

ZAPPPOS RACES AHEAD

Leadership secrets from the Web

by Glenn Rifkin



Tony Hsieh, the 36-year-old CEO of Zappos.com, the popular online shoe seller, likes to share a story that illuminates the essence of the company's vaunted customer service. A couple of years ago, he and some fellow Zappos executives were attending a Skechers sales conference in Santa Monica, Calif. Zappos has established cordial relationships with a number of hip shoe companies like Skechers, and socializing with vendors is not uncommon in building business relationships. After the meetings ended,

Hsieh and his Zappos colleagues went out with several Skechers sales executives and after a long night of barhopping the group made its way to the hotel where the Skechers crew was staying. Up in one of the executive's suites, a member of the group suggested ordering a pepperoni pizza, which she had seen on the room service menu. But it was 3 a.m., and

room service no longer delivered hot food.

"She was pretty disappointed," Hsieh recounted. "So I dared her to call the Zappos toll-free number. We all thought it would be pretty funny and a good test of our customer service." The young woman dialed Zappos on speakerphone, as the group listened in. When the Zappos call-center rep answered, the hungry Skechers manager explained her plight without mentioning the Zappos executives sitting next to her. The Zappos rep replied, "Please hold on." And within two minutes, she came back on the line with the names of five pizza places in Santa Monica that were still open and would deliver pizza. The Skechers people were astounded. Hsieh was pleased but hardly surprised. What transpired was not an anomaly — it was a perfect illustration of the Zappos culture at work.

Zappos is a \$1 billion online retail powerhouse that has become the poster child for 21st-century customer service. In just 10 years since its founding, Zappos has attracted a legion of loyal shoppers, first for its vast array of shoes, and now for an ever-expanding product line that includes clothing, housewares, electronics and more. In the competitive and crowded



Lew Robertson/Getty Images



Internet retailing sector, Zappos has won wide admiration, more for how it does business than for what it sells. In July 2009, Zappos received the ultimate accolade when it was acquired by an effusive Jeff Bezos and Amazon.com.

Hsieh (pronounced shay) always gets an appreciative laugh and more than a few gasps when he tells the pizza anecdote to audiences. He points out that the response by the Zappos rep, who was based in the company's call center in Henderson, Nev., was appropriate, despite the bizarre nature of the call. The company has no formal process or scripted procedure to handle such off-the-wall queries, or any of its cus-

tomers calls for that matter. Instead, every call is perceived as a way to make a positive emotional connection with a customer, whether it means delivering a desired pair of shoes overnight or finding a pizza parlor in the middle of the night.

The goal is simple: Wow customers with the kind of service that will not just fill a need but make them return again and again. Instead of being boxed in by restrictive rules of engagement, employees are mandated to help a customer in just about any way possible. This means taking as long as necessary to complete a call, chatting socially and making every attempt to resolve a customer's problem. Given that

Photo: Michael Sipe. People photos courtesy of Zappos.

75 percent of Zappos's sales are to repeat customers, the innovative approach is proving to be sound business.

"The story illustrates that if the employees understand the long-term vision of the company and you get the culture right, most of the other stuff just happens naturally on its own," Hsieh explained. "You don't need to worry about how you are going to come up with every possible scenario of every possible customer service call, because you can't. But if you instill the idea that our brand should be stronger in a customer's mind after the call than before the call, it will take care of itself."

The representative, Hsieh said, "could have said a lot of things. 'I can't send you a real pizza, but I can e-mail you a picture of a pizza' or something like that. The point is there is always an opportunity to build the brand regardless of whether something is being sold or not. Our phone lines actually represent some minority percentage of our sales. The point of the telephone is not to drive sales but to build our brand. If she had said, 'Sorry, we don't do that' and hung up, that doesn't help build our brand."

In fact, Zappos has built its brand so quickly and successfully that the company has achieved the kind of much-desired buzz that all entrepreneurial endeavors crave. In less than a decade, Zappos has grown from a start-up based in a San Francisco apartment to a retail force whose legions of admirers swell exponentially each year. Magazine cover stories, fawning blogs and even a Harvard Business School case study have kept the spotlight bright. Zappos has been named one of Fortune magazine's 100 Best Companies to Work For and is among Fast Company's 50 Most Innovative Companies.

Of course, this is a company that has snubbed conventional wisdom from the outset. Founded in 1999 by Nick Swinmurn, a Bay Area entrepreneur, Zappos began as strictly an online shoe store. Hsieh came aboard two months later as an investor and became so immersed in the concept that he quickly became CEO. Having made his own fortune by selling his company LinkExchange for \$265 million to Microsoft in

1998 at age 25, the soft-spoken Harvard computer-science grad was looking for the next new thing.

The first four years were devoted to building the shoe business, an unlikely product line for the Internet. People

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like to try on shoes, to see how they look and feel. But Swinmurn and Hsieh figured that if they offered the biggest selection of shoes online and added free delivery and return, people would shop. In a \$42 billion industry, shoes turned out to be a terrific online offering. There was no need to advertise, since the shoes had their own brands. Margins were around 50 percent and the concept was a perfect fit for search-engine marketing. When people clicked on a shoe brand, Zappos.com came up.

Along with Alfred Lin, a Harvard classmate and fellow entrepreneur, and Fred Mossler, a Nordstrom veteran, Hsieh steadily built the business. But by 2003, he envisioned a better value proposition.

"We sat around and asked: 'What do we want to be when we grow up? Do we want to be about shoes or something bigger and more meaningful?'" Hsieh recalled. Just as Richard Branson had done when he founded Virgin Atlantic Airways, Hsieh saw beyond conventional business wisdom. Branson quickly realized he wasn't in the transportation business; he

was in the entertainment business. How could he keep customers, stuck in a metal tube 40,000 feet above the earth, happy and amused for hours at a time? Zappos would no longer be in the shoe business, it would be in the customer satisfaction business, offering such exceptional customer service that word would spread and shoppers would flock to the site.

"We decided to build the Zappos brand to be about the very best customer service and experience," Hsieh said. "So not only would that allow us to expand beyond selling shoes online but long term, we wouldn't necessarily be limited to e-commerce. For example, I wouldn't rule out in 20 or 30 years from now a Zappos airline or Zappos hotel chain. Customers have asked us to start an airline or run the I.R.S. It's just about having the best customer service."

As great customer-centric companies demonstrate, the foundation of success is built almost entirely on finding, training and retaining highly motivated, talented customer-facing employees. And it is the innovative approach to its human resources that has put Zappos on the map. When it comes to corporate cultures and work environments, Zappos is out near the lunatic fringe.

A core company value is "create fun and a little weirdness." Among a wide array of classes offered to all employees is a course on what makes people happy. The company has its own television production staff to make wacky videos that are posted on YouTube. Call-center reps are challenged to find innovative ways to make personal, emotional connections to customers, whether chatting about a family wedding or sending flowers to a customer who has lost a loved one.

"The Zappos call center is unlike any other I've seen and I've been in thousands," said Mary Murcott, head of Perfor-



People photo courtesy of Zappos.

mance Transformation, a customer-experience consulting firm in Dallas. “From the outside, it appears disorganized, but it is not. What holds it together is the corporate values they all have. They understand why they are in business and what it takes to keep a customer. It’s about being authentic and empathetic. As Tony Hsieh says, culture drives service. It starts with the culture, not service policies.”

This passion for the customer is built into the DNA of the culture, starting at the top, and it permeates the Zappos mission, corporate strategy, policies and procedures and drives the business engine. Every decision, from whom to hire to what technology to invest in, is spurred by that passion and it has put Zappos in rarefied air.

Bezos, the founder and CEO of Amazon.com, was so impressed with Zappos that he decided to buy the company. Amazon wound up spending nearly \$1 billion in a deal that will make Zappos a wholly owned subsidiary, with Hsieh and his management team retaining control of the company.

“I get all weak-kneed when I see a customer-obsessed company, and Zappos is definitely that,” Bezos said in a video welcome to Zappos employees. “I’ve seen a lot of companies, and I’ve never seen a culture like Zappos. That culture and the Zappos brand are huge assets that I value very much.”

Welcome to the Monkey House

The best way to appreciate the Zappos culture is to visit its headquarters in a nondescript office park in Henderson, a Las Vegas suburb. It is a combination frat house and fantasy camp, but real business is under way. Walking through the main entrance, a visitor is greeted with a sensory explosion. The smell of fresh popcorn wafts through the lobby, a skeleton pirate sits on a shoeshine station near the elevator and a giant 15-pound ball made of discarded name tags (known as Lucille) grows amid the general chaos of employees coming and going. Books that Hsieh and others have read and recommended to employees fill a number of shelves and are there for the taking. And tour groups from other companies wait to be guided through the office. It is fun and weird, and the frenetic atmosphere quickly begins to make sense.

Inside its three buildings in Henderson, where about half of the company’s 1,300 employees work (the others work in a distribution center in Kentucky), Zappos is a loosely constructed meritocracy driven by a single mantra: happy customers are good. The young, preternaturally upbeat work force believes in the mission with religious zeal. Though there are earmarks of a Silicon Valley start-up, the Las Vegas

location gives Zappos a distinctive flavor. Yes, nearly everyone is wearing T-shirts, flip-flops and cargo shorts, and the cafeteria offers free food. Typically, the Zappos employee is either a transient newcomer to Las Vegas or a refugee from the gaming and hospitality industries.

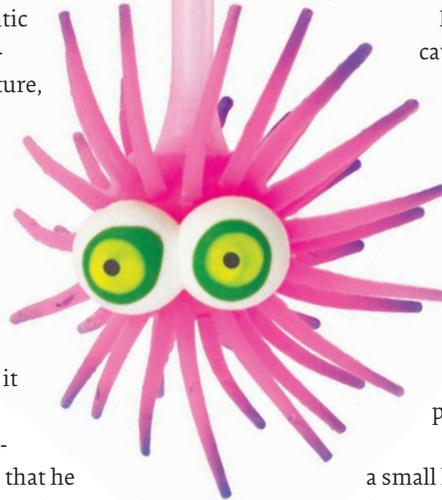
It didn’t take long for Zappos, which relocated from San Francisco to Las Vegas in 2004, to earn a reputation as the cool place to work. A Zappos job is coveted and difficult to get (the company hires just 1 percent of applicants, which Hsieh points out makes it harder to get into than Harvard). Henderson isn’t Silicon Valley — a disgruntled employee can’t just go next door to look for a job at another high-tech company. But good luck finding a disgruntled Zappos employee. These people seem to genuinely love their jobs.

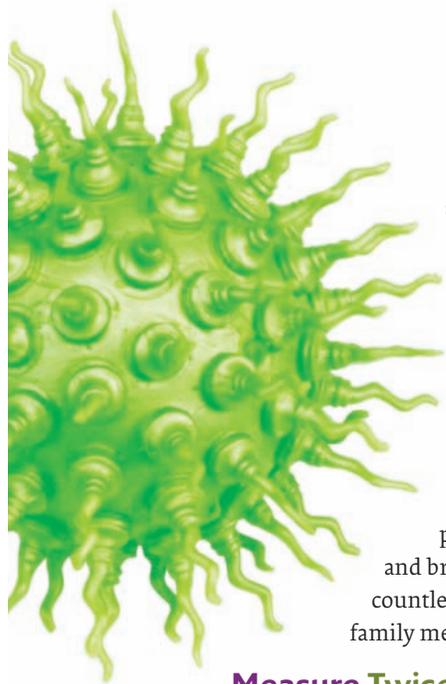
In one building, a tour group arrives in a small lobby and finds a hand-printed sign and an up arrow that reads: “Stairway to Heaven.” At the top of the stairs, at the reception desk, is Heaven Thomas, a young employee who immediately challenges the guests to try the Hula-Hoops that sit by her desk. If there is an explanation, none is provided.

Moving through the offices, visitors encounter various functional work groups — finance, IT, business development, merchandising, call center, HR, vendor relationships — and each group has created a fanciful personality around its particular discipline, like the Benefits Body Shop and the HR Lube Shop. Hsieh and his top executives sit in Monkey Row, a jungle-like aisle of desks and trees, accessible to any employee. The only private office belongs to David Vik, a former chiropractor and early investor, who goes by the name Dr. Vik. He is Zappos’s full-time in-house life coach. In his office is a throne and crown. Every visitor, photographed astride the throne, leaves with a souvenir Polaroid photograph.

Tour groups receive goofy greetings in each department. At one stop, all the employees rise up from their seats and snap digital photographs of the visitors. At another, cowbells are rung. And it is the rare day that some festive event isn’t under way either inside or outside the building. Any excuse will provoke a barbecue or small festival, such as Bald Blue and Tattooed Day, Spirit Week or a Zoliday party. Search for Zappos on YouTube and watch in-house productions of employee “talking while eating marshmallows” contests. One wonders how anybody gets any work done at all.

But the mayhem is just a carefully considered piece of the larger Zappos culture. What drives the Zappos engine is an employee base that has made a passionate and emotional commitment to the company’s mission and culture. Like workers involved with other great brands like Harley-David-





son and Google, Zappos employees feel strongly that they are part of something bigger than themselves. They talk constantly about the opportunity to learn, grow, be creative, be themselves, take chances, push the envelope. Despite layoffs in November 2008, there is a sense of family and support that permeates the workplace. Indeed, both Hsieh's father and brother work for the company and countless employees have encouraged family members to apply for jobs.

Measure Twice, Cut Once

In order to ensure that the chaos is controlled and the hard work that creates profits is actually performed, Zappos is fanatical about hiring and training the right employees. Its executives are aware that this culture is not for everyone.

"We spend a lot of time deciding, and we hire very, very slowly," said Rebecca Ratner, Zappos's director of human resources. "We spend a lot of time with people making sure that we're pretty confident — as much as we can be — that they are going to be a good fit."

Ratner, a gaming industry veteran who worked at Wynn Las Vegas and Bellagio, noted that most companies work really hard at deciding if a prospective candidate is right for it but spend virtually no time at all worrying whether the company is a good fit for an applicant. Zappos does.

Several rounds of interviews are required for every job, from entry-level to management. Applicants are asked questions like "On a scale of one to 10, how lucky do you think you are?" Or "How weird are you?" The answers are less important than how a person reacts to the question. If someone is flustered or responds by asking, "Why would you ask me that?" there's a good chance he or she would not be a good fit at Zappos.

Zappos has an unusual list of 10 core corporate values (see box) and one is to "build a positive team and family spirit." Socializing among co-workers after hours is not just encouraged, it is expected. Zappos managers are expected to spend between 10 percent and 20 percent of their work time away from the office socializing with their team. Prospective employees are asked how they feel about such fraternizing.

"How will they really feel about it if there are no boundaries in place?" Ratner explained. "Do they want that or not? And some people are not comfort-

able crossing that line and probably aren't going to be comfortable here either. We feel that if people become friends instead of just co-workers, they'll go so much further, above and beyond for each other."

The bottom line is that job skills are not enough. "An applicant may be the best technical fit; they may be able to hit the ground running and add direct revenue to the bottom line on Day 1; and we could be desperate for them," Ratner stated. "But if they don't pass the culture interview process, we won't hire them."

Even after someone is hired, Zappos remains wary enough that two weeks into the initial training period, every new hire is offered \$2,000 to quit. "Sometimes, people take on a job and it is not exactly what they had in mind, but they can't quit because they need the paycheck," said Loren Becker, supervisor of the Pipeline Team (as Zappos calls its training group). "They end up being stuck at a job they don't like. We only want people who want to be here and are passionate about Zappos." Becker said that about 2 percent of new hires have taken the buyout bonus thus far.

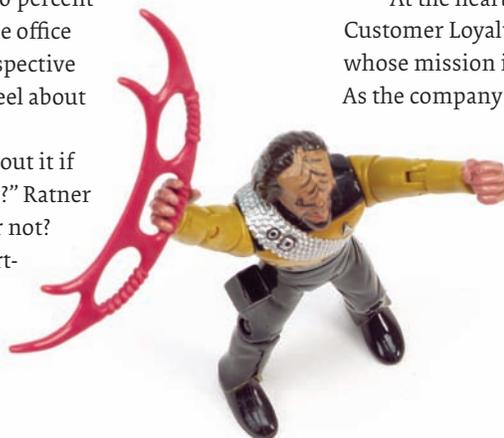
Zappos's Pipeline Team has created a broad training curriculum for all employees and more than 80 percent of its

Hsieh is convinced that **HAPPY employees are the only conduit to satisfied customers.**

employees have taken at least one class. Zappos intends to find 80 percent of its managers from inside over the next decade, according to Becker. The company emphasizes personal growth and offers an array of classes in new skills, from public speaking to writing better e-mails, free for all employees. Among the most popular classes is a Zappos history course in which key players like Tony Hsieh tell their own stories. Becker emphasized the importance of storytelling in the Zappos culture. "People connect with these stories," he explained. "When people hear how Tony packed up a pickup truck and drove to Kentucky to personally help set up our warehouse, bolting together shelves, picking and packing shoes, it tells people about the sacrifices made in those first few years and demonstrates our core value of staying humble and doing more with less."

At the heart of the Zappos experience is the company's Customer Loyalty Team or call center, with 360 employees whose mission is to make positive connections to customers. As the company gets larger, the challenge is to maintain the Zappos edge.

"The big thing is, How do we continue to grow the business and make sure that we still have this culture that's vibrant, energetic and creative," said Rob Siefker, senior



manager of the Customer Loyalty Team. “As leaders, our No. 1 responsibility is to keep people engaged in a call-center environment so that their experience here translates into great experiences for raving customers on the other end of the phone, e-mail or chat line.”

Customer encounters, for example, must never be considered transactions. Call-center reps are trained that there is no pushing customers to buy more expensive products and there are no sales quotas and no hard sells. Every call is about connection. Most customers are worried about shoe size or quality or color. But many find themselves talking to a rep about upcoming birthdays, family pets, or some special moment that opens the door for a personal but polite conversation.

Reps can take the initiative in creative ways. One rep sent a customer an e-mail alert about an order and received back an out-of-office reply from the customer: “I’m going to be out of the office. I’m participating in a breast cancer awareness walk for a few days.” The call-center rep sent out a handwritten response card saying, “Thank you for being such an awesome person. I really appreciate what you are doing for this cause.” When she got home, the surprised customer was bowled over. “My own family didn’t even thank me or tell me I was doing a great thing,” she posted on Zappos’s Web site. “And yet a company gets a random out-of-office reply and takes the time to send me a handwritten card. You guys are amazing!”

Starting at \$11 an hour, average for the local market, call-center reps go through four weeks of customer-service training and are put on a track that will determine how far they can climb and how much they can earn. There are an additional 25 skill sets — from learning e-mail skills to order verification — that are available for call-center reps to acquire. Each new skill set brings a bump in pay, up to \$26 an hour. All employees receive full medical benefits and free food throughout the day. In a city filled with call centers, Zappos says it rarely loses a good employee to the competition.

It is not about the money. Managers and other salaried employees are compensated competitively, but this is not a place that is producing stock-option millionaires. The zeal here is about working in a place where the work feels like play and the camaraderie is genuine and supportive.

“I make half of what I made at my last job,” said Stephanie Simms, a buyer in the children’s merchandising group. “But it’s not the money; it’s the people. They are like family. We all come from so many different places that we spend Thanksgiving together.” She noted that despite a lack of college, she became a buyer in 18 months at Zappos. “That could never happen at another company,” she said.



Alesha Giles, a former Nordstrom employee from San Francisco, added that Zappos employees take care of one another. “When I was going through chemotherapy, my co-workers drove me to get my treatments,” she said.

Happiness Runs

For Hsieh, Zappos remains a work in progress, rife with potential. Like any business, Zappos is focused on profits. But for Hsieh, there remains a more potent catalyst to that end: happiness. As a lifelong skeptic who sneered at psychology and philosophy, Hsieh has recently embraced the idea that one can study the theory and science of happiness and create a corporate Petri dish for its cultivation. He compares it to training for a marathon, a challenge he himself has taken on several times. Rather than presuming that happiness, like long-distance running, can be achieved haphazardly, Hsieh points to research that illuminates distinct characteristics of what makes people happy. He is convinced that happy employees are the only conduit to satisfied customers, so he has not just studied the phenomenon but he has written a book on the subject, “Delivering Happiness,” which will be published in 2010.

“The research shows that people are actually very bad at predicting what will make them happy,” Hsieh said. “They think, ‘Once I achieve this or once I get this, I’ll be happy.’ But usually that kind of happiness — like winning the lottery — is short-lived. Most of the frameworks for happiness conclude that there are four things required: perceived control, perceived progress, connectedness (meaning the depth of your relationships) and being part of something bigger than yourself.”

Clearly, employees at Zappos feel deeply connected and part of something special. In an uncertain economy and turbulent global business environment, the ability to offer this kind of nurturing environment can be powerful. Hsieh believes that if, by using proven research, you can find a way to make people happy and more purposeful in their jobs, you will have a formula that can produce great and sustainable companies. “You can argue, which is the means and which is the end,” Hsieh said. “An altruistic view says happiness is the end. But if your goal is to build a long-term profitable business, then happiness is the means to achieve that.”

Glenn Rifkin has written for *The New York Times*, *Fast Company*, *Strategy + Business*, and many other publications. He is co-author of “MBA in a Box: Practical Ideas from the Best Brains in Business” and other books.