

Zappos: Delivering Happiness

Clothing, Customer Service & Culture

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Zappos
.com
POWERED by SERVICE™



A Little About Tony our CEO



- 1994-1995: Pizza business in college
- 1996-1998: LinkExchange (online advertising)
Sold to Microsoft for \$265 million
- 1999: Venture Frogs, LLC (angel investment fund)
20/20 – Invested about \$20M in about 20 companies
Invested in Zappos.com
- 1999-Today: Zappos.com

Zappos at a Glance

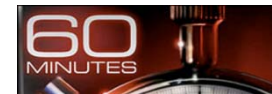
Corporate Background

- Founded in 1999
- 1400 employees (half in Las Vegas headquarters, half in Kentucky)
 - #23 in FORTUNE MAGAZINE's "100 Best Companies To Work For"
 - Highest debut for a newcomer in 2009
- Zappos is "Powered by Service"
 - Providing the best online shopping experience possible.
 - Fast, Free Shipping. Free return shipping. 365-day return policy.
 - Fast fulfillment. Expedited delivery. Fast, friendly & expert customer service.
- Best selection
 - Over 1200 brands, over 200,000 styles, over 900,000 unique UPCs.
 - 4 million items in warehouse
 - 100% of products inventoried (no drop ship).
- Zappos is a service company that happens to sell clothing, shoes, handbags, eyewear, watches (and eventually a bunch of other stuff).

Recent Recognition:

Nice, but we pay more attention to our customers

- TV Stories
 - Donald Trump-Apprentice (2009)
 - Oprah (2008/2009)
 - ABC Nightline (2008)
 - 60 Minutes (2007)
- Fortune “100 Best Companies to Work For”
 - #23 (2009) – Highest ranking newcomer to list
- Fast Company “50 Most Innovative Companies”
 - #20 (2009)
- BusinessWeek Top 25 “Customer Service Champs”
 - #7 (2009)

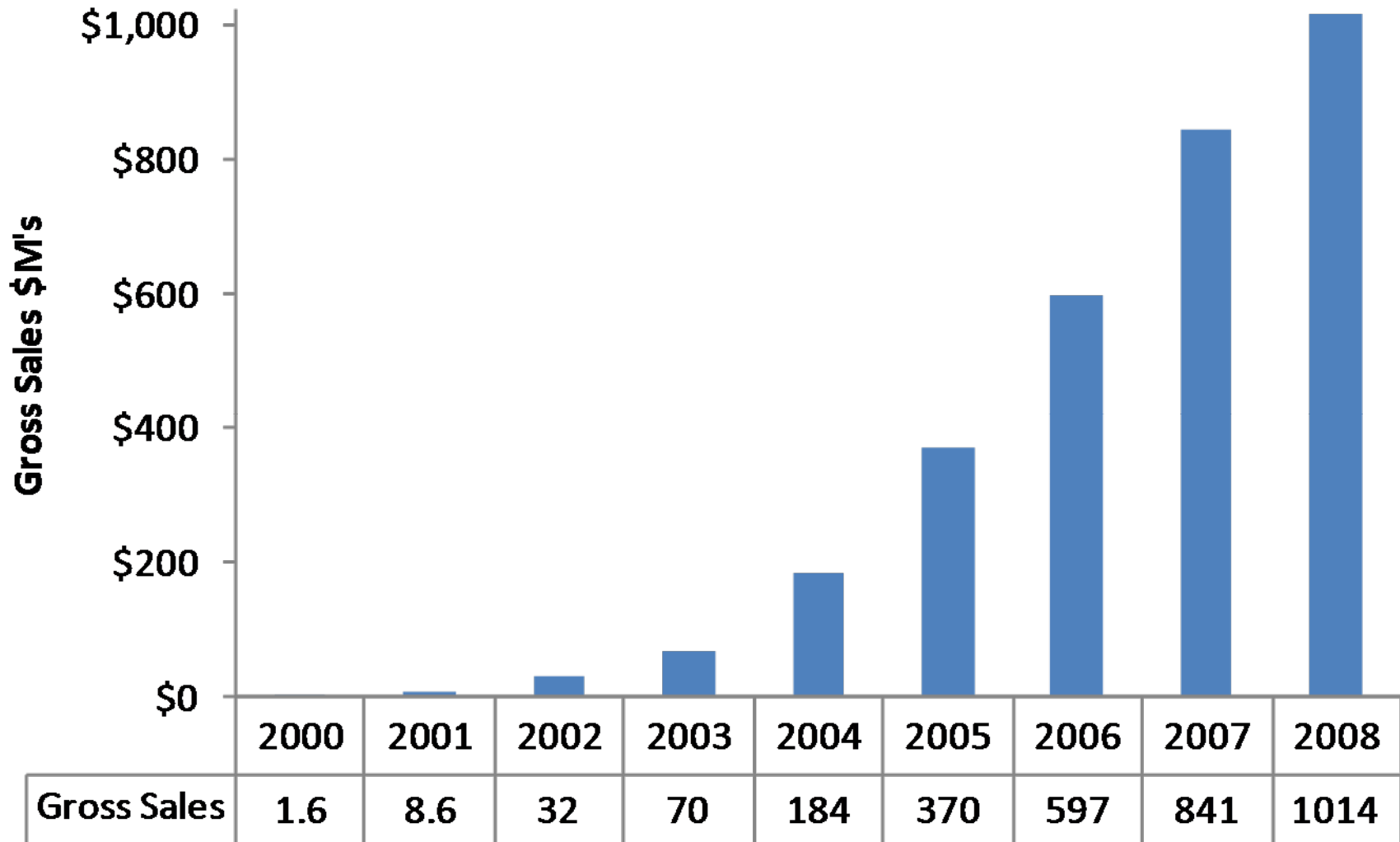


Customer service value proposition in action...

Zappos is committed to WOWing every customer.

- Customers come...
 - 9.9M total purchasing customers (3.3% of US population)
 - 4.1M have purchased in the last 12 months
- Customers come back...
 - On any given day, about 75% of purchases from returning customers
 - Repeat customers order >2.5x in the next 12 months
- Customers come back, order more and order more often...
 - Repeat customers have higher average order size
 - \$123.86 – first time customers in Q407
 - \$156.27 – returning customer in Q407

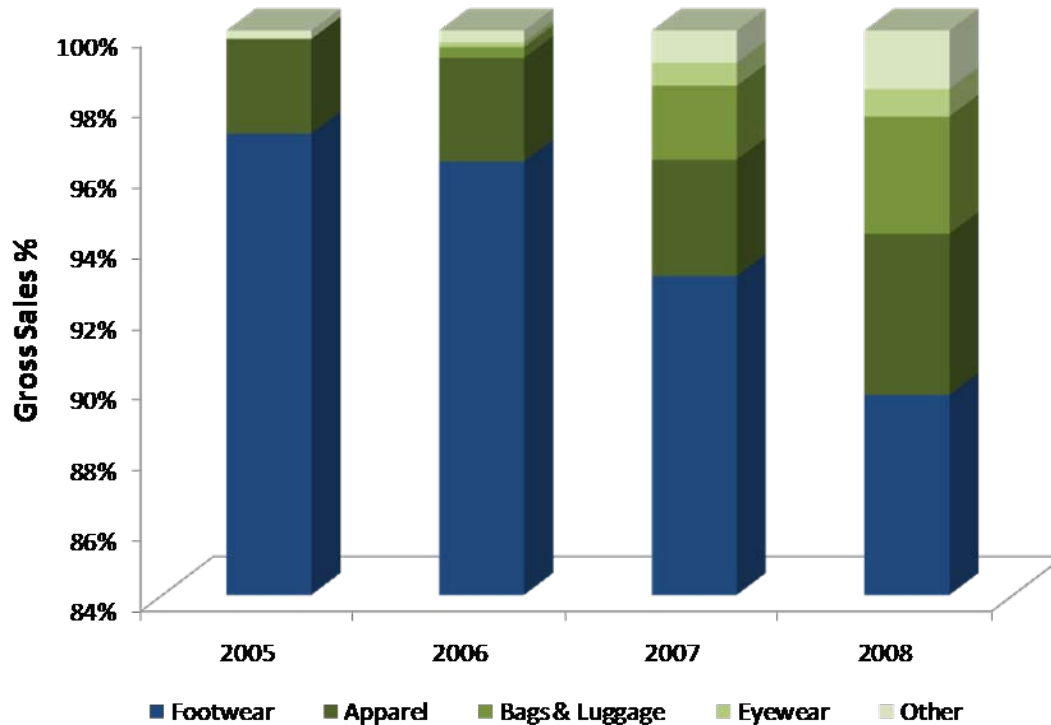
Power of repeat customers and word of mouth...



Repeat Customer Data for Zappos.com

	% customers who buy again within next 12 months (repeat customers)	avg # purchases by repeat customers over next 12 months	% repeat customers multiplied by avg # purchases
March 2001	20.4%	1.50	0.31
March 2002	27.0%	1.74	0.47
March 2003	33.5%	1.96	0.66
March 2004	44.6%	2.36	1.05
March 2005	51.0%	2.53	1.29
March 2006	51.3%	2.66	1.37
March 2007	54.3%	2.67	1.45

Clothing: moving beyond shoes...great selection of clothing delivered with great service



Zappos delivers happiness in a box: outfitting our customers from head to toe w/ great customer service.

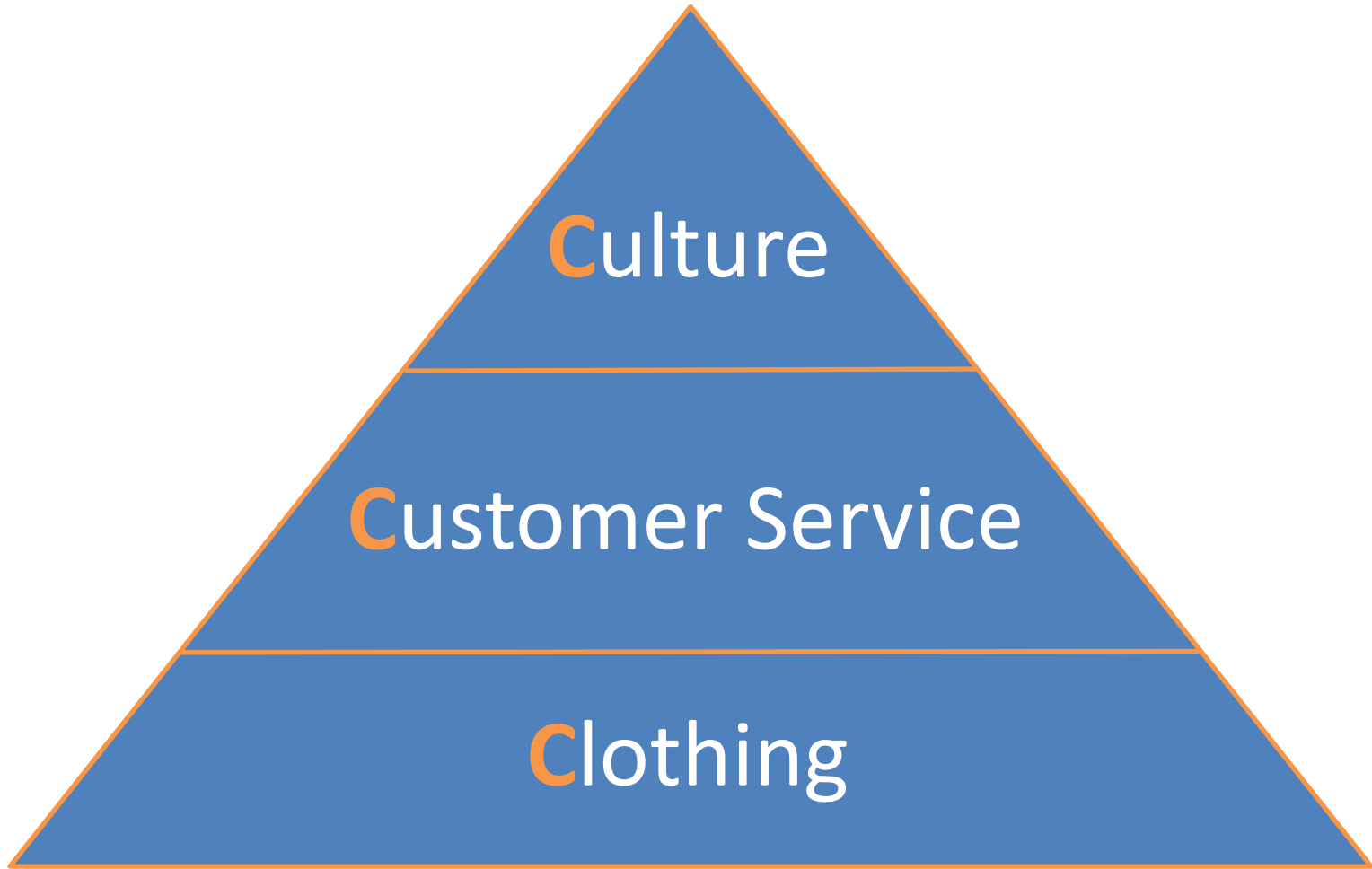


Customer Service: the Zappos way...establishing a personal emotional connection with the customer

See	Experience	Feel
<p>What customers first see on Zappos web site?</p> <ul style="list-style-type: none"> • Great selection • Easy to navigate web site • 24/7 800 # on every page • Free shipping • Free return shipping • 365-day return policy 	<p>What customers experience after their order?</p> <ul style="list-style-type: none"> • Fast, Accurate Fulfillment • Most customers are “surprise”-upgraded to overnight shipping • Friendly, helpful “above and beyond” customer service • Occasionally direct customers to competitors’ web sites 	<p>What we do to establish a personal emotional connection?</p> <ul style="list-style-type: none"> • Manage Call Center Differently <ul style="list-style-type: none"> • No call times • No sales-based performance goals for reps • Manage Fulfillment Differently <ul style="list-style-type: none"> • Run warehouse 24/7 • Inventory all product (no drop-ship) • Manage Culture Differently <ul style="list-style-type: none"> • Interviews and performance reviews are 50% based on core values and culture fit • 5 weeks of culture, customer service, and warehouse training for everyone in Las Vegas • Offer \$2,000 for trainees to quit • Culture book



Zappos is about the 3 C's:
Clothing, Customer Service, Culture



Zappos = Delivering Happiness

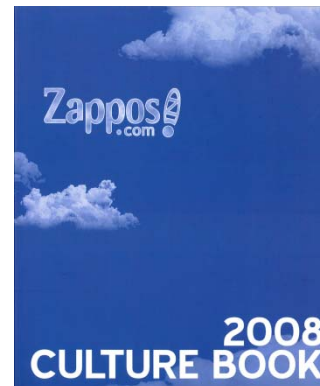
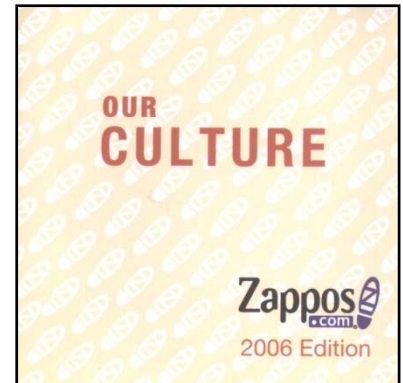
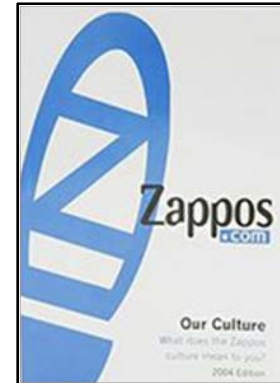
(customers and employees)

“People may not remember exactly what you did or what you said, but they will always remember how you made them feel.”

The Cab Ride by Kent Nerburn

Culture: establish “committable core values” ...
Every employee is asked to live & breathe the core values and inspire the culture in others.

1. Deliver WOW Through Service
2. Embrace and Drive Change
3. Create Fun and a Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships With Communication
7. Build a Positive Team and Family Spirit
8. Do More with Less
9. Be Passionate and Determined
10. Be Humble



You are probably thinking...

**“That’s great for Zappos but
it would never work at my
company...”**

...that's great for Zappos but it would never work at my company...

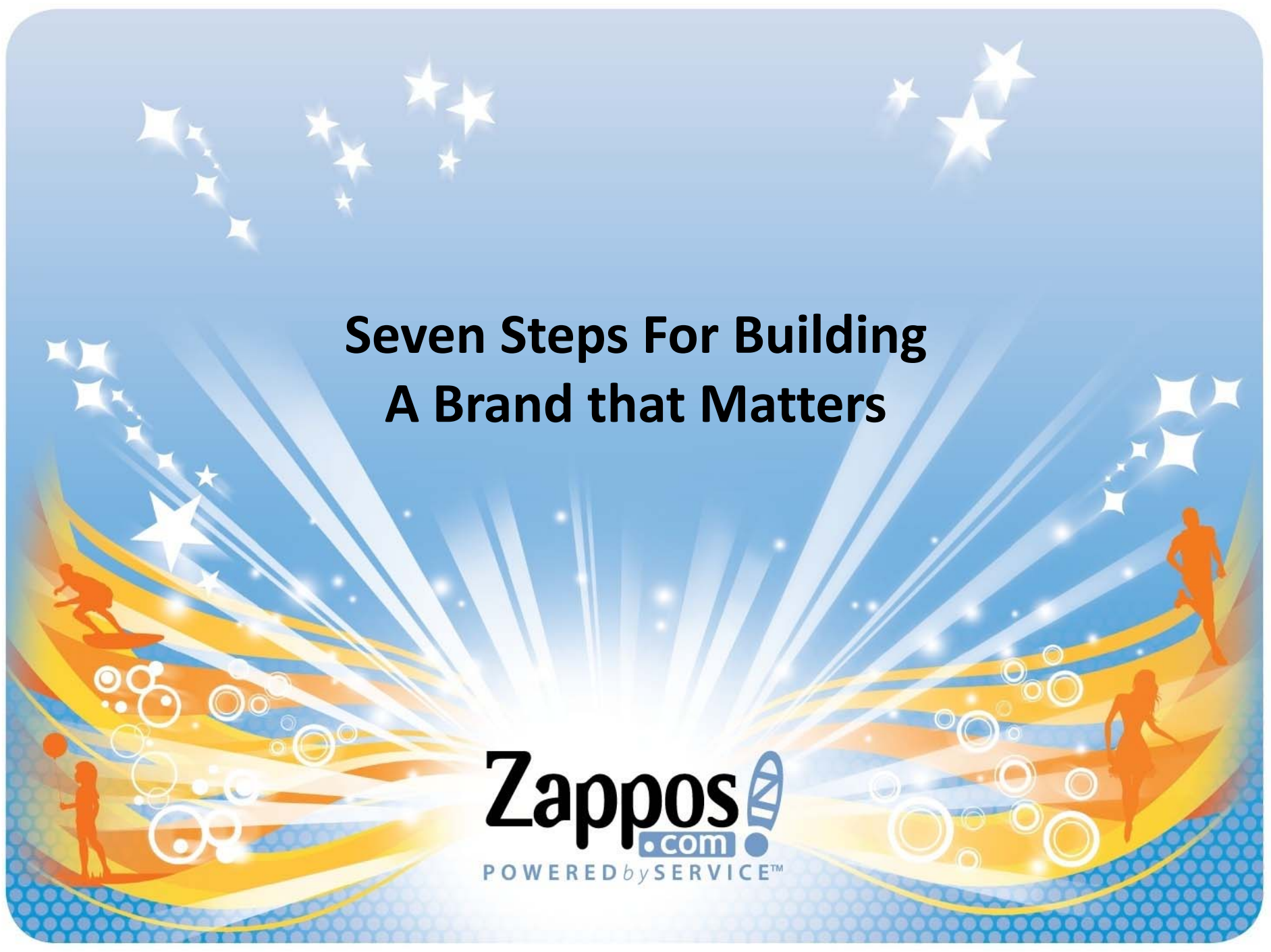
It doesn't matter what your core values are...as long as you commit to them.

ALIGNMENT



Seven Steps For Building A Brand that Matters

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Step #1

DECIDE

If you're trying to build a long term sustainable brand?

Requires more patience with revenues & profits
in order to lay the foundation

Decide sooner rather than later

Step #2

VALUES & CULTURE

Figure out values & culture sooner rather than later

VALUES & CULTURE

Figure out values & culture sooner rather than later

- What are your **PERSONAL** core values?
- What are the **COMPANY**'s core values?
- Start **EARLY**.
- It is surprisingly **HARDER** than you think.
- It doesn't **MATTER** what the values are.
- The most important thing is **ALIGNMENT**.
- ...and **LIVE** the **BRAND**.

Step #3

COMMIT TO TRANSPARENCY

“Be real and you have nothing to fear.”

Your culture is your brand

Don't try to be someone you are not

Step #4

VISION

“Whatever you’re thinking, think bigger.”

Does the vision have meaning?

Chase the vision, not the money...

VISION

**“Don’t chase the paper,
chase the dream.”**

Sean Combs aka “Puff Daddy” to rapper
Biggie Smalls aka “Notorious B.I.G.”
in Notorious

Question for ENTREPRENEURS:

“What would you be passionate about doing for 10 years even if you never made a dime?”

Question for EMPLOYEES:

**What's the larger vision
and greater purpose in
their work beyond
money or profits?**

VISION

MOTIVATION

VS.

INSPIRATION



Step #5

BUILD RELATIONSHIPS

(not networking)

Be INTERESTED rather than trying to be INTERESTING

Step #6

BUILD YOUR TEAM

“If you want to go quickly, go alone.
If you want to go far, go together.”
(Al Gore quoting African proverb)

Hire slowly
Fire quickly

Step #7

THINK LONG TERM

Repeat customers

Customer service

There is no “get rich quick” formula

“Overnight” successes are years in the making
(both personally and in business)



Questions and Answers

Email me – jjudd@zappos.com for:

- A copy of this presentation
- Answers to any additional questions not addressed today
- Copies of our culture book (**need physical mailing address**)
- Tour of our offices when you're next in Las Vegas
(takes about 45-60 minutes)
- Job Opportunities

Thank You

Put a little Zappos in your day...

...some links to check out...

- <http://twitter.zappos.com>
(public mentions, employees)
- <http://blogs.zappos.com>
(photos & videos of culture)
- <http://about.zappos.com>
(more information about us & core values)
- <http://www.zapposinsights.com>
video Q&A from different depts, book recommendations)

Legal and Financial Disclaimer

P.S. You might be wondering why we need to have a legal and financial disclaimer in this presentation, but you are still reading, so our lawyers, auditors and accountants would really like to make sure we make the following clarifications.

Although an audit was underway and almost done, the financial information presented in this slide show was unaudited. We made every effort to present the best information we had at the time.

Gross merchandise sales is a non-GAAP metric. We use it to express the total demand across all of our web sites and stores. This number measures the dollar value of the orders placed in the year before accruing for certain items such as returns, and it ignores certain timing cut-offs that are required by GAAP for revenue recognition purposes. If we were a public company, we would have to reconcile gross merchandise sales to the nearest GAAP metric (net sales), but we are currently a private company so the gross merchandise sales number should be viewed just as an interesting number that we want to share with our friends.

This presentation contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they ever materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by the forward-looking statements and assumptions. These risks and uncertainties include, but are not limited to, the risk of economic slowdown, the risk of over or underbuying, the risk of consumers not shopping online or at our web site at the rate we expected, the risk of supplier shortages, the risk of new or growing competition, the risk of a natural or some other type of disaster affecting our fulfillment operations or web servers, and the risk of the world generally coming to an end. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements of expectation or belief; and any statement of assumptions underlying any of the foregoing. Zappos.com assumes no obligation and does not intend to update these forward-looking statements.

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