeks.

The reality? It takes about six months of daily practice.

If you think you should be able to do it in two weeks, you're just going to end up quitting.

Unrealistic beliefs on scope — often hidden and undiscussed — kill high standards.

Warren Buffett once said:

"You can't produce a baby in one month by getting 9 women pregnant."

Be realistic.

Second, six-page narratives

This one also doubles as a little masterclass in writing.

At Amazon, they don't do PowerPoint presentations.

They prefer writing memos.

Not surprisingly, the quality of these memos varies widely.

What makes up a great memo?

• they're written and re-written,
• shared with colleagues for feedback,
• set aside for some days, and
• edited again with a fresh mind.

Again, the key here is that you can improve results by teaching scope — a great memo takes more than a week.

2.4/

Is skill another required element for high standards?

Not so much.

Someone on the team needs to have the skill, but not you.

After all a film director doesn't need to be able to act. But he should recognize high standards and teach realistic expectations on scope.

Benefits of higher standards

• better products for customers

• they help with recruiting and retention — people are drawn to high standards

• they are fun — once you've tasted high standards, there's no going back

What else?

• a culture of high standards is protective of all the "invisible" but crucial work that goes on in every company — the work that gets done when no one is watching.

3/

Extraordinary results require extraordinary people.

Setting the bar high in their approach to hiring has always been the single most important element of Amazon's success.

Bezos asks people to consider three questions before hiring…

3 questions to consider before hiring:

1. Will you admire this person?

2. Will this person raise the average level of effectiveness of the group they're entering?

3. Along what dimension might this person be a superstar?

Once a year, Amazon also pays its employees to quit.

Although the offer really says, "Please Don't Take This."

So the goal is really just to make them rethink their priorities — an employee staying somewhere they don't want to be isn't healthy for the employee or the company.

4/

Failure is part invention.

Bezos is a huge supporter of trial and error. He writes,

"We are the best place in the world to fail,

and failure and invention are inseparable twins."

4.1/

Invent to evolve.

Many of the problems you'll face will have no textbook solutions — and even the latest in tech wouldn't be enough.

In such cases you should…

invent new approaches.

4.2/

If you don’t execute well, someone else will.

Bezos on inventing the Kindle:

“We set ourselves the incredibly audacious goal of improving upon the physical book.”

Bezos knew that books were on the verge to being improved upon and it would happen with or without them.

4.3/

Failure needs to scale too.

As a company grows, everything needs to scale, including the size of its failed experiments.

If the size of your failures isn’t growing, you’re not going to be inventing at a size that can actually move the needle.

4.4/

Home runs — big winners pay for many failed experiments.

If you swing for the fences, you’re going to strike out a lot, but you’re also going to hit some home runs.

But there’s a difference between baseball and business…

Baseball has a truncated outcome distribution — no matter how well you hit, the most runs you can get is 4.

However, in business, when you step up to the plate, you can score a thousand runs.

This long-tailed distribution of returns is why you should be bold.

Here’s an important reminder

The path to success isn’t straight.

Success comes through iteration: invent, launch, reinvent, relaunch, start over, rinse, repeat, again and again.

4.5/

Thinking in bets.

Outsized returns come from betting against conventional wisdom, and conventional wisdom is usually right.

Given a 10% chance of a 100x payoff, you should take that bet every time. But you're still going to be wrong 9/10 times.

Also, make good bets.

The bigger challenge lies not in finding new ways to expand a business.

But in prioritizing those investments.

A few things to consider before investing in a new business:

• customers love it
• scale — it can grow big
• has strong returns on capital
• the market is underserved
• you can bring strong differentiation to the market

4.6/

Intuition, curiosity and the power of wandering.

There are two types of decisions:

Math based: made with data — math tells us what's right and what's wrong.

Judgement based: Though data, analysis, and math play a role, the prime ingredient in these decisions is judgment.

Any institution unwilling to endure controversy must limit itself to maths.

But doing so would not only limit controversy — it would also limit innovation.

The outsized discoveries require wandering…

Here's Bezos talking about the Echo:

If we had asked customers "Would you like a black, always-on cylinder in your kitchen about the size of a Pringles-can that you can talk to and ask questions, that also turns on your lights and plays music?"

They would've said no.

No customer was asking for Echo. This was definitely Amazon wandering.

Wandering is an essential counterbalance to efficiency.

You need to employ both.

4.7/

Decentralize invention.

When the power to invent and experiment is distributed throughout the company — and not just limited to the company's senior leaders.

It's the only way to get robust, high-throughput innovation.

4.8/

On the importance of self-service platforms.

(Note: Even though AWS and KDP are good examples, but you may still find this advice to be a little contradictory. And that's alright. Remember that we're here for the lessons.)

(Also it's a big one for web3.)

Self-service platforms allow people to boldly experiment and accomplish things that would otherwise be impossible or impractical.

These innovative, large-scale platforms are not zero-sum — they create win-win situations for developers, entrepreneurs, creators, and customers.

The self-service nature of these platforms is important for a reason: even well-meaning gatekeepers slow innovation.

With self-service platforms, even the improbable ideas can get tried. In the end, many of these ideas do work, and society is the beneficiary.

5/

Markets versus fundamentals

At the pinnacle of the internet bubble Amazon's stock peaked at $116, but when the bubble burst it went down to $6.

Bezos's letter for 2000 started with a one-word sentence,

"Ouch."

But Bezos reminds us that Benjamin Graham once said,

"In the short term, the stock market is a voting machine; in the long term, it's a weighing machine."

So aim to be a company that wants to be weighed, and over time, you will be — over the long term, all companies are.

Remember this:

You aren’t 10% smarter when the stock goes down.

And conversely aren’t 10% dumber when the it goes up.

So ignore the market noise, and keep your heads down working to build a heavier and heavier company.

5.1/

Bezos always made decisions in light of long-term market leadership rather than short-term profitability or short-term market reactions.

This was also because “scale”was central to achieving the full potential of their particular business model.

6/

Be an owner ■■

Many investors are effectively short-term tenants — they turn their portfolios so quickly that they just rent the stocks they temporarily own.

Owners aren’t so short sighted.

Long-term thinking is both a requirement and an outcome of true ownership.

7/

Seek instant gratification — or the elusive promise of it — and you’ll always find a crowd there ahead of you.

8/

Eliminate errors at their root.

Find the real root cause or causes of a problem — and do real root fixes.

So then, when you fix it, you’re not just fixing it for one customer. You’re fixing it for every customer.

9/

Create more than you consume.

If you want to be successful in business and in life, your goal should be to create value for everyone you interact with.

Any business that doesn’t do this, even if it appears successful on the surface, is on the way out.

10/

Don’t be typical.

The fairy tale version of “be yourself ” is that all the pain stops as soon as you allow your distinctiveness to shine.

That version is misleading.

The price for distinctiveness.

You need to embrace and be realistic about how much energy it takes to maintain your distinctiveness.

Being yourself is worth it, but don’t expect it to be easy or free. You’ll have to put energy into it continuously.

And remember this:

The world will always try to make you more typical — to bring you into equilibrium with your environment. It will take continuous effort, but you can and must be better than that.

Don’t let the universe smooth you into your surroundings.

And — I guess — that’s all.

If you enjoyed this thread you can follow me @sumitupgarg

But I’m not the expert here —merely a curator — and all brilliance belongs to Jeff Bezos.

Although if you find anything that doesn’t make sense, it’s because I made a mistake.

Once again, I didn’t use web3 in the title because it makes for a nice cover (cc: @chain_runners)

My intention was for you to keep web3 in mind as you take some of these lessons and apply them to build the future.

After all that’s what Bezos was up-to with Amazon.

Nonetheless, in case some of you web3 nerds are particularly dissatisfied, here’s a @packyM piece to make up for it,

https://t.co/kQ35eclkow

Since this is picking up pace, guys feel free to show some appreciation in my wallet:

sumitgarg.eth

I hope you’re enjoying it!