



CULTURE CLUB

Zappos has a unique approach to building customer loyalty: it starts internally, by focusing on the company's culture, which is defined by its employees. Jennifer Lowney learned more from Zappos' **Robert Richman**

Early in its 12-year history, Zappos.com, one of America's leading online apparel and footwear retailers, made a decision that its business and its brand would be defined by superior customer service. In Zappos' lingo, it would deliver "WOW through service."

But unlike many other companies which view customer service through the lens of returns policies, loyalty programs or discounts, Zappos believes that its *culture* is the foundation for its brand and commercial success. In his book, *Delivering Happiness, A Path to Profits, Passion, and Purpose*, Tony Hsieh, the CEO says, "We thought that if we got the culture right, then building our brand to be about the very best customer service would happen naturally, on its own."

Honest communication

Zappos, which had annual sales in excess of \$1bn in 2010 when it was acquired by Amazon for \$1.2bn, set out to translate that core belief into successful commercial reality. While culture and values are routinely defined by the corporate communications teams at many companies, Zappos involved the entire company in the process of defining its values. Five years into its existence, Zappos used that input to create a "culture book" – first used as an orientation tool but now available to anyone who wants one, inside the company or out – to provide employees with a forum to articulate their views about what Zappos' culture means to them. Published annually, contributors rotate and their input is published unedited. But talking, reading, or writing about culture does not create culture. Nor is it realistic for the culture of a rapidly growing company to be maintained only by its leaders.

Zappos practices and activates its culture in a number of ways. When recruiting, it is willing to turn away top talent if a candidate does not seem like a cultural fit. Zappos also offers employees \$3,000 if they leave within four weeks of being hired to encourage them to resign rather than 





ZAPPOS: BEST FOOT FORWARD

1999 Nick Swinmurn launches online shoe store after a frustrating day shopping in a local plaza. The name “Zappos” is chosen after *zapatos*, Spanish for shoes.

2000 Investor Tony Hsieh joins Zappos as CEO, bringing with him his beliefs in company culture and customer service.

2001 After only two years, Zappos generates \$8.6m in gross sales.

2002 Zappos gains an advantage over online competitors by opening its own fulfillment center, which carries more than 1.5m pairs of shoes plus handbags, clothing and accessories from more than 1,136 brands. Sales grow to \$32m.

2004 The first *Zappos Culture Book* is published featuring Zappos people, events and experiences and the company’s core values. Generates \$184m in sales.

2007 The company expands through strategic acquisitions and adds categories including eyewear and kids’ clothing.

2008 Sales grow to \$1bn.

2010 Zappos is acquired by Amazon for \$1.2bn.

Sources: *Footwear News*, *Zappos.com*, Amazon investor relations



remain in a company where they might not be comfortable. Or worse, where they might damage the precious culture that everyone is expected to embrace. It regularly measures the strength of its culture through surveys that ask employees whether they agree with statements such as, “My role at Zappos has a real purpose – it is more than just a job,” and, “I believe that the company has a higher purpose beyond just profits.” The surveys also ask employees how likely they would be to recommend their boss to others. Managers are expected to spend between 10 per cent and 20 per cent of their time with employees outside the office, and Zappos says that there is a direct, corresponding increase in team productivity.

Transparency through regular, plain speaking with employees, customers, and others is inherent in Zappos’ efforts to live up to its values, and the concept of honest communications is represented in the values themselves. Its sixth core value is, “Build open and honest relationships with communication.” The company’s core values document builds on that concept: “As the company grows, communication becomes more and more important because everyone needs to understand how his/her team connects to the big picture of what we’re trying to accomplish.” It goes on to say, “Communication is always one of the weakest spots in any organization, no matter how good the communication is. We want everyone to always try to go the extra mile in encouraging thorough, complete, and effective communication.”

Bootcamps and the bottom line

Zappos doesn’t restrict communication of its company philosophy to its employees – the company is eager to share its approach with the outside business world. It has launched Zappos Insights, a training venture, to run meetings, courses, and even a two-day bootcamp for executives and entrepreneurs. Robert Richman, Zappos Insights Product Manager, says, “The realization that there



Zappos' core values

1. Deliver WOW through service
2. Embrace and drive change
3. Create fun and a little weirdness
4. Be adventurous, creative, and open-minded
5. Pursue growth and learning
6. Build open and honest relationships with communication
7. Build a positive team and family spirit
8. Do more with less
9. Be passionate and determined
10. Be humble

was something different about Zappos came from others. There was a reflection back from the world that we were doing something special here, so we created an opportunity for others to learn how we do what we do."

Richman co-hosts events for Zappos Insights and helps train upwards of 2,000 participants each month. He says that the biggest challenge he sees for companies hoping to adopt "the Zappos way" is overcoming their short-term focus. "So many companies are willing to sacrifice what they want over the long-term in order to achieve short-term objectives. Investing in things that might not pay off for a few years is very scary to many."

The best path forward for companies seeking to change and strengthen their culture is to do so organically, says Richman. "The key is to find ways to integrate this effort into current processes and to think about the changes not only in the context of work. We have so many touch points in our lives, and helping employees understand how they can apply core values to their personal lives as well as work is critical to the success of your effort."

Zappos Insights not only provides the company with a medium to promulgate its philosophy that keeping both customers and employees happy is good for the bottom line. It has also created new revenue streams, from expanded tours that cost \$47 per person (the basic tour is free) to the two-day executive bootcamp that costs \$5,000. Zappos' goal is that the unit will ultimately account for 10 per cent of the company's operating profit.

Managing change

Zappos' commitment to transparency and effective communications could have come under pressure when it announced that it would be acquired by Amazon. Instead, the company sought to use it as an opportunity to reinforce its values.

Hsieh informed employees about the deal in a detailed e-mail. In spite of its length, it succinctly explained the

three reasons why he felt this was a good deal for the company which could be summarized as: accelerating growth, allowing Zappos to continue to operate independently and maintaining the ability to run the business with a long-term perspective. It also quickly addressed the questions likely to be on the minds of employees with clear, straightforward answers. Specifically, Hsieh was able to tell each employee that their job was "as secure as it was a month ago" and that Zappos' three founders "had no plans to leave." Hsieh went on to apologize for the suddenness of the announcement and explain both how the deal came about and the evolution of his thinking about the opportunity with Amazon between the time the deal was initially conceived and when it was announced.

The letter was followed by an all-hands meeting that included executives from Amazon. Employee reaction to the announcement was extremely positive. Surprise gifts and a spot bonus likely added to the group's enthusiasm for the "marriage to Amazon," but the relationship that Zappos' leaders had built with employees was instrumental to the reaction it received.

Robert Richman summarizes the reaction, saying, "Employees trusted Tony to do a good deal for us." Exactly one year after the deal was announced, Hsieh reissued the same letter to employees, but added an update on the commitments and perspectives he shared a year earlier.

Amazon's decision to continue to let Zappos run as an independent entity can be perceived as an endorsement of Hsieh, the business model, and the culture. Hsieh's book has topped both *The New York Times* and *The Wall Street Journal* bestseller lists and he is in demand as a motivational speaker, which suggests that a wide audience appreciates that Zappos is on to something. ☺

Robert Richman is Product Manager of Zappos Insights, which provides training for business leaders, managers and entrepreneurs based on Zappos' own company culture. Previously he developed digital marketing strategies for brands including Sony, and co-founded the Affinity Lab, a collaborative workspace for entrepreneurs. Zapposinsights.com

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