Amazon smart innovation strategy

Building a great business and operating it well no longer guarantees you'll be around in 100 years, or even 20. In 1958, the average length of time a company remained on the S; P 500 was 57 years; by 1983, it had dropped to 30 years; in 2008, it was just 18. Shorter business life cycles require a new sort of management discipline capable of leading an organization through an ongoing process of transformation and renewal. To thrive in today's marketplace, to be built to last, every business now must be built to transform.

Consider Amazon (AMZN), which emerged from the dot-com bubble one of the few winners and continued to blaze a trail of impressive growth (from about $4 billion in 2002 to nearly $20 billion in 2008). One of the most unexamine facets of Amazon's high-profile success is its unabashed embrace of transformational growth in its white space. Amazon survived the dot-com bust because it had a viable and innovative business model built around a market-changing customer value proposition and a radical profit formula, which upended the staid book industry.

Then it quickly expanded beyond books to include all sorts of easily shippable consumer goods, growing from its core into near adjacencies. But Amazon didn't stop there. A few years later, the company seized its white space when it devised a new value proposition, offering a commission-based brokerage service to buyers and sellers of used books. Then it moved into its white space again by developing a model to serve an entirely different customer: third-party sellers.

By opening up its storefront to other retailers that were essentially competitors, Amazon transformed its business from direct sales to a sales-and-service model, aggregating many sellers under one virtual roof and receiving commissions from the other companies' sales. Then Amazon did it yet again, identifying a new area of potential growth by finding another new customer—the IT community. Serving this new customer's needs required different processes, different resources, and a different profit formula—in short, another new business model. In 2002 Amazon launched a web services platform.

Perhaps it was risky for a young company that had only reached profitability in that same year to invest its innovation resources in new business models rather than stick to its core, but within five years the site used by Amazon's web-services platform had grown into the seventh-largest in the world. And Amazon kept going. In late 2007, it set up Lab126, whose first product, the Kindle e-book reader, came to market wrapped in a business model not only foreign to Amazon's DNA but also potentially disruptive to the entire publishing industry.

To launch this high-margin, product-based offering, Amazon had to become an original equipment manufacturer (OEM). It wrapped this technology in a seamlessly integrated iTunes-type digital media platform that combined both transaction- and subscription-based content delivery. It partnered with content producers in innovative ways and created an open back-end that allowed independent publishers to generate new content for the Kindle. In its first year, Amazon sold an estimated 500, 000 Kindles.

Amazon has greatly expanded the market for e-books and positioned itself for success not only in this market but in newspaper and periodical distribution as well. Amazon at its roots is built to transform. When it finds opportunities to serve new customers, or existing customers in new ways, it conceives and builds new business models to exploit them. Amazon has the unique ability to launch and run entirely new types of businesses while simultaneously extracting value from existing businesses.