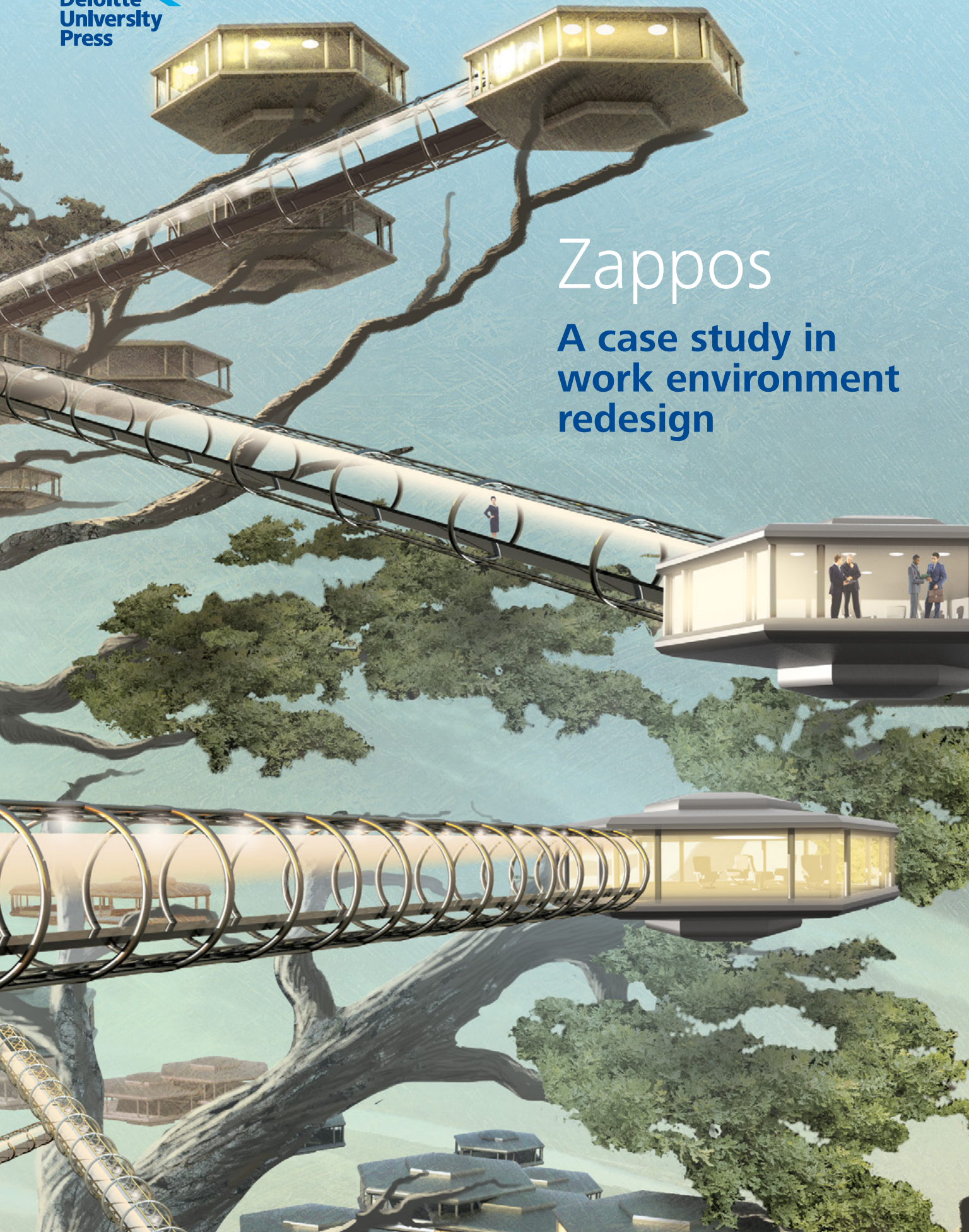


Zappos

**A case study in
work environment
redesign**



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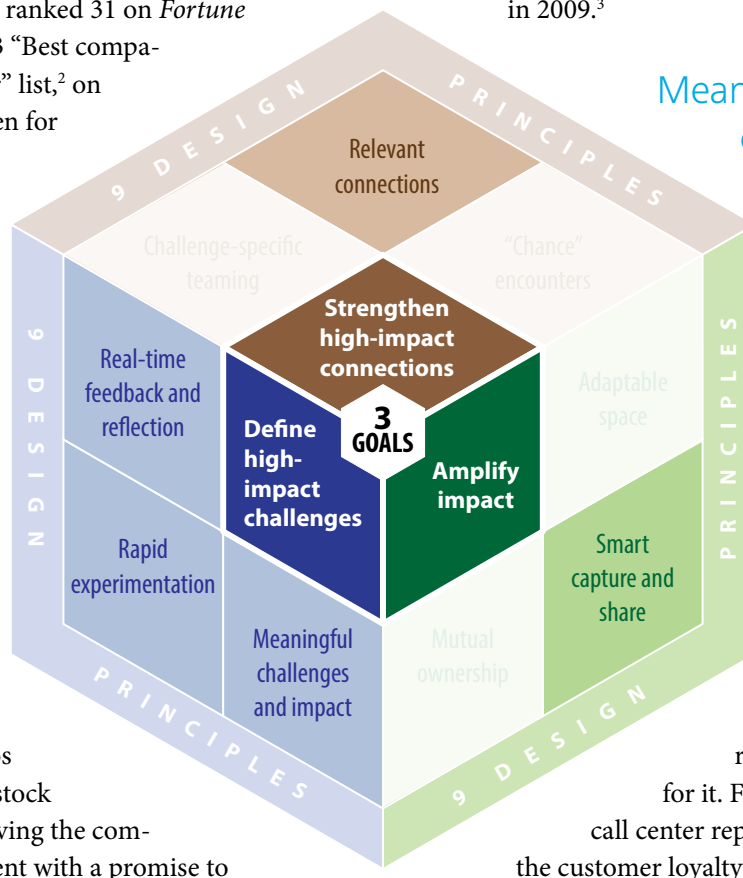
Can the way the workplace is constructed—physically, virtually, and managerially—affect employee performance? The Deloitte LLP Center for the Edge report *Work environment redesign*, based on a study of more than 75 organizations, argues that the work environment can have a critical impact on employee productivity, passion, and innovation. The study outlines nine design principles that can help employers gain more value from their people.

This case study explores ways that online retailer Zappos is applying these design principles to enhance its own corporate environment.

Company background and results

Zappos.com (Zappos), the top online shoe retailer,¹ is ranked 31 on *Fortune* magazine's 2013 "Best companies to work for" list,² on which it has been for five years. It has grown sales year over year since 1999. The company is known and routinely recognized for its excellent customer service. In 2009, Amazon acquired Zappos through an all-stock transaction, leaving the company independent with a promise to

let Zappos retain its unique culture. Though Amazon does not separately report revenue for Zappos, Zappos' sales exceeded \$1.2 billion in 2009.³



Meaningful challenges

"Pursue growth and learning" is one of Zappos' core values, and the company actively seeks to help its employees build new skills and

rewards them for it. For example, call center representatives in the customer loyalty team (CLT)

Figure 1. Work environment design principles used at Zappos

can increase their wages from \$11/hour to \$16/hour within a year by learning the skills required to work at the resource desk (Rdesk), where complex calls get escalated. The main steps for this kind of raise are:

1. Shadowing a colleague with a particular skill
2. Demonstrating the skill successfully for 30 days
3. Passing a technical skills test

Most skills translate into an incremental \$0.25 to \$1/hour increase in hourly wage. For example, developing email or live chat skills translates to a \$1/hour raise. However, if both of these skills are attained within a year, the wage increases from \$11/hour to \$13/hour. Even if a CLT member chooses to return from a new role (for example, at the Rdesk) to his or her original role, he or she keeps the pay raise, because he or she will continue to encounter new challenges in the original role that leverage his or her new skills. With this structure, no one receives pay raises simply because of tenure. Rather, raises are awarded for accomplishment, improving Zappos' margins and motivating people to continue to learn in order to improve their compensation.⁴

All Zappos employees have access to the "goals department," which is staffed by a "head coach," Augusta Scott. Employees can meet with Augusta to set goals, which are typically 30-day challenges. Augusta helps participants set both personal and professional goals, since Zappos believes that helping its employees accomplish their personal goals actually drives better customer service. For example, a CLT member with the goal of starting a career in marketing can shadow a colleague within marketing for a few months and continue to see a meaningful challenge ahead. Goal-setting, even within the personal realm, benefits the

professional life of each participant because the accountability, confidence, and planning skills employees learn are also crucial to their professional development. Almost half of the participants coached between 2010 and 2011 attained promotion or progression toward a meaningful challenge. Their impact is recorded on the Goals Club wall and celebrated throughout the organization, encouraging new participants as well as continued goal-setting and attainment.⁵

Real-time feedback and reflection

Zappos is known as one of the few companies that has replaced annual performance evaluations with more frequent performance feedback. Managers are encouraged to sit with their team members on a more real-time basis, meeting at frequencies ranging from daily to monthly. They can choose to discuss specific areas of improvement and/or scores on four dimensions during a "culture review":

- Core values
- Performance
- Leadership
- Growth potential

While most companies' reviews revolve around performance metrics, Zappos' culture reviews also emphasize adoption of the company's core values. These discussions focus on how the worker can improve: for example, on how well he or she exhibited a core value such as "embrace and drive change." Because pay raises are based on skills tests and not on tenure or annual performance ratings, cultural fit adds another important layer of context from which a worker can draw performance improvement ideas.⁶

Another way in which Zappos encourages real-time feedback is through the weekly team huddle meetings, or “Zuddles,” to help individuals reflect on what went well or what went wrong. In addition to these meetings, groups of employees listen to their recent conversations with customers—as uncomfortable as that may be—to pinpoint specific areas of improvement for the next call. Within the Zuddles, team members also reflect on the core values, often testing each other for knowledge of the 10 values.⁷

Zappos has also developed a practice of soliciting real-time feedback from customers. For example, a buyer at Zappos recently asked a caller why he liked a particular shoe so much and what other shoes made sense to add to Zappos’ inventory. From there, the buyer was able to increase Zappos’ inventory of popular items. A marketing lead also asked a caller about factors that impact purchase decision, including recent advertisements. This meant that the marketing lead could quickly adjust marketing campaigns according to customer feedback. Because every employee is required to staff the call center at least once a year, every member of every department obtains valuable real-time feedback from the customer.⁸

Smart capture and share

Zappos uses internal wikis and blogs to help employees solve problems together. After Amazon acquired Zappos, the fulfillment center encountered issues as it began merging with Amazon’s fulfillment organization. To highlight specific problems and solutions, employees used a simple wiki. Everyone could learn what was needed to solve the next problem. Similarly, quarterly all-hands meetings are filmed, live-streamed, and captured for future reference so that all employees can watch and refer back to them. During these meetings,

teams come together to discuss lessons learned and share frequently encountered problems and common solutions.⁹

Zappos also records the strength of relationships and networks within the organization. As an employee logs on to his or her PC, a randomized series of photos of colleagues in other departments will flash by. The screen enables a worker to rate his or her familiarity with a colleague. The short exercise helps to capture the strength of interdepartmental relationships. Management uses this information to understand if silos are forming and/or deepening and to address the emergence of silos, if needed, through increased collaboration.¹⁰

Within the office, flyers, posters, LCDs, and even T-shirts are used to help employees focus on and share the most important announcements to help cut through email clutter. For example, crowdsourced tips for keeping orders from escalating (called “Top Hug” alerts), advertisements for veteran employees to sign up as mentors to junior members, and other pieces of information flash by in a commercial-like fashion. Without these important announcements, employees may not notice the need to take action in certain areas of office life.¹¹

Rapid experimentation

Process improvement at Zappos is almost entirely employee-driven, and Zappos has created an environment where employees feel comfortable participating in the process. The open acceptance of mistakes—even very costly ones, such as a pricing mistake that cost the company \$1.6 million—increases the level of risk-taking and experimentation across the organization. Many projects, including Zappos’ annual Culture Book (its core values bible), are made from information that is crowdsourced and then rapidly iterated. One employee

emphasizes the improvements to be made in the 2011 Culture Book:

Ninety percent of the company is amazing, and 10 percent needs some work . . . What is important is that Zappos is such a work in progress that I truly believe the 10 percent is probably on the drawing boards of people here, to be tweaked and improved upon. I hope next year to be moving the 10 percent down, and the 90 percent higher. I'm prepared to roll up my sleeves and pitch in with the rest of the team to focus on our continued growth and improvement.¹²

Relevant connections

In addition to connecting through all-hands meetings, employees can easily find one another through low-tech paper “license plates” hanging over each cubicle, with cubicles aligned to a grid of “city streets.” Each license plate includes “registration stickers” showing the number of years a team member has spent at Zappos. For example, “13” is appended to the license plate of the CEO, Tony Hsieh, who founded the company 13 years ago. These

highly visible plates help new team members make relevant connections and find veterans to query about resolving a customer issue or researching a new problem. All executives can be found quickly using the same license plates; consequently, employees frequently approach them with questions or suggestions to more thoroughly solve problems.¹³

Lessons learned

- Encouraging employees to shadow other roles and apprentice with each other accelerates cross-functional learning.
- Pursuing and setting goals for both work and personal endeavors help employees develop behaviors that help them and the company.
- An open, egalitarian culture can be created both through policies on physical space (e.g., open floor plan and décor) as well as through management systems (e.g., pegging wages to skill development).

Endnotes

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Kelly Cheng is a consultant in Deloitte Consulting LLP's Strategy & Operations practice. She focuses primarily on growth strategy work in the health care, financial services, and technology sectors. Many of her clients look to emerging technologies to drive growth opportunities. Her work at the Center includes conducting primary and secondary research on talent development and helping to develop the launch strategy for "Pragmatic Pathways," a framework to help companies scale change.

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