

Lacing Up a Few Million

As told to Darren Dahl

Monday, October 30, 2006

from **Inc.com**



Zappos.com CEO and director, Tony Hsieh

www.zappos.com

info@zappos.com

Business Type:Apparel and E-Commerce

2005 Revenue:\$251.6 million

No. of Employees:800

More from **Inc.com**

- [Businesses to Die For](#)
- [Great Gadgets for Road Warriors](#)
- [The Best Office Perks](#)

In 1999, Tony Hsieh was a 24-year-old millionaire after he sold his company, LinkExchange, to Microsoft a year earlier. It was a cold call from another entrepreneur, Nick Swinmurn, however, that led to creation of Zappos.com, an online retailer that sold more than 5 million pairs of shoes in 2005. In February

2006, Swinmurn moved on to start Stagr.com, a do-it-yourself apparel site, leaving Hsieh to take the reigns solo as CEO.

Hsieh talks about building a [successful e-commerce](#) site:

"After I sold my first company for \$256 million, I began running an investment fund. I used to get a lot of calls from people who wanted me to invest in their companies. I almost deleted the call from Nick because I thought that selling shoes over the Internet was a bad idea.

"The one thing that intrigued me, and kept me from erasing the message, was the size of the market: \$40 billion, 5 percent (\$2 billion) of which was handled by mail order. By selling over the Internet, I thought we could do at least that much.

"I invested \$500,000 in Nick's idea, which was originally called shoesite.com. Initially I was just an advisor, but it took only six months before I was working for the company full-time. I quickly learned that running a company is a lot more fun than just being an investor.

"At first, to get the word out about the site, we spent a ton on marketing and advertising. We bought a big and very expensive Zappos.com sign that was displayed in the outfield of the San Francisco Giants ballpark. It was a good way to get our name out there. It was an even better way to burn through money quickly.

"That's when we decided to cut back on our marketing budget and spend more on improving our customer service. Part of this was improving our online scorecard, which is where customers post feedback about their shoes and their experiences from buying from us.

"Since we stock more than 3 million shoes in more than 100,000 styles, we knew we couldn't test every brand as to whether it would run small or big. So we gave customers the power to write about them for each other. We never edit the responses, except for some profanity, even if the customer has something negative to say about us. This was a big turning point for us because it helped us build trust, which led to more and more repeat customers.

"We also had to learn a lot about the operational side of the business. None of us knew anything about how to run a warehouse. I think our lack of experience helped us, though, because we had no preconceived notion of how a warehouse should work.

"We have more than 600,000 unique UPC codes and no one style that sells more than any other. So we just started storing everything randomly on the shelves, which works really well for us for some strange reason.

"The other major decision we made was to move from San Francisco to Las Vegas in January 2004. At the time, we were having problems finding qualified customer service reps and warehouse workers. There are lots of call centers and

available workers in Las Vegas. Vegas is also a 24/7 city, which is great for us because we take and ship orders out of the warehouse around the clock.

"We still have a lot of room to grow, and we don't want to limit ourselves to footwear. We're a service company. Many of our customers actually write in asking us to start selling new things. One person suggested we start an airline. I don't think that's something we'll do, at least not in the next five years. After that, who knows? In theory, our options are limitless."