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## Interview with Alfred Lin from Zappos



**Adrian Bye:** Today, I am talking with Alfred. Alfred is the COO of Zappos and we're going to have, I think, an interesting conversation with Alfred. There're a couple of topics I'd like to talk with him about.

Alfred, thanks for joining us.

**Alfred Lin:** No problem. Thank you. Thanks for having me.

**Adrian Bye:** You want to tell us a little bit about who you are, your background and where you come from?

**Alfred Lin:** Sure. I'm Alfred Lin. I'm currently COO of [Zappos.com](http://Zappos.com). We are one of the largest if not the largest retailer of shoes, handbags and apparel on the internet. We really think of ourselves as first and foremost a service company and then a service company that just happens to sell these products.

My background – I was born in Taiwan, raised mostly in New York City, went off to college in the Boston Area and came out of the Bay Area for graduate school and then

over time, got sucked into a bunch of internet companies.

I first met our CEO, Tony Hsieh in college. He was running a pizza business in our dormitory. I used to go down to his pizzeria and basically buy lots of pies, take it upstairs and sold it off by the slice. That's how we met. After we left college, he came out to the Bay Area and started Link Exchange. I joined about a year after. Seventeen months later after I joined, we sold the company to Microsoft for \$265 million and then after that, we raised a small fund from friends and family of Link Exchange, and started investing in a bunch of internet start-ups. Zappos happens to be one of our investments. Over time, both Tony and I ended up thinking that this has got the most opportunity and it was also the most fun to work at, and so both of us are both at Zappos.

**Adrian Bye:** You've given that speech before.

**Alfred Lin:** Yes, probably, if people ask how we met and all that kind of stuff.

**Adrian Bye:** You just answered every single question I was going to ask without prompting so nice job.

Tell me. You came from Taiwan. How old were you when you left?

**Alfred Lin:** I believe I was around six or seven – old enough to remember that I was not born in this country but not old enough to really get a good sense of where I lived or anything like that. I'd go back to Taiwan, and my parents will point out the school I went to and the neighbourhood. I'm like, "I don't remember any of this."

**Adrian Bye:** What do you think of the whole China-Taiwan stuff?

**Alfred Lin:** It's an interesting thing right. For those who understand the difference between Taiwan and China. There's a group in Taiwan that want to be separated from China and be independent from China. There's a group of people who left China and want Taiwan to be part of China. It's one of those things where I don't have much of an opinion because I think a lot of it has to do with I wasn't raised there and born there. My parents are Taiwanese and they have plenty of friends who live in the United States, and go back to Taiwan and vote in every single election. My philosophy on that is that's kind of wrong because yes, you are a citizen of Taiwan and you do have the right to vote but if you're not going to endure any of the consequences of voting there, I feel like that's a little bit off.



**Adrian Bye:** I agree completely and I don't vote in Australia even though I could. I don't think I have that right. I haven't lived there since 1992.

**Alfred Lin:** Right, that's how I feel about the situation. I particularly don't have a lot of insight into pros and cons of being part of Taiwan or China. For a practical point of view, I think I'm very much a pragmatist and most people don't want to be associated with a communist country for those who want Taiwan to be independent. They want to be a separate zone if they are part of China and I think the world is becoming a more and more unified place. Hopefully nobody in 100 years will care very much about that. We're becoming a very global world, and citizenship is important from the standpoint of where you live and also from where you come from but other than that, hopefully the whole world can just get along.

**Adrian Bye:** That's fair enough.

You're originally from Taiwan and then Tony's originally from mainland China, isn't he?

**Alfred Lin:** His parents are from mainland China but he was born in maybe Chicago. He was born in the States. He grew up mostly in Marin.

**Adrian Bye:** He grew up in Chicago. Didn't he grow up in Chicago?

**Alfred Lin:** I think he was born in Chicago and grew up mostly in the Bay Area but we can go check on that.

**Adrian Bye:** Did that make it easy for you guys to connect?

**Alfred Lin:** I think when we first connected it was very nonchalant. He happened to be selling pizza and...

**Adrian Bye:** ...you bought a pizza.

**Alfred Lin:** ...I wanted pizzas. We kind of knew each other and got to know each other over time. I don't think we particularly liked or disliked each other when we first met. It was an apathetic kind of thing. I think what we've discovered about ourselves is we attack problems from different vantage points but tend to get to the same conclusion and that provides reassurance that we came to the right decision. The second thing is it's good to see the different vantage points and the different ways of looking at the problem. Tony is a very creative and entrepreneurial guy so he started the pizza business and the joke is I arbitrage weigh any of the risk and sold it by the slice.

**Adrian Bye:** So you bought his pizzas and resold them.

**Alfred Lin:** Yes, I took it upstairs and sold it by the slice.

**Adrian Bye:** I didn't realise that.

**Alfred Lin:** He made \$2 or \$3 an hour and I made \$2 or \$3 in a minute but he spent more time so he ended up making more money and I ended up making less.

**Adrian Bye:** But you didn't have risk?

**Alfred Lin:** Yes, that's true.

**Adrian Bye:** I wasn't aware of that.

Did he know you were doing that?

**Alfred Lin:** No, I didn't do it extensively. I had a large college room group and basically every night took up two or three pies. One of the guys would just eat two or three pizzas and they leave me money. Like, "Hey, I've always had a little bit more." They're like, "Fine, keep it." I'm like, "Okay."

**Adrian Bye:** Very cool. You had the whole pizza thing going on. You hung out a little bit but not really and you like whatever. He's just the dude running the pizza place. How did you guys end up working together? He hired you into Link Exchange. Was that it?

**Alfred Lin:** Yes. When he started Link Exchange, he needed someone to look after the financials and the books, and create financial models. He just happens to know me and I was an Applied Math major in college. I was actually getting a PhD in Statistics at the time. He thought that I would be good with numbers. I'm like, "Well, I'll do it part-time," when he first started, and over time I got more and more sucked in, and believed in the business of Link Exchange. I think everything in life happens for a reason but there's a lot of randomness in a lot of this stuff because originally when I was in school, I was studying Applied Math. I always thought maybe I'd go into Wall Street. I was very good with numbers. I took a class at Harvard by Robert Merton and he won the Nobel Prize for *Continuous-Time Finance* but he was also one of the large heads of a long-term capital and he advised me to go get my PhD if I really wanted to work in the hedge fund business. I just remember in 1998, 1999 timeframe when all the issues with the meltdown related to the economic crisis back then had a lot to do with Russia and long-term capital melting down. I was like, "Great! Good thing I didn't end up working in the hedge fund business and I'm working at Link Exchange." Today, we're certainly happy that I'm not working in the financial meltdown of the hedge fund business and I'm working at Zappos.

**Adrian Bye:** Yes, totally although you might have already cashed out with your \$100 million by then anyway.

**Alfred Lin:** Maybe. It's hard to tell. I think a lot of the people who work in the hedge fund business get caught up in it, want to reinvest everything that they can and keep going. I think most entrepreneurs do that because they love taking the risk. They love the ride.

**Adrian Bye:** Yes.



**Alfred Lin:** Yes, the ride's a lot of fun.

**Adrian Bye:** Yes, for sure.

How well did you know each other at the point that Tony extended you the offer to work at Link Exchange?

**Alfred Lin:** We knew each other from the standpoint we could have hung out together and we had lots of mutual friends in common. I knew he was smart. He knew I was smart. We got

along fine and we did some similar things. He likes to go to movies and we used to see movies a lot with either mutual friends so we would see each other every now and then. We didn't know each other super-well but I think working at Link Exchange was our first real experience where we got to know each other.

**Adrian Bye:** What position were you being brought into Link Exchange for?

**Alfred Lin:** I was VP of Finance & Administration there.

**Adrian Bye:** Was that the CFO – VP of Finance? I mean, you became the finance guy?

**Alfred Lin:** Yes, I guess eventually I was acting CFO for awhile. Right before we sold the company, we were thinking about taking the company public so we hired someone who was more of a professional CFO. But when we hired him and got prepared to be a public company, a few months later the market kind of tanked significantly. We decided to pull our offering and sold the company to Microsoft.

**Adrian Bye:** Right.

You weren't initially brought in to run all the finance stuff. You were brought in as an important finance guy but not the finance guy. Things didn't start out like, "Hey, you're going to be my key partner," right away. It evolved into that. Does that sound accurate?

**Alfred Lin:** Yes, because there were a few things. One was I was still in graduate school. I was trying to work part-time and go to school part-time. Then I started to do less school and more full-time work. We didn't

have a CFO. I was basically the key finance person until we hired the CFO which was in the last three to six months of Link Exchange's life. We never really needed someone who had experience because everything was taken care of.

**Adrian Bye:** You were there to help Tony but you were one of 10 or 20 guys that worked with Tony to help get things done there. Would that sound accurate?

**Alfred Lin:** Sure. Yes.

**Adrian Bye:** Obviously the reason why I'm asking all these questions is because it's evolved into the two of you are the driving force behind Zappos, aren't you? You're not just the COO, you're also chairman.

**Alfred Lin:** I think we discovered through Link Exchange that we worked well together and that's the reason why we started Venture Frogs, the investment fund together. Now we're both at Zappos together.

**Adrian Bye:** Yes. For you, I guess it's no big deal but you guys have found something real important. A lot of the stuff that I've seen – successful stories in Silicon Valley and elsewhere, they're started by two guys. Hewlett-Packard – two guys. Apple, Microsoft, even Oracle, Google – there's just some balance between two guys and you're the key guy with Tony now. I just find that absolutely fascinating so I'm really interested to understand. How did it evolve into becoming where you're at now?

**Alfred Lin:** If we get back to some of the things that we're really interested in terms of creating culture and one of the books we've read recently is *Tribal Leadership* – they propose that three people together actually works a lot better. It's a triad and we actually really do abide by that because we have Tony, we have Fred Mossler and me who are basically the three guys that balance each other out at Zappos.

**Adrian Bye:** I guess you can say Google's another example of that. In what I've seen with companies getting started though, they tend to be started by two, right? You brought Fred in later but in sort of the initial beginning to get things going to where you're at now, they start with two, or am I incorrect on that?

**Alfred Lin:** I don't know if that's true or not. I think there are people in the background that may never really get the full credit even though they're an important part. I don't know. You may start with two guys and they are the founders but there might be some more important people behind the scenes that are never highlighted. That's fine because I think those people are fine with it. So you need a much deeper investigation into how organisations get formed and how successful they are.

**Adrian Bye:** Sure. I'm just interested to hear your story as well. It's just something that I've noticed in reading books. If you have any other areas to point to, I'd be interested to see those. I wouldn't disagree. Obviously you've got to have a strong team but I keep seeing this. It's two guys. I can probably give you 20 examples of it.

**Alfred Lin:** I think those two guys may get a disproportionate amount of the credit. It's never just two guys.

At Zappos, all the ideas don't come from me, Tony or Fred. It comes from everybody in the company. I think that the sign of a successful company is maybe a group of people who decide that they're going to leverage that and maybe that's really the key to this success as opposed to the two guys who come up with all the ideas.

**Adrian Bye:** Fair point. Why does it seem that there're always two guys that seem to be behind the success of these companies? Even ones like, for example, Microsoft. It was Bill Gates and Paul Allen. Paul Allen obviously dropped out but why did those two guys get the most credit for it rather than all the others that were part of it?

**Alfred Lin:** I think because they founded the company. If it was just those two guys, they could not have built the company that was created. They couldn't have created the wealth that was created. Now they founded the company. They were the guys who took the risk, put in the initial capital and set up the company but really if they didn't have a group of people underneath them that were really willing to help and build something, they wouldn't be as successful. I really think it's more than just having a strong team underneath you. It really means that you're going to think about the business holistically and think about the whole organisation.

**Adrian Bye:** You need your good leadership team but you're saying obviously a critical key part of that is having an overall good integrated team that helps support those two leaders.



**Alfred Lin:** Exactly. It's one of those things that you hear a lot. You're never as good or as bad as the press says you are. I think the success and failures of companies often get blamed on the CEO and the CFO of the company but really it's not all their success and it's not all their faults. That's something that we tend not to highlight as much. I really think it was great that when Google, for example, when they became the Fortune 100 top companies to work for, they didn't showcase in their article the CEO or Larry and Sergey. They showcased a whole bunch of people in their organisation and their company. I think that is fairly important. A

company that recognises that business is built by the people in the frontlines is going to be much more successful than a company who thinks that it's all about the leader.

**Adrian Bye:** Okay. Do you think if I had talked to you when you were at Link Exchange, you would have said the same thing as you're saying today?

**Alfred Lin:** Probably not. I think everybody has to grow and when you're younger, you tend to think you can do everything yourself. When you get to be a little bit older and wiser in your understanding of how important the whole organisation is then you come to the realisation that you have to hold people accountable and you want them to do a good job but at the end of the day, there are lots of things that we do that make the organisation either healthy or not healthy. That actually has much more leverage than trying to get one, two, three or four people to be productive and that's been hard to learn.

At Zappos, we have 1,600 employees. Do I spend my time creating things, leveraging the 1,600 employees, or do I spend my time trying to just work with the three, four or five direct reports that I have? It's got to be a balance but I think good leaders that think about the organisation as well are going to be a lot more successful.

**Adrian Bye:** What are some of the other ways that you could get leverage like that throughout the company?

**Alfred Lin:** When we talk to our employees at new hire orientation, we tell all of them that Tony, Fred and I are the three guys that appear to be on the top of the organisation. This company does not just implement our ideas and if it's our ideas that get implemented and only our ideas, those are three good ideas in a day, a month or a year – whatever timeframe you think you come up with good ideas. If we leverage all 1,600 employees right now then we're going to get 1,600 good ideas that we can run with. We tell everybody that are in new hire orientation that if they're passionate about something, you should just take ownership of it and run with it. That allows people to be accountable for things that they're passionate about. We also tell them that if you're passionate about something with 1,600 employees, I'm sure you can find 20 or 30 people who are also passionate about it and you can run with it. That's how we can run Zappos as a very nimble company and almost like a start-up one. It's gone past the start-up stage.

**Adrian Bye:** Let's say some guy that's just been in the company for a month has some great ideas that he's really excited about. The first filter is okay, he can be really excited about it but he's got to get 20 other guys on his side to back him. Is that right?

**Alfred Lin:** It kind of runs along I'm passionate about it. Let me do some stuff. Let me talk to more people about it. People want to be part of winning teams so if it's a good idea, it self-select. People would be like, "That's a great idea. I want to be part of that." It doesn't necessarily have to be you have to go get 20 guys together but it's kind of Darwin-istic in the sense that if it's a good idea, people will want to be part of it and naturally it just builds upon itself. We've had plenty of things that started out being crazy ideas that get built up over time, and become bigger and bigger things for Zappos. Culture is very, very important to us and everyday we have little, minor tweaks that get built upon each other.

For example, we started these parades. The first time someone wanted to create a parade and just parade through, it was kind of weird. It wasn't well put together but got a few people to want a parade, say hi to

people or throw candy at people and just bring up people's spirits. We thought that, that's kind of cool in a way but kind of weird. These parades just built upon itself and now people take it very seriously. There're themes behind each parade and they really lift up people's spirits.

We decided we were going to take some tenant improvement money when we started moving into this space instead of getting it from the landlord and giving it to an architect to clean things up or contractors to clean the space up, and have a very sterile work environment. We asked, "Can we just take that money and give it to some of our teams?" Each individual team, we said to them, "Go create a conference room the way you would like it created." It didn't cost us any money. The team loved doing it because they took a lot of pride and ownership in creating their own personal workspace. At the same time, it was a team-building experience for all these teams that were doing it. Now every single time we move into a new space, the standards get raised and we just give people a small budget of \$500 to design each room.

Those are some of the ideas that we want people to just take, run with, foster, and build it into bigger and bigger things, and bigger and bigger events.

**Adrian Bye:** Is that what you consider to be a little bit along the lines of Google's 20% time?

**Alfred Lin:** I don't know if it's like that because we're not really saying, "Spend 20% on your time on research and development on what you want to do." Certainly we want people to express their creativity in a way that adds to the culture. Maybe Google's 20% time is maybe their culture is about innovation so they want people to spend 20% of their time on R&D. Here we want people to spend time investing and improving the culture. In a sense, yes, but the objective is very, very different. We want people to spend 10 to 20% of their time with their fellow employees, with people from different departments because we believe that the investment in the culture will more than pay for itself.



**Adrian Bye:** What do you say to all the people who look at that and comment and say, "They can be a bunch of crazy kids running around but someone's going to get sued at some point because there's going to be some sort of issue that's going to come along and modern corporation just can't work like that." What's your response to that?

**Alfred Lin:** I think that's very old-school, and very risk-averse and conservative in their viewpoint. In this day and age, everybody's going to have a blog. Everybody's going to express themselves in their own way, and I



think people are actually less inclined to sue you if you let them express themselves in their own way and more inclined to sue you if you try to restrict them. You can debate about that but one thing that is not debatable really is we become a much, much more transparent society, especially the younger generation. Things that we think are crazy as people who are now maybe not that old but in their 30s or 40s – the younger generation have no problems telling people what they're doing this weekend on Facebook or Twitter, and just letting the world know this is who they are and what they're like. You're not going to be able to stop that. I think the level of transparency that the company can provide and allow employees to express themselves is a key way for the company to have many, many more advocates for the company than just themselves.

**Adrian Bye:** You had some layoffs and when your layoffs happened, that was immediately reported real-time in Twitter. That's about as transparent as you can get; that's almost uncomfortable.

**Alfred Lin:** Yes, we really believe in being transparent and trying to make sure that everybody knows about what's going on inside the company. Obviously nobody likes talking about layoffs and doing layoffs but we want to do it in a way that we told the affected employees first and then after that they started Twittering out. Tony Twittered out that he's going to send an update immediately after everybody was told that were affected and he sent an e-mail to the whole company about our decision, why we did it and why we're doing it in a proactive manner. Then he posted it on the blog and Twittered it out. He has 17,000 followers. Just the overwhelming response because we track Zappos on twitter.zappos.com, the overwhelming response by affected employees, existing employees, and people who had been following Zappos was extremely, extremely positive relative to what most layoff announcements result in. Part of that is because we're transparent but it just goes back to what we were talking about before. We really believe in trying to take care of people and to wow our employees, our customers, our partners and our investors. We want to give all of them complete transparency.

When we talk to young managers at Zappos and talk about how we manage differently, one of the things we talk about is wowing employees on their way out. We think that's very, very important because Zappos' business has been built on repeat customers and word of mouth. Even if an employee leaves, they have a lot of influence over their friends and family members. We want them to continue to be good Zappos customers and be happy to buy from Zappos. Who knows? Even if the employee that is affected doesn't work out at Zappos, that doesn't mean they don't have friends and family members that would work out at Zappos later on in time. So we always believe in doing the right thing.

**Adrian Bye:** Normally companies do two weeks and then that's it, sometimes not even that. You guys are saying two months of severance and six months of Cobra or something like that.

**Alfred Lin:** Yes, we decided that we were going to be proactive right now, right this second when we got all the information about not just our performance but our view of what's going to happen in the economy. We're doing really well relative to most retailers. In October, the same store sales that we looked at was we were still growing and growing significantly while some of the retailers had negative year over year comps. So we're to be proactive and if we believe that the economy is going to be hard next year, we wanted to make sure that we take care of our employees.

This layoff was trying to be proactive and trying to take care of our employees that were affected so we've decided to basically pay them through the end of 2008, and pay for six months of Cobra coverage for their

medical insurance so that they're adequately taken care of through 2008. The thing is more expensive for us in 2008. It doesn't reduce our expenses in 2008 but hopefully it helps us be more flexible in 2009. The real key thing about this was we wanted to make sure our employees are taken care of throughout the holiday season and not have to worry about it. I think I wouldn't say cruel-and-unusual because companies need to take care of themselves too but most of the reasons why we try to be proactive is we don't want our employees to end up in a situation where we have to do a layoff and we can't do very much for them to give them any runway. While we have runway, we want to make sure that our employees have runway as well.



**Adrian Bye:** Obviously the concept of wowing all these different partners, employees and different companies we work with is a good and a nice one. At some level, you've got to be taking into account also you've got to negotiate with different people and you're going to have a lot of people coming to you for different things all the time. You can't

do everything for everyone and you can't be everything for everyone. Sometimes you do have to be able to step away and say no. How do you balance that and still feel like you're giving people a wow experience?

**Alfred Lin:** I think that's the thing about wowing people. Wowing people is never about necessarily just spending more on them. A lot has to do with showing people that you care. Things that seem super-efficient so that you can hire less well-trained people or train them less to do customer service, for example – having a script maybe easier to train someone to read a script than to train someone to sound like they're caring but think about the consequences of that and whether you feel like that the representative on the other side really cares about you or not. When someone generally cares about you, you can have the same policies and procedures one read to you, and another person who puts it in their own words and jokes with you on the phone – I'm sure you're going to be wowed by the person who really cares, and is providing you their undivided attention and trying to connect with you versus someone who is reading a script. It really isn't that much different. It's just a level of expectation that we be real people and be transparent.

**Adrian Bye:** What about, let's say, a partner like Nike, for example, or a partner that's selling you a lot of shoes? Obviously you go out and negotiate as strong a possible deal as you can with them that's as beneficial to you as you can or do you not? You want to deliver them a lot of volume but you also want to make sure you get as good a deal as you can because then you can do better profit and better prices, provide better service and everything else, right?

**Alfred Lin:** Yes, we want to do all those things and we believe in trying to make sure that it's a win-win situation for everyone. If we get better terms and better discounts, we can buy more and we can sell more. We try to put it in a win-win situation as opposed to a zero-sum game. In the same way with all of the relationships that we have, we want to be friendly and be friends with these folks but also recognise that sometimes business is business. So one of the things that we think we do probably better than most companies is we want to wow people on their way out even if they don't work out for us because, you know what, that is a clear sign that we did something right – when we can still be friends after we let someone go. We can still be friends even though we have to have hard negotiations in a partnership. We can still be friends when the investor is not very happy with the way we're doing X-Y-Z but we kind of listen to each other and understand each other's perspective. We both end up knowing that we both love the company and want to do the right thing for the company. Having that sort of connection is often lost in our corporate world nowadays of just driving for pure results. At the end of the day, having better communications, better connections whether it's with your employees, your customers, your partners or your investors, actually allows you to cut to the chase faster and get to the real details of the points faster than trying to be mean-streaked and think of everything as a zero-sum game.

**Adrian Bye:** Yes, okay. That's fair.

What do your investors think about the culture of Zappos?

**Alfred Lin:** Mike Moritz is on our board. He's from Sequoia Capital. They've invested in some companies that have been very, very successful, some of them with very, very funky cultures like Google, PayPal and Yahoo! I think they certainly believe that culture is important but they also care about financial results and driving results. So long as we do both, that's great. We hold that standard to our employees. It's not just about the culture. You also have to perform your job as well and we hold our employees to that standard too. So it's not that much different than what we're trying to achieve here.

**Adrian Bye:** One of the things that's interesting to me is there was a way that Zappos came about. You and Tony – you did Venture Frogs. You had some money. You invested in a bunch of companies. You effectively almost had an incubator. You had a bunch of entrepreneurs going out and starting stuff for you. You got to see the results from a lot of different companies at once in a lot of different areas. It was almost like split-testing to see where the things are performing best and then you were able to then move onto the one that seemed to have the results that you were looking for. Would you agree with that as a summary?

**Alfred Lin:** I think it was a combination of both a fund and an incubator. Not every single company that we invested in was in our incubator. We did have some companies go through our incubator. Zappos was incubated in our incubator, it was the most successful one and we did sort of see why it was successful. I was able to see how quickly it was growing relative to the other incubated companies but we also invested in a bunch of other companies. Some of the companies that we spent the most time on weren't necessarily because they were the most promising. In the early days – because they needed the most help.

**Adrian Bye:** Right. They're the ones that sucked out your time where you need to cut your losers and run with the winners which is obviously what you guys have done.

**Alfred Lin:** Yes and at this stage, both Tony and I are fully focused on Zappos because we believe this is going to be the biggest winner but certainly we've had some good hits along the way as well. We were pretty lucky considering that we had no experience in the investment business. We consider ourselves very lucky. We consider ourselves very lucky for being at Zappos.

**Adrian Bye:** Very lucky! You were in a pretty fortunate position because you guys were coming in as successful entrepreneurs. You had money. You had a brand name. You got some of the best ideas and talent that came towards you for your incubator. So you had some of the best opportunities coming your way and you were then able to run with the best of the best opportunities. Would you agree with that?

**Alfred Lin:** Yes, sure. I think it's certainly a good summary but back in 1999, there were a lot of people trying to do the same thing. I'm not sure that we were always presented with the best opportunities but we tried to make as much out of them as possible as we always do.

**Adrian Bye:** The reason I asked this is you obviously have done well. It's not an accident or a coincidence you've done well. How would you suggest someone starting out today if they didn't have the reputation, the resources and the stuff that you guys have had as well as the opportunity to see inside multiple companies at once and go with the winner. How would you suggest someone starting today could build a company like Zappos?

**Alfred Lin:** First of all, I would start out with trying to figure out where you're really, really most passionate about. Tony talks about chasing the vision and not the money, and the reason for that is because business – it doesn't matter how "successful" or people think you're successful. Business is hard, and you're going to go through rough times and hard times. We're entering an economy where it's going to be hard for everyone. But if you don't love what you do, it gets really hard to get up in the morning, and go in and try to fix problems each and every day. So you really need to think about what kind of things you would really, really love to do and be okay with not making money right away. Tony talks about not making money. You should find something that you love and want to do for the next 10 years without making \$1. That's kind of a harsh way of looking at it but think about it from the standpoint that if you start a company at any point in time, you might have a bunch of success but business cycles are in 10-year increments. I don't know if he thought about this but 10 years is kind of a thing where if it can survive 10 years and beyond then that's a true test of whether a company is going to survive, not the first year or the second year because even though a lot of businesses fail in the first or second year. Really the time-tested battle is having to go through a business cycle. I think it's a harsh reality but if you can't go through that timeframe doing something you love and you are only chasing the money then you run the risk of it not working out for you and you would have hated your life for the last 10 years. Who wants that?

**Adrian Bye:** Do something you're passionate about and you really care about that you want to get up in the morning – something that can survive tough business cycles.

**Alfred Lin:** Yes.

**Adrian Bye:** What else would you say?

**Alfred Lin:** Yes, the other thing that you mentioned that we had the luxury of having an incubator and looking at a whole bunch of businesses – there’s no reason why you can’t do the same thing even if you’re starting from scratch. The reason is lots of companies will say lots of things about their business and you can learn from anything they talk about. Just be open-minded and you can be open-minded by reading lots of articles or books about business. You can be open-minded by talking to lots of the entrepreneurs and hearing about what has made them successful. Try to incorporate that into your business. The joke I make fun of at Zappos is we don’t really have that original or interesting ideas here. We just incorporate a whole bunch of ideas from all the people that we’ve met. We don’t copy things because copying them into your company don’t tend to work. You have to modify them. You take people’s ideas, you modify them, you make them better and you make them fit in your company. If you’re willing to be open-minded...

**Adrian Bye:** If you look at what you guys are doing, you’re selling shoes. That’s really boring, dude. I mean really. But you guys have made it really interesting.

**Alfred Lin:** We try and we sell stuff. Basically we say we sell simple stuff to the masses and we try to do it in a way that provides great service. We want to provide great service to the masses. That’s the only tweak that we’re putting in there really at the end of the day. If you want to simplify our business now, we’re not going to talk to everyone in the press in such low-level terms but if you really want to think about it, yes, our business is pretty boring and we’re not...

**Adrian Bye:** But you made it really interesting and you’ve got people really excited about it. It’s incredible.

**Alfred Lin:** Yes, I think that’s a sign that make putting in small tweaks and making things fresh and different just sounds exciting relative to something that in and of itself, as you put it, is kind of boring. If you’re open-minded to thinking like that and just making small tweaks every single day, I think you have a very good chance of being successful.

**Adrian Bye:** Alright.

Another topic that you and I talked about one time when we were hanging out is you were just saying some really interesting stuff about your views on finance, handling risk, and thinking like a finance guy in terms of taking high levels of risk and making sure you get reward for those. I think you’re tying that in to some stuff on Wall Street and the risk there. Maybe you can talk a little bit about some of your views on finance and how you manage to finance it?

**Alfred Lin:** Sure. What we’re talking about specifically started out with CFOs tend to not get a lot of respect because they run everything by the numbers. They don’t have a lot of belief in necessarily any single business – why is that and all that kind of stuff.

The natural mentality of most CFOs is to control and reduce risk and those go hand in hand. They believe that your job is to reduce risk as much as possible. A lot of them come from the accounting world where you’re trying to reduce any risk in terms of stating your financial statements in a proper way. That’s all good discipline and it’s great. We need to have that. There’s a fundamental basis of making sure that you have the right numbers so you can operate the business. But I think the next level of it is to just think about it as not from a control standpoint. I think a lot of management teams have issues with their CFO because CFOs are

trained to control as much as possible and by having control, you reduce risk. So they go hand in hand but I think the real testament of a great CFO is probably the ability to assess risk and be able to take that level of risk. The other thing I would say is in this world, environment, everybody is trying to reduce risk but reduce it in a smart way. You don't want to take unnecessary risk but take the amounts of risk that you've reduced in the unnecessary portion and invest it in risks that will actually add to the business. Take risks that will create value. We often, by training because most CFOs are risk-averse, we just take unnecessary risk out of the equation but we don't necessarily let the business re-allocate that risk level to things that are good projects that are going to add a tremendous amount to the business in the future.

**Adrian Bye:** Would you mind giving an example of that where you've done that?

**Alfred Lin:** Sure. The joke really between me and Tony is that I try to help the operations become more and more efficient and his job is to spend all the efficiency that we have. That's the joke but the reality of the situation is things that are waste, you should cut out, reduce the amount of money that you spend in unnecessary stuff, make things better and all that good stuff. Just take some of that and invest in research and development ideas that will build more business in the long run. We certainly do that. Lots of interesting ideas that have gotten a lot of buzz don't take a lot of money. We often talk about starting small, staying focused and letting the numbers tell us whether we should invest more or not so our entrée into category expansions all started out that way. Either there was an advocate whether it was a customer, an employee or a brand partner that says, "Hey, I think you should really, really get into this product category," and we'll say, "Sure." If someone's very passionate about it, we let them run with it, give them a little amount of money to go buy some inventory for that and if the category gets attraction then we'll invest more. So all of our product category expansions came from whether it was a customer, an employee or a brand partner that said, "We should get into that category." Twitter – Tony was pretty passionate about Twitter. It doesn't cost a lot of money to set up the twitter.zappos.com site but just now it has a huge following. We have about 400 employees that are on Twitter. That has helped us tremendously in terms of getting some buzz and having people think about Zappos not just as a boring e-commerce company but someone who's also involved with leading edge social networking and tying it back to e-commerce.

**Adrian Bye:** Obviously you don't like this comparison particularly but if you compare Zappos to Amazon. Amazon to me – I don't know that much about them but it has the feeling of a very corporate, typical, normal company whereas you guys are doing really crazy stuff, knowing you're both good-sized e-commerce companies.

**Alfred Lin:** Right.

**Adrian Bye:** That's an impressive difference.

**Alfred Lin:** Right.

**Adrian Bye:** One of the other things you talked about with finance was compared to Wall Street. Those guys are paid to take calculated risks and the ones that are really good at it are the ones that become billionaires. That's maybe the reason why some of the CFOs are so risk-averse, because they aren't comfortable with doing that sort of stuff. Do you remember...

**Alfred Lin:** Yes, I think this is an interesting time to talk about that. But certainly Wall Street took a lot of risk because they were paid to take risk and we have some of the downside consequences of taking too much risk right now with the financial crisis that we have. But at the flipside, we have most CFOs are not really judged on whether the company's really taking the right level of risk. Every CFO talks about delivering shareholder value and I think the good ones really do but most CFOs, their jobs are to make sure they have an organisation that can close the books, plan properly, forecast properly, and tell the Street a story about the forecast and historical results. They're judged rightly or wrongly based on their performance of telling that story and not necessarily on taking calculated risks on behalf of a company, and to really build long-term value.

I read recently that the average lifespan of most CFOs is around two to four years. That's just not enough time to take risks on entrepreneurial endeavours. So if you're judged basically within two or four years in your lifespan to be whether you're a good CFO or not, it just makes it very difficult to try to build a brand for yourself around risk-taking and calculated risk-taking.

**Adrian Bye:** One last question – just between you and Tony, is he strong with finances? Do you end up explaining most of the finances to him or is he studying balance sheets all the time alongside you?

**Alfred Lin:** I don't think he studies it. He's good with finances. He can read the financial statements, I would say, better than most CEOs and he doesn't just look at the P&L like, I would say, most people would. He actually knows how to read a balance sheet and knows how to read a cash flow statement. He's not going to look at every single number and think about the numbers but I don't think that's his job. I think he's doing a lot more than most. Tony is a very detail-oriented person as well as being a very creative person, and I'm a much more detail-oriented person when it comes to numbers and less detail-oriented when it comes to certain other things. So there's a good balance there, and I think for any team to work well too together, there's got to be a good understanding of what gets covered together and what gets covered individually.

**Adrian Bye:** Is there anything we haven't talked about, you'd like to bring up?

**Alfred Lin:** No, not at the moment but I thank you for the interview. I had a great time hanging out with you when you were out here in Las Vegas so we should definitely do it again.

**Adrian Bye:** We did have a good time.

Thanks so much for the interview, Alfred.

**Alfred Lin:** Alright, take care.