

MENTORS

Issue 4

Magazine

FIND YOUR
INNER COMPASS

By Mike Kitko

REGENERATIVE
APPROACH TO
MENTORING IN
BUSINESS

By Carol Sanford

BRAD SUGARS
DEVELOP THE
SUCCESS MINDSET

INTERVIEW WITH
JOHN WARRILLOW

Founder of The Value Builder System™

WHAT DOES A
MENTOR DO?

By Neil Ball

THE MAKING OF
A SHOE EMPIRE
with Steven Sashen

THE 5 SIGNS YOU
NEED TO FIRE YOUR
CUSTOMER

By David Neagle

NOT JUST PROBLEM
SOLVING. BUT
PROBLEM
RESOLVING

By Linda Sage



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RISK - How to Leverage It to Scale Your Business & Grow by Leaps and Bounds

By Steve Anderson

Businesses face risks every day. They risk a customer coming into their shop and slipping on water left on the floor. They risk a

“14 principles ‘hidden in plain sight’ that Bezos used to grow Amazon from a startup company”

new competitor with a better product or service, taking away their customers.

Many believe entrepreneurs are, by nature, risk-takers. But based on the success rate of new businesses over five years, it certainly appears that most take too many, or the wrong kinds of risks that put them out of business.

Technology is being developed faster today than ever. Consumers' expectations are

changing just as quickly. As a result, businesses don't have the time they had in the past to evaluate these changes and figure out how to adapt.

Could it be that the biggest risk a business faces is actually not taking enough risk?

Amazon provides a good case study for how risk-taking can be used strategically to grow your business. I have analyzed the 21 Letters to Shareowners Jeff Bezos wrote to Amazon shareholders to reverse engineer the success of the company and what every business can learn from Amazon's success.

After studying the 21 letters to shareholders that Jeff Bezos wrote starting in 1997, I discovered 14 principles “hidden in plain sight” that Bezos used to grow Amazon from a startup company to one of the larg-

est and most valuable companies in the world.

Can these principles be applied to any business of any size? I think they can. I believe Jeff Bezos is the Master of Risk and has learned how to use risk strategically to grow.

The Biggest Risk Successful Business Face

Even successful businesses face risks. The biggest risk a successful company faces is being successful.

You see, when a business is successful, the mindset of management and employees starts to change from invention to protection. And when they start thinking about how to protect their success, they stop experimenting, testing new ideas, and inventing on behalf of their customers.

Bezos address this problem in the 2015 Letter. “As organizations get larger, there seems to be a tendency to use the heavy-weight Type 1 decision-making process on most decisions, including many Type 2 decisions. The end result of this is slowness,

unthoughtful risk aversion, failure to experiment sufficiently, and consequently diminished invention. We’ll have to figure out how to fight that tendency.”

I created the Anderson Risk and Growth framework to help any business owner better understand how they can apply the growth principles to their organization. The framework has four cycles — Test, Build, Accelerate, and Scale — with the 14 growth principles grouped within each cycle.

There is an essential link between risk and business growth that many people overlook. From this vantage point, risk can be framed in a very positive light. That’s why you can look at the growth of Amazon from a slightly different perspective— through the lens of risk.

Yes, every business takes risks, but reckless risk-taking is like rolling the dice. You never know what’s going to come up. But Bezos takes risks with intentionality, which most businesses, if aware, can also harness to achieve greater results.

What has fueled Amazon’s growth comes



Encourage Successful Failure

down to Jeff Bezos' unique approach to taking and leveraging risk and his commitment to creating a culture for experimentation and invention. And it's all based on his views on success and, actually, failure.

How did Bezos build an online bookstore into a trillion-dollar company during a period that saw countless other technology companies and

bookstores collapse?

What would you give to have Bezos, himself, explain the secrets that took Amazon to a trillion-

dollar company and

him to become the wealthiest person in the world?

Fortunately, Bezos didn't operate behind a curtain, hiding his mechanisms and strategies like the Wizard of Oz. That's where the Shareholder Letters come in. They reveal his thinking and his approach from the beginning of Amazon to the present.

Bezos was extremely savvy when it came to growing Amazon: he knew there was an exquisite tension between risk and growth. You don't grow if you're not willing to take risks.

But here's where Bezos does what I consider to be incredibly astute: he chooses to play the game differently by always assessing his "return on risk."

"Return on Risk"

"Return on Risk," or ROR, is a term I use to refer to the relationship between the cost of risk and its return (which isn't always financial). It's similar to how you would think of a "Return on Investment" or ROI.

From the owner to the receptionist, everyone in the business understands that everything we do has a cost and a benefit.

Every dollar we

spend to advertise, pay salaries, buy materials, deliver goods, build a website, and anything

else we do should create more than a dollar in return. Every minute we spend working on something should similarly generate an income worthy of the time spent.

Although most everyone in business views money spent on the business through an investment framework, virtually no one thinks about business risk as an investment—with the possible exception of Jeff Bezos.

Cycle Test – Principle #1 Encourage Successful Failure

Risk is not something to be taken lightly, and Bezos doesn't take risks lightly.

But the process of failure and learning from failure is when the most profound



learning takes place.

From what he's written in the Shareholder Letters and elsewhere, Bezos believes in the concept of "successful failure." The learning process is so essential that he intentionally builds failure into his business model.

If he tries something and it works, that's great. But if he tries something and it doesn't work, he looks for ways not only to make it work but to make it worth it.

In a December 2014 interview with Henry Blodget, co-founder, and publisher of Business Insider, Bezos talked about the role of failure in Amazon. He told Blodget, "...one of my jobs is to encourage people to be bold. It's incredibly hard. Experiments are, by their very nature, prone to failure. A few big successes compensate for dozens and dozens of things that didn't work."

In other words, he builds "experimenting" into his business model, knowing from the start that many of them will fail. Bezos also believes that risk and failure are essential to business growth. In his words:

"What really matters is, companies that don't continue to experiment, companies that don't embrace failure, they eventually get in a desperate position where the only thing they can do is a Hail Mary bet at the very end of their corporate existence. Whereas companies that are making bets

all along, even big bets, but not bet-the-company bets, prevail. I don't believe in bet-the-company bets. That's when you're desperate. That's the last thing you can do. —2014 Business Insider IGNITION conference."

Too many companies only stay afloat when everything goes well. If something goes wrong, cash flow slows down, money gets tight, and sacrifices must be made. To the point where if some businesses even experience a "hiccup," they can be out of business almost just that fast.

Again, Amazon builds "failure" into its budgets to give it the flexibility to allocate resources to many things they know will fail. Not only will the few successes overcome the multiple failures, but Amazon learns from, and builds upon, its failures to make other endeavors successful.

Successful Failure as a Mindset for Success

To be clear, failure isn't about incompetence or laziness. Amazon has an "intolerance for incompetence." In Amazon's case, failure is expected when new ideas or ways are tried. But Amazon will not tolerate anything less than giving your very best.

Given a 600,000-plus staff that's "competent" and an environment that's safe to try new things without fear, who

knows?

Bezos talked about failure in 8 different Letters (1997, 2005, 2008, 2013, 2015, 2016, 2017, and 2018), which provides some insights regarding the importance he places on creating an environment within Amazon that supports “successful failure.”

In the 2013 Letter, he says, “Failure comes part and parcel with invention. It’s not optional. We understand that and believe in failing early and iterating until we get it right. When this process works, it means our failures are relatively small in size (most experiments can start small), and when we hit on something that is really working for customers, we double-down on it with hopes to turn it into an even bigger success. However, it’s not always as clean as that. Inventing is messy, and over time, it’s certain that we’ll fail at some big bets too.”

He continues in the 2015 letter, “One area where I think we are especially distinctive is failure. I believe we are the best place in the world to fail (we have plenty of practice!), and failure and invention are inseparable twins. To invent you have to experiment, and if you know in advance that it’s going to work, it’s not an experiment. Most large organizations embrace the idea of in-

vention but are not willing to suffer the string of failed experiments necessary to get there.

And finally, in the 2018 Letter, he talks about how failures need to scale as your

company grows saying, “As a company grows, everything needs to scale, including the size of your failed experiments. If the size of your failures isn’t grow-

ing, you’re not going to be inventing at a size that can actually move the needle. Amazon will be experimenting at the right scale for a company of our size if we occasionally have multibillion-dollar failures. Of course, we won’t undertake such experiments cavalierly. We will work hard to make them good bets, but not all good bets will ultimately pay out. This kind of large-scale risk taking is part of the service we as a large company can provide to our customers and to society. The good news for shareowners is that a single big winning bet can more than cover the cost of many losers. (Bezos 2018 Letter)

Is your business experimenting and inventing at the right scale? Does your organization support a culture that encourages “Successful Failure”?

The question remains: Is the bigger risk not taking any risk at all?

“we are the best place in the world to fail (we have plenty of practice!), and failure and invention are inseparable twins. “



MEET THE STEVE ANDERSON

Steve Anderson, MA, is a trusted authority on risk, technology, productivity, and innovation. He is the author of the Wall Street Journal, USA Today, and international bestselling book *The Bezos Letters: 14 Principles to Grow Your Business Like Amazon*. He was recruited to be one of the original 150 LinkedIn Influencers and has over 340,000 followers. Steve and his wife, Karen, have two married daughters and seven young grandchildren. For more information, please consult: www.thebezosletters.com

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