

HOW DOES YOUR FLYWHEEL TURN?

A Good to Great® Strategic Tool

Jim Collins

In 2001, Amazon.com invited me to engage in a spirited dialogue with founder Jeff Bezos and a few members of his executive team. This was right in the middle of the dot-com bust, when some wondered how (or if) Amazon could recover and prevail as a great company. Drawing upon the findings from our soon-to-be released book *Good to Great*, I shared one of its key findings, “the flywheel effect.” In creating a good-to-great transformation, there’s no single defining action, no grand program, no single killer innovation, no solitary lucky break, no miracle moment; rather, the process resembles relentlessly pushing a giant, heavy flywheel, turn upon turn, building momentum until a point of breakthrough and beyond. Once you fully grasp how to create flywheel momentum in your particular circumstance, and apply that understanding with creative intensity and relentless discipline, you get the power of strategic compounding. Never underestimate the power of momentum, especially when it compounds over a very long time. Once you get your flywheel right, you want to stay with it for years to decades—decision upon decision, action upon action, turn by turn—each loop adding to the cumulative effect. But to best accomplish this, you need to understand how your specific flywheel turns.

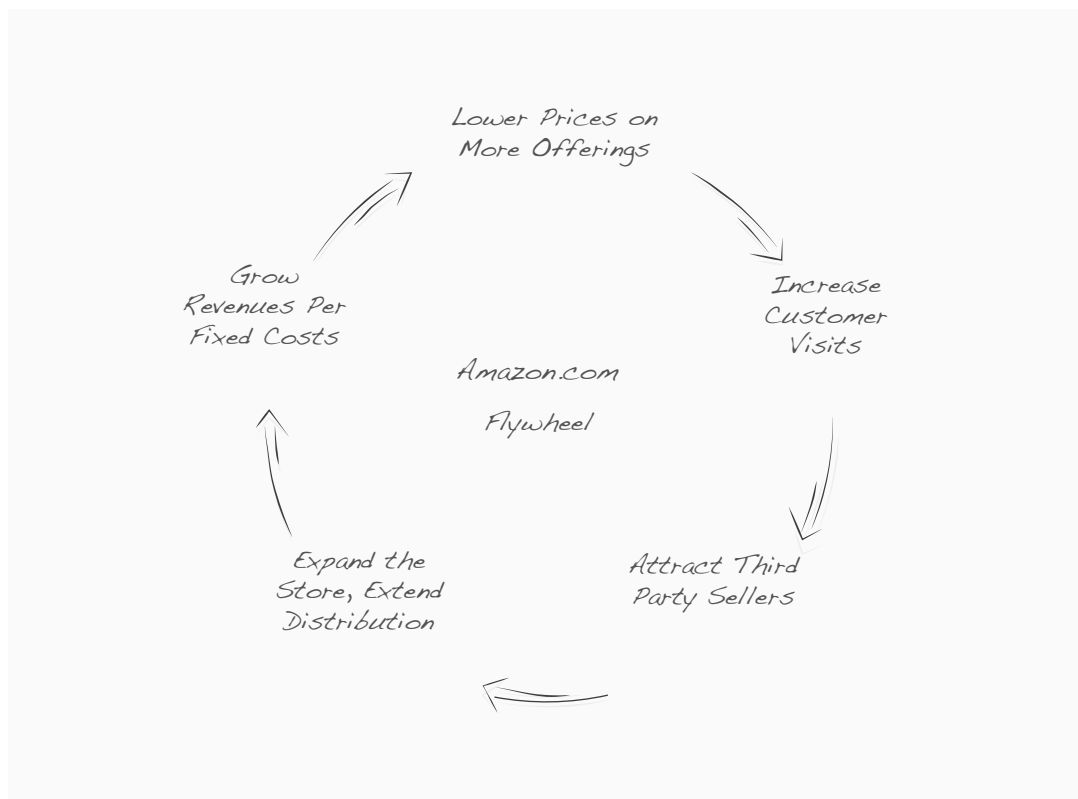
The Amazon team grabbed the flywheel concept to articulate the drivers in its business, as Brad Stone wrote in *The Everything Store*, “Bezos and his lieutenants sketched their own virtuous cycle, which they believed powered their business. It went something like this: Lower prices led to more customer visits. More customers increased the volume of sales and attracted more commission-paying third-party sellers to the site. That allowed Amazon to get more out of fixed costs like the fulfillment centers and the servers needed to run the website. This greater efficiency then enabled it to lower prices further. Feed any part of this flywheel, they reasoned, and it should accelerate the loop.” And so the flywheel would turn, building momentum. Push the flywheel; accelerate momentum. Then repeat, then again, and again, and again. Bezos, Stone continued, considered Amazon’s application of the flywheel concept “the secret sauce.”

One of the biggest strategic mistakes you can make is to fail to make the most of your victories. Yet even brilliant leaders sometimes make this mistake. One reason they fail is if they are obsessively searching for the Next Big Thing. And sometimes you do find the Next Big Thing. Yet our research in *How the Mighty Fall*, wherein we examined why and how once-great companies bring about their own senseless self-destruction, revealed that those who drive companies into decline often abandon the big thing they already have, grasping instead for a new big thing, then another and another, falling into a doom loop of chronic inconsistency.

Conversely, those who build and sustain the greatest and most enduring organizations fully capitalize on their successful big bets, rather than abandon them prematurely. This doesn’t mean they mindlessly repeat what they’ve done before. It means evolving, exploiting, expanding, extending. It doesn’t mean just selling books online; it means extending and evolving the

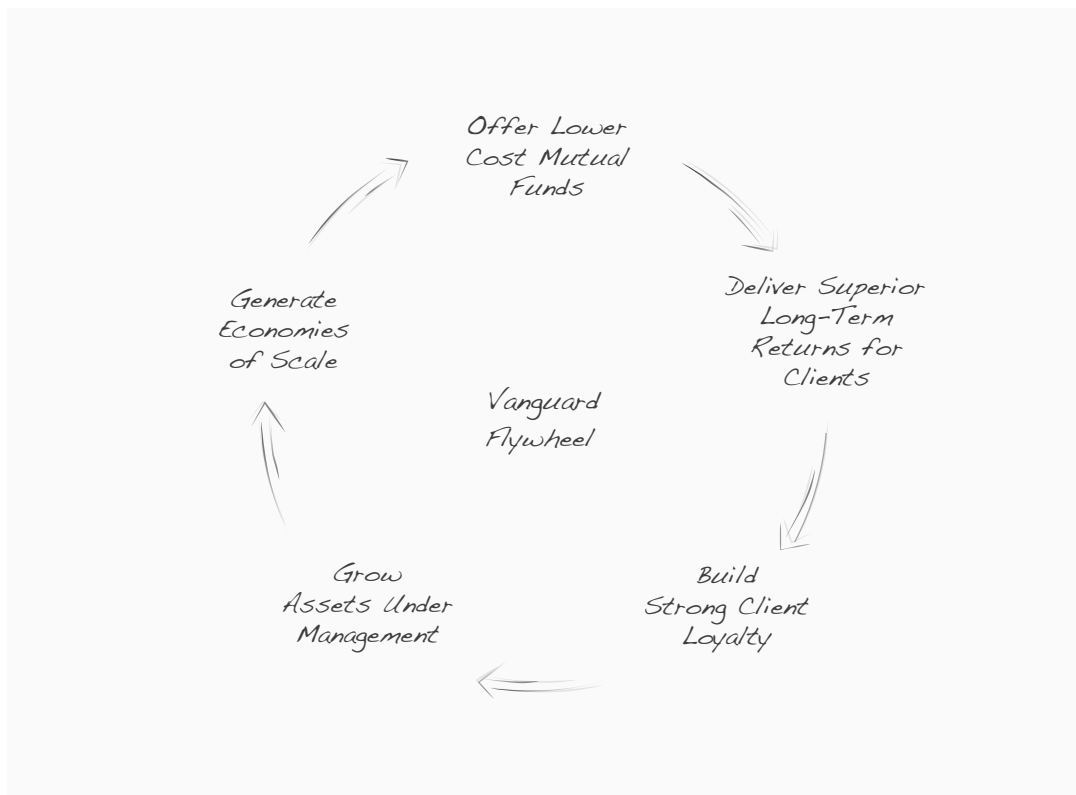
Amazon.com system into the biggest, most comprehensive e-commerce store in the world. The Amazon team could have panicked during the dot-com bust and succumbed to frantic lurching about. Instead, Bezos and his executives gained disciplined understanding of the Amazon flywheel and then innovated aggressively within that flywheel to build and accelerate momentum. Amazon not only survived but also became one of the most successful and enduring companies to emerge from the dot-com era.

The Amazon case illustrates that you can gain tremendous strategic insight when you identify the primary components in your flywheel and understand how they best link together. Here, I've sketched the essence of the original Amazon flywheel to illustrate the idea.



At our management lab in Boulder, Colorado, we've challenged executive teams to diagram the essence of their flywheels as an integral step in creating and sustaining good-to-great breakthroughs. And the method has proved impactful. For example, CEO Bill McNabb of the mutual fund giant Vanguard brought his senior team to Boulder in 2009, and they worked for two days to crystallize the Vanguard flywheel. They did a magnificent job of capturing the essence of the Vanguard momentum machine: offer mutual funds at a lower cost, those lower costs then enable superior long-term returns for its clients, which leads to strong client loyalty, which brings in

more assets to manage, which then by virtue of increasing economies of scale leads to lower-cost mutual funds, which brings us right back to the beginning of the self-reinforcing loop. Vanguard had been turning this flywheel for decades, but crystallizing it gave the leadership team the clarity it needed to keep building momentum with fanatic intensity, especially coming out of the 2008–2009 financial crisis. From 2009 to 2016, Vanguard's flywheel continued to build momentum, more than doubling its assets under management to nearly \$4 trillion. The key point here isn't that Vanguard created a brand-new flywheel, but that it took the time to capture the essence of an empirically validated flywheel it had been building for years, and then used that understanding to maintain strategic consistency amidst a turbulent environment.



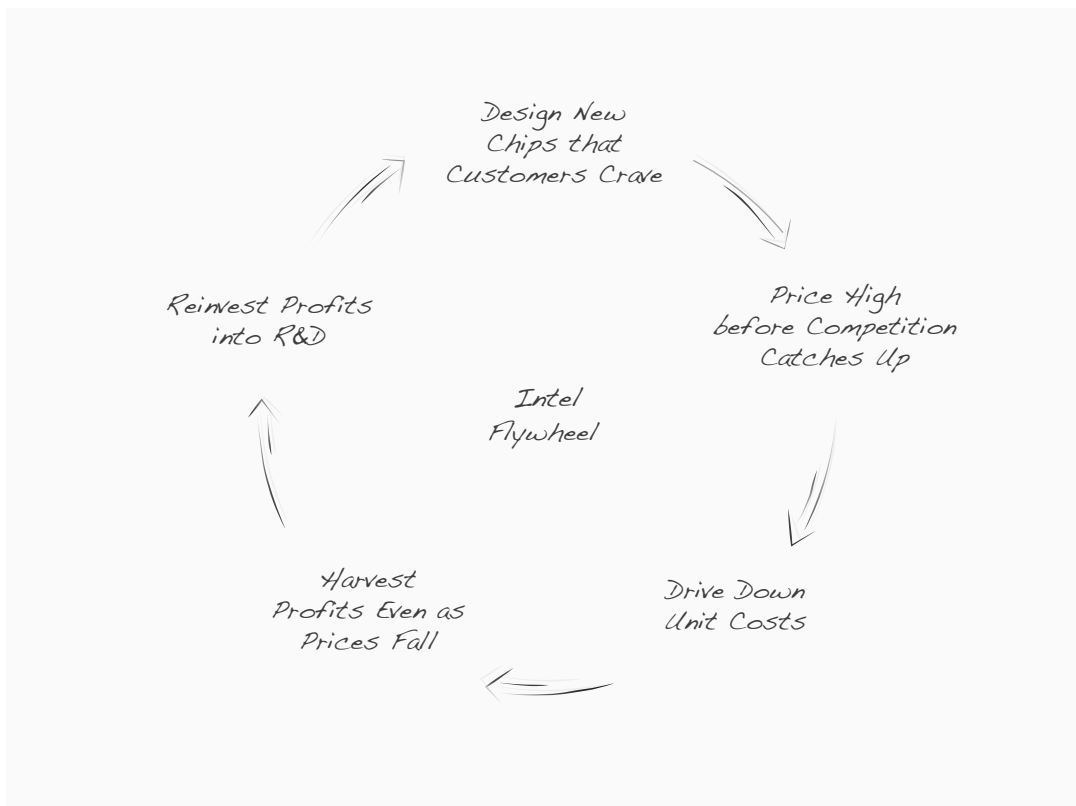
Notice something: in both the Amazon and Vanguard cases, leaders conceptualized an underlying strategic compounding machine that they'd already built and validated in practice. They didn't ask, "What flywheel would we like to have?" They asked, "What flywheel *actually* works for us, and why?" In the years after first blueprinting their flywheels, both Amazon and Vanguard made tweaks and extended their flywheels into new arenas. Vanguard extended into exchange-traded funds (mutual funds that can be traded like an individual stock), for example, and Amazon went far beyond its original website. But the basic architectures of their strategic compounding machines remained very much intact.

I've written this short article as a tool to help you do for your enterprise what the Amazon and Vanguard teams did for themselves—to conceptualize and diagram your flywheel, so that you can consciously harness the flywheel effect. To illustrate what a diagrammed flywheel might look like, here are a few additional sketches drawn from our research database or direct experiences: Giro Sport Design, Intel, and the Cleveland Clinic. To be clear, all the examples in this article reflect my own take on the flywheel from each case; the leaders who built these flywheels could likely draw them with more nuance than I have here. Think of these diagrams simply as illustrative sketches to stimulate thinking about your own flywheel.

Jim Gentes and Bill Hanneman at Giro Sport Design built their flywheel around an insight gained from studying Nike and validated by their first big successful product, the Giro bicycle helmet: there's a hierarchy of social influence for athletic gear. If, for instance, you get a Tour de France winner to wear your bicycle helmet, then serious non-professional cyclists will want to wear that helmet, which then starts the cycle of influence and builds the brand. From this insight, Gentes and Hanneman built a powerful flywheel: invent great products, get elite athletes to use them, inspire Weekend Warriors to mimic their heroes, attract mainstream customers, build brand power as more and more athletes use the products, set high prices and channel profits into R&D, and then repeat the cycle.



In the early days of Intel, Robert Noyce and Gordon Moore built a flywheel harnessing Moore's law (the empirical observation that the number of components on an integrated circuit achieved at affordable cost doubles roughly every 18 months). From this insight, they created a strategic compounding machine: design new chips that customers crave, price high before competition catches up, drive down unit costs as volume increases (due to economies of scale), harvest high profits even as competition drives down prices, and reinvest those profits into R&D to invent the next generation of chips consistent with Moore's law. In Intel's case, this flywheel remained intact for more than four decades, even as Intel shifted from memory chips to microprocessors.



The Cleveland Clinic harnessed the flywheel effect to shape one of the most admired and distinctive healthcare institutions in the world, built upon a core insight that to be truly patient centered, you need a culture of collaboration across specialties with the singular goal of doing what's best for the patient. From this insight, the Cleveland Clinic focused on getting first-rate physicians who would work on salary—no incentives, no fee for service—because they would be motivated primarily by working with world-class colleagues to serve patients. And so, here's the essence of their flywheel: get the right medical professionals who can thrive in a collaborative culture focused on the patient, deploy that culture to promote cross-specialty medicine and create the best health outcomes, which then attracts patients from around the world, which then feeds the Cleveland Clinic's resource engine and enables it to invest in the best facilities, research, and people, all of which feeds right back to the top of the loop, making it easier to attract more of the right medical professionals.



How might you go about capturing your own flywheel? Here's a six-step process developed and refined in Good to Great® Dialogue sessions with executive teams.

- ① Create a list of replicable successes your enterprise has achieved. Variations on an essential idea count as replicable successes; for example, Vanguard created a plethora of low-cost mutual funds (variations), all consistent with the underlying flywheel.
- ② Compile a list of failures and disappointments. This should include new initiatives and offerings by your enterprise that failed outright or fell far below expectations.
- ③ Compare the successes to the failures and ask, "What do these successes and failures tell us about the possible components of our flywheel, and what isn't in our flywheel?"
- ④ Using the components you've identified, sketch the flywheel. Where does the flywheel start—what's the top of the loop? What follows next? And next after that? Each component of the flywheel should feed into the next stage of the flywheel. Outline the path back to the top of the loop and be able to explain why this loop cycles back upon itself to accelerate momentum in your particular context.
- ⑤ Diagram the entire loop using four to six components. If you have more than six components, you're making it too complicated; consolidate and simplify the model to capture the essence of your flywheel.
- ⑥ Test the flywheel against your list of successes and failures. Does your empirical experience validate it? Tweak the diagram until you can explain your biggest replicable successes as outcomes arising directly from the flywheel and your biggest disappointments as failures to execute or adhere to the flywheel.

In all our research into what makes great companies tick, the verdict of history is clear. The big winners are those who take a flywheel from ten turns to a billion turns rather than crank through ten turns, start over with a new flywheel, push it to ten turns, only then to divert energy to yet another new flywheel. When you reach a hundred turns on a flywheel, go for a thousand turns, then ten thousand, then a million, then ten million, and keep going. Apply your creativity and discipline to each and every turn with as much intensity as when you cranked out your first turns on the flywheel, nonstop, relentlessly, ever building momentum. If you do this, your organization will be much more likely to stay out of *How the Mighty Fall* and earn a place amongst those rare few that not only make the leap from good to great but also sustain it to become built to last.