Zappos.com Fits For Amazon

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If the shoe fits, wear it. That's a big reason Amazon.com decided to spend more than $850 million in a non-cash deal to acquire online shoe and apparel giant Zappos.com.

The July 22 deal gives Amazon a chance to expand its product line beyond its core books, music and movies while it aligns with another company with a similar customer-obsessed strategy.

"Zappos is a company I've long admired. They have a customer obsession that is so easy for me to admire," Amazon.com president/CEO Jeff Bezos said in a video he posted yesterday to YouTube (http://bigfatmarketingblog.com/2009/07/23/amazoncoms-bezos-discusses-zapposcom-deal/) . "That culture and the Zappos brand I value very much, and I want to see it continue."

Under the terms of the agreement, Amazon will acquire all of the outstanding shares and assume all outstanding options and warrants of Zappos in exchange for approximately 10 million shares of Amazon common stock, equal to approximately $807 million based on the average closing price for the 45 trading days ending July 17.

In addition, Seattle-based Amazon will provide Zappos employees with $40 million in cash and restricted stock units. Subject to various closing conditions, the acquisition is expected to close during the fall of 2009.

"Amazon repeatedly shows that they have a long term perspective, often making decisions that leave people scratching their heads and Bezos smiling," said Rick Isenberg, president of multichannel advisory RBI Marketing Consulting.

Isenberg said he suspect that Zappos CEO Tony Hsieh is very happy with this turn of events, and looks forward to more rapidly growing Zappos and using the technological economies of scale that Amazon brings to the picture.

Though the deal harkens to the dot-com boom of the 1990s, Robert Passikoff, president/founder of brand consultancy Brand Keys, said Zappos is a great match for Amazon beyond the sense of community both merchants foster to its customers.

"Amazon has been trying to expand beyond books and movies and has done a little bit with footwear, so acquisition is the best way to go," Passikoff said.

Though Hseih, in an e-mail to Zappos employees, said Amazon has no plans to reduce Zappos' staffing, Jeff Savastano, founder of e-commerce advisory firm Trecuori Group, said he thinks the acquisition will allow both companies an opportunity to reduce redundancies in their respective marketing efforts.

Savastano compares the Amazon-Zappos acquisition to another merger of giants in the 1990s, Exxon and Mobil, in which neither company will see a significant increase in customers.

"Zappos will benefit from being in the Amazon fold and will be able to reduce its overhead and compete more efficiently for customer's dollars," Savastano said. "I don't see much cross-pollination of the brands, but anything could happen."

The real key is what happens to the customer data, because Amazon is incredibly efficient at marketing to its client base, Savastano said.

"I anticipate more e-mail promotions and better integration of the demographic data that

Amazon will have available to Zappos," Savastano said. "Now that they know I wear a size 11 shoe, I suppose that somehow correlates to my love of Eric Clapton's music. It will be interesting to watch this unfold."

Amazon operates its own shoe and handbag shop under the name Endless.com.

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