Delivering Happiness
A Path to Profits, Passion and Purpose
by Tony Hsieh

Tony Hsieh (pronounced "Shay") began his entrepreneurial career selling worms. Correction. His first entrepreneurial venture, at the age of nine, was a worm farm, but, in fact, he didn't sell any because the creatures all escaped. He, or rather his parents, were $35 out of pocket.

In another juvenile enterprise, he devised a magic trick, the components of which he sold for a huge mark-up at $10 a time, after spending $800 advertising it in a boys' comic. He made just one sale.

But each time Hsieh made a mistake, he learned a lesson. And, he says at the outset, one of his aims in writing this book is to help others avoid some of the errors he made, as well as to put us on the path to happiness.

He had successes too, from which he also learned and honed his skills. As a teenager, he launched a business making personalized buttons by superimposing customers' photo images on to blanks, which netted him a couple hundred dollars a month. But as time went on his accomplishments grew. By the time he was in his 20s, he had sold one of his companies to Microsoft for $265 million. Most recently, he merged Zappos with Amazon in a stock deal worth $1.2 billion.

Obviously, he learned his lessons well.

This book then is the story of an odyssey, from that failed worm farm to the roaring success of Zappos.com, the online shoe retailer that, he says, isn't really a shoe retailer but rather a customer service company that happens to sell shoes.

And therein lies both the secret of Zappos' success and the gospel according to Tony Hsieh — build it (customer service that is) and they will come; have fun while you're doing it and you will find happiness beyond anything money can buy.
The key — both to success and happiness at Zappos — resides in the development of a unique corporate culture, codified in 10 Core Values and practiced as a sort of tribal ritual that echoes the days when Hsieh freaked out to the beat of warehouse rave parties.

In other words, to discover the Hsieh happiness formula, you have to know where he has come from, which is probably why he spends the first half of this book recounting the tale.

The Lessons of History

Hsieh happens to have been one of that generation of bright young people who was at the right age, in the right place, at the right time during the formative years of computing and the Internet. He picked up programming skills at school and learned about the power of interconnectedness in the age of Bulletin Board Systems (BBSs), a sort of precursor blend of today's chat rooms and craigslist.

Working as a volunteer lighting operator at a local theater he discovered the magic of creating a memorable experience for people, lesson number one. Lessons in the benefits of risk-taking and thinking outside the box began with a school sonnet-writing assignment for which he submitted 14 lines of Morse code that earned him an A++ for originality.

Unjustly accused but found guilty of stealing a fellow-pupil's lunch card, he learned that truth in itself isn't enough in life. It's how you present the truth that's important. And, while working part time as a student, programming computers, he found he could create a shared sense of fun by removing his boss's cup from a microwave, while the guy's back was turned, and filling it with ice cubes.

At Harvard, when facing the possibility of exam failure because he had done zero preparation for it, he discovered the power of crowd sourcing — the breaking down of a task into small components that are then outsourced to a large group of people. Knowing the test would comprise three questions out of a possible 100, he invited fellow students to each submit a précis of three subjects until all 100 topics were covered. He then had the answers in an easily crammable package, which he also sold to the others.

Another lesson, about how to increase margins, came from operating a pizza restaurant while still attending Harvard. He turned a good profit, noticing however, that one customer in particular returned frequently. He later discovered this customer was cutting up the pizzas and selling the individual slices — earning significantly more profit. The customer, Alfred Lin, was later to become a key player in the Zappos saga.

After college, Hsieh found himself a cushy job at hardware and software engineering company Oracle but his heart wasn't in it. He quit with a friend to set up a fledgling web design company, in the days when all such outfits were fledglings. But again, he found himself lacking that key ingredient which all successful entrepreneurs share — passion for the job.
While musing on future direction, the pair developed the concept of a service that would automatically place banner advertisements on multiple websites, sharing the proceeds with the site operators. This morphed into a company called LinkExchange, which was such a hit that within months they received two successive buyout offers — the highest, from Yahoo!, for $20 million.

But Hsieh and his partner turned that down on the basis of another valuable principle the young entrepreneur had learned — why "sell a company that I was excited about in order to start another company to be excited about (?)". He had found his passion. What was happening though was that that passion was founded on a sense of camaraderie in the company. As it expanded rapidly, the founders recruited just about every friend (including Alfred Lin) and relative they had to cope with the growth. It was just like one big happy family, and Hsieh was happy too.

It was a tribal thing that appealed to him. But there came a time when they ran out of recruitable acquaintances and started to bring in people they didn't know. And then the young entrepreneur realized that when he encountered people in the workplace, he didn't know if they were employees or not. The spell had been broken and Hsieh had had enough, which happily coincided with the buyout deal for $265m from Microsoft. He was so fed up that he even walked away from a chunk of the proceeds that were tied to his remaining with the company.

He realized two things: First, he hadn't put sufficient effort into managing the company's culture as it grew — the tribal spirit was lost. Second, once you have a certain amount of money, anything on top of that contributes nothing to your sense of happiness and wellbeing.

In fact, the tribal concept hadn't manifested itself to him at this point. It was one of two concepts that he identified outside of the business environment that had a significant bearing on his corporate philosophy. It surfaced on the dance floor. Always something of a party animal, Hsieh had been invited to attend his first "rave" at an out of town warehouse, where he underwent an almost spiritual experience as everyone gyrated as one to the incessant beat of the music.

It was an epiphany, he says — realizing that the dancers were moving almost as a single body as they were swept along in a musical trance. In this he recognized the transformative, uplifting power of a group working in unison.

His second out-of-business insight was gained at the poker tables of Las Vegas. Hsieh became preoccupied with the mathematics of the card game, underlying which he identified a number of key principles that significantly increased an individual's chances of winning. Some of these were counter-intuitive, the most significant being that whether you win or lose an individual hand has no bearing on the long term outcome.
In fact, he saw numerous parallels between successful poker and business strategies, including:

- The importance of **weighing up all the opportunities** — deciding which table to play at, like deciding which business to be in, was one of the most important decisions you could make.

- Second, there was the financial question. You should always be prepared for the worst-case financial scenario and ensure your bank balance was not only big enough to match the risks but also that you should only play with what you can afford to lose.

- Then, there's strategy. Put simply, says Hsieh, you should never play games you don't understand.

- Another similarity is the never-ending process of self-education, enabling you to improve your game and learn from experience.

- And finally, he suggests, you've got to love the game. This is the element he was later to equate with both culture and passion in business.

### All About Zappos

After the LinkExchange experience and driven by this tribal instinct, Hsieh, Lin and a number of their other ex corporate compatriots moved collectively into a downtown San Francisco building where they bought up adjoining lofts and a space they turned into a club so they could continue to enjoy life together.

By day, he and Lin set up and ran an incubator fund for new enterprises, one of which turned out to be an online retailer called shoesite.com. It was the brainchild of one Nick Swinmurn, who, in the late 1990s, had spotted the potential of the growing Internet retail market and convinced the young entrepreneurs to invest seed capital. He demonstrated how, using the technique known as drop-shipping, the company would not need to carry stock; instead they would simply take orders and pass them to manufacturers to fulfill directly.

They agreed on two conditions — first, that Swinmurn found someone who knew about the shoe business (recall that strategy point earlier about not playing games you don't understand) and, second, that he came up with a better name for the operation.

Swinmurn answered those challenges by finding Fred Mossler, a shoe department expert from retailer Nordstrom, and devising the name "Zapos" (with one "p"), a shortened version of "Zapatos", the Spanish word for shoes. Hsieh liked both ideas but suggested adding a second "p" to the name so that people didn't mispronounce it.

The original idea had been that after proving itself, Zappos would attract some big time venture capital, but the timing was wrong. This was around the time that the dot-com bubble was
bursting, so there was no alternative for Hsieh and Lin but to place more money on the table or let Zappos go under. They anted up.

The remainder of this story reads like a gripping adventure movie script, with the early Zappos facing successive challenges to its survival, the two entrepreneurs putting up more and more money and, eventually, Hsieh selling nearly his every possession, including real estate, to keep the business afloat.

The realization that drop-shipping would not be sufficient to grow the business because many manufacturers weren't geared up for it, led the Zappos founders to the inevitable conclusion that they needed to buy and stock-hold shoes. That demanded yet more money and the establishment of a warehousing operation.

Time for another lesson — the warehousing was outsourced to another company who, bluntly, screwed it up, teaching Hsieh an important principle, that you should never outsource your key competency. Looking back, he says now: "As an e-commerce company, we should have considered warehousing to be our core competency from the beginning. Outsourcing that to a third party and trusting that they would care about our customers as much as we would was one of our biggest mistakes."

He never made that mistake again.

Meanwhile, he continued to pour the last of his cash into the company and to take an increasingly hands-on role in its operation, becoming CEO and paying himself $24 a year — before tax!

The one other thing that kept the business going was the indomitable spirit, the culture that had developed inside — a team of people who behaved like a tribe with a common purpose and an ability both to make sacrifices when times were hard and to celebrate when successes were scored.

Finally, just as the money was about to run out, two things happened that were to secure not only the survival of the company but also its unique direction. First, bankers Wells Fargo agreed to extend a line of credit that would enable the company to increase its stock of shoes, as the firm also took control of the warehousing. Second, the company decided to put all of its weight behind the highest standards of customer service. Among other things, this meant abandoning the lucrative drop-shipping part of the business because Zappos could not control the reliability of manufacturers to match its own standards of service.

As Hsieh puts it: "To build the Zappos brand into being about the very best customer service, we needed to make sure customer service was the entire company, not just a department." Among other things, those standards included free shipping on all items, including returns, a 365-day replacement guarantee and a commitment to delight and surprise customers by, for instance, engaging them thoughtfully in telephone conversations (not upselling, not
timed, not scripting, just helping) and upgrading shipments to overnight delivery, at no charge and without telling the customer.

**Culture and Core Values**

Bearing in mind the focus on customer service, one of the biggest challenges the company faced was recruiting sufficient numbers of the right kind of people for its San Francisco base, which prompted them to move, lock, stock and barrel, to Las Vegas. As Hsieh points out, since customer service was the whole company, the whole company had to move; it was never going to be a case of just setting up a customer service center in Vegas. Everyone had to be there.

There was an unforeseen benefit too. Because most of the staff moved and most of them knew no one in Las Vegas, employees drew even closer to each other. In effect, they were the only friends each other had. This was such a powerful characteristic that it provided an impetus and rationale for only recruiting people who seemed to have the right fit with this existing workforce.

(Potential employs are double-interviewed -- once to see if they have the skills, and a second time to check their cultural fit. After that, they must attend a four week training program, half of which they spend answering customer service calls. During training, every new employee is also offered $2,000 cash to quit, to test their commitment to the business. About 1% take up the offer.)

This approach further strengthened the corporate culture to the point where Hsieh actually invited all employees to contribute their thoughts about what this company meant to them. These were incorporated into a single cultural manual, updated each year, which is given to all potential recruits as well as being available to all other stakeholders.

**Core Values And The Pipeline**

By the same process of polling employees, Zappos also compiled a list of 10 core values, the ethics through which the company does business and employees relate to each other and to their customers. They are:

1. Deliver WOW! Which means thinking what you can do genuinely to exceed expectations.

2. Embrace and drive change. If you don't adapt, you fail. So enjoy the ride.

3. Create a little weirdness (but not too much). Head-shaving for fun and throwing beach balls around at company meetings seem to be okay.

4. Be adventurous, creative and open-minded. If you're not making mistakes, you're not taking enough risks.
5. Pursue growth and learning. From a company library to a huge range of training courses, Zappos encourages personal development.

6. Build open and honest relationships with communication. Show people that you really care about them. Always keep employees and stakeholders fully informed about what's happening.

7. Build a positive team and family spirit. As Hsieh puts it: "We watch out for each other, care for each other and go above and beyond for each other because we believe in each other and we trust each other."

8. Do more with less. Qualities here include continuously seeking opportunities to innovate, working with a sense of urgency, and never settling for "good enough".

9. Be passionate and determined. Passion and determination are contagious, says Hsieh; they drive and inspire the company to greater heights.

10. Be Humble. There's a simple, well-known formula here that really underpins most everything the Zappos team does to serve customers. They treat them as they would wish to be treated themselves.

Finally, it's worth noting that in addition to the training Zappos gives its employees, it also operates a unique development program called The Pipeline. Hsieh points out that while most firms claim (or at least pay lip service to the concept) that employees are their most valuable asset, Zappos does not — at least not in the sense of employees as individuals. Rather, he suggests, it is the process by which they progress through the business.

Most new employees start at the bottom of the organization and move through a succession of incremental promotions and pay raises. This means that when any individual leaves the company, there's always someone immediately above them and below them to cover and eventually fill the gap. Succession planning par excellence!

**The End Game**

Despite all of this, there was a fly in the Zappos ointment. By now, the firm was steaming full ahead under the governance of a board that was heavily weighted with investors, most of whom were focused on ROI rather than what they labeled Hsieh's "social experiments." Inevitably there were tensions, which boiled down simply to a conflict of strategies — near-term growth (on the part of the directors) versus long-term development on the part of Hsieh, Lin and Mossler as they pursued their vision of excellence.

At one point, Hsieh felt the board was ready to fire him, and the trio finally concluded that the only way to follow their passion was to buy-out the investors, which they reckoned would cost around $200 million. Serendipitously, as they were casting around for the money, they received an unsolicited approach from someone equally committed to the concept of
customer service — Jeff Bezos, founder of Amazon. The outcome was a two-prong deal — a share swap that effectively made Amazon Zappos' biggest stockholder and a pledge by the online retailing giant that would enable Hsieh and his team to continue to run their company the way they wanted to.

The Amazon deal, which effectively valued Zappos at $1.2 billion, vindicated Hsieh's belief that it was worth pouring all of his money and his heart into the business; it gave employees the assurance that they would continue on their game-changing mission; it gave investors the exit they sought; and it gave Amazon a business to which it could contribute and from which it could learn.

Everyone was happy, which, after all, is what this book is all about. Staff turnover is miniscule and the company continues to grow. Hsieh's own personal credo, which recurs frequently throughout the book, is that life experiences contribute far more to happiness that material possessions. And, although he doesn't say so in the book, it's on record that as CEO of Zappos, he draws a salary of just $34,000 a year.

It's hardly surprising that numerous companies have begun to emulate some of the Zappos' principles and that Hsieh has seized the opportunity to spread his gospel, offering public tours of the Zappos facility at Las Vegas, personally writing his own blog (http://blogs.zappos.com/blogs/ceo-and-coo-blog) and launching a training and video subscription service for entrepreneurs called Zappos Insights (http://www.zapposinsights.com/main).

Conclusion

This extraordinary story placed Hsieh's book at the top of the non-fiction best-seller lists and it's not hard to see why. The author did not set out to change the world by reinventing customer service in its purest form. He started out wanting to get rich and, if possible, by doing as little as possible. His story is a sort of Pilgrim's Progress during which he learns that having fun, blazing a trail that inspires others, developing mutually-supportive friendships and working with passion and commitment, are actually much more fulfilling than putting money in the bank.

What's more, that cash in the bank actually becomes a consequence of getting all the other things right. As the book's subtitle says, it's a "path to profits". The bottom line is that if you treat your customers the way you would like to be treated when you're on the receiving end, if you deliver happiness to them, they will remember you, they will come back to you, and they will tell others about you.

In 2009, says Hsieh, Zappos expanded its vision and purpose to a simple statement: Zappos is about delivering happiness to the world. If that sounds like the naïve and unrealistic ambition of a dreamer, remember that this is the guy who sold his possessions to back his faith in a company that ten years previously was selling next to nothing.
From zero in 1999, Zappos had gross sales of $1.6 million in 2000, $8.6 million in 2001, $32 million in 2002 and so on, rising to more than $1 billion in 2008.

He doesn't suggest it's easy but he thinks he's got the right formula, declaring: "The only reason we aren't swamped by our competition is because what we do is hard, and we do it better than anyone else."