



## Designing an Organisational Culture: Tony Hsieh Wrapping Zappos' Organisational Culture?

A Customer's Account, of Zappos "WOW" Service –

We get nice stories about Zappos' customer service all the time, but this one seems to have touched a lot of our readers.

Zaz Lamarr meant to return some shoes to Zappos, but her mom passed away and, naturally, she just didn't have time. Zappos arranged to have UPS come pick up the shoes – and then sent her flowers:

When I came home this last time, I had an email from Zappos asking about the shoes, since they hadn't received them. I was just back and not ready to deal with that, so I replied that my mom had died but that I'd send the shoes as soon as I could. They emailed back that they had arranged with UPS to pick up the shoes, so I wouldn't have to take the time to do it myself. I was so touched. That's going against corporate policy.

Yesterday, when I came home from town, a florist delivery man was just leaving. It was a beautiful arrangement in a basket with white lilies and roses and carnations. Big and lush and fragrant. I opened the card, and it was from Zappos. I burst into tears. I'm a sucker for kindness, and if that isn't one of the nicest things I've ever had happen to me, I don't know what is.

Source: Marco Meg, "Zappos Sends You Flowers", <http://consumerist.com/consumer/above-and-beyond/zappos-sends-you-flowers-311369.php>, October 16<sup>th</sup> 2007

With its dogmatic focus on customer service, Zappos, a billion dollar online shoe retailer has won the hearts of many such customers. By delivering "WOW" through service, the company generates 4 million customers of which an astonishing 75% are repeat customers. Customer-service oriented

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This case study was written by Sravanthi and Vara Vasanthi, under the guidance of Dr. Nagendra V. Chowdary, IBSCDC. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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Background Reading: Chapter 17, "Organizational Culture",  
*Organizational Behavior*, Stephen P. Robbins, et al., (12<sup>th</sup> edition)

culture became the priority at Zappos right from the time, Tony Hsieh (Tony), Zappos' Chief Executive Officer (CEO) joined the company. Tony's earlier job experiences, including his button-making business, pizza business at Harvard and his 2-year tenure at Link Exchange, made him realise the significance of preserving the culture and feel of a small company even while growing at a rapid pace. At the same time he understood the importance of working on what a person is truly passionate about. With such like-minded people and a set of die-hard core values that define all the decisions at Zappos, Tony was successful in building a \$1 billion company within a period of 8 years. The company has been ranked 23<sup>rd</sup> in *Fortune's* 100 best companies to work for in 2009, becoming the highest-ranking newcomer. *BusinessWeek* (March 2<sup>nd</sup> 2009) ranked Zappos No.7 in its 'customer service champs' survey for 2009. The other six in the list (in the descending order) were, Amazon.com, USAA, Jaguar, Lexus, The Ritz-Carlton and Publix Super Markets. However, while Zappos holds many important lessons on organisational culture, the question is what have been the influencing factors for its culture? Will the same culture work for other businesses? Moreover, will the same culture sustain if Tony leaves?

### **Tony Hsieh – The Fickle Entrepreneur?**

The Chicago-born, son of Taiwanese immigrants, Tony grew up in Marin County, San Francisco, California. Tony did his schooling from The Branson School, California. Wanting to become a robot inventor since childhood, Tony was always very entrepreneurial in nature. He started his first business (button-making business) in the middle school when he was just 13 years old.<sup>1</sup> The venture was a small mail order business wherein people would send in photographs in order to convert them into pin-on buttons. A very calm and introvert person by nature, Tony's philosophy was to finish a work he started, entirely by himself. So when he started his button-making business, he took the complete responsibility from advertising about his business to doing the actual job of converting photos into pin-on buttons. For his job, Tony earned \$200 a week.<sup>2</sup>

Before joining Harvard, Tony ran various businesses. In an interview, Tony recalls, "I was either too busy or got bored with the other businesses so I just decided not to run them anymore and move onto something else more interesting. He further said, "You should work only on what you're truly passionate about."<sup>3</sup> (Annexure I). While still in college, Tony ran a pizza business along with his college roommate. While initially they sold hamburgers at Harvard, on customers' demand they switched to pizzas. At Harvard, Tony met interesting people. During his tenure at Harvard, he got acquainted to one of his customers Alfred Lin, (current Chief Finance Officer (CFO)/Chief Operating Officer (COO) of Zappos), who would buy pizzas from Tony and his partner to sell it by slice for a profit. "I think pizza business helped make me a better entrepreneur in some ways"<sup>4</sup>, Tony fondly reminiscences.

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<sup>1</sup> Vivien Hao, "In His Shoes", <http://www.asianweek.com/2008/12/04/in-his-shoes-zappos-ceo-credits-success-to-having-fun-2/>, December 4<sup>th</sup> 2008

<sup>2</sup> "In His Shoes", op.cit.

<sup>3</sup> "Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan", *IBSCDC*, March 23<sup>rd</sup> 2009

<sup>4</sup> Ibid.

At 23, Tony graduated in computer sciences from Harvard University. On completion of his graduation, he began working as a software engineer with Oracle in 1995.<sup>5</sup> However, being a person who believes in having fun at work, Tony soon began hating the job, which was neither creative nor fun. He thought it was instead more fun to see a business develop right from scratch and watch it grow. As at that time, starting a new venture did not even seem risky to him, in 1996, he quit Oracle and decided to start an online advertising network called Link Exchange. Tony explains, “My job at Oracle didn’t allow me to be entrepreneurial enough. I wanted to do something on my own, so my roommate and I started Link Exchange. Job satisfaction is much more important than money. I’ve always been, to some extent, entrepreneurial. I think because my parents were more conservative, I learned early on that it takes a lot more than just a good idea for a business to be successful and that there is always a lot to learn”<sup>6</sup>

### Life at Link Exchange

Along with his fellow graduate from Harvard University, Sanjay Madan, Tony founded Link Exchange when he was 24 years old. A combination of websites, Link Exchange provided free advertising assistance to thousands of other member websites in its network. It offered free advertising services to all small websites, through a unique model. For every single ad promotion of Link Exchange on any of its member websites, the latter could display twice the number of ads on Link Exchange. Since, Link Exchange had a huge stock of fresh, unused ads; it made money by selling all those additional ads to other sites like Amazon.com and American Express.<sup>7</sup> Link Exchange had become a huge hit, catching the attention of more than 200,000 member sites, by the end of 1997.<sup>8</sup> Apart from offering websites and broad visibility, Link Exchange also provided information on the number of visits made and the number of click-throughs’ received by any of the member websites.

By 1998, Link Exchange had grown from a small business in Tony’s residence to a company worth million dollars. By the time Link Exchange reached its peak it was covering more than a half of internet-connected houses, every month. More than 10% of all the existing websites belonged to Link Exchange and it showed more than five million ads a day.<sup>9</sup> According to Media Metrix research group, an internet statistics tracking company, its collective sites were seen by more number of web surfers than any other website, exceptions being Yahoo! and America Online. However, in spite of its success, by then Tony started hating going to the company.

Initially, when Link Exchange was established, Tony worked with five employees.<sup>10</sup> They worked non-stop, round the clock, sleeping under the desks, not even knowing what day of the week it was.

<sup>5</sup> Gracias Steve, “Button-making, internet advertiser, shoe entrepreneur, Zappos CEO, Tony Hsieh”, <http://asianheroes.wordpress.com/2008/12/30/internet-advertising-entrepreneur-zappos-ceo-tony-hsieh/>, December 30<sup>th</sup> 2008

<sup>6</sup> “Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan”, op.cit.

<sup>7</sup> Freierman Shelley, “THE MEDIA BUSINESS: ADVERTISING; An Internet company with little freebies that could gains a place in the sun,” <http://www.nytimes.com/1998/12/02/business/media-business-advertising-internet-company-with-little-freebies-that-could.html?n=Top/News/Business/Companies/Microsoft%20Corporation>, December 2<sup>nd</sup> 1998

<sup>8</sup> “Button-making, internet advertiser, shoe entrepreneur, Zappos CEO, Tony Hsieh”, op.cit.

<sup>9</sup> “LinkExchange: King of Niche and Reach”, <http://docs.rinet.ru/WebBazar/ch09/ch09.htm#Heading14>

<sup>10</sup> Kelley Braden, “BiF-4 Insights – Tony Hsieh – Zappos.com”, <http://www.business-strategy-innovation.com/labels/Zappos.com.html>, October 27<sup>th</sup> 2008

Tony recollected, “When we first started it was a lot of fun.”<sup>11</sup> However, as the strength of the company grew to 100, people were hired more on skill set rather than cultural fit.<sup>12</sup> Tony mentioned “The culture at Link Exchange definitely changed over time. I don’t think anyone at Link Exchange ever thought that (company culture is extremely important) including me.”<sup>13</sup>

He unloaded his brainchild because he couldn’t stand it anymore. “When it was just five or ten people, it was a lot of fun. We were working around the clock, no idea what day of the week it was, sleeping under our desks. We hired all the right people in terms of skill sets, but by the time was 100 or so, I dreaded going to the office”<sup>14</sup>, he admitted. In 1998, Tony with the help of his friend Alfred Lin (then Vice President (VP) of finance and administration of Link Exchange) sold the company to Microsoft for \$265 million.<sup>15</sup> By the time Microsoft acquired Link Exchange, a million different websites were part of this network and it was connecting roughly 45%–50%<sup>16</sup> of all the internet enabled houses. Tony said, “I learned early on that it takes a lot more than just a good idea for a business to be successful, and that there is always a lot to learn.”<sup>17</sup>

### Zappos’ Organisational Culture – Scripting the DNA

After the sale of Link Exchange, Tony, a millionaire by then, decided to operate as a venture capitalist. Spending \$27 million, Tony along with Alfred Lin (Lin) started Venture Frogs that invested in a group of internet startups with Zappos being one among them.<sup>18</sup> Tony joined Zappos.com (Zappos) as an investor and advisor in 1999. The brain-child of Nick Swinmurn (Nick), Zappos is an online retail shoe store that derives its name from *zapatos*, a Spanish word for shoes. In 1999, Nick founded Zappos in San Francisco after he had failed to find a pair of shoes that matched his choice. Knowing that shoes were a \$40 billion market in the US with \$2 billion sold via mail order catalogues,<sup>19</sup> Nick sensed an opportunity and decided to start an online shoe store, initially called Shoesite.com and then renamed to Zappos.

Zappos was the company that interested Tony the most. As it was the most enjoyable and promising of all his investment companies, Tony began spending more and more time with the company. In 2000, he invested \$500,000 and permanently joined the company as a CEO.<sup>20</sup> Tony moved the operation to Las Vegas for the cheap real estate and abundant call-center workers, and vowed to avoid a LinkExchange-style fate. In his tenure as a CEO, Tony took Zappos from \$1.6 million in

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<sup>11</sup> “Tony Hsieh speaks at Yanik Silver’s Underground Seminar 4”, <http://www.zapposinsights.com/public/136.cfm>

<sup>12</sup> “BiF-4 Insights – Tony Hsieh – Zappos.com”, op.cit.

<sup>13</sup> “Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan”, op.cit.

<sup>14</sup> Carey W.P., “Zappos CEO Tony Hsieh: Customer Focus Key to Record Sales During Retail Slump”, <http://knowledge.wpcarey.asu.edu/article.cfm?articleid=1736>, January 14<sup>th</sup> 2009

<sup>15</sup> Ibid.

<sup>16</sup> “Tony Hsieh speaks at Yanik Silver’s Underground Seminar 4”, op.cit.

<sup>17</sup> “Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan”, op.cit.

<sup>18</sup> “Button-making, internet advertiser, shoe entrepreneur, Zappos CEO, Tony Hsieh”, op.cit.

<sup>19</sup> Wilson Sara, “Build a Billion-Dollar Business”, <http://www.entrepreneur.com/magazine/entrepreneur/2009/march/200100.html>, March 2009

<sup>20</sup> “Button-making, internet advertiser, shoe entrepreneur, Zappos CEO, Tony Hsieh”, op.cit.

revenues to over \$1 billion by 2008 (Exhibit I). Tony is not one of those larger-than-life personalities. He's probably the least bubbly, most reticent person at Zappos. With a \$36,000 annual salary, he's also one of the least well-paid CEOs.

<b>Exhibit I</b>		
<b>Zappos' Yearly Revenue and Employee Growth</b>		
<b>Year</b>	<b>Revenue (in \$million)</b>	<b>Employees</b>
1999	–	5
2000	1.6	30
2001	8.6	NA
2002	32	NA
2003	72	134
2004	135.3	243
2005	370	800
2006	597	1,000
2007	840	1,300
2008	Over 1000	1,655
Compiled by the author		

Under Tony, Zappos focused on delivering superior customer service over marketing. He considers “the customer service as an immense branding opportunity, a unique way to speak directly to your customers”.<sup>21</sup> Zappos' website – a unique, easy to navigate and non-flashy advertisement site, is designed in such a way that it offers visitors the most pleasant and fulfilling online shopping experience. The simple layout of the site helps in loading the page in 0.879 seconds.<sup>22</sup> Moreover, unlike its competitor's sites, at Zappos, customers can search shoes based on its brand, size, colour, style, width, price and also heel height in case of women shoes. While searching, customers can also view the shoes from seven different close up angles, including top, bottom, left, right, back, front, and pair.

The primary focus was to deliver “wow” through service and make customers feel that it is very easy to purchase from Zappos. Tony explained, “Our philosophy at Zappos is to WOW with service and experience, not with anything that relates directly to monetary compensation.”<sup>23</sup> Zappos concentrated on availability of a wide range of shoes (Zappos keeps an inventory of 1,095 brands

<sup>21</sup> Simo Fidji, “A lesson on Customer Service and Corporate Culture by Tony Hsieh, CEO of Zappos .com”, <http://techieasy.org/2008/04/23/a-lesson-on-customer-service-and-corporate-culture-by-tony-hsieh-ceo-of-zappos-com/>, April 23<sup>rd</sup> 2008

<sup>22</sup> McDonald Duff, “Zappos.com: Success Through Simplicity”, <http://www.cioinsight.com/c/a/Case-Studies/Zapposcom-Success-Through-Simplicity/>, November 10<sup>th</sup> 2006

<sup>23</sup> “Zappos core values”, <http://about.zappos.com/our-unique-culture/zappos-core-values/deliver-wow-through-service>

and 165,722 styles) and speed of delivery. With a tagline 'Powered by service', it delivers shoes in almost a day, despite promising 4 days. Its fast and accurate free overnight shipping policy ensures that customers who order shoes as late as midnight also receive their merchandise on the next day. The shipping is free, both ways.

To remove the hassle of online shopping, Zappos extended their return policy from 30, 60 and 90 days to 365 days.<sup>24</sup> A major apprehension of customers who shop online is the complication involved in returning the product. However, with Zappos, customers are at complete freedom to order up to 10 pairs of shoes, try them and send them back without paying for the shipping in case they do not like them, all throughout the year. Zappos spends more on shipping than on employee wages. Unlike other online retailers that also offer free shipping, Zappos provides its customers a prepaid return shipping label that includes address confirmation, low-priced delivery, signature proof and low-cost parcel insurance. For repeat customers, Zappos makes placing orders simpler through its 'Bill me Later' policy wherein customers can place orders without presenting their credit card numbers again.

To guarantee that the customer service works, Tony focused on continuing to grow the company rapidly, while preserving the culture and feel of a small company. Tony said, "I think company culture is extremely important, and I also think that as the company changes and grows, the ideal company culture also will change and grow over time. If you get the culture right, most of the other stuff will just take care of itself."<sup>25</sup> He also believed that one of the biggest enemies to culture is hyper-growth. "You are trying to fill seats with warm bodies, and you end up making compromises", Tony observed. Accordingly, he designed an organisational culture wherein, employees indulge in delighting customers by going out of their way. The customer loyalty team is encouraged to interact with the customers more on a personal level rather than just on a business level. Moreover, they send personal cards and bouquets to their customers if they get to know that they are buying shoes for some special occasions like birthdays, wedding anniversaries, etc. Tony said, "To me, the ZAPPOS culture embodies many different elements. It's about always looking for new ways to WOW everyone we come in contact with. It's about building relationships where we treat each other like family. It's about teamwork and having fun and not taking ourselves too seriously. It's about growth, both personal and professional. It's about achieving the impossible with fewer people. It's about openness, taking risks, and not being afraid to make mistakes. But most of all, it's about having faith that if we do the right thing then in the long run we will succeed and build something great."<sup>26</sup>

To build customer relations, unlike other retailers, Zappos' customer-service representatives are trained to direct customers to at least three rival websites, if a specific pair of shoes is unavailable at Zappos. Tony says, "For us, we're willing to lose that sale, that transaction in the short term. We're focused on building the lifelong loyalty and relationship with the customer."<sup>27</sup> The company also makes its toll free 1-800 numbers easily accessible on its website. By delivering excellent customer

<sup>24</sup> "Tony Hsieh from Zappos", op.cit.

<sup>25</sup> "Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan", op.cit.

<sup>26</sup> Miller Steve, "Two Hat Marketing – Would YOU Do Business With YOU: The Zappos Way?", <http://www.twohatmarketing.com/ramblog/2009/01/what-is-culture-anyway.html>, January 27<sup>th</sup> 2009

<sup>27</sup> Zmuda Natalie, "Customer Service First – and a Daily Obsession", [http://adage.com/moy2008/article?article\\_id=131759](http://adage.com/moy2008/article?article_id=131759), October 17<sup>th</sup> 2008

service, Zappos attracts four million customers of which 75%<sup>28</sup> are repeat purchasers (Exhibit II). Tony said, “We hadn’t planned all of those things from the beginning. However, we found that as we put more into the customer experience and customer service, it helped fuel our growth of repeat customers and word-of-mouth.<sup>29</sup> He further said, “We believe if we get the culture right, great customer service will happen on its own...by delivering great customer service, our customers become repeat customers and tell their friends and family about us. So the basic business model is: Culture -> Customer Service -> Word-of-Mouth Marketing -> Revenue/Profits.”<sup>30</sup>

<b>Exhibit II Zappos’ Repeat customers</b>			
	<b>Customers who buy again within next 12 months (repeat customers) (%)</b>	<b>Average purchases by repeat customers over next 12 months (%)</b>	<b>Repeat customers multiplied by average purchases (%)</b>
March 2001	20.4	1.5	0.31
March 2002	27	1.74	0.47
March 2003	33.5	1.96	0.66
March 2004	44.6	2.36	1.05
March 2005	51	2.53	1.29
March 2006	51.3	2.66	1.37
March 2007	54.9	2.68	1.47

Source: “Zappos - NPS Conference”, <http://www.slideshare.net/zappos/zappos-nps-conference-12609-presentation>, January 26<sup>th</sup> 2009

With a computer science degree from Harvard, Tony knew how to write code, and he decided to try a similarly algorithmic approach to creating culture. He devised a Ten-Commandments-type list (Exhibit III) that included such tenets as, “Be Humble”, “Create fun and a little weirdness” and “Build open and honest relationships with communication.” From that moment, those core values have driven all key decisions – from hiring to customer relationships to, most recently, downsizing. Tony explained, “The employees came up with the list of core values themselves. We hire and fire people based on the core values, and performance reviews also include core values in them.”<sup>31</sup>

<sup>28</sup> “A lesson on Customer Service and Corporate Culture by Tony Hsieh, CEO of Zappos .com”, op.cit.

<sup>29</sup> “Tony Hsieh from Zappos”, op.cit.

<sup>30</sup> “Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan”, op.cit.

<sup>31</sup> Ibid.

### Exhibit III Zappos' Ten Core Values

- Deliver WOW Through Service
- Embrace and Drive Change
- Create Fun and A Little Weirdness
- Be Adventurous, Creative, and Open-Minded
- Pursue Growth and Learning
- Build Open and Honest Relationships With Communication
- Build a Positive Team and Family Spirit
- Do More With Less
- Be Passionate and Determined
- Be Humble

Source: "Zappos Core Values", <http://about.zappos.com/our-unique-culture/zappos-core-values>

The first core value, "Deliver WOW through service" is obvious from the highly satisfied customers and the *BusinessWeek's* customer service champs survey for 2009. Zappos never outsourced its call center because the function is too important to be sent either to India, Ireland, or Poland, etc. Job one for these front-liners is to delight callers. Unlike most inbound telemarketers, they don't work from a script. They have been trained to encourage callers to order more than one size or color, because shipping is free in both directions and to refer shoppers to competitors when a product is out of stock. It was reported that when one of the customers complained that her boots had begun leaking after almost a year of use, not only did the company send her a new pair – in spite of a policy that only unworn shoes are returnable – but also told the customer to keep the old ones and mailed her a hand-written thank you.

To ensure that every employee of Zappos believes in the core values, Tony focused on hiring the right people. Zappos seeks people who have a passion for providing exceptional customer service. They go through an extensive interview process that tests them on technical proficiency as well as cultural fit. Tony said, "we have questions for each core value and they get to know about our culture at the time of recruitment".<sup>32</sup> To test their cultural fit, unusual, wacky questions are asked. For instance, "how weird are you, what's your theme song, who two people would you most like to invite to dinner, etc".<sup>33</sup> In fact, the job application starts with a crossword. While they are being tested for creativity and individuality, they are being filtered out for egomaniacs and wallflowers. All the new hires complete four weeks of training, including two weeks on the phones, beginning everyday at 7 a.m. They can't be late or call in sick. Any one too good to work the phones during a holiday rush isn't a zappos material. "We do our best to hire positive people and put them in an environment where the positive thinking is reinforced," observed Tony<sup>34</sup>.

<sup>32</sup> "Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan", op.cit.

<sup>33</sup> O'Brien Jeffrey M., "Zappos knows how to kick it", [http://money.cnn.com/2009/01/15/news/companies/Zappos\\_best\\_companies\\_obrien.fortune/index2.htm](http://money.cnn.com/2009/01/15/news/companies/Zappos_best_companies_obrien.fortune/index2.htm), January 22<sup>nd</sup> 2009

<sup>34</sup> Ibid.

The training period also initiates the new hires into the company’s strategy, culture and obsession with customers. New recruits are even offered a \$2000 bribe to leave the company during training, one final effort to filter out the half-hearted. According to Tony, this process helps them to weed out half committed employees even though some 2%–3% of the employees accept the offer. “We’ve actually passed on a lot of really talented people, who we know would have made an immediate impact on our top or bottom line, because they didn’t fit the culture,” explains Tony<sup>35</sup>.

Zappos ensures that the employees enjoy while they are working. Employees are never pressurised to achieve targets and are given complete liberty to work the way they want. Although the customer loyalty team is available 24/7 and handles around 5,000 phone calls a day, call times are not measured and even a call that continues for an hour with no sale is not considered an offence at Zappos. They handle calls without scripts and are under no pressure to wind up the conversation with the customers. “This is not some place that you wake up and you’re dreading,” says Derek, an employee of Zappos.<sup>36</sup> Moreover, employees are bestowed with benefits like free lunch, snacks, pop corn, coffee, etc. Many surprise events like random acts of kindness, employee of the day, etc., are organised and employees are also provided with full medical coverage including the dental coverage. Zappos’ employees are given complete liberty to write about their experiences as well as their feelings about what culture means to them in a 300-page culture book. Tony explained, “We really believe in trying to take care of people and to wow our employees, customers, partners and investors. We want to give all of them complete transparency”<sup>37</sup> (Exhibit IV).

<b>Exhibit IV Zappos Overview</b>	
Number of Employees	1,655
Percentage Job Growth	39%
Percentage of Health care Coverage	100%
Revenue in 2007	\$839 million
Percentage Revenue Growth (2007–2008)	40.7%
Percentage Employee Growth (2007–2008)	30%
Percentage of Repeat Customers	75%
Number of Customers	9.9 million
Number of Customers in the last 12 months	4 million
Compiled by the author	

<sup>35</sup> “Customer Service First – and a Daily Obsession”, op.cit.

<sup>36</sup> Everitt Lisa, “Zappos Tells New Employees: Please Go Away”, <http://industry.bnet.com/retail/100066/zappos-tells-new-employees-please-go-away/?tag=content;col1>, May 21<sup>st</sup> 2008

<sup>37</sup> Bye Adrian, “Alfred Lin, Zappos Chairman and COO”, <http://meetinnovators.com/2008/12/04/alfred-lin-zappos-chairman-and-coo/>, September 11<sup>th</sup> 2008

In order to make Zappos a fun place to work, employees are also urged to communicate openly. Zappos managers are encouraged to spend 10% to 20% of their time with team members outside the office, and any employee can give any other employee a \$50 bonus for a job well done. There's also a full-time life coach. Of the life-coach, Lin observed, "you can't provide great service if you're upset about something in your life. He easily pays for himself." Tony polls managers after they've taken teams to dinner or on a hike, and they invariably talk about improved communications, greater trust and budding friendships. "Then we ask, 'how much more efficient do you think your team is now?', Tony pointed out. "The range is anywhere from 20% to 100%." Zappos organizational culture has become so ubiquitous that executives from the likes of Lego, SouthWest Airlines, etc. have witnessed the zappos work ethos firsthand. For those who can't make the trip, Tony has started an online service called *Zappos Insights*. For \$39.95 a month, anyone can watch videos and read white papers on how the company hires, deals with vendors, evaluates workers, etc.

Unlike many other companies, in Zappos, employees are encouraged to use Twitter, a micro-blogging tool that is used by 435 Zappos employees out of the total 1,600 employees.<sup>38</sup> While initially, Twitter was used as a tool to strengthen the company's culture, Tony realised that twittering was emerging as a great way to connect with Zappos' customers. Zappos used Twitter to strengthen their customer service by paying attention to customers' queries and personally connecting with the customers. Taken very seriously, employees are offered Twitter classes where they are taught about how to sign-up and how to use it. However, they are never given any specific guidelines about what has to be written. An avid twitterer himself, Tony feels, "We want our customers to feel like they are interacting with real people, not a faceless corporation."<sup>39</sup>

The transparency and strategy followed by Zappos was adopted by the company also in laying off its employees. In October 2008, Tony took one of the toughest decisions of laying off 8%<sup>40</sup> of its employees in order to cut the expenses. Zappos' approach in laying off its employees earned the company an overwhelming response both from its affected employees as well as existing employees. Tony stuck to the company's core values by revealing complete details about the Zappos layoffs on Twitter. According to Tony, "Zappos' success depends on its 10 core values including open and honest communication. We're open with everything on how we run our business internally. When people don't know what's going on, rumours start."<sup>41</sup>

While generally the layoffs were determined on the basis of performance, in case of call centre employees, attendance and reliability of the employee were the determining factors. Informed directly by the managers, the laid off staff were paid through the end of the year, and also received severance pay for 1 month for every year they worked. Even their Consolidated Omnibus Budget Reconciliation

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<sup>38</sup> Nimetz Jody, "Zappos Does it Right with Twitter", <http://www.marketing-jive.com/2009/01/zappos-does-it-right-with-twitter.html>, January 7<sup>th</sup> 2009

<sup>39</sup> Nelson Shannon, "Improving Brand Value Through Social Media: Zappos Gets it Right", [http://www.piercemattiepublicrelations.com/2008/05/improving\\_brand\\_value\\_through.html](http://www.piercemattiepublicrelations.com/2008/05/improving_brand_value_through.html), May 15<sup>th</sup> 2008

<sup>40</sup> "Deathwatch: Zappos lays off staff", <http://vator.tv/news/show/2008-11-06-deathwatch-zappos-lays-off-staff>, November 7<sup>th</sup> 2008

<sup>41</sup> Stern Gary M., "Tapping out a Gentle Layoff Strategy", <http://totaltrust.files.wordpress.com/2006/02/investors-business-daily-interview-on-layoffs-and-the-internet-1-17-08.pdf>, January 16<sup>th</sup> 2009

Act (COBRA) payments were extended for the next 6 months. Besides, the existing employees were given counselling to deal with their stress.

Zappos' lay off approach was applauded to such an extent that Tony even received complimentary letters from its departing employees. Zappos' organisational culture earned it several accolades. By 2009, Zappos was ranked 23<sup>rd</sup> in *Fortune's* top 100 best companies for the employees to work, making the company the highest newcomer.<sup>42</sup> Apart from that, Zappos has also been listed in *INC* magazine's yearly list of the 500 fastest-rising private companies in the US for 4 consecutive years since 2004,<sup>43</sup> and *TIME* magazine's "25 Sites you can't live without."<sup>44</sup>

However, is organisational culture an outcome of Zappos' business nature or is it the architecture of Tony Hsieh? Denying that Zappos' organisational culture cannot sustain if he leaves, Tony said, "The Zappos culture is a reflection of all of our employees' personalities and values. My role isn't to dictate the culture. My role is to create an environment where employees feel comfortable being themselves and driving the culture forward by expressing their individuality."<sup>45</sup>

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<sup>42</sup> "100 best companies to work for 2009", <http://money.cnn.com/magazines/fortune/bestcompanies/2009/snapshots/23.html>, February 2<sup>nd</sup> 2009

<sup>43</sup> "Zappos.com Offers Free Audio Download of Landmark Business Book 'Tribal Leadership'.", <http://www.allbusiness.com/company-activities-management/operations-customer/11685089-1.html>, October 28<sup>th</sup> 2008

<sup>44</sup> "Zappos.com Sells \$50,000 "Cease and Desist" Service & T-Shirt", <http://www.digital50.com/news/52887>, January 5<sup>th</sup> 2009

<sup>45</sup> "Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan", op.cit.

## Annexure I Interview with Tony Hsieh

- **Can you tell us about your background, education (schooling to graduation). How would you describe Tony Hsieh as a person? What were your interests, hobbies, beliefs?**

We can find the bio data of Tony at <http://about.zappos.com/meet-our-monkeys/tony-hsieh-ceo>

I am passionate about customer service, company culture, and business in general... I enjoy watching movies and have recently been interested in learning about the science of happiness.

- **You started your first venture at the age of 13. What prompted you to start a venture at such a young age? What happened to that venture? What lessons have you learnt from that early venture?**

I've always been, to some extent, entrepreneurial, I think because my parents were more conservative. I learned early on that it takes a lot more than just a good idea for a business to be successful, and that there is always a lot to learn.

- **You ran assorted businesses after your first entrepreneurial venture and before joining Harvard. And all of them were folded for some or the other reason. Why could they not be continued? What lessons could you draw from those failed ventures?**

I wouldn't say they were failed ventures. I was either too busy or got bored with the other businesses so I just decided not to run them anymore and move onto something else more interesting. I think the most important lesson is that you should work only on what you're truly passionate about.

- **What was your experience at Harvard? What's different being a student at Harvard? Did your stint at Harvard make you a better entrepreneur?**

Harvard was great for meeting interesting people (for example, I met Alfred Lin, who is now our CFO/COO at Zappos). I ran a pizza business while at Harvard, so I think that helped make me a better entrepreneur in some ways.

- **Why did you leave Oracle and start a business venture of your own? What was your objective behind starting LinkExchange? What is more important to you money or job satisfaction?**

My job at Oracle didn't allow me to be entrepreneurial enough. I wanted to do something on my own, so my roommate and I started LinkExchange. Job satisfaction is much more important than money.

- **What according to you is organisational culture and how important is it to the success or failure of an organisation? Is there any desirable organisational culture? Does it depend on the nature of its business?**

I think company culture is extremely important, and I also think that as the company changes and grows, the ideal company culture also will change and grow over time. If you get the culture right, most of the other stuff will just take care of itself.

- **What kind of organisational culture did LinkExchange have? How different was it from Zappos' organisational culture?**

*Contd...*

The culture at LinkExchange definitely changed over time. It's hard to describe a culture without actually being a part of it, but what I can say is that everyone at Zappos knows that company culture is extremely important (in fact, it's our #1 priority), whereas I don't think anyone at LinkExchange ever thought that (including me).

- **How do you describe Zappos' organisational culture before you joined? What kind of changes did you bring about in the company? Is organisational culture of Zappos a reflection of your personality and value system?**

The Zappos culture is a reflection of all of our employees' personalities and values. My role isn't to dictate the culture. My role is to create an environment where employees feel comfortable being themselves and driving the culture forward by expressing their individuality.

- **What is the business model of Zappos and what is the secret behind its success? Was Zappos' organisational culture created keeping in mind its nature of business?**

We believe if we get the culture right, great customer service will happen on its own. We believe that by delivering great customer service, our customers become repeat customers and tell their friends and family about us. So the basic business model is: Culture -> Customer Service -> Word-of-Mouth Marketing -> Revenue/Profits

- **What was your rationale behind designing the core values of Zappos? How do you ensure that every employee believes, follows and shares with others?**

The employees came up with the list of core values themselves. We hire and fire people based on the core values, and performance reviews also include core values in them.

- **At what stage of the company's formation, do you think organisational culture decision should be taken? Is organisational culture same as work culture? How do you differentiate both these concepts?**

As early as possible. To me they are the same.

- **On what basis are employees chosen at Zappos? What is their average age? Are they told about the culture at the time of recruitment?**

I don't know their average age – it really doesn't matter. They are interviewed based on our core values (we have questions for each core value). Yes they know about our culture at the time of recruitment.

- **Will the same organisational culture sustain even if Tony Hsieh leaves? What will be the company's prospects?**

The goal is that our culture will continue at Zappos no matter who leaves the company.

- **Do you think other companies can also follow Zappos' organisational culture and be successful at the same time? Why do you think so?**

I don't think they need to have our set of core values to be successful. The most important thing is to have a set of committable core values. It doesn't actually matter what the core values are, just that you are willing to hire and fire based on them.

Source: "Interview conducted with Tony Hsieh by Sravanthi Vemulavada and Priti Krishnan", *IBSCDC*, March 23<sup>rd</sup> 2009