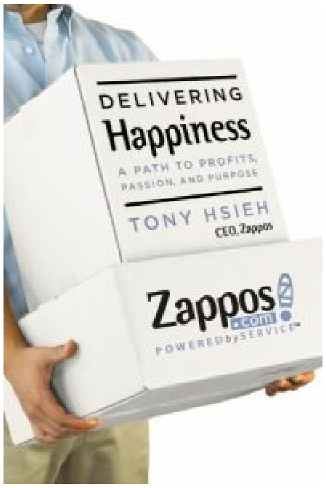

Book Delivering Happiness

A Path to Profits, Passion, and Purpose

Tony Hsieh
Business Plus, 2010
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Recommendation

Tony Hsieh (pronounced "shay") became a multimillionaire in 1998, at age 24, by selling his first internet start-up firm to Microsoft for $265 million. Then he sold his online shoe retailer Zappos to Amazon in 2009 for $1.2 billion. This personable entrepreneur may sound like an enthusiastic cheerleader, but clearly he knows a lot about making a business grow and he's worked hard to learn a lot about happiness. His vision encompasses a distinctive brand, a pipeline for developing talent and a creative corporate culture, all built on collegial fun and customer service. *BooksInShort* recommends this entertaining book. Hsieh details some of the secrets of his success, including how he and his team (a hard working crew whose surnames he never mentions) made Zappos so strong. Hsieh sees "delivering happiness" as a philosophy anyone can apply to business and all other areas of life (while wearing good shoes, of course).

Take-Aways

- Tony Hsieh excelled at school. Even as a child, he had a drive to make money.
- After Harvard, Hsieh went to work for Oracle, but he quickly grew bored.
- In 1996, he and his college roommate began a web business called LinkExchange. Tony was 24 when they sold it to Microsoft in 1998 for $265 million.
- In 1999, Tony's investment fund helped finance Zappos; he became its CEO in 2000.
- Zappos struggled, but remained committed to its "Brand, Culture and Pipeline" ethos.
- The brand is built on customer service; the culture emphasizes collegiality, fun and cohesion; and the pipeline trains employees for rapid advancement.
- In 2008, Zappos topped $1 billion in gross sales. The following year, Amazon acquired Zappos for $1.2 billion.
- As CEO, Hsieh now devotes himself to the concept of "delivering happiness."
- He follows three happiness frameworks. The first gives staffers control of their careers. The second builds relationships with customers via service and connection.
- The third offers the joy of professional pursuit, "flow" and a "higher purpose."

Summary

Learning to Walk

Tony Hsieh grew up in Marin County, which lies across the Golden Gate Bridge to the north of San Francisco. His Taiwanese parents had high expectations that their three sons would excel at academics and music. To them, the ultimate prize was an Ivy League education and a Ph.D. Tony, the eldest son, was a high achiever in school, but he dreamed of get-rich schemes as well. He launched his first business venture, an earthworm farm, at the ripe age of nine. Backed by his parents, he purchased some 100 worms for $33.45. He envisioned a multiplying inventory, but, alas, the mud-filled worm box he built in his backyard allowed his entire stock to wiggle away. A few years later, Tony saw an ad in *Boys' Life* magazine for a button-making machine. He wrote to the publishers of the book *Free Stuff for Kids*, asking to be included in their next edition. The editors posted his notice and his parents bought him the $50 machine. Kids who sent a photo, a stamped return envelope and $1 received a picture button. Parts cost 25 cents, so Tony made 75 cents each. He made $200 the first month, great money for a kid. When he burned out on buttons, he gave the business to his younger brother, who later handed it over to their youngest sibling.

> "If you get the culture right, most of the other stuff – like great customer service, or building a great long-term brand, or passionate employees and customers – will happen naturally."

Tony always received good grades in high school, but he focused his energy on making money. He earned $6 per hour testing video games for Lucasfilm. Then he moved on to making $15 an hour creating software for GDI, a programming company. Eager to run his own business, he tried mail order again. He developed a magic trick and placed an $800 classified ad in *Boys' Life.* He quickly received his first order and recouped $10. Sadly, that was his only order, and the magic-trick business went the way of the worm farm.

College Loafers

To his parents' delight, Hsieh attended Harvard. But once there, he mostly perfected work avoidance, procrastination, TV watching, video game playing and hanging out with friends. Yet he always managed to pull through academically. He skipped the readings and assignments in his Bible study class, since the teacher based the grade on the final exam. With two weeks left in the semester, Tony organized an online study group, inviting each participant to research two or three of the 100 possible exam topics. He compiled the responses into binders, which he sold to contributors for $20 each. Thus, he netted a great study guide, made money, did well on the exam and learned the value of crowdsourcing. Even at Harvard, Hsieh yearned to operate his own business. He and his roommate, Sanjay, took over the food concession in the Quincy House dorm. He resold burgers from McDonald's, expanded into pizza making and began showing retaped MTV videos in the grill. One of his best customers was a student named Alfred, who bought at least one pepperoni pizza every evening. Years later, Tony discovered that Alfred was reselling the pizzas by the slice.

Bootstrap Entrepreneurs

Software giant Oracle hired Tony and Sanjay after they graduated from college. Tony liked the inspiring three-week training program. He found the $40,000 salary enthralling, but not the job, which was running automated tests. Bored, he and Sanjay started a side business designing websites. They built a site for the local Chamber of Commerce on spec to attract customers. Then they won a contract from a local mall and left Oracle. However, web design soon became as boring to them as their jobs had been. Living on savings from their college jobs, they spent a lot of time surfing the internet for new business ideas.

> "Over time, as we focused more and more on our culture, we ultimately came to the realization that a company's culture and a company's brand are really just two sides of the same coin."

This led them to develop the Internet Link Exchange, eventually shortened to LinkExchange, a system that created banner ads for participating websites and generated extra banner ad space to sell to large corporations. Within a week of testing LinkExchange, Hsieh knew it was a great idea. He and Sanjay devoted the next few months to expanding the network, programming it and answering customers' emails. Five months after LinkExchange launched, a web company called Bigfoot offered Tony and Sanjay $1 million dollars for it. The offer blew them away, but when they countered by asking for $2 million, the deal fell through. Tony brought in another partner, Ali, the twin of a Harvard friend, and opened an office in San Francisco. The company had grown to 25 employees by 1997 when Yahoo co-founder Jerry Yang offered $20 million dollars for it. Such a huge offer required soul searching. Hsieh listed everything he would do with that kind of money: purchase an apartment, a new computer and a large television; take a few small vacations; or maybe start another firm. He concluded that his needs were modest, and he enjoyed building LinkExchange – so why sell it? Faced with seemingly endless opportunities, the partners said no.

> "I always fantasized about making money, because to me, money meant that later on in life I would have the freedom to do whatever I wanted."

As LinkExchange grew, Michael Moritz from Sequoia Capital invested $3 million. Tony hired Alfred, the Harvard pizza-slice entrepreneur, as vice president of finance. The firm opened New York and Chicago offices, and its hiring frenzy continued. Soon, Tony no longer recognized every employee. He saw that the new people – now more than 100 staffers – lacked the initial employees' commitment and long-term goals; this diluted the company culture. As time passed, he no longer found his work exciting and motivating. When Netscape and Microsoft fought a bidding war for the company, the partners were receptive. Microsoft offered $265 million and asked Tony, Sanjay and Ali to stay on for at least a year. Instead of feeling elated, Sanjay and Tony felt deflated. They actually dreaded the "Vest in Peace" year ahead of them.

Well-Heeled

After a period of introspection, Tony walked away from the additional millions he could have earned by staying at LinkExchange. He began his now deep and abiding study of happiness, starting with exploring what he found meaningful in life. He bought a loft in a development in downtown San Francisco and persuaded several former LinkExchange employees to buy there as well. His new neighbors included Alfred, who joined Tony in starting an investment fund they called Venture Frogs. They met with Nick Swinmurn, who had just started an online shoe store called shoesite.com. He envisioned it as "the Amazon of shoes." At first, Tony didn't believe people would buy shoes online without being able to try them on for fit. But Nick's pitch was persuasive: "Footwear is a $40 billion industry in the United States, of which catalog sales make up $2 billion. It is likely that e-commerce will continue to grow. And it is likely that people will continue to wear shoes in the foreseeable future." Nick's site was a "drop ship" store: It received orders and sent them to the manufacturers who shipped the goods. Tony decided to keep in touch with Nick and his partner, Fred, who had worked in men's shoes at the Nordstrom department store. Nick suggested changing the site's name to Zappos, based on the Spanish term for shoes, *zapatos*. Tony and Alfred decided to invest enough money to see Zappos through its first year.

> "It seemed kind of silly to sell a company that I was excited about in order to start another company to be excited about."

Meanwhile, Tony began playing poker. He gained many lessons from it, including "hope is not a good plan," that he would eventually apply to business. He learned about tactics, such as carefully choosing a table and companions, playing for the long term, studying the game and knowing when to quit. Having kept tabs on Zappos, Tony became involved again. Soon, the start-up needed more funding to stay afloat. His former investors at Sequoia turned it down, but Tony and Alfred decided to rescue Zappos and to become more active in running it. Venture Frogs invested in other new companies, and the firm performed very well in 1999. With the dot-com collapse in 2000, however, its effort to raise money to start a second venture fund failed. Tony began to wonder if his amazing LinkExchange success was just a fluke. He wanted to pour his heart, soul and abilities into something he believed in, so he decided to devote himself to Zappos full time.

> "I started noticing similarities between what was good poker strategy and what made for good business strategy."

The next few tough years tested Tony's talents and resolve. Every four months, he put more of his own money into the firm, which survived a round of layoffs and cuts to its marketing budget. Zappos refocused on getting existing customers to make additional purchases, and, in 2003, Tony and his team made customer service the company's leading priority. When things were at their bleakest, Tony and Fred brainstormed a bold move: They downsized the drop-ship operation and began carrying their own inventory. Zappos teamed up with eLogistics, a firm with a warehouse near the UPS hub in Kentucky, but it failed to deliver on its promises to handle inventory, storage, management and shipping. Tony sold his last asset, his loft, and put the rest of his money into Zappos, which opened its own Kentucky warehouse. Tony gained helpful insight into the dangers of outsourcing a core competency.

> "Never accept or be too comfortable with the status quo, because the companies that get into trouble are historically the ones that aren't able to adapt to change and respond quickly enough."

With a lot of work, Zappos' team brought the warehouse operation under control. By 2002, Zappos had earned $32 million in gross sales, but cash was a big challenge until 2003, when Wells Fargo extended a $6 million line of credit. Zappos emerged from survival mode; that year it sold "$70 million in gross merchandise."

> "Our Brand, our Culture and our Pipeline...are the only competitive advantages that we will have in the long run. Everything else can and will eventually be copied."

As Zappos moved its base to Las Vegas, Tony wanted to avoid his LinkExchange cultural error, so he nurtured a creative, tight-knit corporate ethos based on "Brand, Culture and Pipeline:"

- **Brand** – Zappos has built its name with intense customer service. It often gives buyers upgrades to overnight shipping for free, it sends out shoes around the clock, and, instead of measuring phone call time, it uses calls to build conversational ties with customers, responding to their needs and crafting relationships as part of its brand identification.
- **Culture** – The firm's "core values" include: "embrace change; pursue growth and learning; create fun and a little weirdness; be adventurous, creative and open-minded; build a positive team and family spirit; be passionate and determined"; and "be humble." The culture follows a one-line, pithy communication policy: "Be real and use your best judgment." The firm compiled the "Zappos Culture Book," a collection of employees' statements about what its culture means to them, from practical jokes on new employees to tremendous support in times of trouble. Leaders use town hall meetings, newsletters, and more, to encourage staffers to ask questions, make comments and participate in the company's development as well as their own.
- **Pipeline** – Zappos trains staffers so they can climb the job ladder. For instance, call center employees have the ongoing opportunity to master a variety of "skills sets," akin to merit badges in specific areas. Each time they learn a new competency, they receive a small pay increase. Zappos grants promotions over smaller increments of time, such as six months, so people can gauge and enjoy their progress. The pipeline philosophy encourages employees to seize every opportunity.

Shoeshines

As the media paid increasing attention to Zappos, Tony became a sought-after public speaker. After initial reluctance and a few rehearsed, stilted talks, he refocused on subjects he really cares about passionately and began telling genuine, personal stories. He developed his ideas about contributing to the world outside of Zappos. He taught his beliefs about "values-based" business and "delivering happiness" to customers and employees. The company's board discouraged what its members called Tony's "social experiments," like seminars and workshops about happiness. They urged him to focus on profits. In 2008, Zappos topped $1 billion in gross sales. To cash in on the firm's success, the board wanted to sell Zappos, but Tony and his team sought to commit to it long term. Tony, Alfred and Fred set out to raise the $200 million needed to buy out the board. They found their ally in Jeff Bezos of Amazon, which acquired Zappos while letting it continue to be an independent operation. The companies announced their $1.2 billion "all-stock transaction" on July 22, 2009.

> "My hope is this [book] will not only bring you happiness, but also enable you to bring other people more happiness."

Tony sums up his expanded vision in this statement of purpose: "Zappos is about delivering happiness to its employees and customers." He follows three "happiness frameworks":

1. This framework puts employees in charge of their own destiny by increasing their access to training and promotion, and by building "engagement" and fulfillment.
2. The second framework harnesses Maslow's needs hierarchy to give customers, employees and investors even more than they have to have in terms of recognition, perks and meaning so that they will be happy.
3. This happiness-based philosophy offers the joy of professional pursuit, the pleasure of finding "flow" at work and the quest for a "higher purpose."

> "For individuals, character is destiny. For organizations, culture is destiny."

As a student and teacher of the "science of happiness," Tony emphasizes the company's meaning and vision**.** Zappos employees feel that they are a part of something that involves more than making money. And their boss feels the same way.

About the Author

Tony Hsieh is CEO of Zappos.com, Inc. He is a frequent public speaker.