



## Can Zappos' Corporate Culture Survive the Amazon Jungle?

The fun-yet-focused culture at online retailer Zappos has done much to create strong loyalty among employees and customers alike. But how that playful attitude will mesh with the culture of acquirer Amazon remains an open question.

By Ed Frauenheim

**E**xecutives at online retailer Zappos go to work in a jungle.

That is, green foliage hangs from the ceiling above their cubicles. The cluster of desks, nestled among other employees' cubes at the firm's headquarters outside of Las Vegas, is called "Monkey Row"—a reference to the CEO Tony Hsieh and his top lieutenants, who are known as the company's "monkeys."

The pretend Amazon captures Zappos' playful, egalitarian culture perfectly. It's not clear, though, how well shoe specialist Zappos will fit within another Amazon—the Internet giant that is acquiring Zappos in a deal worth upwards of \$800 million.

In announcing the takeover in late July, Amazon framed it as the perfect match of like-minded companies. Both firms, Amazon said, are innovative long-term thinkers that are passionate about serving customers. Seattle-based Amazon also said Zappos' management team will remain intact and that Zappos will remain an independent entity with its headquarters in Henderson, Nevada.

Zappos' culture and brand "are huge assets that I value very much and I want to see those things continue," Amazon CEO Jeff Bezos said in a video message.

Hsieh echoed the point. "We will continue to build the Zappos brand and culture in our own unique way, and we believe Amazon is the best partner to help us do this over the long term," he said in a statement.

But questions remain about whether the combination will sap the energy of Zappos, which has cultivated fanatic customers and turned heads with its fun-yet-focused workplace climate. How much can Zappos' extreme transparency—seen in legions of employee Twitterers and its great frankness about financial results—continue within the confines of a publicly traded company? Will Zappos' perks such as a big employee discount, free food and generous benefits survive the harsh scrutiny of quarterly earnings reports? And what about Zappos' obsession with high-touch customer service? Can it mesh with an Amazon approach to service that stresses high-tech convenience over the human touch?

Amazon's efficiency—and its low-touch approach with customers—was evident shortly before the Zappos announcement, when the bookseller abruptly erased copies of George Orwell's 1984 from customers' Kindle devices. The company later apologized for how the matter was handled and said such removals won't happen again.

Whether "Amazappos" will wow, satisfy or upset customers and employees remains unclear. But Zappos' culture of digital candor means this merger will likely be a very open book, says Jennifer Benz, a San Francisco-based communications consultant.

"We'll probably get to see how this plays out on Twitter," she says.

### **Crux of culture**

Just days before the Amazon news broke, Zappos' famed culture was on display at its Henderson headquar-

ters. The cluster of offices houses about half of Zappos' roughly 1,300 employees. The other half work in the firm's fulfillment operations in Kentucky.

Zappos feels like a holdover from the dot-com era. Tattoos and piercings are on display, thanks to a dress code allowing shorts and T-shirts. Guests on tour are greeted by the company's various teams. One group of merchandising folks acts as if they are paparazzi snapping pictures. In another aisle of cubicles, employees don giant foam fingers signaling No. 1, while a stadium anthem plays. The cafeteria has free food and a stage with an open mike.

These features exemplify some of Zappos' 10 "core values," such as "Create fun and a little weirdness" and "Build a positive team and family spirit."

But if Zappos is dot-com playful, it also has an edge. It pushes performance just as hard. "Do more with less," "Embrace and drive change" and "Deliver WOW through service" also are on the values list.

That list amounts to the 10 commandments of the company's culture. Zappos calls its culture its biggest asset, and the firm manages accordingly. About 50 percent of an employee's performance review is based on how well she embodies the 10 values. Managers are encouraged to spend 10 to 20 percent of their time socializing and team-building. Everyone at Zappos is part of the team. Janitorial services were once outsourced, for example, but were brought back in-house about two years ago.

Call center representatives work without a script. Instead, they're asked to focus on making customers happy with each call. The policy for employees who blog or Twitter is that they simply use good judgment. And many of them are exercising that discretion: More than 430 Zappos employees are included on a company Twitter page, and their tweets often concern work.

### **Making everyone happy**

The result of the values, the perks and the freedom is a zany, high-energy work climate prized by both employees and executives. William Andre, who works for \$14 an hour in facilities maintenance, recently was offered a construction job paying \$20 an hour. He stayed at Zappos. "If you're happy, they're happy," Andre says about employee-management relations at Zappos. "It's love all the way around."



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That's exactly how Hsieh (pronounced "shay") sees Zappos. Hsieh, 35, invested in the company when it began in San Francisco 10 years ago, and took the reins in 2000. "It's a brand about happiness, whether to customers or employees or even vendors," he says.

Zappos has known sadness. The firm laid off 124 employees last year. But the axed employees got generous severance packages, including six months of paid COBRA health coverage. And Zappos was open about the cuts. Hsieh revealed the decision in a Twitter posting and blogged about the rationale.

If anything, the layoff helped burnish Zappos' growing reputation as an "it" company. Enthusiastic customers who love the firm's free shipping policy on both purchases and returns have added to the glow. So did the January announcement that Zappos had made its debut on Fortune's list of the best American companies to work for, ranked 23rd.

Then there are the healthy financials. Zappos' gross merchandise sales rose from \$1.6 million in 2000 to more than \$1 billion in 2008. Its net income last year was \$10.8 million.

Amazon saw enough good things at Zappos to offer roughly 10 million shares of Amazon stock, equal to about \$807 million based on the average closing price for the 45 trading days ended July 17. In addition, the deal includes \$40 million in cash and restricted stock units for Zappos employees. The acquisition is expected to close this fall.

The deal reinforces Amazon's role as an online seller of goods. More recently, the 14-year-old firm has been promoting its upgraded Kindle electronic reading device and the ability to buy books as well as other content for it in a model resembling Apple's iTunes system. Other Amazon operations include the Internet Movie Database, a movie-information Web site, and a range of technology services. Amazon's net sales for the second quarter were \$4.7 billion, and its net income was \$142 million.

In a video message shown to Zappos employees, Bezos stressed that his 21,000-employee firm had no plans to interfere with Zappos and its mojo. "I get all weak-kneed when I see a customer-obsessed company, and Zappos certainly is that," he said. "Zappos also has a totally unique culture. I've seen a lot of companies, and I have never seen a company with a culture like Zappos'."

Hsieh also promised the merger did not mean getting lost within Amazon. "We plan to continue to run Zappos the way we have always run Zappos—continuing to do what we believe is best for our brand, our culture, and our business," Hsieh wrote.

In late July, Hsieh and Zappos CFO Alfred Lin took steps likely to boost positive feelings about the deal. In a Twitter post, Hsieh said he announced a "big bonus" at an all-hands meeting and said he and Lin "are personally buying a Kindle for every employee."

### **A fitting merger?**

But there are doubts about the next chapter in the Zappos story.

The company's largest outside shareholder is venture capital firm Sequoia Capital, and reports and speculation that Zappos sold itself under investor pressure raise questions about future morale.

The deal took people by surprise and seemed a "bit of a shotgun wedding," says Jeff DeGraff, a business consultant and professor at the University of Michigan's Ross School of Business.

In a statement, Hsieh said: "The articles and rumors of Sequoia forcing us to sell are simply not accurate. ... The Amazon deal got us the best of all worlds: We can continue to run independently and grow the Zappos brand and culture, our small and larger investors are getting rewarded for all their contributions to Zappos over the last decade, and we don't have to deal with the headache and overhead of running a public company."

Then there's the question of overall compatibility between Amazon and Zappos. To be sure, there are some overlapping features between the Zappos and Amazon workplace cultures. These include a casual dress code, a focus on "frugality," as Amazon puts it, and a lofty framing of the work the companies do. While Zappos says it is about increasing happiness, Amazon makes this pitch to job candidates: "Work hard. Have fun. Make history."

But while Zappos prides itself on being a Fortune best place to work in America, Amazon has never appeared on the list.

In a July blog post, HR commentator Kris Dunn argued that Zappos' culture will be modified if one of several events takes place, including cost-cutting by Amazon. "When a publicly traded company buys another company, change happens," wrote Dunn, whose HR Capitalist blog is featured on *Workforce Management's* Web site. "It's not a matter of if, it's a matter of when."

Simply being part of a public company complicates Zappos' commitment to core value No. 6: "Build open and honest relationships with communication." Paradoxically, privately held firms may have greater latitude to speak freely about their operations, given the U.S. Securities and Exchange Commission's disclosure rules for publicly traded firms. For example, in the wake of the merger agreement, Zappos entered into what's known as a "quiet period" and is limited in what it can say about the deal.

Up to now, Zappos has been quite open with employees about financial matters. Zappos has shared information with employees about the amount of operating profit the company earned each year, and has disclosed financial and performance metrics on a daily, monthly, year-to-date and annual basis. Such financial candor, combined with employees' freedom to express themselves, conceivably could add up to Tweets or blog posts at odds with regulations or Amazon's preferences for shielding data from competitors' eyes.

Asked about Zappos' transparency in financial numbers, Amazon spokesman Craig Berman didn't address the topic directly. But his response downplayed possible conflicts. "They are going to remain an independent and separate entity," he says.

Consultant Benz argues it's possible for a public company to have a candid culture while steering clear of revelations that run afoul of the SEC. She cites Best Buy as a good example. "I think there's a balance there," she says.

### **Effect on Amazon**

DeGraff says the Zappos acquisition could help Amazon refresh its own commitment to customers. "What Zappos does is helps 'rekindle' some of the Amazon culture that got Amazon where it is," he says.

Amazon's decision to earmark \$40 million for Zappos employees is a signal to the smaller firm that its culture truly is valuable, DeGraff says.

"It's acknowledging that culture and saying, 'We really like this culture,' " he says.

Amazon and Zappos officials declined to detail how the \$40 million would be distributed among employees.

Takeovers sometimes include payments to retain employees of the acquired firm, though they typically do not get distributed to all workers, says Anne Orr, a senior consultant with advisory firm Watson Wyatt Worldwide's global mergers and acquisitions team.

To Orr, the focus by the leaders of Amazon and Zappos on preserving the Zappos culture is convincing. "They're saying what they mean in this deal," she says. "Usually I don't believe 90 percent of what I read in mergers and acquisitions."

Doubters can always turn to the Twitter page devoted to Zappos employees. More than a week after the acquisition news broke, the firm's morale seemed strong as ever. One Zappos employee gushed over the bonus and gift announced by Hsieh. "Free Kindle and a 40% bonus ... how fabulous is that!!!" wrote Susan Walker, an employee in Kentucky. "I love Zappos!!!"

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