

# Operation “Loose Change”

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**Zappos!**  
COM  
POWERED by SERVICE™



# About Zappos.com

- Zappos.com is an online retail company whose primary focus is customer service and selection
- The company was founded in 1999 with the belief that one day 30% of all transactions will be online!
- The business began with selling footwear but has expanded into categories such as: handbags, apparel, eyewear, watches, electronics and home goods.
- We have experienced fast growth rates with annual gross sales
  - 1999 almost nothing
  - 2000 \$1.6 mm
  - 2001 \$8.6 mm
  - 2002 \$32 mm
  - 2003 \$70 mm
  - 2004 \$184 mm
  - 2005 \$370 mm
  - 2006 \$597 mm
  - 2007 \$840 mm
  - 2008 over \$1 billion (goal)

# About Zappos.com

- Our Corporate headquarters are in Henderson, Nevada
- We operate two fulfillment centers in Shepherdsville, KY (the largest one is the size of 16 football fields)
- Zappos.com offers a large selection of premium products with a focus on customer service
- 6pm.com provides a lower price point alternative for the consumer
- We build and operate other companies websites, and provide customer service and fulfillment operations under our Powered by Zappos business model
- We now ship to all parts of the world through our international shipping program

# The vision

- I joined Zappos about 2 ½ years ago with a vision of creating a world class Finance dept that would provide needed information to help drive key decision making
- As part of that process, I hired Daniel Simmons, Lakshan Fernando, Scott Schaefer and Sandra Arebalo into Treasury
- This laid the foundation to support initiatives such as “Loose Change” that would aid the growth of the business.
- Our business is cyclical like most retailers, peaking in Q4 which causes uneven cash flow in earlier quarters.
- Operation Loose change was developed to bridge the gap from the 1<sup>st</sup> quarter to the 4<sup>th</sup> when sales are strongest. Objectives were:

Improve liquidity

Increase working capital

Reduce borrowing cost

Reduce interest expense

# Improve Liquidity

- As a net borrower we increased our line of credit from \$80m to \$100m allowing us to support the growth and expansion of our product lines into additional categories
- Increased equipment lease covenant with our term lender from \$3.5m to \$10m allowing us to lease an additional \$6.5m enabling two key projects:
  - Kiva Systems (\$5M)
  - Chiller (\$2.5M)
  - Both of these initiatives improved productivity in our DC
- Added credit card receivables to our collateral base
  - Improved borrowing base by \$2M
- Eliminated Maximum Potential Exposure (MPE) reserve
  - Improved borrowing base by \$500K
- Increased credit lines with many of our top vendors
  - Allowed us to avoid making prepayments due to hitting credit limits

# Drive Revenue and negotiate lines of credit

- The Treasury dept negotiated contracts and led the initiative to create gift cards for sale on the website increasing revenue and cash flow \$1M
- Worked with a cross functional team to deliver a store credit program which Improved cash flow by close to \$3M per day
- Led negotiations with vendors for increased lines of credit
- Managed relationships with key factors providing financial information to demonstrate performance and increase lines of credit
- Negotiated reduced bank fees

# Information driving decisions

- Create a substantially enhanced cash flow forecast
  - Prior forecast did not forecast future needs
  - Developed a short and long term cash flow forecast to accurately project needs
  - Identified with our planning dept which part of the sales cycle put the most strain on the business and by how much
  - Took steps through Operation “Loose Change” to ensure liquidity needs were met
- Prepared analytics to track and forecast our advance rate
  - Analysis indicated we should increase our inventory turns to improve the quality of the inventory and therefore the advance rate
  - Strategic plans were made to use the 6pm website to move markdown merchandise
  - Aged inventory was greatly reduced
  - Treasury saw a direct impact to the advance rate increasing our borrowing availability by \$2.5M

# Summary

- Operation “Loose Change” aided the business in several ways:
  - Improved visibility to cash needs both short and long term
  - Negotiated increases in our line of credit and covenants to support the growth of the business
  - Increased liquidity and working capital
- I am very excited with the results of operation “Loose Change” and am honored to work with such a great team. Without Daniel, Lakshan, Scott and Sandra this would not have been possible. Thank you!

