

ZDNet Case Study: Following Zappos.com

The phone still beats the tweet in communicating with customers. There's a payoff in the use of social media to build a brand, but good luck quantifying it.

By Tom Steinert-Threlkeld

June 2009

Zappos.com ZETA **Free Shipping Both Ways!**
365-Day Return Policy
*International shipping is now available to select locations. Learn more!

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Quick Shoe Search

Select a Gender

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Results Found: 86453

← America's Zappos employee

SHOES

Zappos.com



Zappos.com

Headquarters: Las Vegas, Nevada

CEO: Tony Hsieh

Business: Online retailing

Founded: June 1, 1999

Sales (2008): \$1 billion

Main product: Shoes

Upcoming products: Handbags, clothing, eyewear, jewelry, luggage, accessories, housewares, electronics.

Differentiator: Customer service and interaction

Customer interaction channels:

- Telephone
- Email
- Twitter
- Blogs
- Streaming video
- Partnerships with Facebook, YouTube

Top Objective: “Our number one priority as a company is our company culture. Our whole belief is if we get the culture right, then most of the other stuff, like building a long-term brand or delivering great customer service, will just naturally happen on its own.”

Ambition: To build a collection of businesses “powered by customer service.” To be equated with service in the way Richard Branson’s Virgin businesses are thought of as cool and hip.

Developments to watch:

- New Zappos. Introducing a more elegant look to its main site. The old look is being categorized as “classic” Zappos.
- Constant expansion: Shoes are no longer Zappos’ only focus. The company is expanding its markets.
- A Zappos you can walk into. In 20 or 30 years, don’t be surprised if there are Zappos hotels or Zappos airlines. First up: Shoe stores?

Zappos cracks the screen (and code), builds a social business

By Tom Steinert-Threlkeld

With tweeting the interpersonal communication phenomenon of the moment, the fact that the chief executive of a billion-dollar company has 770,692 followers on Twitter garners a lot of attention.

Make no mistake, however. Tony Hsieh, the CEO of online retailer Zappos.com, does not find the 140-character messages the best way to interact with customers. For that, “the really effective social media” are email and the telephone.

The various tools of digital communications — blogs, microblogs and streaming video — have a different purpose, Hsieh says.

Hsieh contends these tools “give the public glimpses into how we act.”

They are not used to drive up sales, although that may happen, as a byproduct. They are not used to lower costs, although the various video skits, waves of tweets and blog postings likely save the company significant sums on TV or other conventional forms of brand advertising. While a typical 30-second ad costs \$125,000 in prime time, Zappos estimates the cost of reaching out to past, present or potential customers in these micromedia at \$300,000 a year — or less than three-hundredths of one percent of its \$1 billion in annual sales. It’s not even looking for a return on that investment.

“We don’t assign metrics to it,” Hsieh says. “It’s really just about our unwavering belief that making the customer happier is going to win in the long run.”

Therein lies the return on the social business that Zappos has become: Show the company is made up of individuals. Happy individuals. Be a company full of people you’d like

to get to know, explains Hsieh. And, oh, yeah, somewhere down the road, when you are ready to buy something, hopefully you’ll call us first (or go to its site, before that of any online rival).

Ted Vaughan, a Dallas partner in the retail and consumer products industry group of BDO Seidman LLP, the accounting and consulting firm, considers Zappos’ approach to be a customer relationship management (CRM) system for the digital customer. “The question is, how do you break through that coldness where it is just you and a computer screen and you’re looking at 20 different retailers,” says Vaughan. “This gives character to the name Zappos and differentiates them from the other retailers you could be going to online.”

In many respects, this social business approach is a modern-age inversion of the Tupperware party, where you used to invite a friend into your home to sell you something, but have a good time in the process. In this case, Zappos keeps inviting potential customers into its home, to show off its own good times. Then it waits for you to buy something. Not because you like the company, but because you like its people.

All told, about 450 of the company’s 1,400 employees are on Twitter. An untold number contribute to its “Inside Zappos” blog, which aims to be “fun and a little weird.” You can see the faces of and antics of Zappos’ employees on videos that appear on Facebook, YouTube and Zappos.tv. You can hear their voices all day long, over the telephone. There are neither scripts nor time limits on conversations.

The goal is to create 1,400 spokespeople for the company, online—and off.

In effect, Zappos, in all of its extensions online, is itself a social business.

The end result of all this interaction is to hopefully generate the thought, overtly or subconsciously, that “I want to shop at Zappos because they are my friends,” according to business development manager Aaron Magness. Here’s how it works.

Personal emotional connections

For Zappos, it's always time to break out of the box. In fact, this is the third Zappos boxbreak of the week. This time it's worth a virgin daiquiri. The boxbreak is staged, as if it's a commercial. There's even a really corny marketing-type takedown – "I Zappos you're right" – at the end of the 4 minute, 21 second "clip" created on Zappos.tv and viewable on YouTube.

With its devotion to streaming video, any Zappos employee at almost any time can become a star. But the time frame is not Marshall McLuhan's 15 minutes. The frame of fame is now less than five.

A five-person video team makes micro stars of members of Zappos staff, chronicling when they [take a fitness walk](#) (to Starbucks, across the street) or just showing off the "things" on, say, a quality assurance team member's desk, like [the meditating frog](#) she uses to keep her "sane through the day."

It's a soft sell, for shoes, accessories, or even electronics. It's a way to bring customers inside the "microcosm" of life at Zappos. You may have first been lured to buy from the Las Vegas-based outfit because it offered free shipping both ways, making it as easy to try on a pair of oxfords in your living room as in a store.

But other companies can copy that, says Hsieh. What is harder to replicate is Zappos' culture, which Hsieh wants to stand out for its personality, individuality and, yes, friendliness. Something social. Not automated. Not designed to make a sale, quickly.

"It's old-fashioned customer relationships, where it's just a much more personal thing, rather than just focusing on, oh, what's the most efficient way we could do something," said Hsieh. "We want to create personal emotional connections."

Hsieh sets the tone with his tweets. He'll talk about other companies (Love this! [@skimshady](#) met w/ golf course business whose 3 mantras are "Warm welcomes, magical

moments, and fond farewells") just as much as his reading list (<http://twitpic.com/5n9x8> - This is what a book report at Zappos looks like - "Peak" by Chip Conley (great book, part of Zappos library!) about 17 hours ago from TwitPic).

He also sets the tone with bald, not ribald, antics. Top of mind: Shaving his head (again) and putting a Zappos tattoo on top.

Shaving heads as some sort of bonding mechanism came about in 2004, when Hsieh and a half-dozen other Zappos employees were hanging out at a watering hole and daring each other to do it.

They went into the office the next day, officially signed up for a joint shave that would take place a week later. And a company ritual was born.

"I don't know. It seemed like a good idea at the time we were at the bar," he says.

But he is hardly alone. Zappos has institutionalized "head shaving day" and made it part of how it acts out its culture, showing what goes on and comes off on YouTube.

But head-shaving is not the most enduring part of that social story. The hanging out at the bar part is.



The tweet: All done! I'm now bald w/ a Zappos tattoo. I feel like Mr. Clean.

Hsieh insists that managers and the people who work for them become “actual friends, not obligatory friends.” Bosses and un-bosses are supposed to spend 10 to 20 percent of their time outside the office, getting to know each other. Happy hours at bars, for instance. Ski trips too. One finance team in mid-May went on a camping trip to Mount Charleston, about 30 miles out of town. Earlier, another team went gun-shooting together. Their pick: Machine guns.

Is this a waste of time and company resources?

Hardly, says Hsieh. It produces results back at the office. The camaraderie allows workers and managers to know each other – and can get answers faster without a hierarchy. “People are more willing to do favors for each other, because they’re doing favors for friends, instead of co-workers,” he says. “So it actually increases efficiency.”

Backing up the contention are internal surveys that show employees believe the social bonds increase their efficiency anywhere from 20% to 100% a day. “So, kind of worst case, you break even,” Hsieh says. “And you enjoy it more. So why not do it?”

There is no discernible financial return on this investment in staff time spent with each other or with customers.

There’s no way, Magness and Hsieh contend, to trace a straight line from all this dialogue, digital or otherwise, to the company’s ability to sell shoes, eyewear or electronics. But, so far, the results pretty much speak for themselves. In 2000, the company recorded revenue of \$1.6 million. Last year, revenue topped \$1 billion.

“It’s almost impossible to measure that this person put you as a friend on Facebook and as a result their network members (who) bought from you were friends with them,” for instance, says Gene Alvarez, vice president of e-commerce and customer relations management at Gartner in Stamford, CT. Similarly, “just tweeting doesn’t convert to sales.”

Zero to \$1 billion in under 10 years

Annual revenue at Zappos

1999	Almost nothing
2000	\$1.6 million
2001	\$8.6 million
2002	\$32 million
2003	\$70 million
2004	\$184 million
2005	\$370 million
2006	\$597 million
2007	\$840 million
2008	\$1 billion

Source: Zappos.com

Instead, he says, using social media is a way of demonstrating you’re cool, which can build your brand but not sales. Digital panache has its limits.

“There’s a portion of the population that maybe falls for this, that, Best Buy (for instance) is my friend because we blog and follow each other,” Alvarez says. Zappos’ videos may be cool and tweets interesting and logos on heads impressive, “But am I going to buy a pair of shoes because of that? I don’t know. I might buy them because they fit me and I like they way they look.”

There is little to no harm – or time consumed in all of this socializing, however. Zappos’ twitterers may spend about 10 minutes out of their day sending out messages about what they’re doing, what’s happening at the company or just what they think about the world around them. That’s not a drag on productivity, says Magness. It’s almost an imperceptible amount of time to invest in conversing with customers, real or potential.

Ditto with Brett Houchin’s “AV club,” i.e., audio-video team. This club represents the only staff devoted full-



time to thinking about, coming up with, blogging about, shooting and editing what goes on at Zappos, at work and play. There's one combination cameraman and technician, three combination video editors and bloggers and Houchin, who acts as the video and blog supervisor, as well as publisher.

The five people represent one-third of 1 percent of Zappos' work force. And they act as a kind of cross between comedy improv sketch crew and news team, in creating or reporting on hijinks at Zappos, such as Hsieh's inspiration to create "bunk" desks (<http://blogs.zappos.com/blogs/inside-zappos/2009/04/01/bunkdesks>).

"We're reporting in a microcosm," says Houchins. "We're reporting events in the small little Zappos world, where there's always something going on."

Some events are planned, like head-shaving days or a daily product commentary. But, Houchins says, "a lot of it is completely spontaneous."

The objective now is to create two or three videos a day, worthy of posting to Zappos.tv and, if really funny, to YouTube.

But, even with the videos, there is little drain on staff time. The "AV Club" simply drops by a staff member's desk, such as a QA worker identified only as Jewel R., gets her to talk extemporaneously and disappears. The editing and production work is handled later, without further involvement of the employee.

The whole slew of Facebook, YouTube, Twitter and Zappos.com peeks into life in its "microcosm" in fact can be looked as being a cheap way to get a payoff in the environment their business itself operates in: The Internet. Consider it do-it-yourself digital advertising.

"In (Zappos') case it's about communicating. It's kind of like a marketing opportunity for them. In the same way other companies engage in brand advertising," says Sucharita Mulpuru, principal analyst for electronic retailing at Forrester Research. "Their brand is on the Internet and their brand is about service. So if they can kind of continue to reinforce that in inexpensive ways online, it's much cheaper than buying a TV commercial to communicate the same thing.

"It's not a replicable strategy for every company," she says.

The campaign is built on building up the human side of Zappos, as if showing humanity and personality is totally counter-culture amongst faceless private (or public) companies. And asking only one thing of employees: "Just be yourself," says Magness.

Is being yourself absolutely the cheapest way to go?

Maybe not. Mulpuru notes that the real keys in great online retailing is to do what you say you're going to do, promptly. Deliver the exact products ordered, on time. Take returns without a hitch. Avoid complaints and frustrated customers, who might flood your phone banks, email boxes and tweet streams with angry (and costly) messages.

Do the blocking and tackling right and "you really don't have to talk to anyone," Mulpuru adds.

Happy employees give great service

There are no bottom line objectives with the socialization of Zappos via interactive media and sites — at least not in the quantifiable sense. The first goal, Magness says, is to show the company's on-going efforts to create bonds with its employees. The second is to give outsiders a look inside what they do. And the third is ... not to worry about the

Looking for real social media? Read your email and answer the phone

By Tom Steinert-Threlkeld

By the time you read this, more than 800,000 people will be following Tony Hsieh, the chief executive of Zappos.com, on Twitter. More than 400,000 follow him at any given moment.

Does he spend his whole day exchanging bon mots and insights about life with these microburst groupies? Or believe that these exchanges are the most effective way of interacting with one-time, present or future customers?

No and no.

The 35-year-old serial entrepreneur (he made his first mint selling LinkExchange to Microsoft for \$265 million – when he was 24) figures he goes through 1,000 tweets a day that are either directed at him or mention Zappos. He responds to about 100 and the rest are turned over to the company's Customer Loyalty Team.

By contrast, the company (and he) gets about 2,000 email messages a day. In fact, it takes six different members of the CEO team to respond to messages directed his way “because he receives so many,” said Stephanie Thomas, in an email from Tony's Team, or what she calls Operation Spidey Senses. “We are working on replacing his torso with one of a spider,” she quips, “so he can respond to eight times the emails.”

But even that volume pales compared to a channel that predates the Internet: The telephone.

Zappos' Customer Loyalty Team fields between 5,000 and 6,000 calls a day. Almost every customer, at one time or another, winds up calling Zappos at least once, Hsieh says. And that represents the biggest opportunity in social media to make a lasting impression since it currently lacks brick-and-mortar stores. “Our best branding tool, as unsexy and low-tech as it may sound, is actually the telephone,” says Hsieh. “And if we get that interaction right, it's something they remember, maybe for the rest of their life, and tell their friends and family about.”

The company puts its toll-free 800 number on the top of every page of its Web sites, to encourage callers.

There are no scripts in front of customer service reps, when they take a call. As with twittering or appearing in a streaming video, the reps are encouraged just to be themselves. Be chatty. Tell jokes. Find facts (Is that your dog barking? What kind is it?). Whatever works. No particular approach is proscribed.

Except one: Spend as much time on the phone as it takes. Describe the return process in detail, if the caller is not familiar with it. Figure out what kinds of shoes match a particular dress. Just talk, if the caller is lonely. They'll remember.

“The payoff is not in the current quarter or the current year,” Hsieh says. “The payoff is probably going to be two or three years down the line. So it's about how long-term you are thinking.”

Listening and interacting is also improving. Hsieh says most improvements to its “classic” site – which is now giving way to a more elegant Zeta site – came from customers. Even if just one customer asked for an action button to appear in a particular place on a page, it likely would pop up shortly thereafter.

Hsieh does tweet for that same reason, on occasion. If he explicitly asks for feedback on a new feature in that manner, he'll receive hundreds of responses “within just a few minutes.”

But twittering does not preoccupy him, not by a long shot. He figures he spends five minutes a day tweeting; 15 minutes reading responses to his tweets; another 15 minutes responding to the responses; and five minutes forwarding or otherwise acting on a tweet that he believes can have a practical impact on the business. Forty minutes a day total.

“The really effective social media are phone and email,” he says. “In terms of building a personal emotional attachment with your customers, if that's your goal, definitely.”

effect on business. “Was there a master plan behind this to attract new customers?” he says. “No, that was never the case.”

Based on metrics, the impact of these social efforts don't seem that great. The head-shaving video on YouTube has yet to get 20,000 views. A YouTube video of a single woman, Wendy, getting shaved has gotten 55,000 views. The company's “Inside Zappos” blog only gets 2,000 to 3,000 views every day. The big number from the new forms of interacting with customers is Hsieh's followers on Twitter.

Getting big numbers is not a goal anyway, says Houchins. “Any time you try to make something viral, it doesn't work,” he says. The closest the company has come is a video that pokes fun at a Zappos practice of making an employee who mistakenly hits the “reply all” button on an email wear a dunce cap known as the “reply to all hat.”

The key in all of this communication and iteration is to be authentic, says Hsieh.

When the company announced its first-ever layoffs last year, Hsieh didn't wait for outsiders (i.e., customers, real or potential) to hear about it and then respond. Within minutes of telling the staff that 8 percent of them would lose their jobs, he posted the email he sent around internally to the [CEO and COO blog](#) for anyone to read.

This kind of openness about the company and its relationship with its workforce leads to what Magness calls “intangible ROI.” After all, the company considers customer service its core competency and how it separates itself from the pack. That means revealing who you really are, and engaging both insiders and outsiders with the company.

“It's pretty hard for an unhappy employee to deliver great customer service,” says Hsieh.

Yes, you could monitor click-throughs to Zappos.com that come from the company's more social forms of interaction with customers, such as the blogs or tweets and see if they result in sales. Heck, Hsieh could send out discount codes when he twitters to boost sales. Tens or hundreds of thousands of recipients might respond.

Similarly, successful completion of the Face Game on Zappos' Facebook page could be used to reveal a coupon or a sale or giveaway in one or more of its product categories. Instead, it just entitles the player to “win cool schwag,” undefined.

If in fact, Hsieh or other Zappos microbloggers eventually start to “sell to me,” says Alvarez, they could become viewed in the same distrusted vein “as a timeshare salesman.”

But Hsieh doesn't want to use Twitter as either a research tool or a sales tool. He instead just wants both insiders and outsiders to be talking about the company. And the outsiders to be customers for life.

The “intangible ROI” also can be described by another benchmark, Magness says: the “wow” factor.

For that, Magness and Hsieh keep coming back to a simple example from what they still consider the most social of the media they use to interact with customers: The phone.

One Zappo phone representative spent four-and-a-half hours one day talking with a woman looking for shoes for her wedding. The marathon interchange did not result in a sale. But the woman was so taken by the attention and responsiveness that she blogged about it, elsewhere, and “told lots of other people,” Magness says. And the company got a stream of referrals from it, notes Hsieh.

But the point of all these interactive exercises is not to be in constant sell mode. Rather, to just show “there is no limit to what we'll do,” says Magness. And, “we are who we are.”

Zappos' many faces: Experiments in expansion

Zeta



This is the new look of Zappos with more product categories surfaced. The existing site is now billed as "classic" Zappos.

Vegetarian shoes...and toasters



Zappos is constantly experimenting with new categories. The right side navigation highlights some of Zappos' potential categories. One problem: The electronics section has one Kodak digital camera and four reviews about other Kodak cameras you can't buy on Zappos.

6pm.com



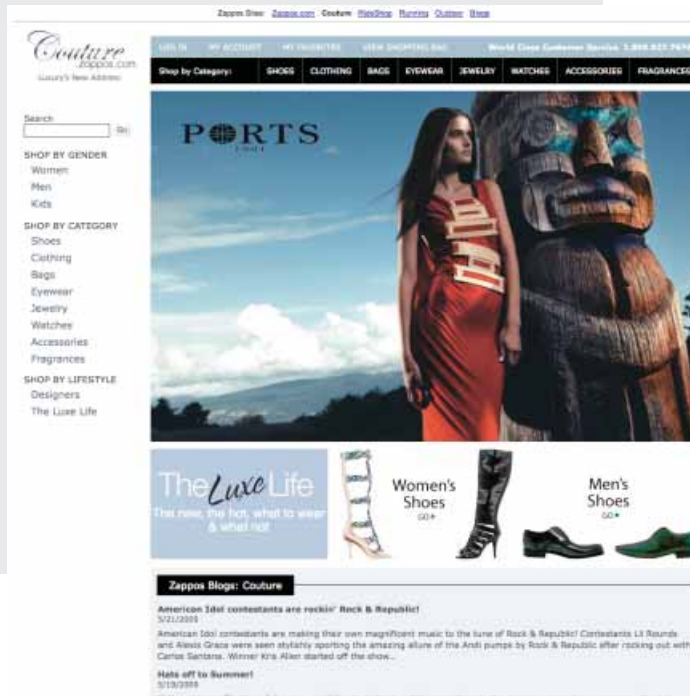
6pm.com carries no Zappos branding, but it is where old shoes go to get sold. There's heavy discounting but no free shipping. Is this the model for Zappos' electronics business?

Customer map



Want to see who's buying what? Does it help you to know that a pair of hiking boots has just been sold in Nashua, N.H., a pair of Manolos in South Miami Beach, and a pair of fancy flip flops in South Padre Island, TX? Go to the Zappos Map, an internal sales tracking tool whose essential feature – icons pop up whenever and wherever a product is sold, in the continental U.S. – has been opened to the public (www.zappos.com/map).

Specialty sites



Want only high-fashion shoes? Zappos has a site for you. Skateboarder/Snowboarder/Surferboarder? You, too. Hiker or Climber? Yup. Runner? For sure.

About the author:

Tom Steinert-Threlkeld is a journalist who has looked at what media could become, rather than what it currently constitutes. Most recently, he served as editorial director of Broadcasting and Cable as well as Multichannel News magazines for Reed Business Information. Prior to Reed, he was vice president of the Enterprise Group of Ziff Davis Media, where he founded Baseline magazine and within four years made it a National Magazine Awards finalist for General Excellence. He also was the editor in chief of Inter@ctive Week.