

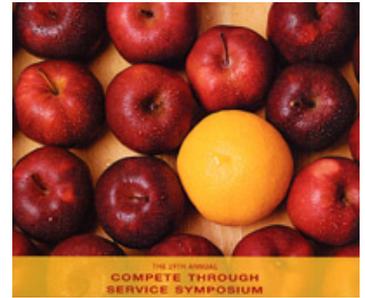
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Zappos CEO Tony Hsieh: Customer Focus Key to Record Sales During Retail Slump

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Wearing faded gray jeans, a gray striped shirt and black sneakers, Tony Hsieh hardly looks the part of a \$1 billion company's CEO.

But as Hsieh (pronounced SHAY) addressed a session of the 19th Annual Compete Through Service Symposium sponsored by the W. P. Carey School of Business, those in suits and leather shoes took notice of the witty but reserved 34-year-old with an uncanny business sense who a decade ago built a \$265 million Internet advertising company and then sold it to Microsoft.



Hsieh now is head of Zappos, an online company founded in 1999 to sell shoes. Its name comes from the Spanish word for footgear. Zappos since has expanded to sell clothing, housewares, cookware and even electronics. But more than merchandise, Zappos is selling customer service and corporate culture.

Note: Hsieh is not *that* into shoes.

What he's into is running a company that produces a high quality customer experience and keeps employees happy, a strategy that made the company a shining stand-out in the drab 2008 holiday sales season. While the Commerce Department is reporting a dip of 2.7 percent in retail sales in December, Zappos.com has announced its most successful holiday season ever. According to industry sources, the company racked up sales of \$20.5 million in November and December, a 127 percent increase over the \$9 million in revenue for the same period last year. Sales in 2008 were on track to hit \$1 billion.

Pizza: A slice of life

Hsieh's story began with pizza, he told his audience at the Ritz-Carlton Phoenix. While attending Harvard University in 1994, he ran a pizza business with his college roommate. One of their customers was a young Alfred Lin, who sometimes bought two large pizzas a night. They discovered years later that Lin was re-selling the pizza by the slice, making a tidy profit.

Lin is now Zappos' COO and CFO.

After college, Hsieh co-founded a Web ad banner network called LinkExchange. In 1998, he and his partner sold the two-year-old company to Microsoft. That year, Hsieh got involved with Zappos as an investor, then decided to come on board as CEO because it seemed the most exciting and promising of all the companies in which he invested.

He decided that whatever the company sold, its brand would be customer service.

"Hopefully, 10 years from now, people won't even realize we started out selling shoes," Hsieh said.

Some of Zappos' 9 million customers have even asked Hsieh to apply his business model to creating an exemplary airline. The idea intrigues him.

"Thirty years from now I wouldn't rule out a Zappos airline that was just about the very best customer service and the very best customer experience," he said.

Word of mouth advertising

Early on, Hsieh decided to take money traditionally used for marketing and advertising and instead invest in the customer experience, fostering repeat business and word of mouth advertising.

Unconventional for an online retailer, Zappos offers free shipping both ways and a 365-day return policy. Customers can order 10 pairs of shoes, try them on, and send nine back. Or 10. Free.

Where other companies duck customers and hide their contact information, "we take the opposite approach," Hsieh said.

Zappos' 800 telephone number is prominently displayed at the top of its Web page. At the Zappos call center, representatives work without scripts and are under no pressure to quickly dispatch with customers.

Hsieh encourages his reps to bond with customers. Call times are not measured. A chat that continues for an hour with no sale is no crime at Zappos.

The payoff? The representative has the customer's undivided attention for that hour and the customer is likely to return next time with a sale. And she'll bring her friends along.

"We actually talk to our customers," Hsieh said, and that means 5,000 leisurely calls a day. It's unsexy and low-tech, he said, but "the telephone is one of the best branding devices."

After-order excellence

The most important part of the Zappos policy is what customers experience after the order is completed, Hsieh said. Personally annoyed with mail order catalogues that promise merchandise but follow up with the dreaded "back order" notice, Hsieh instituted a process that guarantees every item dropped into a customer's online shopping cart is in stock and available at the company's Kentucky warehouse.

Shipping is promised in five to six days. But the company's little secret is that most orders are automatically upgraded to free overnight shipping. The warehouse operates 24/7, perhaps economically unsound but ultimately beneficial to the customer experience. Some items arrive on a customer's doorstep in as little as eight hours, Hsieh said.

"That really creates that 'wow' experience we strive for with every customer." In turn, he said, customers become evangelists for Zappos.

Further, if Zappos doesn't have the style or size the customer is looking for, reps are trained to check out three competitors' sites and make referrals. The goal is building a lifelong relationship.

Company culture

As much as Zappos is about shoes, clothing and wowing the customer, one thing is even more important.

"The number one focus and priority for the company, even though we want the brand to be about customer service," Hsieh said, "is company culture ... Our belief is that if you get the culture right, most of the other stuff, like great customer service, will just happen naturally."

Before selling LinkExchange to Microsoft, Hsieh explained, the company he founded had become tedious. "I was dreading going to the office," he said. As LinkExchange grew, he allowed people to be hired for their skills alone and not for how they fit into the environment.

Today's companies are more transparent than ever, making harmony in the workplace more important. Decades ago, corporations could shape their own image through advertising. Now disgruntled employees and customers have their fingers poised on the blog button, ready to share their views - - positive or negative.

"Your culture and your brand are two sides of the same coin," Hsieh said.

He used the airline industry as an example. What is the brand? It's certainly not about great customer service, he suggested. "I don't think any airline went around and said, 'I think our brand should be about bad customer service.'" But that's the reality.

"For us," Hsieh said, "we put a lot of effort into making sure that we have the right culture."

Getting the right fit

That begins with the hiring process. Recruits go through two interviews. The first assesses their technical proficiency and the second their ability to fit into the Zappos culture. Fail at either and you won't be walking in Zappos shoes.

For all positions, training takes five weeks. It begins in the company's Las Vegas headquarters, mastering customer service and taking calls. Trainees then head to the Zappos plant in Shepherdsville, Kentucky, about 15 minutes south of Louisville, to learn the shipping process.

At the end of the first week, every trainee is given the option of being paid \$2,000 plus training expenses - - if they quit. Those who remain are whole-heartedly committed to the company, boasting to friends and family they just passed up an easy \$2,000.

That incentive began at \$100, and Hsieh thinks \$2,000 is still too low. "We don't want people to be at Zappos just to collect a paycheck," he said.

Above and beyond

Employees are trained to go beyond filling orders. Hsieh shared two anecdotes that exemplify how Zappos workers think.

A woman phoned looking for a pair of boots for her husband after failing to find them elsewhere. To her delight, Zappos had the right ones and shipped them overnight. Days later, the customer called back with sad news: Her husband had been killed in a car accident on his way home. She needed help with the return.

End of story? Not at Zappos. The call center agent took it upon herself to send flowers to the widow. An expense for the company, but a kind gesture that created a devoted customer.

Another gesture had the same effect. A woman ordered a wallet, tried it out and returned it. Unwittingly, she had left \$150 in the wallet. For days she accused her young children of pilfering from Mommy. Until she got a note from a Zappos warehouse clerk returning the lost bills.

The clerk, who made minimum wage, could have kept the jackpot, Hsieh noted. Zappos also could have hired more warehouse security to prevent theft. But the CEO suggested it's more cost effective to hire honest people in the first place.

Hsieh was asked why more companies don't adopt the Zappos business model.

"Patience," he said. Most corporations don't want to put in the time to build customer service and a company culture.

"It's whether you're willing to make that commitment," he said.

The Bottom Line: Hsieh shared his four strategies for building a brand that matters:

- **Vision.** Zappos' mission began with a goal of selling lots of shoes. After a few years, Hsieh implemented a plan to go beyond sales to "something more meaningful," he said. The mission became superior service. People ask him what businesses can do to make money. "That's probably the wrong approach," he said. "What's really important is figuring out what your passion is about ... Chase the vision, not the money. The money will follow."

- **Repeat customers.** One year, Zappos paid \$75,000 for a billboard at the San Francisco Giants' stadium, hoping to draw new customers. At the end of the season, the company measured the sign's impact: three new customers. Today, 75 percent of Zappos sales come from repeat customers.
- **Transparency.** "We believe in embracing transparency for customers and employees," Hsieh said. Most companies, he said, foster secrecy. "We take the opposite approach." Vendors, for instance, are given login information so they can view insider data such as inventories, sales, markdowns. Maybe that data ends up in the hands of competitors, but it also adds "an extra 1,500 pairs of eyes helping to manage the business and feeling like partners."
- **Communicate core values.** Employees have created a list of 10 core values that include: deliver "wow" through service, embrace and drive change, create fun and a little weirdness, pursue growth and learning, do more with less, be humble.

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