

Happy @ Zappos



A bell rang and applause rippled just as Tony Hsieh began answering a question about his future with Zappos. Either his staff was really happy with his answer or something else was going on.

If his staff could hear him, they probably would have applauded since Tony said he planned to stay with Zappos for many, many years. Some trepidation about that would be understandable, given Amazon's recent acquisition of the company for \$847 million.

But they couldn't hear him and, as it turned out, the commotion was just part of the prevailing élan at Zappos, the online emporium whose fortunes do not depend on selling things so much as spreading happiness from its employees to its customers (*see sidebar*).

It's hard to imagine anyone happier to fulfill that vision than Tony Hsieh, who, about 10 years ago, sold his first dot-com for \$265 million, at age 24. Don't you hate him already?

After that, Tony became a venture capitalist, and at first Zappos was just another of his investments. But he soon saw the company as a platform to deliver extraordinary customer service and became its chief executive.

Most famously, Zappos has a 365-day return policy, with free return shipping. But the deeper story is about science—the science of happiness—which infuses the Zappos culture and explains its astonishing success.

That bell rang because a tour group was visiting the Zappos offices, headquartered near Las Vegas, and someone decided it was a good moment to ring it, make a confession and hope for some applause. This is perfectly normal “fun and weirdness” at Zappos.

Tony said he couldn't hear this particular confession, but volunteered some of the top confessions posted next to the bell: One of them was: “I forgot my deodorant.” Another was: “I keep my phone in my bra.” And: “I slept in four beds with three guys this week.”

Tony Hsieh whips up a happy culture and enviable loyalty for Zappos.

What does the “science of happiness” do for Zappos?

There’s this whole field called “positive psychology” that did not exist before 1998. Prior to then, all the psychology was pretty much about how to make people who had something wrong with them feel more normal. But no one really studied how to make normal people happier.

So, over the past 10 or so years, there has been research into positive psychology, and some of the findings are pretty interesting. Probably the number-one most important finding is that people are very bad at predicting what will bring them happiness in the long run.

There have been studies of lottery winners, for example, where you look at the happiness level right before winning the lottery and then a year later. Most people would think that if they won the lottery a year later they’d be happier, when actually their happiness level drops right back down to where it was before winning the lottery, or sometimes even a little lower.

Isn’t that also true when something bad happens?

Yes, that’s true. So, given that people are bad at predicting what will actually make them happy, you can’t just rely on asking employees what would make them happy. The same thing is true of customers.

A few different frameworks have come out of the research in terms of what actually matters when it comes to making people happy. It’s a purposeful approach that’s backed by research.

How has that been applied at Zappos?

Some of this we stumbled into accidentally, but now that we have the frameworks we understand why it works.

One of the frameworks is that happiness is about four things: perceived control, perceived progress, connectedness (meaning the number and depth of your relationships) and being part of something that is bigger than yourself that has meaning to you.

For example, for perceived control, we used to give our control center and warehouse workers an annual raise; they really didn’t have much control

over it. Then a few years ago in the call center we implemented what we call “skill sets” — it’s kind of like merit badges in the Boy Scouts. There are 20 different skill sets they can train for, acquire and get certified on. Associated with each skill set is a small bump in pay.

So, it really puts employees’ pay and training under their own control. Employees who have a higher interest in making more money can go after all 20 of those skill sets. If they are perfectly happy staying at the same pay and not learning any additional skills, that’s fine too.

How about perceived progress?

For perceived progress, in our merchandising department, for example, we hire people at the entry level. A few years ago, you’d come in as a merchandising assistant — we call that an MA.

You would do that for 18 months and get certified. Along the way you’d become an assistant buyer, which we abbreviate as AB, and do that for 18 months. Then you become a buyer.

It’s a three-year process and we did it that way for a while. But then we ended up breaking it down so that instead of just being an MA for 18 months, you were MA1 for six months, an MA2 for another six months, an MA3 for six months and then AB 1, 2, and 3 for six months.

It was the exact same certification — nothing really changed. But we broke it down into six-month chunks instead of 18-month chunks and found employees were much happier because there was that sense of perceived progress.

What’s the story on connectedness?

In terms of the connectedness, our number-one focus and priority as a company is company culture. If you come into our offices, you’ll see that this whole team and family atmosphere that we have here really contributes to employees being more engaged and happier.

There’s plenty of research that employee engagement leads to better productivity. One of the best predictors of employee engagement is whether they have a best friend at work or how many friends they have at work.

And the larger vision is?

For the first few years, we were just about becoming the number-one online retailer of shoes, and then we decided we wanted to be about customer service.

We found that once we shifted into something that was more meaningful and a larger vision for employees that they were a lot more passionate and engaged about the company.

We're expanding that now to where our company believes in delivering happiness, whether it's to employees or customers or even our vendors.

Is it really just the sum total of those four things that makes Zappos a happy place?

I think it's the sum total of those four things, but ultimately the number-one thing is the culture, which we've formalized into ten core values. It's about making sure that we only hire people whose values match the corporate values.

Don't you sacrifice creative tension when everyone conforms to that culture?

That's a possibility depending on what the values are, but one of our values is to create fun and a little weirdness. That's just a fun way of saying that we believe everyone is a little weird somehow. We really recognize and celebrate each person's individuality and creativity, so that's how we get around that.

What is the right amount of weirdness?

Well, if you're at zero or one then you're probably a little bit too uptight and straight-laced for us. If you're a ten, you might be a little bit too psychotic.

Is the Zappos culture entirely homegrown?

It's entirely homegrown and it continues to evolve as the company grows. It's literally homegrown because I sent an email out to the entire company a few years ago and asked them what our values should be. I got a bunch of different responses back and compiled them.

Can a happy culture be rehabbed or does it have to be built from scratch?

I definitely think it can be changed. Ultimately, it just comes down to a complement of values. A lot of companies have values or guiding principles that read like a press release or that you see on a meaningless plaque on the wall. Maybe you learn about it on your first day of orientation and then that's it.

So, what books like *Good to Great* or *Tribal*

Leadership have found is that it doesn't actually matter what your values are as long as you commit to them. Committing means you're willing to hire and fire and do the performance reviews based on the outside of what's typically considered your normal job performance.

What would someone have to do to get fired at Zappos?

One is just job performance like any other company, and two is not living up to our core values.

Do you also fire customers?

We do shut down some customers' accounts if they are verbally abusive to our reps or if they have a consistent pattern of returning items that clearly have been worn. We make sure to educate our customers that we are a shoe company, not a shoe-rental company.

Some say that your most loyal customers are also the least profitable.

I don't know that I would make a blanket statement like that. But I do know just anecdotally that the customers who are the most vocal are not necessarily the ones who are the biggest spenders, and vice versa. I don't know why that is. Maybe it's that people who spend a lot of money just have a higher expectation of better service so they're less wowed by their interactions with us.

Is your focus on customer service the ultimate in branding?

Not necessarily. Walmart is a brand that's all about low prices, and last I heard they were doing just fine. Apple's primary benefit is design and they are doing well. Service is just what we want to build our brand around, but I don't think it's the only possibility.

Are there other branding concepts that intrigue you?

I think all of them are intriguing. There are probably different values or cultures that would be more likely to succeed. I don't know what the Apple culture is like, but I'm guessing it's a culture that really celebrates design and product innovation, which is different from our culture.

Do shoes trigger more happiness than most other product categories?

I know for a lot of women, at least, shoes can be a very emotional product. I, myself, am probably the

Viva Los Zappos

Tony Hsieh “once described Zappos as ‘a service company that just happens to sell shoes.’” In fact, Zappos no longer just sells shoes — it has expanded into “clothes, consumer electronics and other items.”

But the point is that Tony’s “goal is to create a corporate culture that allows Zappos to prosper no matter what business it is involved in ... He reckons Zappos can cultivate a reputation for outstanding service to the point where it, too, can become a springboard into several markets.”

So far, Tony has done well right where he is, last year recording some “\$1 billion in sales even as other retailers were struggling.” He’s done it by creating a distinctive culture based on 10 values, starting with “deliver WOW through service,” and including “create fun and a little weirdness.”

That’s why the Zappos headquarters is festooned with “jungle creepers that hang from the ceiling” and its employees “rattle cowbells, shake pompoms and

bellow greetings as visitors pass their desks” (if you’re interested in a tour, you can sign up on Zappos.com).

There’s also \$2,000 for any employee who quickly decides this zappiness isn’t for them and quits. The idea is to weed out cultural misfits, but so far, only three employees have cashed out.

“Zapponians” also get lots of training so they can solve customer problems without managerial guidance. “You have as much power to help a customer as Tony does,” an employee says.

Such sentiments are compiled annually in a 500-page *Culture Book*, “in which many of the firm’s 1,400 staff explain what its culture means to them” (you can request a free copy by emailing ceo@zappos.com).

The bottom line is that “three-quarters of Zappos’s sales come from repeat customers, and its revenues are still growing this year,” even though it sells most of its goods at full price.

[SOURCE: *The Economist*, 4/18/09]

wrong person to ask because I’ve never really been into shoes.

How often do you buy from Zappos yourself?

I probably buy running shoes once or twice a year and then Ugg slippers once a year, and maybe a pair of dress shoes once a year.

Do you ever worry that you’ve created something that you can’t sustain?

Our whole philosophy is that there are always financial constraints on what we can deliver to our customers. The very best service you could possibly imagine would be if you ordered a pair of shoes and an employee hopped on a plane, flew them to you and you got them three hours later. That would be better customer service than we’re delivering today but it doesn’t make financial sense, so we don’t do it.

Why are you a fan of the telephone as a medium?

I don’t know, probably for the same reason you wanted to interview me by telephone.

I find there are fewer distractions by telephone.

Yes, that’s part of it. It’s also much easier to build a personal and emotional connection with someone remotely by telephone than by email, for example.

Are there any other media you think are underrated?

I would say meetings in casual environments, like dinner, or at a bar, or camping trips or hiking, or whatever. We encourage our employees to do that a lot, not only with each other but also with their vendors. We try to train our managers to spend 10-20 percent of their time outside the office.

Why don’t you like the term “social media”?

I think it puts the emphasis on the wrong thing. It’s also the latest buzzword that consultants like to use and I’m generally anti-consultant.

The best social media is the telephone and yet that’s boring so no one wants to talk about it. People tend to refer to “social media” as a technology, but that skips over the actual benefit or purpose of it.

For us, it's more about forming personal and emotional connections.

You've personally embraced Twitter in a big way.

Twitter is one example of how I connect with people, but people also put Facebook and MySpace under "social media" and I don't really use either of those.

Do you see value in Twitter that others haven't?

I'm sure there always will be some "next big thing," but ultimately what matters is just embracing whatever it is that you would use naturally, even if it wasn't for business purposes. I was using Twitter myself—just with my friends—for a year before I got Zappos involved with it. I see the value in it because we use it just out of the enjoyment of using it.

That's why our interactions come across as authentic and not annoying. A lot of other marketers are trying to figure out Twitter but they don't really use it themselves; they are using it just as a way of marketing their business.

Some of your Tweets are pretty funny.

For each of the Tweets I've sent out, my goal is to try to do one of four things with my followers: inspire them, connect with them, educate them or entertain them.

So, trying to make my Tweets funny falls under the "entertain them" part of it. But my focus is more on how is this going to benefit my followers as opposed to how this is going to benefit me—which is how I think most people approach it.

Is there anything brick-and-mortar retailers could apply from the Zappos model?

Oh, definitely. There's so much opportunity in person. Stores have the total upper hand in terms of bringing personal and emotional connections. It's also about creating a "wow" customer experience.

There are kinds of innovation that we haven't even seen or thought of yet. If you think about the circus, for example, which was basically done the same way for maybe 100 years, and then Cirque de Soleil came along and reinvented the circus.

Would Zappos ever open stores in malls?

I wouldn't rule it out. We do have an outlet store in Kentucky to get rid of our old inventory at the end of the season. While the outlet store is effective, we

launched *6pm.com*, a sister site that's been much more effective at liquidating inventory.

Is it true you spend almost nothing on marketing?

It's true that most of what we would have spent on marketing we put into the customer experience. But we do buy keywords online and we have an affiliate program and so on.

We do a little offline advertising, but generally our whole philosophy toward marketing is that if it pays for itself in the first sale, then we might as well do as much as we can.

But the biggest driver of our growth has been through repeat customers and word-of-mouth. That's why we've put most of the money that we could have spent in marketing into free shipping both ways, and running our warehouse and call center 24/7. We let our customers do the marketing for us.

What is your greatest frustration at Zappos?

I would say probably just wishing that we could do things faster, but I think that's probably true for every company. I'm the impatient type. I want to think of an idea and have it live in an hour or so. That's not really practical.

How big can Zappos get before it gets bad?

As long as everyone here sees it as part of their job to aspire to the culture, then it can scale.

What will change following the Amazon acquisition?

I can't comment beyond a letter I sent to our employees, posted at: <http://blogs.zappos.com/ceoletter>.

What are you thankful for?

A lot of things. At Zappos, it's all about the friendships and relationships. Even if Zappos were to go under tomorrow, everyone here would have at least gotten great friends and relationships out of it. ■



TONY HSIEH is ceo of **Zappos.com**, where he has grown merchandise sales from \$1.6 million in 2000 to more than \$1 billion in 2008 by focusing on customer service. Tony also co-founded LinkExchange, an advertising network that was sold to Microsoft in 1998.