



Race Track Industry Program

35th ANNUAL SYMPOSIUM ON RACING & GAMING

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A Perspective for Racing — So Who in the World Thought Selling Shoes Online Would Work?

Speaker: Craig Adkins; Vice President, Services & Operations, Zappos.com

MR. DOUG REED: Which takes us to today's speaker. In March of this year I attended a retail conference which was hosted here in Tucson by the University of Arizona and I heard the message of a 34-year-old Asian-American, Tony Shea. Tony is the CEO Zappos.com. He could not make the trip to Tucson again today but I'm sure that we'll hear the same great message from Craig Adkins. Craig is the VP of services and operations. It is a success story about an online company, customer service and corporate culture unlike many that we may be familiar with. It's a story that should be transferable to today's wave of online wagering services as well as traditional bricks and mortar racing organizations. Here is an example close to home, June Barham, faculty member Steve's wife, just this past week, Friday actually, ordered a pair of shoes at 1:30, she ordered standard free delivery, they were shipped by 5:30 the same day and the very next day, Saturday, before 7 p.m., she had her shoes; I saw her wearing them last night. It's a great company and it's a great story, so please welcome Craig Adkins.

(Applause)

MR. CRAIG ADKINS: Well, I do have a PowerPoint presentation, it will be up here in a second. Thank you.

Good morning, how is everybody doing today? First question that I have is how many people — trust me, you will not embarrass me by a lack of hands — but how many people have heard of Zappos.com before today? Really? That's kind of astounding. How many people have bought from us? Okay, thank you very much, God bless you by the way. If you looked around the room what that would tell you was that probably well more than half had not heard of us before today. We're a small company, relative industry upstart if you will. We have been around for about 10 years but I want to talk about the history of Zappos, a little bit about our culture and what we stand for. I'm not really here to talk to you about retail.

I was thinking about why in the world would you ask me to come to a Racing and Gaming Symposium, so let me try to draw some of the lines for you. First off, I live in Lexington, Kentucky, anybody know anything about Lexington, Kentucky? I drive by all the horse farms, so I am a horse racing expert because I drive by these horse farms.

My Kentucky office is about 10 miles from Churchill Downs, anybody ever heard of Churchill Downs? I thought that you might of. And my Las Vegas office, my corporate office where I spend most of my time is in Las Vegas, Nevada. So there we are, we've got racing, we've got gaming, we've got the whole gambit covered right there. And also, Zappos.com is a pure play online retailer and its 2009 so if that's not gaming I don't know what is.

So a little bit about Zappos.com; it was founded in 1999 by a frustrated shopper who was looking for a pair of skate shoes, skateboarding shoes, a gentleman named Nick Swinmurn, he was walking around the streets of San Francisco, couldn't find a pair of shoes that he loved, he was fanatical about. He had this bright idea, he said, I think I'll sell shoes online and be able to solve this problem where you can find what you want without going around to a bunch of different stores.

Now, shoes online, if in 1999 someone had come to me and said, How about selling shoes online? By the way, I was in online retail in 1999, I've been with Zappos three years but I've been in the industry for about 10 years or so. If someone had come to me in 1999 and said, let's sell shoes online, I would have said, you're an idiot, it's not going to work, and many people told Nick Swinmurn that it wouldn't work and that he was an idiot as well. Three years ago I became a convert though.

Right now we have about 1,500 employees split evenly between our Las Vegas office and our Shepherdsville, Kentucky, right outside of Louisville, Kentucky, which is where our fulfillment center is. Our motto is that we are powered by service. We don't believe that we're necessarily an online retailer or we're a retailer or we're a shoe company, we believe that we're a service company. So I think that is where the tie that binds your industry and my industry, we're all about service. We care more about service than anything else. We don't have competitors, we don't believe that shoe stores are our competitor, we don't believe that other retailers or other online companies are our companies. We believe that our only competition is bad service and we want to do everything in our power to obviate that.

Some of the things that we believe in is fast, free shipping. As Doug so graciously pointed out, if you order today it will probably go out today. This is our busiest time of the year and I checked — I get an hourly sales report, and hour ago we were \$52,000 ahead of our record day. So today looks like it could be a record day for us. But even with that, if you order today it will go out today and you are likely to have it tomorrow. We don't advertise that we send overnight, we advertise free ground shipping but most everything goes out overnight shipping

anyway and you will most likely get it tomorrow no matter where you are in the country.

Our fulfillment center carries all of our stock. In other words, we don't sell things that other people have put on our Web site. We don't drop ship things, if it is not in our warehouse, you can't see it on our Web site. So that is a key offering that differentiates us from a lot of companies.

We believe in a big selection, we have over 1,200 brands and that oscillates a lot, it goes up and down. We bring in a lot of brands and then we lose a lot of brands, we bring in a lot brands and we are constantly playing around with who are the best brand offerings. The big name brands, they always stay around. We have about 1,200 brands, about 200,000 individual styles and close to one million SKUs. So if you love shoes, we are still about 87 percent shoes, if you think of shoes, you can have a particular shoe in four different colors and eight different size combinations, so that's 32 different variations of that one shoe, so each one of those is an individual SKU. So we have close to one million SKUs and we stock all that in our own warehouse in our fulfillment center. All of our photography, if you've been to our Web site one thing that I hope you had picked up on, the photography is offered in a fairly consistent fashion. The reason we are able to do that is because we take all of our own images. Every time we get a new UPC that we've never gotten before, we take a picture of it in our warehouse in a 15,000 square foot photo studio. The reason we do that is because we have 1,200 brands and if we used stock photography we would have 1,200 different variations of the way the customer sees the goods, so we want to try to make it as consistent an experience as possible, that's part of our service offering.

As I said before, 100 percent of our products are inventoried and they are not drop shipped. So everything that you see online is available for purchase. If we do not have it on our shelf, you cannot buy it.

So this is our main fulfillment center. I'm going to go through these slides really quickly. This is kind of a generic presentation that I have and I go around to a lot of different types of groups, a lot of engineering groups. So the next 10 slides I am going to go through really quickly because they are about the fulfillment center inside. So this is the main fulfillment center. A lot of people when they had not heard of us, they said, Oh, you sell shoes online, it must just be a Web site where you have them shipped from the manufacturer, drop ship everything, we don't because of that service offering. So we do have an 832,000 square foot fulfillment center in Kentucky and this is that. Another picture, you can see the perspective, the length of the building. Some drawings, some inside pictures, some conveyors, lots of boxes, it is a very big building, it has over four million shoes, some of them are kept in static racking, some of them are kept in carousels, different types. So this is a very large-scale operation if you look at this. Ten years ago we didn't even exist, eight years ago we were fulfilling orders by the guy that was in merchandising ordering shoes, pulling it off a shelf behind his desk and sending it to somebody. So this is what it has grown from in just a relatively short period of time.

I guess that you could say that all these conveyors constitute our racetrack too, so there is another correlation. Here is an aerial view of some of the sorting conveying system. This is our shipping area where the final goods are going to the customer, where the labels are automatically applied to the boxes.

Now, this year we've gotten into something new, we're using a robotic system that uses fetching of pods that bring them to the pickers. This is brand new technology, we're only the third company to adopt it and we're very hopeful for it and it proving to be really fantastic technology. So the new operation for Zappos will look like this, not the conveyors, we're probably going to get out of the conveyor business completely, very exciting, very new.

So let's go back to the company a little bit. One of the big things that we like to say is we like our customers to say, Wow, when they order from us. So if you order on Friday and you got it on Saturday, we would hope that made someone go, Wow, I didn't expect that. Especially if you're expecting it in four or five days. We get a lot of Emails from customers, so forth and so on.

Because of this, because we are consistently trying to wow our customers, that's where most of our marketing is. We don't do a lot of advertising. We do have one commercial that is played in some limited markets, you may have seen it on television, on the Discovery Channel and a few other cable networks. We've done some magazine advertising, but for the most part we don't really do any advertising, almost all of our marketing is word of mouth by exceeding customer expectations. So if you really focus on wowing the customers, they not only come back but they tell their friends and their friends tell their friends, and so forth.

On any given day, this is a big thing that Tony likes to talk about, on any given day 75 percent of our customers are repeat customers. Now, in our industry this is huge and this is unheard of because repeat customers are not that big a deal in online retail, maybe 10 to 15 percent, 75 percent is really unheard of. The reason this is really important to us is because it costs a lot of money to go out and find a customer that hasn't heard of you, those more than 50 percent of you that didn't raise your hand, if you haven't heard of us and we have to go out and find you and then drag you into the store and hold your head under water until you buy something from us, that is a very expensive proposition. It costs about \$25 to acquire a new customer, for each customer, in marketing expenses. So if we can do that without marketing but having repeat customers and word of mouth that is very valuable to us. Repeat customers order more frequently, they order about two and a half times in every 12 months and they spend more money than new customers because they have a greater level of trust with you.

So this is our growth since we founded, 1999 is when we were founded. We like to say that we virtually had no sales because it was all about getting started. In 2000, we had \$1.5 million in sales, which is respectable for the first year of operation. If you look at last year we ended with \$840 million, and this year we are projected to do over \$1 billion. In the first week of October if you had asked me if

we were going to hit our \$1 billion goal after everything that was going on in the market, I would have said probably not because things got very soft very fast for a lot of people. Fortunately, even through that we're still growing and we're growing at a fairly comfortable pace. This month is about 20 percent greater sales than comps of last year in December. So we're pretty confident that we'll hit our \$1 billion this year. So we're still a small company, people haven't heard of it, but it is a billion dollar company. So we're very proud of what we've been able to do in a fairly short period of time. It could have grown faster, ironically. I asked when I came to interview — I had to interview with everyone under the sun — I asked the question, why haven't you grown faster if that was possible, and what I was told by the CEO and the board of directors was that they didn't want to grow out of control, we don't want to grow so fast that we can't take care of the customer anymore and we can't wow the customer. So we want to make sure that our growth matches what our capabilities are as far as being able to meet customer expectations.

So we're pretty optimistic about the future, we're expanding into other categories. We're in apparel in a very meaningful way, we're getting into sporting goods, golf clubs, tennis rackets, snow-boards, skis, all kinds of things like that, more so next year than this year. So it is going to continue to expand into those kinds of categories that are natural byproducts of footwear.

Customer service is what's most important to us. Other companies that I'm aware of try to avoid customer contact because it is very expensive. Having a call center is a very expensive proposition. My title is VP of services and operations, which is kind of an ambiguous title, we kind of came up with that out of nothing because my areas of responsibility are the fulfillment center, our call center, all of our technology, including IT, systems administration and so forth. So the call center is very near and dear to our hearts and we invest heavily in it. We have about 400 people in our call center, it runs 24/7. The phone number for the call center is on every single one of our Web pages. Most online companies will not want the customer to call the call center, we want people to call into the call center and we don't have metrics in our call center that most call centers do regarding call resolution time, get them on the phone, get them off the phone, resolve it and get them off the phone as quickly as possible. That, we believe, is counterproductive. I have called other call centers for other reasons, like a technology issue or something like that and I can't tell you how many times I've had to call three times to get satisfaction, right? That's very expensive, so having those quick resolution times, I think, is counterproductive, it's false economy. We let our call reps talk as long as the customer wants to talk. I think our record call is about 4.5 hours, if you can imagine that. That's not normal, the normal is about four or five minutes, the long calls are 12 to 14 minutes.

We do about seven or eight percent of our sales on the phones, ironically. Customers will call and ask for fashion advice. One of the things that we do that is a little bit different than most companies is everybody in the company, no matter what your position, whether you're going to be in merchandising, marketing, IT, whatever, they have to spend their first month in call center training. You spend two weeks in the classroom and two weeks actually taking calls from customers,

that was my first month, and honestly, I was scared to death. Now, I have always been an industrial kind of guy, the guy behind the curtain like in the Wizard of Oz, and I'm very comfortable with being the guy behind the curtain that nobody sees, obviously that is probably the best. The thought of actually talking to a live customer terrified me. After doing it for a week I couldn't wait for the phone to ring because it was such an enjoyable experience talking to the customers and sharing with them. Most of the calls started with a, Hi, I just love your company; well, I can't go wrong from here. The funny thing is, the thing I like to talk about, this is why some of the calls are long, people would call up and say, I have a 14-year-old daughter and I want to buy her a new pair of shoes, prom is coming up or whatever is coming up, what is the hottest trend in fashion for 14-year-olds? I felt like saying, Lady, if you only knew who you were talking to, I don't even dress myself. It was a lot of fun, and that's how a lot of the calls go. One lady — this is another anecdotal story, sorry to drag this on too long — one lady called up and said, I bought a pink purse 10 years ago and I want to know if these pink shoes would match my purse. Now, I am a real big smart Alec and it's almost like Tourette's Syndrome, I can't suppress it, I almost said, Well, lady, if you could hold the purse up to the phone I would be able to tell you if it matched, but I didn't do it. They did train us to what the proper response to that was and the next point was free return shipping. I could easily tell her, I don't know if it will match or not, there is no way of knowing, but if you order it and you get it and you don't like it, you don't have to do anything, put it on your front door step and we'll come get it. You don't have to pay for anything, the shipping is free and you get a refund immediately.

So that's part of our proposition. Now, because of that, a lot of what we sell comes back to us, boomerangs because people will order five, five and a half and six, keep the pair that fits and send the other two back. That's fine, that's part of the price of doing business in apparel and shoes.

We also have a 365-day return policy. Most customers don't use it because they want to get their refund as quickly as possible, so most everything comes back in a couple of weeks. But the fact that we have that, that is one of those factors that we want to wow our customers with.

Fast, accurate fulfillment. We put in five RF scan points for every product that goes out the door before it goes out as quality checks because we want to make sure someone never gets the wrong item.

I have really old eyes and I'm having trouble seeing that right now, sorry. Most customers are upgraded to surprise overnight shipping, as I said before. We do that because, especially first-time customers, we want to make sure that they expect to get it in four days and they get it the next day. We want them to have that wow experience.

Friendly, helpful, above and beyond customer service, as I talked about before. We will occasionally direct customers to other competitive Web sites. You know the Miracle on 34th Street, the old movie where the Macy's Santa Claus tells them to go to Gimble's? Well, that's what we do as well. Somebody calls our Web

site and says, I know exactly what I want, I want a pair of size eight Merrells, this is the style, this is the color, we'll look it up, no we don't have it in stock. Our call reps are trained to look at least three competitive Web sites to help the customer find it somewhere else and then we'll direct it to them, including sending them the link to order it. So it is counterintuitive but you build a reputation on service by doing things like that.

I talked about no call times, no sales based performance, our call reps get absolutely no commission whatsoever, there is no up-selling. We don't even want to have the impression of up-selling. We run our warehouse 24/7, we run our call center 24/7. We inventory everything, we don't drop ship anything.

I talked about the initial four weeks of training, in that we have a lot of core value and culture training as part of that. I'm going to get to that in a minute with this culture book that I will show you the cover of. Later on, if anybody would like, if you e-mail me, I will make sure that you a copy of the culture book, it's about this thick, it's getting very thick.

What it is is every year the employees write a book about what the culture of the company means to them, what the company means to them as employees. We put the good and the bad stuff in there too. The only thing that we'll edit out is expletives with a little squiggly line, asterisks or whatever, there is very little of that. If someone says, I think my boss is a jerk, it goes in there. That's almost unheard of, most of it is kind of gushy, love affair type stuff about the company.

About half of our interviews are based on whether someone is a good fit culturally speaking. So we don't like to bring someone in that is going to be abusive or treat employees poorly or whatever. We want to make sure that it is someone who can drive the business but can also treat people really well.

So we believe in taking care of our employees as much as we believe in taking care of our customers. Now, before I started I heard all of this stuff and everybody talks about this stuff and everyone says it, and you think, Yeah, okay, I've heard it all before, I'll try it out anyway. This is the first company that I have ever worked for in 32 years that really practices what they preach. I'm very proud to be part of this organization.

We get a lot of e-mails from the customers and — by the way, if anyone would like a copy of this PowerPoint presentation, I would happy to e-mail it to you as well when you e-mail me — we get a lot of praise from customers on things that happen, whether it be unexpected upgrades or whether it be flowers sent because of something. We just had one last week where a customer called and said that they needed a comfortable pair of walking shoes because her husband just died and she is going to walk behind the casket; she explained she has foot problems, and our call rep went ahead and spent about a half hour with her picking out a pair of shoes, getting it to her the next day and then she turned around and sent flowers of condolences and a handwritten card to the customer. Well, you can't imagine the response we got because of that. Companies just don't do that and we don't

have a training for that, we don't have a policy for that, no procedure, but our call reps have the flexibility to take care of the customers and do unexpected things like sending flowers. That is not an isolated incident, that happens fairly frequently.

Another story, this is from the warehouse, one of the stories I like to tell. We had a customer order a purse, actually a wallet, and she returned it. Well, unbeknownst to her, she left \$150 in the wallet when she returned it. Now, our returns processing area is fairly manual, people get stuff, they unpack it, they inspect it to make sure it's in new condition, if it's not we will send it to our outlet stores or liquidate it or whatever. As part of that they look inside of things. Our returns processor looked inside this purse and saw that there was \$150 in there. Now, you know as well as I how easy it would have been to take that \$150, go like that, keep your mouth shut, nobody would have ever known anything. But what our processor did was they had all the customer information on their computer screen because they were processing the return, they had her home address and everything, she went to the admin area, got an envelope, wrote it out to her, put a little note about, Hey, you left this in your wallet and I'm sure you're going to need it, and then returned it to the customer. When the customer got that — by the way the customer, when she e-mailed us, she said for three days she was beating the daylight out of her kids because she thought one of them had stolen the money — but she was really impressed that someone would take the time to do that. Again, no policy or procedure around that, obviously we want people to do the right thing. Our employees wouldn't do the right thing if they didn't feel like they were valued and they were in an environment that was meaningful to them.

So one of the things that we've kind of morphed our talking points into is these four things that you need to build a brand that matters no matter what your industry is. One of them is vision, so whatever you're thinking, think bigger. Does the vision have meaning? Chase the vision, not the money. Now, Tony is almost cavalier about saying stuff like this, and I don't know how many people know anything about Tony, but Tony, I think when he was 24 years old he sold a company that he started from scratch after college to Microsoft for \$360 million. So it's very easy for somebody like Tony to say chase the vision, not the money, because he has got all the money he could ever use anyway. But it is really refreshing to be in a place where we don't concern ourselves with a profit as much as we do with building a brand that matters and building the vision. If you do what you are, if you chase your passion, if you do all these things and have a vision, the money will come. Last year, as an example, our profitability in 2007 was higher than expected — by the way we've never, like many other online startup companies, we've never had a year where we didn't break even or turn a profit, so we've always been profitable — last year we had more profit than what we expected so what Tony and the board of directors did was they turned around and they took all of the excess profit and equally distributed it and gave it to the employees based on how much money they earned the previous year. So they got a percentage on their earnings from 2007. So this year everybody got a bonus, and we're talking a five-digit bonus for people that are returns processors and call center reps and things like that. It's very refreshing to be at a place like that.

But have a vision and whatever your vision is, make it ostentatious. You think you want to go here, think way beyond that, what do I want to be beyond that? Have this long-term vision of what I want to be and make bold statements about what you want to be otherwise you're never going to achieve greatness if you don't aspire for greatness is the point.

Point number two, repeat customers. I don't care what the industry is, if you're selling something, a service or a product to a customer, repeat customers are vital to your survival. We talked about that before. So if you have a great product, great service or low prices, you can chase two of these three things; it is almost impossible to do all three, it's very difficult. There are companies that do it but it is almost unheard of. So there are companies that have a great product and they have very low prices but they usually sacrifice on service because service is very expensive. And when I'm talking about service, I'm not talking about just being able to find what you want, I'm talking about concierge-type service where people will lead you to what you want or what you need and help you out every step of the way. You won't find that in discounters is our point. We've obviously gone for the first two on the left, we kind of really not gone after low prices, we are a full MSRP retailer, we don't discount, but that's kind of a conscious decision because people value, even in this tough economy we're growing at 20 percent, so people still value service. Those customers that are super price conscious are not the most loyal customers anyway. So those are not the ones that are in the 75 percent repeat customers. If there was numbers on that graph that you just saw it would have talked about the 75 percent and about how much they spend and about what that equates to. A repeat customer order is about \$140 per item, a new customer order is about \$115 per order. So that differential is very, very meaningful.

Transparency, this is something that is counterintuitive in a lot of industries. Now, I worked for a company prior to Zappos that made you sign a non-disclosure agreement to come in for an interview. What are you going to see in an interview? You can't see anything under the hood? You can't really see any secret sauce. But we don't believe in having secrets, we share all kinds of things. We share metrics, in fact last year shoes.com, one of our main competitors, if you want to think of them that way, their CEO, CFO and COO came in and I gave them a tour of our facility and I gave them some suggestions on how they could do things a little bit better. We believe in whatever you can do for comparable industry to bring them up is going to help bring you up as well. This is kind of the Toyota model, Toyota would do this, they would bring people in from Honda and Mitsubishi and send them through Toyota Production System Training and help them be better engineers and help them make better cars. If we all made better cars, if we were in the car industry, the whole industry would do better, we would do better. So we believe in transparency, we believe in being real, not hiding behind secrecy. We don't believe there is anything to fear. People are going to replicate or copy what you do no matter what. We give tours of both our Las Vegas corporate offices and our Kentucky fulfillment centers. So I made you two offers so far, I would send you the PowerPoint presentation, I said I would send you a culture book, if anybody is in either of those two locations and you would like a tour of our center, if you say that

in an e-mail to me then we can make sure we give you a tour too. We give anybody a tour, anyone who wants to come in.

And culture. We believe in committing to this culture, committable core values. We started with 60 core values which nobody could keep those memorized, remember what they were, how important they were. We've boiled them down or distilled them down to 10 core values, what's important to us, and we've included them as part of our fiber or part of our DNA of a company. All of our employees live by it. These are the three iterations of culture books that we've made in the last three years. The one on the far left was actually a pamphlet about this thick, about five by seven. The one in the middle was about half an inch thick, about seven by seven. And the one on the right is about a 300-page textbook, much larger in size. So it is very interesting, like I said, if you would like a copy of it, we'll send it to you free as well.

So our 10 core values, not to bore you but I will go ahead and run through them really quickly; the first one is deliver wow through service, I talked about that quite a bit. The next is embrace and drive change, we're in a change industry, I think everyone is in a change industry whether they want to believe it or not. You are either changing and growing or your dying, it's one of the two, so you have to embrace and drive change. Create fun and a little weirdness — by the way, the weirdness thing, we're all over that one, that's probably our best one. I don't know if anybody has seen, for the last year we've gotten a lot of press. It started last November, we were on 60 Minutes as companies that cater to x-gen — they don't call them x-geners anymore, the new generation is called Millennials. Have you heard of that one? In 10 years they will come out with another name for the next one. We were on 60 Minutes, then we were on Night Line, we were on Rachael Ray, we were just on Oprah most recently, the common thread in all that is kind of our weirdness. We have office parades and goofy stuff that we do, parties and everything, it's kind of part of the fiber of the company. You would think that would make us really inefficient but if you look at the warehouse where we have like superheroes busting out of walls and all kinds of crazy stuff there. We have a karaoke stage in the middle of our warehouse that people can go to and start doing karaoke any time they want. You would think that would lend to a lot of inefficiencies, the ironic thing is that if I look at the efficiencies of the warehouse — this is the one thing that I do know about, I came out of manufacturing, I have been in online retail for 10 years running fulfillment centers, I am very much an engineering-type person — that we're actually more efficient than any operation that I have ever been a part of or anything that I've ever benchmarked. So there is something to making sure that people are happy, happy cows make great cheese.

Be adventurous, creative and open-minded, this is another one. Make sure that you take those calculated risks, you know. Make sure that you are open to new thoughts and new ideas, how else are you going to grow and explore new boundaries?

Pursue growth and learning. We have something called Zappos University where we give classes in all kinds of stuff. Eventually when we get a little bit

bigger I would like to do tuition matching where we can send those to college that have never been, so forth and so on.

Build open and honest relationships with communication; we don't believe that there is anything taboo that can't be said. I've had call reps come to me and say, Hey, I am really not happy and here's why. It's like, Fine, let's talk about it. People should always be able to be open without fear of reprisal.

Build a positive team and family spirit. This is the first company that I've ever felt like I work with family. Now, my own family I couldn't work with, but my Zappos family is very much a part of my family now. I just realized that after three years I don't really have any non-Zappos friends anymore. It is almost like a cult, you know? Your non-cult friends kind of shun you; it's kind of become the same type of thing. I guess you could say that I've been drinking the Kool-Aid for three years. We definitely have a family spirit; all of my best friends are fellow Zappos employees and workers. And not just executives, some of them are grass roots level people as well.

Do more with less, who doesn't believe in that? Especially in this economy, we try to find ways to make things as efficient and effective as possible.

Be passionate and determined. Be like that dog with the bone in your mouth, don't let go, keep working.

And then, be humble. My joke along this — this is probably the one that we're all worst at — my joke along this is no one is more humble than I am. That's very hard to remember. We really don't know everything; we really don't know all the wisdom of the world and everything even though that sounds like what I'm trying to push. We have to remember that humility is very important.

Another story that I would like to tell you, this is another true story. Tony was in San Francisco earlier this year with some executives from a shoe company, I'm not sure which shoe company it was but it was a very large shoe company. So they were in San Francisco and they went out, I think there might have been alcohol involved, I don't know. They came back to their hotel and Tony had a suite and they were sitting around talking before everybody went their separate ways to their own rooms. It was about 11:30 at night and somebody said, I would really like a pizza. So they called down to room service and the desk said that room service closes at 11 o'clock, we don't have anything for you. Okay, that was it, it was the end of the conversation. So they hung up and they were joking around. They said, I should call the Zappos call center because you guys believe in customer service and they all laughed about, yucked it up, and somebody — this is where I think the alcohol had something to do with it — somebody got on the hotel phone and put it on speakerphone and called the customer call center.

Now, the call rep that got this call didn't know who they were talking to, they thought they were just talking to some random drunk person in San Francisco. They didn't know that their own CEO was in the room, they didn't know that this

guy was a CEO of a shoe company that they did business with; they didn't know any of that. Even Tony didn't expect it to go very far, he thought, okay it's a funny joke, have your fun.

So this guy calls and says, Hey, I'm in San Francisco, room service says that they won't bring a pizza to me, I would really like a pizza, what can you do for me?

You know, there is a slight pause, the call rep says, You know, this is Zappos.com and we're an online retailer and mostly we sell shoes, we don't sell any pizza at all.

Typical response, right? In a nice way.

He said, Yeah, I know, but it's late, it's 11:30, it's San Francisco and I'm really craving a pizza, they even told them the hotel they were at and everything.

So the call rep said, Can you hold on for a second?

Sure, no problem.

So they put them on hold, about three or four minutes go by and the call rep comes back and says, Okay, what hotel are you staying at? What room are you in? I have five pizza places, I went ahead and called them all, they are all within 10 blocks of you, they are all still working, they'll deliver in the next 30 minutes, I personally recommend this one because I used to live in San Francisco and I'm familiar with it. Would you like me to order it for you?

So everybody in the room has their mouth hanging open, they didn't expect that to happen. So that's the kind of thing that we want to happen as a result of culture, as a result of these core values. Those are the kinds of stories that we love to tell, it's a true story. I don't think that I embellished it or anything more than it was. Tony tells it better because he was actually sitting in the room. It's a great story of customer care and they are not even going to make a sale out of this call but yet they took 10 minutes of their time to take care of this person, this random crazy, drunk person.

As I said before, we don't want to be afraid to talk to the customer, talk to your customer, find out where their heads are, find out what they want. Don't assume what they want and shove it down their throat, find out what they want and give it to them. We get a lot of things from our customers, we're doing a lot of social stuff now with Zappos T.V., on our blogs, we do a lot of video and everything. Most of the blogs are about the weird part of our core values. Twitter, those of you familiar with Twitter, it's a social networking site, we're all over Twitter. More than 60 percent of our employees are on Twitter and they just talk back and forth kind of randomly. Facebook, all these social networking sites are very important in today's generation and they are driving a significant portion of our sales at this point. Connecting with the customer is very, very important.

So the last thing that I'll share with you is we have 10 things that we've learned in e-commerce, and I think a lot of these are transferable to other industries. E-Commerce business is built on repeat customers, I believe any business is built on repeat customers. Word of mouth really works online, especially when you talk about social media, social networking.

Don't compete on price, it doesn't work, it's a short-term thing, it is not a sustainable model, you have to spend too much money dragging new people in to tell them about your low prices.

Make sure your Web site inventory is 100 percent accurate. Centrally locate your distribution, which we've done, we did it all in the Louisville area. For those of you that don't know why Louisville, Kentucky, it's because UPS has the world's largest air package handling center 10 miles from our center. We can get packages from Louisville, Kentucky to Los Angeles faster than we can get them from Las Vegas to Los Angeles. We did central distribution for that very point, for customer service. Customer service is an investment, not an expense. We need to think about that as an investment.

Start small, stay focused, which is what we've done. We've grown very slowly even though we're a billion dollar company, we still have grown very slowly and we've tried to contain that growth.

Don't be secretive, don't worry about competitors. We talked about that quite a bit.

You need to actively manage your company culture, whatever you want your culture of the company to be, whatever organization you're in, you have to actively manage it. I read a book one time where they were talking about if you have some protestors outside your office you have one of two choices, or some sort of dissention going on, you can either take a defensive posture and hole yourself up in your office or you can get out front and make it look like a parade. With our culture we try to get out and define what the culture is and try to make it look like a parade with our employees.

Be wary of so-called experts, including us, we are — in the interest of humility — we know just about as much as anybody else and hopefully the thing that we have really gotten the point across is about customer service and taking care of customers and wowing the customers.

So if you want to e-mail me, that's my email address, cadkins@zappos.com. If you want a copy of this presentation, a copy of the book or tours, just e-mail me. You can follow Zappos, which is our company president, at [Twitter.zappos.com](https://twitter.com/zappos.com), if you want to look at his Twitter. By the way, we kind of sneak this one in here, job opportunities, anybody looking for a job? We're always recruiting.

That's all I have, does anybody have any questions for me? Is this a good time for Q&A, Doug?

A VOICE: Are you on the stock exchange?

MR. ADKINS: No. We are a privately held company. We get that question a lot. Are we publicly traded? Can I buy stock? We have not gone public, I don't know that we have any desire to, we kind of like being private. The other thing, if you look at the last nine months, there hasn't been an IPO in the United States, there is probably a good reason for that too at this point. Maybe someday, don't know, but right now we are privately held.

A VOICE: About how much do you spend on marketing and of course other than repeat business being your biggest tool in terms of advertising?

MR. ADKINS: It is not that I want to be secretive; I don't have those numbers off the top of my head. He asked how much we spend on marketing. As I alluded to, our marketing budget is very small. If you look at traditional marketing in terms of advertising and print or media, it is almost nothing. Where we spend all of our marketing budget on besides wowing the customer, is on ad word placement, Google searches, things like that. So if you Goggle anything that has anything to do with below the ankles, we'll be the entire first page. That's where we spend most of our marketing.

A VOICE: What challenges have you encountered in expanding beyond your core product?

MR. ADKINS: That's a great question. We were 100 percent shoes for a long time. Because of that our technology, our database, everything is catered to shoes. Now, when you get into other mass market types of stuff or other categories there is a lot of problems with that. Our systems, our technology systems were not necessarily that great for other categories because you think of shoes as color, size, variations, all these other kind of stuff. When you get into other stuff you don't have those same types of things, you have other issues that you have to deal with and our database isn't really designed for that, so that's problem number one.

Problem number two is all of our mechanical systems were designed for shoe boxes, no matter what the category if it came in a box this size it would be beautiful, no problem. The problem is that golf clubs don't come like that. So we've had technology issues with that, that is one of the reasons that we've gone to that robotics system that you saw there, it is very adaptable, very flexible.

A VOICE: Have any of your competitors reciprocated by sending referrals to your company?

MR. ADKINS: Not that I know of. Great question, I don't know. Not that I know of. We don't even look at the competitors, so I don't know. I don't like driving with my eye on the rearview mirror.

A VOICE: Inaudible.

MR. ADKINS: With 1,200 brands — first off, I would never answer that question without offending somebody — there is supply chain with 1,200 brands, it's not a chain, it's a web. And by the way — let's talk shoes for a second — one shoe company could have the exact same thing made in three different countries and deliver them to you from three different directions. Literally, the same shoe can be manufactured in China, Brazil or Italy. When we order we can get them from any one of the three. So some of them are better than others, some are more competent. The smaller the company, like designer brands, really couture designer brands, those are the most difficult to work with because, barcodes, we don't need no stinking barcodes. Things like that. The bigger the company, the deal with chain stores, those are really easy to work with because they are very process driven.

A VOICE: Did the customer service representative get a call from the CEO? The pizza?

MR. ADKINS: No. That's a great question. No, we've identified who it is and there are many jokes around that person. So they've gotten other kinds of recognition. Now, the lady that did the \$150 and returned it, we identified her and we sent her to the movies, gave a day off, some stuff like that, thanked her more than anything else. Of course, she didn't do it for any of that.

A VOICE: I'm from Canada and I hadn't heard about Zappos. My wife likes to buy shoes and I'm not sure I'm going to tell her about you. Do you do business up in Canada, because I never heard of you?

MR. ADKINS: We have a Canadian site, I want to say that it is zappos.canada, I'm not sure. If you do Zappos and Canada in Google, it will take you to our Web site. It is a very small offering because shipping to Canada is very restrictive, it's very difficult so we only have a certain amount of our product offered in Canada. Now, if you know someone who lives across the border that you're good friends with, you can order anything and have it delivered to them, drive down and get it.

By the way I hear that a lot, I wish my wife had never heard of you.

A VOICE: I checked out your CEO's Twitter page, the first thing that was up there was that he was heating up a piece of pizza on an iron. He clearly likes pizza in a hotel room.

MR. ADKINS: That's probably his house.

A VOICE: Number two, embracing one of the problems right now, a question on stakeholders and pricing of the product and getting it on all the platforms to people that can consume it. Do you find that sticking to MSRP keeps you from having to haggle with your suppliers and keeps the quantity of what you are able to offer at a consistent level?

MR. ADKINS: It does. Many of the vendors and especially if you get into the higher end brands, if you discount they will drop you like a rock. They are very conscious of preserving their brand. So companies that will deeply discount their items they won't sell to anymore.

A VOICE: Inaudible.

MR. ADKINS: Quite a few. Although we don't have any control over that because we deal with the brands. Clarks is a big one that is made in the United States, even though Clarks is an English company, a lot of their manufacturing is in the United States. There are others too but I don't know them off the top of my head.

Thank you everybody.



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