Growth Insights

Select Strategies

Issue 11

How Zappos uses Customer Experiments to Drive Growth

When Nick Swinmurn founded online shoe store Zappos in 1999,he could have invested in market research, a 'wow' website and warehouse logistics, like many of his dot-com contemporaries. He could also have crafted a business plan with hockey stick projections to hook an investor.

Yet he took a different approach. He knew that spending months writing a business plan was not going to give him the answers. He understood that customers might not view his brilliant idea as he did. He had a lot to learn fast.

Swinmurn was relentless about low cost customer experimentation. He documented customer-based assumptions and figured out that the biggest risk Zappos faced was whether enough website visitors would buy shoes at the right price.

INSIGHT IN BRIEF

Startup business plans are guesses. Founders can't predict the future.

Savvy founders defy the swashbuckling entrepreneur stereotype. They run cheap fast experiments.

They do this in a disciplined way, identifying and testing their most risky assumptions. This helps them learn fast and adjust quicker.

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Swinmurn hacked out a website. He then asked local shoe shops whether he could take photos of their stock and display them on his website. He told them that if consumers bought shoes from him online, then he would purchase from them at full price.

He learnt as he experimented. When consumers asked what would happen if shoes didn't fit, he offered free shipping both ways and allowed 365 day returns. Zappos had limited back end logistics. It appeared like the proverbial duck, calm on the surface and paddling like mad to deliver.

This experimental approach helped build the business from the customer inwards. They crafted experiments to discover new information. Each assumption was tested using a minimum set of features (initially, just photos of shoes on their website).

This Lean Startup type approach as advocated by Eric Ries, Brant Cooper and others helped Zappos learn fast through: • observable customer behaviour. • quickly tweaking their offerings e.g. sell some shoes at discounted prices. • customer interactions, payments and support.

INSIGHT IN ACTION

1.Document the key assumptions in your business.

2.Categorize assumptions into different types like expected customer behaviours, customer conversion metrics and timescales. Prioritize accordingly.

3.Identify the riskiest assumption and create the minimum set of features that can test it.

4. Set some baseline metrics as to what your expectations are and run the test. Quickly finding what's right and wrong will give you the information to adjust and try further experiments.

At every turn, Zappos tries to reduce risks before making financial commitments. They learn quick and fail fast. They experimented selling bags online before they became a full product line. Experimentation with electronic goods failed as they couldn’t deliver their core customer experience due to the low margins available.

This disciplined experimentation approach has contributed to Zappos becoming the world’s largest premium online shoe store. It was acquired by Amazon in 2009 for a reported $ 1.2 billion.

All strategies are partly right and partly wrong. Like Zappos, invest in testing your assumptions in a disciplined way. You will learn faster and increase your odds of a winning outcome.

Select Strategies

Select Strategies is a boutique consulting practice, which helps companies make growth happen. In *Growth Insights*, Paul O'Dea and Emer O'Donnell share practical steps which companies use to accelerate growth.

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