



Interview with Tony Hsieh from Zappos



Adrian Bye: Today, I am talking with Tony from Zappos. I guess we'll talk a little bit about where Tony has come from and some of his other businesses. Now he's got things to Zappos and where is that today.

So, Tony, thanks for joining me.

Tony Hsieh: Thanks for having me.

Adrian Bye: Well I'm actually really interested to know before you did Zappos, you did another company which you sold to Microsoft, right?

Tony Hsieh: Yes, it was a company called LinkExchange which I had started with a college roommate back in '96. We grew that to about a hundred or so employees and then ended up selling it to Microsoft in 1998. About 10 years ago.

Adrian Bye: You sold that to something like \$200 million right?

Tony Hsieh: Microsoft bought it for \$265 million. After that I got together with someone that was working at finance department, his name is Alfred, and he and I formed a small investment fund, invested in a number of different internet companies and Zappos just happened to be one of them. Over time, Zappos ended up being the most promising and the most fun. So, I ended up joining full time as a CEO.

Adrian Bye: So, we'll certainly talk about that. I mean, if you don't mind, I'm really interested to hear some more about some of your background and what you did in your previous company the Link Exchange Company.

Tony Hsieh: At Link Exchange, I was one of the co founders and initially I was involved with actually doing the software programming for them. LinkExchange was basically a cooperative advertising network, we had about a million different websites in our network and we basically provide free advertising services for them.

Adrian Bye: Is that a business model like so it was acquired by Microsoft, does that still around today or that is something that has kind of gone away?

Tony Hsieh: They acquired it for different reasons from what we wanted the company to become and so they wanted access because we had about a million websites in our network. They wanted access to the small businesses that were on our network and they really use that as a way to launch their small business initiative. They actually weren't as interested in the network itself in terms from the application point of view.

Adrian Bye: They don't want to stuck in a relationship.

Tony Hsieh: Yes. So, they actually ended up shutting down the banner advertising network part of it pretty recently actually.

Adrian Bye: Was that your company that you founded as well?

Tony Hsieh: Yes, I had started it with a college roommate.

Adrian Bye: I know you did stuff in the bay area and you live in Vegas, did you grow up in the bay area or did you grow up somewhere else?



Tony Hsieh: Yes, I grew up in the bay area and then went to college on the East Coast. Then after college, went back to the bay area. Then about 4 years ago, ended up moving Zappos to Las Vegas. So, I have been living in Las Vegas for the last 4 years.

Adrian Bye: After you did the Link Exchange then you did Venture Frogs, is that right?

Tony Hsieh: Yes, that was our small investment company.

Adrian Bye: I remember you saying that you guys have a bar in San Francisco, is it still there?

Tony Hsieh: That was actually something that my parents run. So, we had a building where actually Alfred who was my partner at Venture Frog, he and I had started the investment company an incubator. So, he and I actually lived in the top floors of that building and downstairs, we had a bar and restaurant which my parents run and we also had our offices for the different companies we were investing in.

Adrian Bye: That's kind of a cool thing, so you were like 25 and you've already cashed out of a company, you've done pretty well, like open a bar and I guess, your parents business in, so you've got a place to party and then you're running your business there as well that kind of a thinking.

Tony Hsieh: Yes and there is also a gym in the building as well so there are definitely days when, never left the building.

Adrian Bye: Did it work out that well in practice or was it that popular?

Tony Hsieh: It was great because it was also a movie theater so a lot of people, whether it's before or after the movie, stopped by the bar for a drink or get something to eat at the restaurant.

Adrian Bye: Is it still running now or did you close it?

Tony Hsieh: We closed it when we moved Zappos to Vegas.

Adrian Bye: The starting of Zappos is something that's really interesting. You were doing I guess Venture Frog and so you're investing in multiple companies, is that right?

Tony Hsieh: That is right. We ended up investing about 20 or so different companies.

Adrian Bye: As you were going through and you're working with these 20 companies and you mentioned and I read this about as well but Zappos was the one that seemed the most fine and the most lucrative and so that's the one you went for, is that right?

Tony Hsieh: Yes, that's the one I decided to eventually join full time.

Adrian Bye: Was that the plan from the beginning when you're investing in all these companies?

Tony Hsieh: No, we didn't really have a plan. Initially, just thought it would be fun being involve in a lot of different companies but what I found was that I really miss actually being a part of the creative process in helping grow a company whereas when invest in companies, you really put in the money and then might occasionally be there as an adviser but you're not really involved in the day to day and I found that I really miss that.

Adrian Bye: Of the other 20 companies or the other 19 companies, what happened to those?

Tony Hsieh: Some of them were acquired. For example, Mongo Music was acquired by Microsoft, some of them went public, Ask Jeeves was one of the companies we invested in and some are still going along like we're involved with open table for example.

Adrian Bye: Yes, I mean that's a good company. You had your time as a venture capitalist I mean, it looks like you've done pretty well as they say as well.

Tony Hsieh: It was definitely an experience but I definitely prefer just being actually inside the company as opposed to just investing.

Adrian Bye: Would say, let's say Zappos at some point, some sort of a event happened where you moved on or had acquired or something like that, would you do another company again after Zappos, you want to be an entrepreneur?

Tony Hsieh: Well, we're really thinking that we're at the very beginning of what's possible for Zappos and hopefully we'll be able to create something that not just me but everyone in Zappos can really view as this is the place they want to be for the long term. So, it's a little different from the other experiences that I've had in the past and that we were really trying to build a long term stand-alone company.

Adrian Bye: Right, fair enough. How does that work? I mean, you're sitting there as a VC and investing in these companies and then Zappos is taking off, I mean, you're the investor, so how does that work when you say, well actually I'd like to come in and run it?

Tony Hsieh: I don't think there wasn't like a day where just suddenly a transition. There were more just overtime and I just ended spending more and more time with the company and it wasn't something that I force myself into. It was just something that seemed like it made sense to everyone that was involved.

Adrian Bye: Your story is not similar to Greg Tseng story with Jumpstart.

Tony Hsieh: I don't know actually too much about Jumpstart. So, he did the same way then?

Adrian Bye: They had some success with Crash Link and that had made him bunch of money so they thought, well let's go out and we'll incubate a bunch of companies at the same time. So, they're incubating like 10 or so companies. I think Hi5 is one of the ones that pass through their incubation although they didn't start it as they helped get the bar that sort of stuff working for it.

So, they had all these companies running all at the same time and as they got very scattered and weren't necessarily doing a very good job running them all, they had a lack of focus. One of the companies who's just really taking off and it seemed to be the one that was the most interesting so they basically warmed down all the others and went to focus all their time on...

Tony Hsieh: Great.

Adrian Bye: I find that's an interesting analogy. You seemed like you've done something along the same line.



Left to right: Luiz Soares from Brazil, Tony Hsieh from Zappos, Adrian Bye (me), Mike Hussey from PEI, Matthew Bye from Wilson Sonsini, Joe Sugarman from Blublockers

So, Zappos took off. Do you want to tell us a little bit about how that start, I've read some of the things on some emails or the guy was leaving a voice mail for you saying "Let's go and do shoes" and you're like, you're crazy, don't know anything about shoes and that you went and do it anyway.

Tony Hsieh: Yes, this was back in 1999 and there are all sorts of different internet companies being started back then. To me shoes didn't sound like a great idea at that time but learned as part of that voice mail that in the US, it was a \$40 billion market and 5% or \$2 billion was being done by paper mail order catalogues.

So, in my mind, even though I personally at the time didn't think I would buy shoes online, it definitely seemed like the web would at least be as big as paper mail order catalogues.

So, that's kind of what got us interested initially. Then over time, customers found that it actually was very easy to purchase from us. We started adding more and more customer-friendly services. For example, free shipping both ways and that really takes a lot of the risk out of buying shoes online. Then we, also over time, started extending our return policies from 30 days to 60 days, 90 days and then today, it's actually 365 days.

So all the stuff was stuff that we hadn't really planned from the beginning but over time, we just found that as we put more and more into the customer experience that really help fuel our growth and repeat customers and word of mouth. So, that's pretty much how we started with basically 0 in sales in 1999 and this year 2008, we are on track to do a little over a billion dollars in gross merchandise sales.

Adrian Bye: You are going to do a billion dollars this year, that's incredible, congratulations.

Tony Hsieh: Thank you. That's mostly been driven by repeat customers and word of mouth. So, it's kind of become this cycle now where the more we grow, the more we're able to put into the customer experience and the more we put into the customer experience and customer service the more word of mouth happens. We just have to continue to grow that way.

Adrian Bye: So you're really trying to tell me you're not some like Imelda Marcos with a secret shoe fetish and that's what started Zappos, it did actually come out of a business idea.

Tony Hsieh: No, I actually used to buy one pair of shoes every 2 years until they would wear out and then I would go back and buy another pair.

Adrian Bye: Have you had to go back and change that now like you know, you have to be the shoe fashion stud?

Tony Hsieh: No, cause we really internally, long term we're really just thinking of the Zappos brand as really just the brand about the very best customer service and we just happened to start out with shoes but hopefully 10 years from now, people won't even realize we started out selling shoes online and we've even had customers email us and asks us will we please start an airline or run the IRS. We're not going to do either of those things this year but 20 or 30 years from now, I wouldn't rule out Zappos Airlines because I really, I just want the Zappos name to be about the very best experience.

Adrian Bye: Now I want to talk about that because you raised a really interesting thing but before we go down that part if you don't mind, let's just learn a little bit more about how you got started.

Tony Hsieh: Sure.

Adrian Bye: It did actually start as an investment, where you the only fund or where there other investors in there as well?

Tony Hsieh: There are some friends and family, the founders name is Nick and so Nick had raised a little bit of money from friends and family but Venture Frogs was the first significant investor.

Adrian Bye: How long was he going on his own before you came in and started running it?

Tony Hsieh: We originally got involved about 2 months after it started and then probably over the course of next year or so, again there wasn't kind of a sudden day where everything transition. I just ended up spending more and more time with the company and then we run the company together as Co-CEOs for a while. Then I think it was about 5 years ago when eventually we both decided that it made more sense for me to be CEO so he could work on another parts of the company. He actually ended up leaving the company about 2 years ago to start another company.

Adrian Bye: So, he is a real entrepreneur.

Tony Hsieh: Yes.

Adrian Bye: Well, he's done pretty well starting Zappos I say.

Tony Hsieh: Yes and he's now involved with a company and that's involved with the mix martial arts category. So, I think that's pretty exciting as well.

Adrian Bye: Zappos did originally start in the bay area, didn't it?

Tony Hsieh: Yes, it did in San Francisco.

Adrian Bye: So what prompted you to move out to Vegas?

Tony Hsieh: Well our fastest growing department was what we call it our customer loyalty team; it's a call center and in San Francisco it's really hard finding people that want to do that as a career whereas Vegas is the 24/7 city, we run our call center 24/7 and it's much more affordable than San Francisco. So, people can actually do customer service as a career.

Adrian Bye: So, given that the company mantra is about service; that hit well with the direction of the company.

Tony Hsieh: Yes and we didn't want to just open up a call center and then keep our headquarters in San Francisco because if really our brand is going to be about the very best customer service, then customer service needs to be the entire company not just the department. We all need to be together where the customer service is actually happening.



Adrian Bye: How do you run things in turn, it's one thing to say like we're customer service company and that's where we focus but how are you doing things internally that makes that work? I mean, do you meet daily with all the top customer service managers, are you reviewing the problems that come out like what kind of things do you have in place to make sure that actually is reality everyday?

Tony Hsieh: Well, there are a number of different things. Some of it is our policies which I have talked about; some of it is just showing that we want to actually talk to our customers. On most websites, it's pretty hard to find contact information as well as the phone number whereas our 1-800 numbers on the top of every single page of our website. Then the other thing as we run our call center pretty differently from those call centers, most call centers have this concept of I think they call it average handle time which basically measures how many customers each rep can talk to in a day which translated into basically how quickly can you get the customer off the phone and we don't really view that as good customer service.

So, we actually don't measure call time. All we care about is if the rep went above and beyond further customer. An example of that is if the customer is calling us looking for a specific pair of shoes and let's say we're out of their size, we will actually look on at least 3 other competitor websites and then if we find it there, then direct the customer to the competitor. Yes, we'll lose that sale but really we think that's better customer service and that's what we care about. It's just making sure that every interaction we have with the customer, they walk away saying, well that was the best customer service ever.

Then I guess the other thing is that the number one thing we focus on as a company is actually company culture. So, we believe that if we get the culture right then, most of the other stuff like great customer service will just happen on its own so, I don't need to personally be reviewing all the customer issues. We just need to make sure that we hire people that are customer service focused and believe in the company culture and trust that they will take care of the customers.

Adrian Bye: How does that work in reality though, like give me an example? I mean, you must know the tradition of Costco, the Costco will take like almost any kind of return and you can take almost anything back and return things that you didn't even buy culture.

Tony Hsieh: Yes.

Adrian Bye: So that can end up costing them a lot of money. How do you handle extreme situations where you got extreme customers coming in trying to take advantage of you in a way some people do sometimes with Costco, how do you handle that sort of stuff?

Tony Hsieh: If there are customers that are clearly abusing our policies, then we'll call up the customer, let them know that for example if they return shoes, the shoes need to be in new condition, they can't have gone hiking in them or anything like that. Then if it happens repeatedly those situations then we'll just shut off the customer's account.

Adrian Bye: Google has this policy of evil which I think they tried pretty hard to meet that but even still people would jump up and down and criticize them and say, well they say they do no evil but what's going on with China. You know anyone whose business that is dependent on any kind of SEO and loses their ranking, gets upset about that. Now you and I will probably agree on the editorial stuff behind that but a lot of people go and say, well they try to say they're not evil but they're not. Do you think that's going to be the case with your service focus?

Tony Hsieh: We are not trying to be everything to all customers. For example, we want customers to come to us for the best service and the best selection but there are plenty of customers out there that really are just looking for the lowest price and we're not going to make those customers happy because we don't offer coupons or blanket promotions or anything like that.

Adrian Bye: You don't try to compete on price.

Tony Hsieh: No, definitely not on price. We want customers who value better service and are willing to pay a little more for a better service. Then for customers that don't value better service then their needs are probably better met by another website but not from Zappos.

Adrian Bye: So you gained that and for you that is better service and that leading to high levels of trust so that when someone comes to you and wants to order something and you don't have it then you can refer them to

somewhere else that increases trust with you and therefore they will likely come back to buy the next pair of shoes from and you get that next sale and can justify how...

Tony Hsieh: Right.

Adrian Bye: Something that's fascinating for me is a lot of companies, I mean when you worked in the LinkExchange Company, where you doing any kind of advertising, split testing, knowing metrics that kind of stuff or was it just primarily a link exchange?

Tony Hsieh: So the way the network works was that every website that wanted to participate would put a little bit of code that we provided them on to their web pages and once they put that on then ads will start displaying and for every 2 ads that they show, they will earn 1 credit and that credit would allow them to be advertised for free elsewhere on the network.

So, for example, if on any given day we were displaying say 10 million ads across the network, 5 million of those would be used to advertise our members and then we would have an extra inventory of 5 million ads which we would then turn around and sell to companies like Toyota for example.

So, for Toyota, it was a great way to reach a mass audience on a million websites all over the web and then for our members, it was great way to get free advertising because it was supported by Toyota.

Adrian Bye: Have you used any of the concepts from that business in Zappos or is it totally unrelated?



Tony Hsieh: It's pretty unrelated. I guess the only concept that really carried over was probably just about, you know at LinkExchange we cared about customer service well and made sure we stuff that up appropriately whereas at Zappos, it's not just caring about it, it's actually making that what we want our brand to be about. So, we've kind of taking that customer service concept to the next level.

Adrian Bye: The reason I ask then is direct response is a pretty foundational concept on the internet as being like you said yourself, you look at the

companies that were doing shoes in by mail order or offline and therefore you extract a little bit of that to online and so lot of direct response concepts are applied than with split testing optimization and you know being able to pay the amount for customer and drive a certain model or certain amount of advertising or all those sorts of things whereas sometimes about your company. For the last couple of years, I guess maybe this has changed now but you were keeping things at more or less break even and I guess what I don't understand is how you're acquiring customers, I mean what was focused on service that got you customers. I hate

companies talk about that sort of thing but then they're often the ones with no customers where you're very clearly a strong exception. So, what am I missing?

Tony Hsieh: When new customer register, we ask them where they heard of Zappos and a big portion of it is some sort of word of mouth whether its friends or your daughter or mother or whatever and so that is something that we look at and then the other thing we look at is our repeat customer numbers and making sure that our repeat customers do come back over and over again and now they do come back but they end purchasing for us more and more often. So, those numbers have gone up as well. We look at both of those numbers and are always trying to think of ways of improving those numbers by...basically, it always comes down to the same thing, "how do we make the customer experience better?"

Adrian Bye: So they know they are shoes, the shoes that they can buy at the store in the mall, if you're getting those kinds of numbers from, especially from referrals, that something motivating people to do all those referrals but they are buying, I don't know what would you consider, it is more or less a commodity, it's a shoe.

Tony Hsieh: Actually the initial reason a lot of customers first try us out is because of our selection. We have a much much larger selection than you're able to find in any Brick and Morter store. Our warehouse is actually the size of 17 football fields.

Adrian Bye: Seventeen football fields? You have one warehouse that's that big?

Tony Hsieh: It's actually two warehouses, right across the street from each other and combine it, is the size of a 17 football fields. It's a little over 4 million items in there. So, there's just simply no way for any Brick and Morter store to carry a selection that large. We work with over 1,500 different brands and even for any specific brand you'll find more styles available on Zappos.com than you would even in the brands own kind of concept stores.

Adrian Bye: So, when people are saying like the daughter saying to her mother you got to go and buy shoes from Zappos you're saying, mom this guys have more shoes than anyone else does and they really take care of me, so she will going to buy. Would that be the two things you're telling a mother?

Tony Hsieh: Yes. I mean, that's part of it and then a lot of women especially like to order 10 different shoes and we will actually do a surprise upgrade to almost all of our customer overnight, so they get them the next day and then they can try it on in the comfort of their living room with 10 different outfits and then send back the ones that they don't like. So, that's something that you can't really do in a Brick and Morter store.

Adrian Bye: What percentages of the shoes are returned?

Tony Hsieh: It really varies by brands. So, some brands, the return rate might be 20%, other brands might 40%, some them has to do with fit issues and some of them has to do with how expensive the shoes are. So, more expensive shoes are more likely to be returned. During the winter for example, sleepers are less likely to be returned because there aren't as many fit issues with that.

Adrian Bye: You actually built your model around being able to take those returns and then get back into stock and then get them out again without problem?

Tony Hsieh: Yes, definitely. I mean, if the customer isn't sure if their size 8½ or 9 for a particular brand, we will encourage the customer to order both and then whichever one doesn't fit just send them back and it's free shipping in both directions. So, it's very easy and risk-free for the customer.

Adrian Bye: You know, I've never heard of that before because normally in most direct response businesses that I've worked with, you get returns so they're the ones you keep out the back and then you get you go through and you'll sell those as like damaged stocks or like old return stocks but you can put them straight back and I guess that's what happens in shoes store anyway, you never a pair that was never been tried on, someone's probably tried them on and so you can take those returns and just send them straight back out again.

Tony Hsieh: Yes, it's exactly like what happens in a regular shoes store. You know, people will try it on and then whatever doesn't fit goes back into the stockroom except our stockroom happens to be our warehouse.

Adrian Bye: So, that point right there based around fanatical service and being able to return shoes like that, was that your breakthrough that made the company work?

Tony Hsieh: I don't think it was any one thing. You know, that was definitely something that was at the time when we first introduced it, that was pretty revolutionary but definitely that's just one small part of it and I think it's really just the combination of a lot of small things. You know, if you call us, you're going to get people that aren't reading from scripts that really are there and you can feel that our reps actually want to help you with whatever help you need. Some people call us because they're going to a wedding for the weekend and they just want some shopping advice for example. Whatever the customer needs help with we'll definitely be there to help out.

Adrian Bye: What percentage do you get of people calling in versus just orders on the spot?

Tony Hsieh: In terms of number of orders placed, it's roughly 5 or 6% of orders are placed through the phone but most of the phone calls are actually not customers placing orders right then. What we found is actually on average, every customer will contact us at least once sometime in their lifetime and that could be they just want shopping advice but then they'll purchase themselves on the web later or it could be maybe it's their first time going through the return process and they didn't realize that it's free shipping both ways. So, we help show them how easy it is to go to our website and print out the free return label and to ship it back to us. But yes, right now we get about 5,000 phone calls a day and so we have a lot of interaction with our customers and that's also where we get a lot of our suggestions for improving our services, just by talking to our customers everyday.

Adrian Bye: Do you ever get on the phone line yourself and take customer's help?

Tony Hsieh: Yes, it's not just me actually, everyone that is hired in our office here in Las Vegas, when they're first hired actually you go through a 4 week training program where we go over company history, the importance of customer service, focus on company culture and how to use the customer service rules and they're actually on the phone for a week taking calls from customers and helping customers out. Then, we'll send them to our warehouse in Kentucky where they'll do all the different warehouse functions; picking, packing, shipping, receiving and so on and so then, it's a total of 5 weeks and then they start their job as lawyer, accountant or whatever they were actually hired for.

Adrian Bye: Lawyers and here we're doing picking and packing and customer service.

Tony Hsieh: Yes, I mean, customer services needs to be the entire company and we believe very strongly in that so if there's someone, some software engineer that doesn't make it through that program then we won't end up hiring them. It really gets everyone on the same page in terms of our culture and our customer service focus and that's why we do it. The other nice thing is during our busy season in Q4 then anyone from any of department can jump on the phones and they do as well.

Adrian Bye: So, if you're getting everyone with calls you've got the lawyers and the programmers on there potentially taking customer calls as well and it's kind of retraining them as well.

Tony Hsieh: Yes.

Adrian Bye: How did you learn the business like I mean the call center stuff, did you guys just evolve, did you hire outside consultants, did you bring in people to help you or you just worked it out as you went along?

Tony Hsieh: We just kind of worked it out as we went along and all our software for the call center is built in-house of our own software. So, really, it's been a constant evolution and we're actually adding features on an almost daily basis just based on feedback from our reps and from our customers as well.

Adrian Bye: The name Zappos you picked also because your direction, it sounds like it's targeting the direction that Amazon then, is that a fair summary?

Tony Hsieh: I think people like to compare us with them but we really don't think of them as competition because Amazon is really about trying to be the low price value leader so just the fact that we're in multiple categories, we're actually now selling handbags and apparel, even electronics and cookware, it's through that Amazon's multiple categories and we're expanding in a multiple categories but that's kind of like saying just because Wal-Mart will sell multiple categories and Nordstrom sell multiple categories, no one makes the comparison at Nordstrom's anything like Wal-Mart.

Adrian Bye: Is that something, you know everybody become as a commodity and yet you're going in the reverse direction, I mean, it's so easy to price shop online, but you're saying, it's more important to that strong relationship, strong trust with the customer and that's what will get you through these other categories.

Tony Hsieh: Yes and that's why we don't want to compete on price. If the customer wants to shop somewhere else because they have a lower price then they're not the right customer for us.

Adrian Bye: It's not going to work with every single product in every category either, there's going to be some that it will work and some that won't work, what do you believe that will work with every single product?

Tony Hsieh: It probably won't work with every single product category but if it's the ones that doesn't work in, we just probably won't get into those categories.

Adrian Bye: Does that mean you end up more of a Saks Fifth Avenue type of company than a Wal-Mart carrying everything or do you carry higher, more expensive versions of stuff like just a bigger range and with a better service?

Tony Hsieh: For shoes for example, we have \$40 shoes and we have \$2,000 shoes. So, we're not trying to cater to just the high end customer. Really what we're relying on is that over time as our business grows through word of mouth and repeat customers that we're really funding this high level of service by not having

to spend that much money on advertising whereas I think that a lot of companies spend a lot of money on advertising to keep trying to get new customers whereas we are basically taking a lot of the money that we would have spend on paid advertising and instead putting that back into the customer experience whether that's out of our shipping cost or running our warehouse 24/7 or running our call center 24/7.

Adrian Bye: Yes, I got to tell you, if you would come to me and asked me 10 years ago if this will work, I would be telling you you're absolutely crazy and you shouldn't do it.

Tony Hsieh: Yes, I would have said the same thing.

Adrian Bye: I mean, customer acquisition is everything and you've done the exact the reverse way and you made that work fairly well, that's astonishing, congratulations.

Tony Hsieh: There's still lot of work to do but yes, we're pretty happy with the growth we've had so far.

Adrian Bye: What are you doing about international? Do you actually know where I'm located right now?

Tony Hsieh: Are you in Australia? Actually I don't know where you are.

Adrian Bye: I'm in the Caribbean; I'm in the Dominican Republic.

Tony Hsieh: That sounds like a nice place to be.

Adrian Bye: Someone has got taking care of the sun and the beach and the stuff. I actually ordered some Zappos shoes about a year or two ago and I got some that fits and some that didn't fit and for me ordering when they come through internationally, I have a US shipping address, I have to pay for them to be shipped over and then I have to pay custom's duty on them. Now, I've still got this shoes, it's brand new that I have kept it for maybe 2 years now that don't fit, if I have to ship them back then I have to go on pay shipping from Caribbean to get them back and so it kind of it seems like I'm an unsolvable customer for that sort of stuff, do that sound correct or do you ways you can work with guys like me?

Tony Hsieh: Well, long term, we definitely plan on being in different countries but for now we're really focused on just North America and the reason for that is because we have so much other opportunities here in terms of other product categories and you know a lot of people in the United States still haven't even heard of Zappos if you pick a random person of the street. So, rather than spread ourselves too thin by trying to be in a number of countries at this stage of the companies growth, we really have just decided to just focus on North America and try to do the best possible job we can in North America and then once we have that done then we'll start expanding into other countries.

Adrian Bye: Yes, fair enough, that makes sense. How do you acquire customers now, is it just through referrals or you are doing any kind of viral marketing or any kind of affiliate program or media buying or anything at all or do you do none of that and you just focus on what is now?

Tony Hsieh: No, we do have some paid advertising, most of our paid advertising dollars are spend online in the top two places we spend our keywords like buying keywords off of Google for example and we also have an affiliate program. So, those definitely drive customers as well and our philosophy about those is basically we'll spend whatever money. We don't really have a budget so much, we think of it more in terms of a ratio and there's some ratio where for every \$1 we spend in advertising if you get so many dollars in sales then it's going to pay for itself on the first order. So, you might as well spend as much money there as we can. But the

problem is there's actually a limit as to how much money we can spend that still meets that criteria and so that's why we have decided we really want to focus on trying to drive the word of mouth customers.

Adrian Bye: Are you doing like a lot of testing landing pages and split testing and email sign ups and sending them updates and convincing them to buy and that kind of stuff or is that sort of a small part of the business than the other stuff more you are focused?

Tony Hsieh: Yes, we do a little bit of that and we'll also measure for example, different keywords will have different ROIs associated with them and so we'll look at that as well. But really the main focus of the company has been and will continue to be on what can we do to make the customer service better, what can we do to make the customer experience better?

Adrian Bye: To keep the value high so that the customers are happy and they will come back and buy lots more really good shoes.

Tony Hsieh: Yes and then over time customers will slowly learn that we also sell clothing or handbags or other product category so, that will take some time as well for our customers to think of us beyond just shoes.

Adrian Bye: The reason I keep asking about the customer acquisition part is that a lot of the guys on my list, guys that are focused on delivering customer service, CPA traffic network or big website publishers are looking for advertising around all that kind of stuff, so if you were spending time in that area that would be a fit for you.

Tony Hsieh: Yes, anyone that is interested in becoming an affiliate of ours, we actually have an account on Commission Junction and basically anyone can sign up for our program as long as you're an appropriate fit for...it depends on what their website is about but usually we actually have a lot affiliates that just sign up on their own and they're driving traffic towards us and making whatever amount of money they're making.

Adrian Bye: Is that a big channel for you? I guess it's small one?

Tony Hsieh: In terms of our paid advertising dollars, the top two are keywords, bidding on our affiliate program. You know, for any one individual affiliate it can be a pretty significant source of revenue if it's just one or two person operation but in terms of our overall given that word, going to do over billion dollars in gross merchandise sales this year, we're really focusing much more on repeat customers and word of mouth.

Adrian Bye: One of the things that try to do is it get really high payouts, like the affiliate programs might be a \$300 payout for a new customer which they might lose money on the first to three sales but when they have like you have a fanatical customer service they're able to come back in and still afford to keep to make that work because they make it up over time. Do you have those kinds of aggressive payouts or the small one?

Tony Hsieh: We just pay a straight percentage. So, right now our affiliate program, we payout I believe it's 12% of the net sales.

Adrian Bye: Is that lifetime?

Tony Hsieh: It's actually for the next 90 days I believe. So, whatever sales happen within 90 days of when they first drive the customer to our website.

Adrian Bye: You mentioned a bunch of times like you want to move beyond shoes and obviously with the name like Zappos, Zapato in Spanish, shoe, I'm sure you know, are you concerned that you could be limited in the consumer's mind as becoming a shoe brand and where is your direction like, what are the key products you're moving forward?

Tony Hsieh: We want the brand to be about service and so it will take some time for our existing customers to start thinking of us beyond just shoes but we're really in here for the long term, we're not trying to do anything crazy overnight. We really believe that in the long term the Zappos name is going to be about the best service and people won't even remember we start out selling shoes.

Adrian Bye: What are the areas that you're going into in the future like clothes or handbags or what are those areas that you care about?

Tony Hsieh: Yes, so we're actually already selling handbags and clothing and we just recently added electronics, even cookware, luggage, linens for example and really we're open to experimenting with a lot of different things. We have sporting goods as well, watches and it will kind of just depend on what customers end up gravitating towards.

Adrian Bye: Will you still keep the Zappos name or would change towards a more service oriented name?

Tony Hsieh: Right now, we're planning on just keeping with the Zappos name because to most unless you speak Spanish should doesn't really mean anything to most people. So, it makes the direction that we can go pretty limitless.

Adrian Bye: I guess you're not going to tell me the specifics but I mean, how profitable is the company, I know you are profitable, it's a tough model you're running, Overstock.com for example isn't doing that well, how well is it working for you?

Tony Hsieh: So, for the last several years we've been running the company it close to break even, basically any money we would have made we put back into the customer experience. So, for example, we used to ship everything ground and then when we could afford it, we surprised upgraded people to 3 days and then we surprised upgraded people to 2 day shipping, now we actually surprised upgrade everyone to overnight shipping. But last year, in 2007, was actually the first year we made a significant profit, it was roughly a 5% operating profit off of our net sales and so we plan on continuing to both grow the company and run it profitably as well.

Adrian Bye: So, you're running a monster now? If you're doing that sort of stuff, you're in a position to become like the next Google or something of where you're going.

Tony Hsieh: Well, we definitely think we're at the very beginning of what's possible and you know, I mentioned earlier, this isn't a company we're just trying to grow and then sell, we definitely are thinking in the long term and there's still a lot of work ahead for us.

Adrian Bye: As you grow, will you do all your growth internally or you're going to go public, will you do grow by acquisition like, how do you work that stuff?

Tony Hsieh: I would say most of the growth is going to be just done internally because company culture is our number one focus and I think it's really hard to acquire companies that have different cultures. I think there are very few companies out there that are as focused on company culture and customer service as we are.

Adrian Bye: One of the things I've noticed as I've read about the company is talking about getting brands to sign up and like finally this brand signed up, why do brands not want to sign up, show your new distribution outlet that could give a lot of volume, why would they not be jumping to work with you?

Tony Hsieh: Well initially because we were a new company and they had never heard of Zappos and they didn't know what we stood for and you know, there's definitely a perception out there that the internet is about discounting and so it just took some time for them to see that we aren't a discounter and now really what we pride ourselves in is customer service. So, once the brands realize that then they were much more comfortable working with us. You know, there definitely are other websites out there that are about discounting and I think that's what scares a lot of brands away because they want to protect their brand images well and they don't want to see their product discounted on the internet.

Adrian Bye: Do you still have brands that don't want to work with you or is that something from the past?

Tony Hsieh: There's still the really high end brands, some of them still aren't working with us and so it's just a process because basically when we first started, almost none of the brands would work with us and then finally we convinced some of the \$50 or \$60 brands to work with us and then once most of those were working with us then we were able to convince the next or say the \$75 or \$80 brands to work with us and then once they were signed on, then the \$100 brands, so it's just a been a process where over time as people see that we are signing up higher and higher in brands that then the really high end ones will slowly start developing a comfort level in working with us.

Adrian Bye: Very interesting. So, for the future going forward you mentioned you're focusing on building a great business from the company culture and that kind of stuff, I know Microsoft when it was growing it didn't want to go public but in the end there was a lot of people that do want to cash out and they're kind of forced to. Do you think you'll be in that sort of position as well?

Tony Hsieh: Well, I think the difference is that we really try to make our company culture that thing that makes employees want to come join Zappos and so it's a little different because I think the promise in a lot of other companies is if you join us then one day you'll be able to cash out and be rich and that's not our approach at all.

Adrian Bye: So, when would Zappos continue as a private company?

Tony Hsieh: For the foreseeable future, we don't have any immediate plans to go public.

Adrian Bye: It's just owned by small group of investors which includes you and that's pretty is, is it?

Tony Hsieh: Sequoia Capital is also an investor and they got involved a few years ago.

Adrian Bye: Fascinating. I think I've asked you everything I can think of, is there anything that you'd like to talk about which I haven't covered?

Tony Hsieh: No, I think we've covered a pretty good deal today.

Adrian Bye: Thank you, that was a great interview.

Tony Hsieh: Sure, thank you.