



AMAZON WEB SERVICES

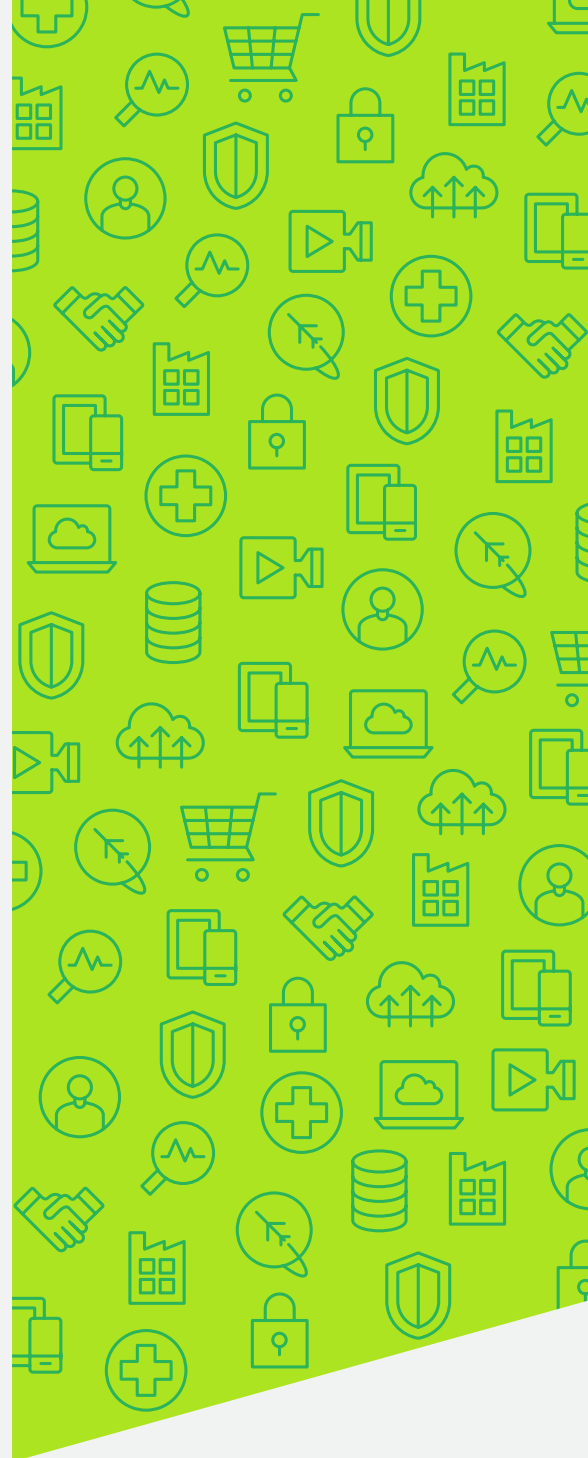
How businesses of any size can build a culture of innovation

AWS SMB | JUNE 2022



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Foreword

In his 2017 letter to shareholders, Amazon executive chairman Jeff Bezos highlighted a trait common among customers in any business. “One thing I love about customers,” he wrote, “is that they are divinely discontent...people have a voracious appetite for a better way, and yesterday’s ‘wow’ quickly becomes today’s ‘ordinary.’”

Our conversations with the most successful small and medium businesses (SMBs) reveal this single-minded focus on customers defines their approach to innovation.

As companies grow and scale, maintaining focus on meeting customers’ needs at speed becomes more difficult as competing business imperatives and pressures (e.g., cost, infrastructure, competition) arise. Yet understanding your customers’ needs and desires, and rapidly inventing solutions that meet those needs, is more critical than ever for companies looking to remain innovative in an increasingly complex business environment.

To help guide you on your own journey of customer-centric innovation, we have distilled learnings from our own experiences at Amazon, as well as patterns of innovation we have observed among our SMB customers into this ebook. This is intended to offer helpful tips and best practices for organizations seeking to innovate, including:

- How to recognize and overcome barriers to innovation
- How to build a customer-centric culture
- How to use practical mechanisms to make faster, better business decisions
- How to harness the full potential of technology to stay ahead



Introduction

Innovation is a source of growth and competitive advantage that can deepen customer engagement, increase revenue, and enable rapid entry to new categories or markets. Research shows businesses that prioritize innovation are proven to deliver 2.4 times more **economic profit than their non-innovative peers**.

In a **recent survey of SMBs in the Asia-Pacific region**, a majority of respondents (~61%) cited innovation as a top business priority. Let's look at some stories that show how these SMBs demonstrate an innovative spirit in response to customers' changing needs and the ever-evolving economic climate:

Everyday innovation



BABA'S Curry, a Malaysian company that started in a delivery truck 50 years ago, has relied on customer feedback plus trial and error to constantly evolve its products. Today, BABA'S has expanded its offering to 30 spice mixes, sold in countries on five continents.



Jim's Group, a provider of gardening, cleaning, and mowing services in Australia, maintains a laser-focus on customer complaints. They changed their business model from sub-contracting to franchising, reducing the average complaint rate from 100% to 5%. Plus, by implementing cutting-edge automation to various parts of the business, they further reduced this rate to below 1%.

Disruptive innovation



GlobalSign.In, an event technology company in Singapore, pivoted its business during the pandemic to offer an immersive virtual event platform deployed to host large-scale events, such as the Singapore FinTech Festival.



Mikatasa, a manufacturer of adhesives and coatings in Indonesia, developed a new ecommerce ordering site that establishes a direct line of communication with its customers, and enables customers residing in rural areas to gain easy access to its products. Once a family-run business, Mikatasa now has more than 15,000 retail outlets in Indonesia.

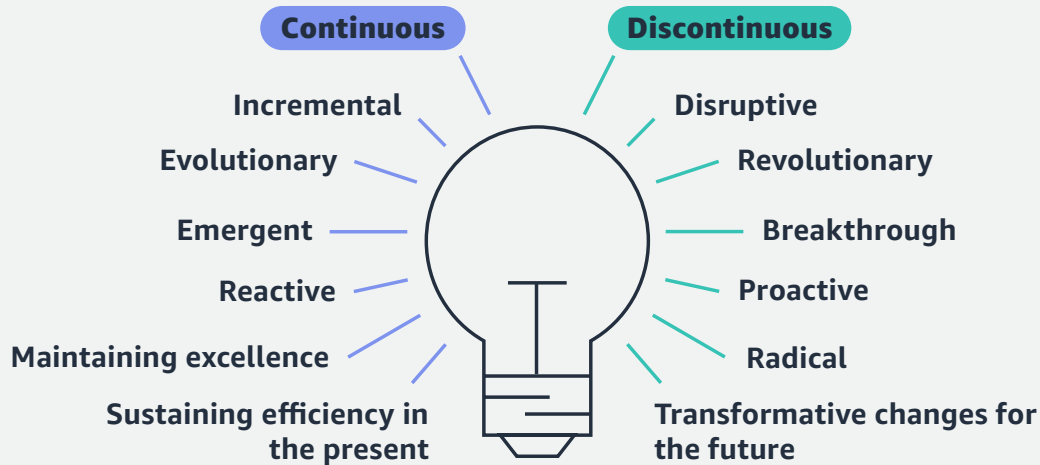
Three distinct patterns of innovation become apparent from reading these stories:

1 The customer comes first

Successful innovation springs from customer centricity. A **recent survey** of 585 business executives conducted by Harvard Business Review found that innovative leaders are much more likely to focus on customers.

2 Innovation exists along a continuum

Innovation can mean a lot of different things. It could mean doing what we've always done, but in an improved manner. You could use your knowledge of the familiar to come up with something new or dream up something completely unprecedented, ultimately reinventing your business. At Amazon, we think of innovation as a continuum.



At the continuous end, innovation is characterized by linear changes for gradual, everyday impact. When businesses participate in continuous innovation, they ask questions like, "How can we make an existing process or product faster, better, smarter?" and "What are we overlooking or underemphasizing? How do we find new ways to delight our customers?"

As we move toward the discontinuous end of the continuum, innovation is focused on radical, transformative changes for the future. Often, this involves asking questions like, "What do we know about our customers today and how do we stay close to understand what they may want or need in the future? How can we provide a solution to currently complex or not fully understood problems?"

3 Innovation leads to a range of business outcomes

When they prioritize innovation, leading SMBs focus not only on profit and revenue, but also on the bigger picture of how innovation can contribute to other non-financial aspects of their businesses, such as deeper insights, more meaningful customer interactions, and improved branding and reputation. These organizations understand that to create lasting business success, they will have to constantly turn great ideas into functional applications to solve their customers most pressing challenges of today and tomorrow.

Barriers to innovation

So what stops both established and growing businesses from sharpening focus on their customers and constantly validating ideas through experimentation?

SMBs today face several innovation barriers.

The SMB landscape is very heterogeneous and varies widely in the design and implementation of business strategies. In general, they face more obstacles to innovation compared to larger enterprises. Many of these barriers are related to the external environment and are hard to overcome. These barriers include economic turbulence, lack of collaboration with the innovation ecosystem, insufficient government support, or challenges with obtaining financing.

However, in our conversations with customers, we find a range of internal barriers which prevent SMBs from innovating to improve their business and deliver differentiated customer experiences. These internal barriers include:



Culture

A set of common understandings and operating principles in an organization.

- Resistance to change from managers & employees
- Excessive risk perceived with innovation
- Fear of being the first to innovate
- Existence of bureaucracy and control



Process and organization

A set of outcomes, and the generic activities and tasks needed to achieve the outcomes.

- A lack of a clear definition of innovation
- Disagreement over who owns innovation
- A lack of planning for changes demanded by the market and business environment
- No systematic approach to innovation which causes teams to be “too busy with daily routines”



Skills and technology

The abilities and knowledge needed to perform specific tasks.

- A lack of qualified and specialized personnel
- Inadequate staff training
- Difficulty retaining qualified personnel
- Perception that modernizing and digitization is expensive

While there is no one-size-fits-all silver bullet to innovation, this ebook will help you look at internal barriers in a new light and adopt a fresh mindset in approaching innovation.

In the sections ahead, we will share a “culture of innovation” framework that can help you obsess about your customers, understand their needs, and respond faster than ever.

AWS culture of innovation framework for businesses of any size

Here are its central tenets:

- Start from the customer to uncover new needs and opportunities
- Drive faster, better customer-centric decisions
- Harness the full potential of technology to test and scale new ideas

Building a customer-centric culture

One way to stay ahead is to empower a culture that relentlessly focuses on customers and strives to earn and keep customer trust—each day and every day. Doing this requires purposefully building an organizational capacity, and a culture of customer-centric innovation, that can proactively invent on your customers' behalf.

Innovative SMBs know it is not enough to simply react to what your customers are telling you they need. This may address prominent pain points or the highest priority issues in the short term but does not guarantee that that you will proactively stay ahead of customers needs. They will inevitably shift over time, and there is a chance you won't even know when this shift occurs.

“ Customers are always beautifully, wonderfully dissatisfied, even when they report being happy and business is great. Even when they don't know it yet, customers want something better, and your desire to delight customers will drive you to invent on their behalf.”

Jeff Bezos

Chairman and Founder, Amazon

An example of customer obsession

An example from Amazon's own retail business experience illustrates how we focus on long-term customer needs. We built a sustainable flywheel around durable customer needs like price, selection, and convenience—things we knew would be important to customers both now and in the future. This flywheel serves as an anchor around which we can constantly look for ways to improve value for our customers and introduce new features or services that surprise and delight them.



The Amazon Prime story

Our core, durable values—of price, selection, and convenience—led us to innovate services like Amazon Prime. With the knowledge that customers would value faster two-day delivery across millions of items with no minimum purchase requirement, we explored how to continuously add value for Prime members. By expanding the selection that qualified for Prime delivery over time, this meant added benefits for subscribers such as Prime Video, Amazon Music, Amazon Photos, Prime Gaming, Prime Reading, Amazon Fresh, Prime Wardrobe, Amazon Pharmacy, and more.

At first glance, these appear to be wildly disconnected businesses—across digital media, consumables, hard and soft retail goods, and more. It may not make sense for these businesses to reside together in a single product portfolio. However, in thinking about our Prime customer as a household as opposed to an individual shopper ordering online, and the things they do with friends and family within their home—listen to music, watch TV, stock a pantry for family meals, etc.—the underlying value proposition changes. This clarity of purpose then gradually helped us improve the core shipping benefit to customers, adding free one-day delivery on 10 million items and same-day delivery on over 3 million items for qualifying orders of \$35.

By building a closed-looped flywheel around customers' durable needs in our retail space, and by staying close to our customers and continuing to think about how their needs evolve, Amazon drives continuous innovation that delights customers and helps fuel our retail growth.

2007

Free Premium Shipping

2014

Prime Video

Streaming of more than 15,000 movies and TV episodes

Prime Photos

Prime Video to Amazon BuyVIP

2015

Prime Music

Streaming of more than 2 million songs – ad-free

Prime Pantry

Everyday essentials in a box

Premium Access to top offers

30-minutes early access to Lightning Deals

Free Same-Day Delivery

2016

Prime Now

Delivery within one hour!

Free Same-Day Delivery

Twitch Prime

exclusive discount on video games, free in-game content and ad-free viewing on Twitch, plus loads more

Working backwards

One way we ensure that we consistently drive customer-centric innovative thinking and execution at Amazon is by adopting the **working backwards** process. Every customer-facing product or service developed across Amazon uses the working backwards process. We use this mechanism to make sure that we're building the right thing for customers and that we're customer obsessed from the start of any idea.

This process is based on "working backwards" from customer needs when creating new products and services. It usually involves four steps:

1

Answering the 5 *Customer Questions* to refine our understanding of our customer and their needs.

- Who is the customer and what insights do we have about them?
- What is the prevailing customer problem/opportunity?
- What is the solution and why is it better than other alternatives?
- How would we describe the end-to-end customer experience?
- How will we define and measure success?



2

Re-imagining the customer experience and reflecting this into a Press Release (PR) document.



3

Expanding upon the PR with an FAQ (frequently asked questions) document.



4

Integrating a visual as part of the FAQ to outline the customer experience.

For organizations looking to accelerate and release new services for customers, completing these steps offers a much clearer picture of what you're planning to create.

Practical mechanisms for faster, better decision-making

The Soup Spoon, a soup outlet in Singapore, opened its first outlet in the city's business district targeting working professionals on the go. Inspired by the success of this store, they opened another outlet, this time at a location frequented by families and children. However, **the response at this outlet** was so poor that it almost cost them their business. Realizing that this was a costly experiment, they went back to the drawing board, conducting extensive market research to redefine their target audience.

The Soup Spoon didn't let this failure hamper its innovative and creative spirit. It just got better at picking the right experiments to run, failing fast, and learning to scale desirable customer solutions quickly. For example, the company experimented with new flavors from across the world and launched new menus of soups every month to keep offerings fresh. To meet customers where they are, The Soup Spoon also introduced an online and mobile ordering system, including an app that serves as a loyalty rewards card—all of which led to an **8.5 percent increase** in average customer spending per visit.

By maintaining a customer-obsessed culture and working backwards from your customers' needs, your innovations are better set up for success right from the start. But for this to work, your teams should be encouraged and incentivized to improve your services and add benefits and features before they have to. This means one thing—making bold, smart decisions at speed and scale.

“Speed disproportionately matters at every stage of your business, and in every sized company...Speed is not preordained. Speed is a choice. You can make this choice. And **you've got to set up a culture that has urgency.”**

Andy Jassy

President and CEO, Amazon

Top-down leadership

The good news for a small and medium business looking to encourage risk-taking is that there are fewer layers of communication and corporate hierarchy for teams to navigate. But, on the other hand, the wrong experiments pursued too quickly or for too long may prove very costly and end up jeopardizing your customers and your business.

Leaders of innovative businesses acknowledge that a tolerance for failure requires an intolerance for incompetence. A willingness to experiment requires rigorous discipline. They clearly articulate the difference between productive and unproductive failures: Productive failures yield valuable information relative to their cost. A failure should be celebrated only if it results in learning. Unless you have the right tools and mechanisms to manage these paradoxes, attempts to create an innovative culture may fail.

One-way vs. Two-way doors

One helpful mental model we have developed at Amazon is the concept of one-way versus two-way doors. This is a way to encourage calculated risk-taking based on the belief that many decisions and actions are reversible and don't require extensive study.

One-way doors have significant and irrevocable consequences and need deep analysis and deliberation—examples include building a new data center or fulfillment center. These require careful thought, extensive planning, a lot of capital investment, and are difficult to reverse once you're starting to break ground. Two-way doors have limited and reversible consequences—such as experimenting with a new feature on a mobile shopping app—decisions you can rapidly make and iterate quickly based on what you learn or reverse altogether. A simple prototype that fails to perform as expected because of a previously unknown technical issue is a failure worth celebrating if that new knowledge can be applied to future designs.

When we see a two-way door and have enough evidence and reason to believe going through it would be a good idea, we just walk through it—either way, we learn a valuable lesson we can apply to the next iteration or innovation. So when's the right time to make a decision? At Amazon, we believe that most decisions only need about 70 percent of the information you wish you had. If you wait for 90 percent or more, you're probably moving too slow.

Two-pizza teams

While fostering an environment that encourages bold decision making is beneficial, ensuring these solutions are executed effectively is critical. For this, you must first find the right people and optimize their innovation potential. Innovative companies hire builders—people who like to invent, who want to build the future, people who like to look at different customer experiences and assess what’s wrong with them and iterate them or reinvent them entirely. They then organize these builders so they can truly build—empowering them to invent on behalf of customers.

At Amazon, we have a term for the way we organize people to optimize innovation and execution. We refer to this organizational structure as “two-pizza teams.” This refers to our belief that no team should be so big that it would take more than two pizzas to feed them. This concept is fundamentally formed around creating a little startup of 10 or less people—smaller teams minimize the need for matrixed communication, unnecessary meetings, and bureaucracy. This helps accelerate decision making. And with less technological dependencies and freer access to the tools they need to innovate, two-pizza teams simply have more time to rapidly innovate on behalf of customers.



Harness the full potential of technology to test and scale new ideas

As businesses grow and your data expands, your on-premises or colocated datacenter has become a challenge to maintain. Today, the burden of managing infrastructure, particularly as it ages, fundamentally limits many businesses' ability to innovate and stay competitive.

Many small and medium-sized businesses find an on-premises datacenter:



Difficult to scale:

On-premises datacenters offer limited flexibility to scale rapidly with your business. Adding more storage means buying new hardware.



A burden on scarce IT resources:

Instead of using IT resources on projects to differentiate your business, you are increasingly focused on finding the skills required to efficiently manage your infrastructure.



Less reliable:

You're solely responsible for business continuity and staying ahead of any security threats to prevent downtime that will slow the business.

Innovative SMBs today are adopting new working models and shifting to flexible IT platforms. According to Techaisle, the cloud has become the **number one IT priority in 2021 for companies with fewer than 1,000 employees**. Access to cloud technology means access to cutting-edge products, services, and even experts that can help SMBs innovate quickly. In cloud computing, large volumes of storage, compute, and other IT capabilities are available via the Internet to organizations in a pay-as-you-go model. The cloud services model essentially allows businesses to outsource the buying, integration, upgrading, patching, and management of server, storage, and communications equipment.

With the cloud, you pay for IT resources as you use them. You eliminate the equipment, software, tools, power, and real estate costs associated with building and managing your own infrastructure. Because the cloud gives you the ability to rent storage and eliminate costly on-site solutions, it provides an affordable way to unlock new possibilities for business efficiency and growth.

Companies that leverage cloud services gain approximately 31 percent operational cost savings on **the cloud** compared to running infrastructure on-site themselves. Cloud technology also provides an unrivaled ability to experiment rapidly and cheaply. Testing new tools and solutions—which traditionally takes hundreds of thousands of dollars, several months, and hiring coders—can now be done almost instantly and at low cost. According to a **recent McKinsey report**, 75 percent of the cloud's predicted value comes from boosting innovation, and the cloud promises an average rise in EBITDA of more than 20 percent.





In the below assessment, check off which factors impact your business to help determine whether moving to the cloud is right for you:

I have aging infrastructure that needs to be replaced.

I have an increasing number of remote employees accessing the network.

We struggle to keep up with security and other required patches.

I am concerned about our ability to back up and quickly restore our data.

We frequently have unplanned downtime.

Increasing complexity makes it difficult to identify network, security, or capacity problems before they impact the business.

I have limited IT resources and can't hire to meet business demands.

My development resources are busy maintaining existing applications, instead of developing apps to respond to the needs of internal or external customers.

If you checked any of the above, adopting cloud computing can be a critical component of enhancing your IT team's positive impact on your business.

Takeaways and next steps

Businesses of all sizes today are focused on innovation to gain a competitive edge. With a customer-centric approach, businesses can overcome barriers to innovation and increase revenue, gain deeper business insights, and improve their brand.

To effectively drive innovation in your business, here are some of our suggestions:

- **Build a customer-centric culture**
 - Foster a culture which prioritizes finding new ways to uncover opportunities and get closer to customers
 - Apply the working backwards process to your product/service development road-map
- **Make high-quality, high-velocity decisions**
 - Turn insights into innovation by making better, faster decisions in a disciplined way
 - Evaluate whether key business decisions are one-way or two-way doors
 - Organize people in “two-pizza teams” to optimize speed of innovation and execution
- **Harness the full potential of cloud technology to test and scale new ideas**
 - Develop bias for technology like the cloud to enable rapid, inexpensive experiments



Here are some of our customers who have applied our culture of innovation framework in their organizations:



A hospital chain in India organizes a virtual HealthTech Hackathon to build new solutions for remote healthcare during the pandemic.



A housing finance company improves uptake of top-up loans by streamlining the application and approval process through its mobile app.



A tire manufacturer in India repurposes the customer bot on its direct sales website to provide advice on buying the right tires.



A private SaaS develops an automated scheduler to optimize scheduling of large teams of technicians in a fraction of the time it took manually.

“ The working backwards process has reversed the way our people solve problems internally. They know the problem they are trying to solve without clearly articulating a solution roadmap.”

Wayne Barelds

VP Product, private SaaS company

“ We’re now going to make working backwards a standard practice for all our important human-centric projects.”

Ritesh Arora

Chief Digital Officer, tire manufacturer

GET STARTED

Find out how digital innovation can help your business and hear from Amazon and SMB peers on how they are using innovative ideas to fuel growth.

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