

ZAPPOS INSIGHTS

How Zappos Culture Can Supercharge Your Business

an interview with

ROBERT RICHMOND

Mike Koenigs: This is Mike Koenigs and with me today is Robert Richmond from ZapposInsights.com. You can actually see an image right here, the Zappos Company. If you don't know, it was acquired recently by Amazon for cash and stock, and I don't know what else, to the tune of \$1.2 billion, right?

Robert Richman: Right.

Mike Koenigs: Okay. Pretty impressive! And what Robert does at Zappos Insights, and you'll learn more about it in a moment, is it's all about how to actually use or learn more about the Zappos culture and use it in your own business. Is that fair enough to start out with?

Robert Richman: Yeah, exactly. A lot of people have come through Zappos and heard about it through the media, through blogs or on tour and such and found out about the Zappos culture. They know the Zappos' level of service and they want to find out how they can do it in their organization, so that's what Zappos Insights was created for.

Mike Koenigs: Very nice! The way we connected, it turns out that we know a lot of

people in common. You're very familiar with the internet marketing culture of course, and you know Eben Pagan and—I'm trying to think of some of the other people that we have in common in my business or in our business.

Robert Richman: Yeah. We talked about David Dato, we talked about a lot of the various experts even in health and food and such.

Mike Koenigs: Yeah. So I'll just say, Robert is a like-minded guy. It turns out we're kind of like brothers from another mother as the old saying goes, a lot in common, and what originally happened is we took the Traffic Geyser team. We took about 30 people to Zappos just a couple of weeks ago in Las Vegas. One of the great things about Zappos is you can actually go on a tour there. And we spent time going through the tour, we bumped into each other, we ended up talking about launch, and I learned more about what you guys were doing. And today, we spent the day brainstorming about really how you guys could potentially leverage the product launch formula and maybe some of the strategies we use for product creation and launches inside the Zappos Insights business.

Robert Richman: Right.

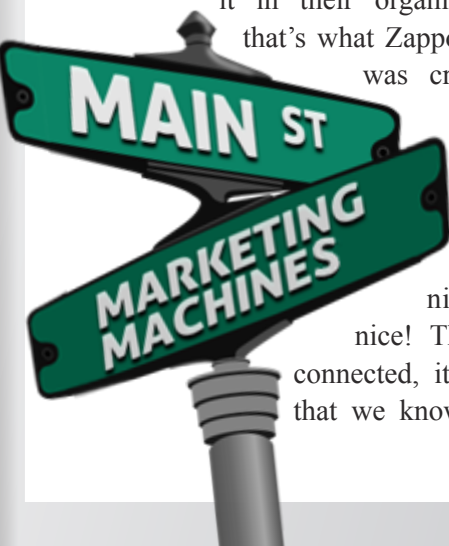
Mike Koenigs: The other of course we just talked about is, our

goal is to model Zappos and your culture inside the Traffic Geyser world both from a service and customer support perspective. So I thought maybe we could talk a little bit about the culture that you teach, and what Zappos Insights will do for an organization that wants to model you. What do you have available and what's the process? How long does it take to actually learn the techniques, the strategies, the values and implement them inside the business? What's the smallest, your biggest business that should maybe use these things? I'm asking you too many questions at once but maybe number one is, what exactly will Zappos Insights teach me and what can I use?

Robert Richman: Sure, sure. What Zappos Insights teach is all about the culture and the service that we've created at Zappos, and it might be helpful to take a step back and talk about how this all really came to be because a lot of people thought that Zappos would completely fail as a business.

People thought that a shoe store online, how could you do that? You want to go in to try on the shoes, make them fit there and see how that is.

Mike Koenigs: I thought it was dumb. I did. I admit it. I mean I looked at it and I'm like, "What the heck." I remember hearing



Tony talk about—this is years ago, and I was like, “What?” So that was wrong. Okay, so keep going.

Robert Richman: Yeah. So the way that it started this, Tony had had a previous business that he’d sold to Microsoft and he really wanted to determine what his next business was going to be. And he wanted to go into one where he could really take his own kind of core values into that business and live that. And so, he started this business. It was the first market opportunity but then found that he was able to essentially infuse the core values that he had been living personally and that the company had been living and that was really what made the differentiation.

So shoes are a commodity business but by creating our core values, the number one being WOW through service, we’ve created an experience that our customers loved so much that they were willing to have that experience over going into a shoe store. And we created a whole set of core values that we live by—live by and really die by. If somebody doesn’t meet those core values, they are not allowed to stay in the company.

And by creating those core values and creating a culture around them, we were able to create a company that eventually Amazon was really interested in buying, really even for the culture, for \$1.2 billion. And so, what Tony discovered in creating this was that—how it happened was at first, we would meet with vendors and they’d come in to the company and they’d go through the office and say, “Oh my God, this culture is just incredible. It is just incredible to be here. Can we bring friends?”

And then, their friends came and then their friends would tell everybody. And then, sooner than we knew it, we had about 500 people a month coming in just for tours. And Tony would go out and speak about the culture and he would offer culture books to anyone who wanted it, and we still do both of those things today, free culture books and free tours. And people would always ask, “How can we do this in our company?” And people would actually in some ways become depressed. They’d say, “Wow! This is so incredible. I wish I could stay here. I wish I could do this at my company.”

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Tony really saw a business need for it, so we created Zappos Insights specifically to share all the knowledge of how we created this culture, the mistakes that we made in creating this culture, all the things that we do to create great service, and created the set of offerings from tours to meetings, all the way up to a two-day bootcamp that we do where people can come in and completely immersively experience the culture.

They get to have dinner at Tony’s house, go to Zappos parties, spend time on the phones and really learn firsthand, and what everybody says after coming out of that is they really believe that it is possible to take that kind of culture and create it in their own companies.

Mike Koenigs: Yeah, there’s no question about it. And I think it really underlies something that I know Seth Godin talks about in his most recent book, and that’s Linchpin, is about what a Linchpin is because a lot of the value inside Zappos is about

just doing what’s necessary and doing more with less. And I think more importantly, the customer experience at the end of the day is the only thing that has long-term value because virtually everything is a commodity nowadays.

Labor is definitely a commodity; shoes certainly are, most products. But when it comes to service, it’s that experience and it’s that confidence that the consumer has in an organization to deliver a consistent experience and a consistent product, and know that they’re not going to go through telephone hell or whatever the return policy might be and that’s something that Zappos prides itself in.

So maybe the next question is, let’s say for example in our world, we’re talking—in the Traffic Geyser world, we have main street marketing businesses. These are individuals who started a small business. They’re doing internet video marketing for local businesses, so how can the value system and Zappos’ value system actually become and be relevant for them? Maybe go through—do you know all the values by heart?

Robert Richman: I don’t know all of them by heart.

Mike Koenigs: I know we could bring them up pretty easily here. It wouldn’t be all that hard but--

Robert Richman: If we just Google Zappos core values, we’ll get them up immediately.

Mike Koenigs: Okay, I’ll do that. But in the meantime, I want you to talk a little bit about it. I’ll actually bring it up here. I’ll do a Zappos

core values.

Robert Richman: Nice, nice. The whole idea behind values is it's the things that you're not willing to sacrifice on, so it's really a long-term play. A lot of people start off a business and it's all about what they need or revenue and such and say, "Okay, I can sacrifice this. I could sacrifice our..."

Mike Koenigs: Oh, look at this, we have card.

Robert Richman: Yes.

Mike Koenigs: I've got it right here. I've got it

Robert Richman: Our core values are right here and we're going to get them on the screen, too.

Mike Koenigs: Yeah, this is great. Thank God for teleprompters. Okay, so--

Robert Richman: So people will do things for money or bring somebody on because they have the right skills even though they're not really culture-fit for the company and it's really a short-term play. You end up creating a situation, or maybe even you're very, very successful. But it can end up being a situation like what happened with Tony where he had a very successful company but really didn't like the culture and didn't like coming in everyday to work, and realized, "What am I doing? This is my life."

Mike Koenigs: That's the link exchange story, right?

Robert Richman: Yup, exactly. So by focusing on this now, you're ensuring that no matter what happens,

no matter how the business goes that you're going to enjoy it the whole way. And part of the experience at Zappos, which Tony explains in his new book, is there was a time where he had to sell just about everything to make sure that the company was going to keep on going.

Mike Koenigs: Right.

Robert Richman: And the reason he didn't just say, "Oh well, the company isn't making enough money. I should pull it out" is that they were having so much fun along the way.

Mike Koenigs: Yeah.

Robert Richman: And they said, "Look, we are making revenue. We are making money with this. If we stick to this, it will work." And he stuck with it because of those core values.

Mike Koenigs: Very nice! So here are the core values. We have them up on the screen. We can actually dissolve to them right now. So we have deliver WOW through service, embrace and drive change, create fun and a little weirdness, be adventurous, creative and open-minded, pursue growth and learning, build open and honest relationships with communication, build a positive team and family spirit, do more with less, be passionate and determined, and be humble.

I know one of the things that happens when you take a tour of Zappos, it's definitely a little weird, the environment. I want you to talk a little bit about again, if we are adapting this to a small business owner, because that's part of what we talked today, how would a small business owner

adapt and use this inside the organization, even if it's just one or two people, and why would that matter?

Robert Richman: Are you asking in terms of that specific value about creating fun and weirdness or—

Mike Koenigs: I'll just say overall. We'll talk a little bit about the fun and the little weirdness, so I know I asked you too many questions at once. I have a tendency to do that sometimes because I'm sort of excited, but excited about core values, yes. But again, bringing it back to I'm a small business owner. It's maybe me and maybe one or two employees. How would I adapt the Zappos core values and use them to grow my organization? And why would that matter? Why would I care? It's a tough question. I know I'm putting you in the spot.

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Robert Richman: It is; we're on the spot. Typically, we tend to deal with massive corporations where we're looking to do this and they've already got a culture that they have to deal with. For the small business owner who's just starting out, it's a really great opportunity because you get to create it as you go. And I think the biggest difference is you'll talk to a lot of small business owners and whether successful or not, they feel like the entire weight of the world is on them.

Mike Koenigs: Yeah.

Robert Richman: They have to work 15-hour days, and whether they're hugely profitable or not, you oftentimes hear that same story. And what happens at the end of several

years, you're burnt out, you hate the business that you are completely passionate about before.

Mike Koenigs: Right.

Robert Richman: Your family isn't happy with you because they never see you. You're not having any good time, and was that really all worth it? And at the end, whether they're making a ton of money or not, the answer is always no because they had years and years of having terrible time, not to mention probably health problems as well.

Mike Koenigs: Yeah.

Robert Richman: So what the core values ensure that happens is that you are enjoying that entire process as you go. And the risk there is people think that, "Oh wait, if I pay attention to what I really want and not for example the money, then I won't have anything" and that's the big fear. And what we are really trying to share with the world right now is look at what we did. We created an over a billion dollar company by paying attention to it. And this is the new business model that we're really trying to pay attention to. And I think it's really key to note that any big, huge change in business that is obvious was once counterintuitive.

Mike Koenigs: Right.

Robert Richman: So a back turn of the century when they had the factories going, one guy decided to say, "You know what I'm going to do? I'm going to give my guys breaks during the day." And all the other factory owners said, "What are you doing? They could be making widgets. You're giving them time off."

And instead, look at what happened. They perform better. They don't get sick and die on the job. They stay longer with the company, but that was completely counterintuitive at the time.

And right now, for example with the value of create fun and a little weirdness, what that's all about is letting each person at the company be themselves. It's saying you can be yourself at work. You don't have to button that up here and then be yourself at home. It's saying if you are free to be yourself at work, whatever that is, you're going to enjoy being at work, you are going to be here for the long term, you're going to be happier, you're going to be doing better work.

Mike Koenigs: Yeah.

Robert Richman: So lose the coat and tie because they're not necessary for business. You can really do these things that seem like they won't work for business but they really will for the long term.

Mike Koenigs: Right. It's sort of like opening up your business freak because that's really what's funny about Zappos. When you walk through and you do the tour, you get all sorts of gadgets. There are themes in each department. The duct tapes, jacket—you know, you get some sort of a duct tape party at one point. I mean there's definitely weird stuff around there and it's like going to Archie McPhee's in Seattle Washington. I don't know if you've ever seen that. They sell weird old toys. This isn't too weird but like rock 'em, sock 'em robots. You'd be able to find that there, really old, bizarre toys that some of them will be like back when Mr. Tee disappeared for

a while, and then it'd be like—you could find Mr. Tee dolls at Archie McPhee's, weird dolls and puppets, candies that have been off the market for years, stuff like that. It's just the plainest weird stuff.

Robert Richman: Yeah.

Mike Koenigs: Another tangent, think another thing—and the reason I asked you that is because my opinion on using this on a business environment is, this thought has been poo-pooed by the authors of Rework. I can't remember the two guys who started 37 Signals. And their whole deal is for a long time, the thought process that a lot of business owners are told is think about building a business that you want to sell. And they're saying, "Forget that. Just build a business that you want to work in. Create a business that gives you joy" and I think that's very congruent with what you say here. And I would say the beauty of starting with values in mind from the start, it holds you to a higher standard. It holds everyone to a higher standard and it is obvious and clear with every single one of these, when you take a tour at Zappos, that all of those are being lived all the time.

I know in our company, at the actual Traffic Geyser Company, we've reached the point where we have several dozen employees or contractors worldwide in support, etc. And at this stage in the game, we haven't had a set of values. We have a culture but when we finally made a commitment, we're going to have a set of values. We're going to model Zappos.

Right away, the lights went on and there's more consistent congruence

with everyone. And I would just say to any small business owner, just adapting them even if it's just for you, holding yourself to a high standard will enable you to provide better value of your customers. The quality of your company and the value, the amount of revenue you can generate will immediately change and shift.

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And I think that's again one of the reasons why I wanted to talk to you about this.

Robert Richman: Right. And I think one of the key aspects of this is sometimes when people think of core values, they think of things like honesty, integrity, excellence, completely, completely boring and everybody should have those things anyway.

Mike Koenigs: Exactly! It's really like, look, I'm not two. It's like my mommy told me this stuff. Use your brain and be decent, right?

Robert Richman: Right.

Mike Koenigs: Wash your hands after you--

Robert Richman: So what really does well for these are actually the values that we say polarized, the ones that people are either really for or really against. And one of the ones that had been the most controversial was to create fun and a little weirdness because some people are really not for that. But then, we can quickly say, "Are you a part of Zappos' culture or are you not?"

Mike Koenigs: You are not going to make it.

Mike Koenigs: Right.

Mike Koenigs: Yeah. I think that's about tolerance as well. If you tolerate that, chances are you're going to be tolerant towards different types of customers and also the stuff—I mean, having a service-oriented company will require a high degree of tolerance.

Robert Richman: Right.

Mike Koenigs: You can't have people who lose it when they're dealing with the customer.

Robert Richman: Exactly.

Mike Koenigs: At some point, I believe everyone has to spend time behind the phones, right?

Robert Richman: Right.

Mike Koenigs: Okay, it makes sense. Whether it's by design or not, it makes a lot of sense. So what else can you talk about in terms of—I know even bringing you here, it's like, "I remember we always talk about doing more with less." You're an executive and you are really, really conscious about the dollar.

Robert Richman: Right.

Mike Koenigs: So that's something that—if you are a model employee inside and an executive inside the organization, having that permeate certainly is going to make the bosses proud. But talk a little bit about doing more with less, too. Where else does that show up?

Robert Richman: That value "do more with less" is really to get into that mind frame and it really mixes with the value which is an open and honest communication. So what we do is we communicate the finances

with all the employees and we say, "Look, if you're going to spend a dollar with the company, here's how many dollars we have to earn in revenue to generate that dollar that you just spent."

Mike Koenigs: Now, can you publicly talk about what that ratio is? I'm really curious.

Robert Richman: I can't, but what we do is we go through it. We go through all the finances and say, "Here's what it takes that we spend on shipping, and returns and taxes and payroll, and all these. This is how much we have to spend to run a billion dollar company." And it's actually a huge amount of dollars that you have to earn to spend the dollar.

And we're not saying don't spend that dollar. We're saying just think about how much we had to earn as that company who earn that dollar. And so, that transparency of open and honest communication with do more with less makes you think. And it's one of those things where you know when you buy something on sale that you really wanted and you feel that much better about the purchase? Like I just got this great thing for this great deal and you feel great about that product. We want that feeling with everything that we do as a company and we're saying when you spend money as an employee, think about that as your own money.

Mike Koenigs: Yeah.

Robert Richman: And what we've been able to do with the culture is this is where it really works well, in that each person is taking action as if this is their own company because if you don't feel that connection to the com-

pany, that the company really cares about me, then you say, “Whatever. I’m going to spend this money. It’s not my money.” But when we create a culture that says, “We really care about you as a person”, suddenly we can trust people to say anything that they want on the phone. It’s because we know that they have the company’s best interest in mind, as well as the customer. And so, they’re not just going to give away the farm to every customer because they care about the company, but they’re also going to do right by the customer as well. And all these are completely funneled through the core values.

And because of this, we don’t create rules for the exception. That’s what a lot of companies will do. They’ll play defense. They’ll say, “Okay, we got to protect against our employees doing this move, so we’re going to create this huge manual and don’t do this for this reason.” Instead, we don’t really even have a manual that we look at. We have the ten core values and we trust people and we say, “Hey, put it through these core values and then decide if that’s the right move to do.” And by that, then you don’t have to keep managing your employees.

Mike Koenigs: Yeah.

Robert Richman: Then you don’t have to keep telling them what to do, then you don’t have to keep micro-managing them and watching them. If you’ve got somebody who lives these core values and they have to put it through them, you can trust them to do the job and you can spend the time doing what you really, really like to do.

Mike Koenigs: Yeah. Well, that comes down to the outcome here as a

happy, satisfied customer that wants to come back, and as long as everyone understands that going upfront. So it really comes down to some massive expectation management both on the customer side and on the employee side.

So talk also about the retention. I don’t know if you can be specific, but I know Zappos has a remarkable retention rate, probably again because it manages with the core values that manage the expectations properly, but what’s the retention rate like around there?

Robert Richman: I believe it’s around 13% to 19% around there, which then the industry average for a call center is over 100%.

Mike Koenigs: Right.

Robert Richman: So it’s extremely low, and—

Mike Koenigs: So you lose around 13% per year?

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Robert Richman: Right, and most businesses don’t really factor this in how much it costs to recruit, how much it costs to train, how much it costs to lose someone, the potential—all the ratifications around losing someone and what you might spend on that.

Mike Koenigs: The amount of mistakes that are expensive for the first year that they’re around, right, yeah.

Robert Richman: Right. And one of the kind of “secrets” that we talk about in our programs in such as how we train is we actually offer people \$2000.00 and we’re actually going

to increase this to \$3000.00 to quit because we really feel that we’re creating such a great environment. We want you to question it. We want you to say, “Okay, is this worth this much?” And this isn’t—

Mike Koenigs: We’re not going to offer that \$2000.00. How far—

Robert Richman: They’re actually offered at several points. It’s not just at this one point and then you’re either in or you’re out. We offer that and then we offer it again, and then we’re thinking of that increase. Are you still sure about that? And it has two purposes, one is we get to sift out that 2% that was probably going to quit anyway and not really give it their all, so we sift those out. But for all those other 98%, they’re making a decision in their mind and they’re saying, “I can either take this \$3000.00 and leave or I can invest that into my experience here.” So we’re really forcing our people to make a choice and have it be their own decision rather than, “Oh, this is my job. I got to be here”.

Mike Koenigs: Yeah, very, very powerful. Okay. I know folks can go to Zappos Insights. You’ve got a membership program now. What’s inside that? Talk a little bit about what’s available and the sign up fee. What do I get? This wasn’t intended to be a pitch video but I was just thinking, well, this is a good way to kind of close this out and see if we have some additional things to add, but what is it?

Robert Richman: Right. What we wanted to do was essentially—I think you used the phrase, “Open the kimono”. Show what we do and we wanted to create a place to do that, so we offer up the templates we use.

Mike Koenigs: What kind of templates?

Robert Richman: For example, what we do for quality assurance on our calls to make sure that we're getting the great quality on our calls, we share those kinds of templates. We share our employee applications. We share the questions that we use in interviews. And what we do is we also respond to people on the questions that they ask, so they ask any question, we find the right person. We give them a video answer of what they're looking for.

And then, we're assembling kits, so kits around how we do customer service and we're providing it in many formats from audio, video, mind maps, screenshots of what we do. So we're providing it in every kind of format so that people can really take it in as they want to take it in. And we've got a whole community of business leaders who are really dedicated to increasing their quality of their customer service and their company culture. So we're creating a whole community based on this content in terms of how to create a great culture and it's available at zapposinsights.com. It's \$39.95 a month. You can cancel it anytime. Check it out and—

Mike Koenigs: Way too cheap. That's way too cheap. I mean I come in here and like, whoa! It's sort of like, alright, it's a great deal.

Robert Richman: Give it a shot. We might increase it, so try that out right now before we do. And we're really, really dedicated to working with companies that want to create a great culture, so just ask away of any question on how we can help you to create your culture.

Mike Koenigs: Some massive, massive value. I mean the whole idea I think—again, we haven't even—I know one of our guys is going to join it today or yesterday may have already, and I want to look inside and see what we can model that you guys are doing inside the infomarketing space here because in a way, this isn't where you came from. And a big part of what we're talking today about is just how these worlds can meld and merge and learn from each other, so it's been really interesting. Is there anything else you want to add about Zappos culture, Zappos Insights or anything else before we wrap this thing up?

Robert Richman: I just want to say that we have an experience for everyone. If it's a free tour and coming to visit, if you want to get a culture book, we'll send you one out, all the way to—we have our \$4000.00 bootcamp event where you get to really get immersed in the culture and spend dinner with Tony, go to the Zappos party and such. So whatever price point you're at, we have something for you to really experience the culture.

Mike Koenigs: I think that's really great. What I will add is just going to Zappos, just getting to Vegas only for the tour is worth it. They've got a free version and you've got your \$47.00 version, which lets us get to mingle and ask questions. I'd say that's the difference.

Robert Richman: Yeah.

Mike Koenigs: That's what we did. We took our whole team there and at the end, there are free books. So the bookshelf, all the latest, great business books, and if all you do is just look through the list, it's really been called through. You'll find some fantastic books plus the snacks and goodies along the way. You really get to see how a very, very smart business operates and thinks. And what is there will rub off on you in a big way. I can't recommend it highly enough, so I think that's it.

Robert Richman: Great! Thank you so much.

Mike Koenigs: Thanks for the interview.

Robert Richman: My pleasure.

Mike Koenigs: Alright, see you on the next one.

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