Delivering Happiness
A Path to Profits, Passion and Purpose

THE SUMMARY IN BRIEF

In 1999, Tony Hsieh (pronounced Shay) sold LinkExchange, the company he co-founded, to Microsoft for $265 million. He then joined Zappos as an adviser and investor, and eventually became CEO.

Zappos is an online retailer that’s doing more than $1 billion in gross merchandise sales annually. After debuting as the highest-ranking newcomer on Fortune magazine’s annual “Best Companies to Work For” list in 2009, Zappos was acquired by Amazon in a deal valued at more than $1.2 billion.

In Delivering Happiness, Hsieh shares the different lessons he has learned in business and life, from running a pizza business, through LinkExchange, Zappos and more. Fast-paced and down-to-earth, Delivering Happiness shows how a very different kind of corporate culture is a powerful model for achieving success — and how by concentrating on the happiness of those around you, you can dramatically increase your own level of happiness.

Ultimately, Hsieh shows how using happiness as a framework can help leaders in organizations of all sizes and types produce profits, passion and purpose both in business and in life.

IN THIS SUMMARY, YOU WILL LEARN:

• How to make customer service the responsibility of the entire company — not just one department.
• How to help employees grow — both personally and professionally.
• How to apply research from the science of happiness to running a business.
• How to focus on company culture as the No.1 priority.
• How an emphasis on corporate culture can lead to unprecedented success.
Introduction: Finding My Way

Wow, I thought to myself. The room was packed. I was on stage at our all-hands meeting, looking over a crowd of 700 Zappos employees who were standing up cheering and clapping. A lot of them even had tears of happiness streaming down their faces.

Forty-eight hours ago, we had announced to the world that Amazon was acquiring us.

In November 1998, LinkExchange, the company that I’d co-founded, was sold to Microsoft for $265 million after two and a half years. Now, in July 2009, as CEO of Zappos.com, I had just announced that Amazon was acquiring Zappos right after we had celebrated our 10-year anniversary. (The acquisition would officially close a few months later in a stock and cash transaction, with the shares valued at $1.2 billion on the day of closing.) In both scenarios, the deals looked similar: They both worked out to about $100 million per year. From the outside, this looked like history repeating itself, just at a larger scale.

Nothing could be farther from the truth. To all of us in the room, we knew it wasn’t just about the money. Together, we had built a business that combined profits, passion and purpose. And we knew that it wasn’t just about building a business. It was about building a lifestyle that was about delivering happiness to everyone, including ourselves.

Time stood still during that moment on stage. The unified energy and emotion of everyone in the room was reminiscent of when I’d attended my first rave 10 years earlier, where I’d witnessed thousands of people dancing in unison with everyone feeding off of each other’s energy. Back then, the rave community came together based on their four core values known as PLUR: Peace, Love, Unity, Respect.

At Zappos, we had collectively come up with our own set of 10 core values [see sidebar, page 2]. Those values bonded us together and were an important part of the path that led us to this moment. Looking over the crowd, I realized that every person took a different path to get here, but our paths somehow all managed to intersect with one another here and now. I realized that the path that got me here began long before Zappos and LinkExchange. I thought about all the different businesses I had been a part of, all the people who had been in my life and all the adventures I had been on. I thought about mistakes that I had made and lessons that I had learned.

As all the eyes in the room were on me, I tried to trace back to where my path had begun. In my mind, I was traveling backward in time searching for the answer. Although I was pretty sure I wasn’t dying, my life was flashing before my eyes. I was obsessed with figuring it out and I knew I had to do it this very moment, before the energy in the room dissipated, before time stopped standing still. I didn’t know why. I just knew I needed to know where my path began.

And then, right before reality returned and time started moving again, I figured it out.
Section I: Profits

During my junior and senior year in college, I took over the Quincy House Grille, which was an eating area on the ground floor of the Quincy House dorm. Our dorm housed about 300 students and the Quincy House Grille was a late-night gathering spot for students to play foosball and pinball, and satisfy their late-night cravings.

One of my roommates, Sanjay, ran the grill with me. We were responsible for setting the menu and prices, ordering from suppliers, hiring employees and occasionally making the food ourselves.

At the time, a city ordinance prevented fast-food establishments from opening up anywhere near campus, so I decided to take the subway to the next stop to the nearest McDonald’s. I talked to the manager there and he sold me 100 frozen McDonald’s hamburger patties and buns, which I loaded into a taxicab and brought back to our dorm. For a couple of months, this was part of my daily routine. Because there was no other place on campus to get McDonald’s burgers, I was able to charge $3 for burgers that cost me $1 to buy.

I eventually got tired of making the daily runs to McDonald’s, so I decided to see what it would take to turn the grill into a pizza business instead. I learned that pizzas were very high-margin. A large pizza costs less than $2 to make but could be sold for $10 (or more with additional toppings). And even more money could be made by selling pizzas by the slice. After some research, I discovered it would cost about $2,000 to invest in pizza ovens. It seemed like it was worth the risk, so I took a deep breath and wrote a check for $2,000.

I also wanted to make the grill more of a place where people wanted to hang out, so I spent many nights recording music videos from MTV onto videotape, pausing the recording anytime a commercial came on because this was the pre-TiVo era. The videos playing in the background turned out to be a big hit and, combined with the new pizza offering, we ended up tripling sales at the grill compared with the previous year. The $2,000 investment was recouped within a couple of months.

It was through the pizza business that I met Alfred, who would eventually join Zappos as our CFO and COO. Alfred was actually my No. 1 customer, and he stopped by every night to order a large pepperoni pizza.

I found out several years later that Alfred was taking the pizza upstairs to his roommates and selling it off by the slice. So I guess that’s why we ended up hiring him as our CFO and COO at Zappos.

Zappos Core Values

While there are many subcomponents to each value, we’ve distilled the most important themes into the following 10 core values:

1. Deliver WOW Through Service.
2. Embrace and Drive Change.
3. Create Fun and a Little Weirdness.
4. Be Adventurous, Creative and Open-Minded.
5. Pursue Growth and Learning.
6. Build Open and Honest Relationships with Communication.
10. Be Humble.

Ideally, we want all 10 core values to be reflected in everything we do, including how we interact with each other, how we interact with our customers, and how we interact with our vendors and business partners.

This Thing Called the World Wide Web

As the end of my senior year in college approached, Sanjay introduced me to this thing called the World Wide Web. I thought it was a pretty interesting and fun thing to explore at the time, but I didn’t pay too much attention to it.

Sanjay and I decided to interview mostly with technology companies. My goal was to find a high-paying job. I didn’t really care what my specific job function was, what company I worked for, what the culture of the company was like or where I ended up living.

I just wanted a job that paid well and didn’t seem like too much work.

You Win Some, You Lose Some

Sanjay and I both got offers from Oracle.

On the first day of my real job at Oracle, I was shown my desk and told what my ongoing tasks and responsibilities would be. I was making good money. And within a week, I learned that it was actually easy money too.

I felt that I had lucked out because I had such an easy schedule, whereas Sanjay usually wouldn’t get home until 7 p.m. I would occasionally ask him how his job was, and he’d shrug and say something like “It’s OK. Not that exciting.”
I told him that my job was really not that exciting either, but maybe we could work on something during the evenings and weekends together for fun to help combat the boredom.

The Idea Behind LinkExchange

The idea behind LinkExchange was pretty simple. If you ran a website, you could sign up for our service for free. Upon signing up, you would insert some special code into your Web pages, which would cause banner ads to start showing up on your website automatically.

Every time a visitor came to your website and saw one of the banner ads, you would earn half a credit. So, if you had 1,000 visitors come to your website every day, you would end up earning 500 credits per day. With those 500 credits, your website would be advertised 500 times across the LinkExchange network for free. This was a great way for websites that didn’t have advertising budgets to gain additional exposure for free. The extra 500 advertising impressions left over would be for us to keep. The idea was that we would grow the LinkExchange network over time and eventually have enough advertising inventory to hopefully sell to large corporations.

Sanjay and I finished all of our computer programming for our experiment in one weekend, and then we sent e-mails to 50 of our favorite small websites that we found while surfing, asking them if they’d like to help test out our new service.

To our surprise, more than half the websites we e-mailed signed up to help us test out the service within 24 hours. As people visited their websites and saw the banner ads, word started to spread about LinkExchange. Within a week, we knew that our project, which was initially meant to fight boredom, had the potential to turn into something big. We decided that we should focus all of our energy on making LinkExchange a successful business.

Rapid Growth

The good news was that the people we hired were smart and motivated. The bad news was that many of them were motivated by the prospect of either making a lot of money or building their careers and résumés. They wanted to put a few years of hard work into LinkExchange and then move on to their next résumé-building job at another company. Or, if things worked out well, make a lot of money and retire. We continued to grow and hire more and more people, and eventually in 1998 we had more than 100 employees in the company.

One day, I woke up after hitting the snooze button on my alarm clock six times. I was about to hit it a seventh time when I suddenly realized something. The last time I had snoozed this many times was when I was dreading going to work at Oracle. It was happening again, except this time, I was dreading going to work at LinkExchange.

This was a really weird realization for me. I was the co-founder of LinkExchange, and yet the company was no longer a place I wanted to be at. It wasn’t always like this. How did things change so quickly? What happened? How did we go from an “all-for-one, one-for-all” team environment to one that was now all about politics, positioning and rumors?

Bidding War

Over the previous two years, we had built pretty good relationships with people from Yahoo!, Netscape and Microsoft. Each of those companies had shown a lot of interest in what we were doing and was interested in figuring out strategic partnership opportunities.

To our surprise, all three of the companies said they were interested in possibly investing in our mezzanine round of financing. Even more surprising, Netscape and Microsoft both said that they were even more interested in buying the entire company outright.

We told them that the price tag was going to be at least $250 million. I’m not sure how we came up with that number, but it sounded good to me, and I guess it was a good sign that Netscape and Microsoft both said they wanted to continue talking.

They ended up getting into a bidding war.

In the end, Microsoft offered the biggest number — $256 million — but there were some strings attached to it. They wanted Sanjay, Alfred and me to stay with LinkExchange for at least another 12 months. If I stayed the entire time, then I would walk away with close to $40 million. If I didn’t, then I would have to give up about 20 percent of that amount.

Even though LinkExchange was no longer fun for me, I figured that I could stick around for another year at that rate.

The deal was signed a few weeks after our negotiations with Microsoft began. Compared with other acquisitions that Microsoft had done, the LinkExchange acquisition was done in record time, despite some behind-the-scenes drama internally.
Diversify

Although connecting with my new tribe of friends played a big role in increasing my level of happiness, I missed not actually being part of creating something. Just sitting on the sidelines and investing was boring. I wanted to be part of building something, and creating the Venture Frogs Incubator [an incubator and investment firm] was an important piece to building my own universe.

Creating a Universe

In addition to signing the lease for the office space of our future incubator, Alfred and I also signed a lease for a restaurant in the same building, which we would call Venture Frogs Restaurant. We hired a handful of employees to keep the incubator offices up and running.

We were creating our own universe.

With the Zappos crew moving into our building (initially into the converted party loft, and then eventually into the incubator office space), I started spending more and more time with the company.

In April 2000, the high-flying dot-com stocks started to crash in the stock market, causing widespread panic throughout Silicon Valley. Many companies went out of business, and the venture-capital firms that we were counting on to take our portfolio companies to the next level scaled back and refused to provide additional funding for almost all of our investments.

A couple of companies moved into our new incubator office space, but without additional funding, they stopped paying their bills and went out of business a few months after that.

Eventually, Zappos was the only company left in the incubator and we weren’t optimistic about the prospects of any other companies moving in anytime soon. It was a bad situation for our fund, for the incubator and for Zappos.

A Success Story

Even though LinkExchange had been a bad experience from a culture perspective, financially it was a success story. Alfred and I had used our credibility from the LinkExchange sale to raise the $27 million for our first fund, so we naturally assumed that it wouldn’t be that hard to raise money for our second fund.

We were wrong.

I started to have feelings of self-doubt. I wondered whether I had just gotten lucky with LinkExchange. Was I just a dot-com lottery winner who happened to be at the right place at the right time?

Alfred and I had continued to keep in touch with Michael Moritz at Sequoia Capital about Zappos, and despite the progress that Zappos was making, Sequoia was still not interested in investing.

I believe with all my heart that Zappos had a great shot at succeeding. I felt that I needed to prove to myself and to Sequoia that the financial success of LinkExchange was not a fluke, that it wasn’t just dumb luck. I wanted to prove to the world that I could do it again.

So I decided to take off my investor and adviser hat and put on my entrepreneur hat again. I joined Zappos full-time later that year. I decided that Zappos was going to be the universe that I wanted to help envision and build. It would be the universe that I believed in.

My search during the past few months was finally at an end. I had figured out what I wanted to focus on for at least the next few years. I had discovered my new passion.

I was passionate about proving everyone wrong.

Section II: Profits and Passion

The next two years were stressful at Zappos. We were just focused on survival. We knew we had no choice but to succeed. We went through a recession, the dot-com stock market crash and 9/11. At every turn, it felt like the universe was testing our commitment and our passion.

Looking at the company’s financials, it became pretty clear that just focusing on cutting expenses wasn’t going to get the company to profitability. We needed to figure out a way to grow sales.

As I sat in the office at my desk pondering what to do next, I turned to Fred [Mossler, a Zappos executive].

I broke the ice. “So … any ideas on how to increase sales more quickly?”

Fred looked pensive. “I come from a merchandizing background. I like to say that all we need is the right product at the right time in the right quantity and the sales will take care of themselves. The problem is that we don’t carry the brands or the styles that I know will sell. We just don’t have the right products to offer our customers.”

“How do we get the right products?”

“The problem is that a lot of the brands that we want to carry can’t drop ship,” Fred said. “Their systems and warehouses aren’t set up to send the orders from their warehouse directly to our customers. And even for the brands that can drop ship, usually they’re sold out of their best stuff, so we wouldn’t be able to offer those styles to our customers.”
I paused for a moment to think about what Fred was saying. “So how come all the brick-and-mortar stores are able to offer all the best-selling brands and styles?”

I asked.

“Because they hold and own the inventory,” Fred explained. “The brick-and-mortar retailers future out their orders ahead of time, pay for the inventory and take the inventory risk. If a retailer isn’t able to sell something, then that’s the retailer’s problem, not the brand’s or wholesaler’s problem. But we can’t do that because that’s not our business model.”

“So … what if we did that?” I said, thinking out loud. “What if we carried all the inventory of the brands and styles you wanted? How much do you think our sales would go up by?”

“Oh, we’d easily triple sales, no question,” Fred said without hesitation. “Probably even more than that.”

“OK, let’s figure out what we need to do to make that happen. If changing our business model is what’s going to save us, then we need to embrace and drive change.”

**Improvising Inventory**

Fred was right. By a lot. Our sales did much more than just triple. In 2000, we did about $1.6 million in gross merchandise sales. In 2001, we ended up doing $8.6 million in gross merchandise sales. Our growth rate surprised even us, and everyone was excited about our new business model, which combined drop shipping with selling inventoried products.

Even though our sales were up, we still weren’t cash-flow positive because we had to pay for all the extra inventory that we were buying in order to fuel our sales growth. But we knew we were on the right path.

Our strategy of combining inventoried product with drop shipped product continued to drive our sales growth. We ended up doing $32 million in gross merchandise sales in 2002 — almost four times what we had done in 2001.

Internally, we set an audacious long-term goal for Zappos: $1 billion in gross merchandise sales by 2010. It was a big number, but based on our growth rates so far, we felt confident that we could get there. Everyone could feel it: We were at a turning point for the company.

Whatever was going to happen over the next year would either make or break Zappos.

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**Platform for Growth: Brand, Culture, Pipeline**

Over the years, the No. 1 driver of our growth at Zappos has been repeat customers and word of mouth. Our philosophy has been to take most of the money we would have spent on paid advertising and invest it into customer service and the customer experience instead, letting our customers do the marketing for us through word of mouth.

So what is great customer service?

It starts with what customers first see when they visit our website. In the United States, we offer free shipping both ways to make the transaction as easy as possible and risk-free for our customers. A lot of customers will order five different pairs of shoes, try them on with five different outfits in the comfort of their living rooms and then send back the ones that don’t fit or they simply don’t like — free of charge. The additional shipping costs are expensive for us, but we really view those costs as a marketing expense.

**365-Day Return Policy**

We also offer a 365-day return policy for people who have trouble committing or making up their minds.

At most websites, the contact information is usually buried at least five links deep and even when you find it, it’s a form or e-mail address that you can only contact once. We take the exact opposite approach. We put our phone number (1-800-927-7671) at the top of every single page of our website because we actually want to talk to our customers. And we staff our call center 24/7.

It’s kind of funny when I attend marketing or branding conferences and I hear companies talk about consumers being bombarded with thousands and thousands of advertising messages every day, because there’s usually a lot of discussion among companies and ad agencies talking about how to get their message to stand out.

**Customers Remember the Experience**

There’s a lot of buzz these days about “social media” and “integration marketing.” As unsexy and low-tech as it may sound, our belief is that the telephone is one of the best branding devices out there. You have the customer’s undivided attention for five to 10 minutes, and if you get the interaction right, what we’ve found is that the customer remembers the experience for a very long time and tells his or her friends about it.

Too many companies think of their call centers as an expense to minimize. We believe that it’s a huge untapped opportunity for most companies, not only...
Section III: Profits, Passion and Purpose

In early 2009, we made Fortune magazine’s “100 Best Companies to Work” list. We were the highest-ranking debut in 2009. At our offices, we were thrilled because that was an internal goal we had set in the early days of the company, and it came just one month after we hit our $1 billion in gross merchandise sales goal, well ahead of schedule.

Jeff Bezos, founder and CEO of Amazon, first contacted me back in 2005 and paid us a visit in Las Vegas. Even before he flew down, we let him know that we weren’t looking to sell the company.

When we started talking to Amazon in early 2009, however, both sides seemed to have a different perspective compared with several years ago.

On the Amazon side, they seemed to be more open to the idea of us continuing to run as an independent entity so that we could continue building the Zappos culture and business the way we wanted to. They had been following our progress over the years and saw that our approach to business was working for us.

On the Zappos side, what mattered the most was continuing to do what we were doing for our employees and our customers while gaining access to Amazon’s vast resources.

In our minds, we thought of a potential acquisition scenario more as a great marriage than as selling the company.

Even though our original goal was to buy out just our board of directors and the shares that they held and represented, the more we thought about it, the more that joining forces seemed to make sense. By doing so, all parties would be 100 percent aligned, which was the whole challenge that we were trying to overcome with our current board of directors.

We had originally been resistant to the idea of exploring an acquisition scenario with Amazon, but Michael Moritz convinced us that it could end up being mutually beneficial and the best possible outcome for shareholders and employees. (And, as it would turn out, he was right.)

Halloween Toast

On Oct. 31, at 11:59 p.m. Pacific Time, after months of waiting for regulatory approval, the deal with Amazon officially closed. The total value of the transaction for Zappos shareholders was more than $1.2 billion, based on Amazon’s closing stock price the day before.

I happened to be in New Delhi, India, at the time. Alfred, Fred and I had scheduled a conference call together to commemorate the event. In Zappos’ tradition, we had planned to take a shot of Grey Goose vodka together over the phone.

We all toasted. It was official. Zappos and Amazon were married. We could finally start working together to combine our respective strengths of art and science, of high-touch and high-tech.

We were excited about the possibilities of what was yet to come.

We were excited about what we were about to build together.

The future was waiting for us.

End Game

In 2007, I started getting interested in learning more about the science of happiness.

I started reading more and more books and articles about it.

And then one day, it hit me. It had everything to do with Zappos.

Happiness is really just about four things: perceived control, perceived progress, connectedness (number and depth of your relationships) and vision/meaning (being part of something bigger than yourself).

Happiness Framework

What’s interesting about this framework is that you can apply these concepts to your business as well.

• Perceived Control. In our call center, we used to give raises once a year to our reps, which they didn’t really have any control over. We later decided to implement a “skill sets” system instead. We have about 20 different skill sets (analogous to merit badges in the Boy Scouts), with a small bump in pay associated with each of the skill sets. It’s up to each individual rep to decide whether to get trained and certified on each of the skill sets. If someone chooses not to get any, then he or she simply stays at the same pay level. If someone is ambitious and wants to
gain all 20 skills sets, then we let the rep decide on the right place to achieve that. We’ve since found that our call center reps are much happier being in control of their pay and which skill sets to attain.

- **Perceived Progress.** In our merchandising department at Zappos, we used to promote employees from the entry-level position of merchandising assistant to the next level of assistant buyer after 18 months of employment (assuming that they met all the requirements to qualify for the promotion). We later decided to give smaller incremental promotions every six months instead that together were the equivalent of the previous single promotion. After 18 months (three six-month periods of smaller promotions), the end result was still the same — in terms of training, certification and pay — as the previous promotion schedule. We’ve found that employees are much happier because there is an ongoing sense of perceived progress.

- **Connectedness.** Studies have shown that engaged employees are more productive and that the number of good friends an employee has at work is correlated with how engaged that employee is. This is one of the reasons why we place so much emphasis on company culture at Zappos.

- **Vision/ Meaning.** The books *Good to Great* and *Tribal Leadership* discuss how a company with a vision and a higher purpose beyond money, profits or being No. 1 in a market is an important element of what separates a great company (in terms of long-term financial performance) from a good one.

**Delivering Happiness to the World**

My hope is that through *Delivering Happiness*, established businesses will look to change the way they are doing things, and entrepreneurs will be inspired to start new companies with happiness at the core of their business models, taking with them some of the lessons I’ve learned personally as well as the lessons that we’ve collectively learned at Zappos. My hope is that more and more companies will start to apply some of the findings coming out of the research in the science of happiness field to make their business better and their customers and employees happier.

My hope is this will not only bring **you** more happiness, but also enable you to bring other people more happiness.

Hopefully I’ve succeeded in getting you to start asking yourself the right questions.

Are you working toward maximizing your happiness each day?

What is the net effect of your existence on the total amount of happiness in the world each day?

What are your values?

What are you passionate about?

What inspires you?

What is your goal in life?

What are your company’s values?

What is your company’s higher purpose?

What is your higher purpose?

I hope you are now inspired to …

… make your customers happier (through better customer service) or …

… make your employees happier (by focusing more on company culture) or …

… make yourself happier (by learning more about the science of happiness).

**Epilogue**

As a guiding principle in life for anything I do, I try to ask myself, *What would happen if everyone in the world acted in the same way? What would the world look like? What would the net effect be on the overall happiness in the world?*

This thought experiment has been useful to me when thinking about whether to share how we do things at Zappos, or whether to get upset at the waitress who accidentally got my order wrong, or whether to hold the door open for a stranger who’s a slightly inconvenient distance away.

The same questions are just as important for deciding what **not** to do, even if not doing anything is the default choice.

**Join the Movement**

The ideas for delivering happiness could end here. You can choose to do nothing and move on with the rest of your life or you can be a part of a movement to help make the world a happier and better place. The choice is yours.

**Recommended Reading List**

If you liked *Delivering Happiness*, you’ll also like:

1. *Enchantment* by Guy Kawasaki. The entrepreneurial expert and former Chief Evangelist for Apple reveals how to change hearts, minds and actions in a series of captivating tales from real-world successes.

2. *Overpromise and Overdeliver* by Rick Barrera. Barrera teaches readers the art of making sure that every point of contact between a company and its customers is well executed and fulfills an over-the-top brand promise.

3. *Change the Culture, Change the Game* by Roger Connors and Tom Smith. The authors reveal how to transform your entire organization through each level of the Results Pyramid: Experiences, Beliefs, Actions and Results.