

Case Study:

Zappos - Delivering Happiness

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1. Situation Analysis

Zappos is an e-retailer founded in 1999 that had grown to revenue of \$635 million by 2008 (Baribeau, 2009; Zmuda, 2009). That same year, Zappos was purchased by Amazon for \$1.2 billion (Baribeau, 2009). Zappos success resulted from their focus on customer service and their employees. The case study of Zappos will begin with a situation analysis as an introduction to the company.

Strengths

Industry-leading customer service. Zappos has developed a customer-centric sales strategy unlike any other mass retailer. In an era where e-retailers are discouraging customer communication via phone, Zappos encourages customers to call and posts its number on every page of its website (Taylor, 2009). Customer service agents are trained to interact with customers freely, without a script, and to use any means necessary to make the customer happy. This includes helping customers shop competitors and encouraging customers to order multiple sizes in a given product, knowing that Zappos will eventually pay for the return shipping on all but one of the multiple items. Zappos customer service agents are encourage to develop relationships, sometimes through extraordinary means such as multi-hour phone calls, flowers or other gifts to customers, and personal delivery of items in emergency situations (Chafkin, 2009). Zappos prefers to spend money on developing customer relationships rather than marketing, relying on repeat business and word of mouth to grow sales (Taylor, 2009; Hsieh, 2010). Zappos is widely recognized, among both consumers and industry peers, for their unparalleled level of customer service.

Loyal customer base. Zappos has cultivated a large and dedicated customer base by focusing on customer service and the customer experience, as opposed to solely trying to win

customer by providing the lowest price. Zappos developed a business model around making shopping on their website fun and easy, including easy product returns. Customers have demonstrated their loyalty by repeatedly purchasing products on Zappos in spite of lower prices elsewhere.

Corporate culture and work environment. Zappos' philosophy is to focus on its employees as much as its customer, believing that success comes from an engaged and motivated workforce (Reingold, 2016). With excellent employee benefits and work environment, Zappos routinely lands on "Best Places to Work" lists (Chafkin, 2009). Zappos strives to provide employees with work-life balance and regularly provides employees with training. In the same way that Zappos' strategy is to keep customers returning due to their customer service despite not having the industry's lowest prices, Zappos' cultivates and retains their customer service representatives through culture and work environment despite starting salaries that are below the national average.

Leadership. Zappos CEO Tony Hsieh has been with the company from its earliest days and is responsible for developing and fostering their famous culture and branding. Mr. Hsieh is fiercely protective of these defining characteristics, engendering loyalty from both Zappos customers and employees. Mr. Hsieh is a leader who has proven to know what works best for Zappos and has its employees' trust.

Weaknesses

Amazon merger. Zappo's branding stressed the company's independence, originality, and their lack of a typical corporate mentality. Zappos branded itself as a unique company that put people, not profits, first (Hsieh & Chafkin, 2010). After spurning a 2005 Amazon buyout offer,

Zappos merged with Amazon in 2009 (Hsieh & Chafkin, 2010). Customers and employees alike reacted negatively, fearing that the merger would compromise the Zappos brand and culture credited for its' success.

Technical difficulties. Zappos has experienced multiple technical issues as it expanded and upgraded its IT systems. These include a 2011 processing system failure that resulted in the delay or deletion of customer orders and a wide-spread pricing error in 2010 that resulted in a company loss of \$1.6 million. The most damaging issue was a 2012 hacking of Zappos' computer systems that resulted in the theft of sensitive information from 24 million.

Opportunities

Product line expansion. Zappos, with a large and loyal customer base and reputation for customer service, is well-positioned to further expand its product lines. Zappos has already expanded its offerings beyond shoes to include limited clothing and houseware offerings (Hsieh, 2010). Zappos can use its unique approach to e-commerce and customer service to provide its current customer base with items such as household essentials, music, books, and electronics.

Amazon merger. Zappos 2009 merger with Amazon could provide some synergy with respect to supply chain. While resistant to Amazon influences to its branding and culture, integration with Amazon's supply chain could present an opportunity for cost savings from suppliers and shippers.

Corporate Training. Zappos is widely recognized as a leader in customer service and culture-building. Zappos has capitalized on this strength in the past by providing in-person and

electronic corporate training to organizations. This could be expanded, focusing on customer service as well as brand and culture building.

Threats

Limitations of customer service-based approach. Zappos relies on its customers to pay a premium for a convenient shopping experience and exceptional customer service. Favoring customer service and convenience over cost cutting carries risks. Consumers place a value on shopping experience and customer service. The extent to which the consumer values convenience and customer service will determine Zappos' ability to within lower-priced competition. Zappos must continue to innovate and appeal to its customer base to avoid losing market share to discount retailers. Many factors contribute to the extent that consumers can tolerate higher prices in favor of superior customer service and convenience, potentially leaving Zappos vulnerable to economic fluctuations at the regional or national level.

2. Assumptions and Missing Information

Information that would help with completion of a more thorough analysis of Zappos' position within the market and identification of areas to increase profit include:

- Detailed customer data allowing for identification of customer trends with respect to buying patterns, repeat sales, and migration into non-shoe sales.
- Product sales information allowing for identification of relationship between cost/promotions and sales.
- Quantification of potential supplier savings when leveraging Amazon's buying power.

- Details of Amazon and Zappos supply chains that would allow for the quantification of potential savings when leveraging Amazon's supply chain strengths.

3. Statement of the Problem

Zappos has built its success on the merits of its world-class customer service as well as its unique culture and shopping experience. Zappos customers cherish the convenience its policies and customer service policies provide and are willing to pay a premium for them. The challenge facing Zappos is how to increase market share and profit while maintaining the brand and culture responsible for their success.

Any steps Zappos takes to increase profit that could be perceived as a betrayal of the brand they have built, fought for, and defended over the last fifteen years. Zappos has built its brand by valuing customer service and customer experience over profit. Zappos has indicated to its customers and employees that, despite their acquisition by Amazon, they operate independently and will maintain their company culture and customer service ethos. Any movement towards closer alignment with Amazon infrastructure or practices that could be interpreted as driven by profit at the potential cost to customer service would open Zappos up to significant customer criticism. Likewise, any expansion of Zappos' product offerings must be made while maintaining the customer experience and not dilute customer service or hamper their ability to operate with the latitude necessary to build long-term customer relationships.

4. Development of Alternatives

Alternatives to be considered include leveraging the Amazon supply chain to lower costs, further product line expansion, and no action.

Leverage the Amazon Supply Chain to Lower Costs

Zappos and Amazon both have highly effective supply chains, with Amazon's a model for the modern retailer (Kirkpatrick, 2009). Their supply chains differ; the Amazon supply chain was developed with a focus on efficiency and cost minimization, while the Zappos supply chain includes the flexibility required to maximize customer service (Kirkpatrick, 2009). Zappos can exploit the Amazon supply chain to save on costs and negotiate lower supplier costs. One key to successfully leveraging Amazon's supply chain and economy of scale is to maintain the ability to operate with the flexibility necessary for Zappos customer service representatives to maintain their high level of customer service/relationship building.

Further Expand the Zappos Product Line

Zappos has developed a brand focusing on customer service. The Zappos brand and culture has resulted in a large and loyal customer base. Zappos customers enjoy the customer-first experience of shopping at Zappos and are willing to pay a premium for the convenience and experience. Zappos can leverage that loyal customer base by applying the same principles to other product lines ("Zappos CEO," 2015). Zappos has already expanded its offerings beyond shoes to include limited clothing and houseware offerings (Hsieh, 2010). With a large and loyal customer base and reputation for customer service, Zappos is well-positioned to further expand its product lines. Zappos can use its unique approach to e-commerce and customer service to provide its current customer base with items such as household essentials, music, books, and electronics in order to increase overall sales.

To successfully expand their product lines, Zappos would need to ensure that they maintain their high level of customer service and culture, including the overall shopping experience. Failing

to do so could result in a net loss of customers who no longer feel that they are receiving the shopping experience and customer service that previously engendered their loyalty.

Maintain the Current Status

Another option is to take no action with no product line expansion or supply chain leveraging. This strategy would ensure that Zappos most important feature – customer service and relationship building – is not disrupted by changes in supply chain management or diluted product offerings. This option would ensure that the shopping experience and high level of customer service that Zappos customers value is maintained, but would sacrifice potential opportunities for increased profit.

5. Evaluation of Alternatives and Recommendations

Each option will be evaluated against three criteria:

- 1.) Does the option address the problem facing Zappos, i.e. will it increase Zappos' profits?
- 2.) Is the option consistent with Zappos' mission statement of proving the best customer service possible?
- 3.) Is the option consistent with Zappos' stated goals and objectives of increasing profit without sacrificing customer service and culture?

Option 1: Leverage the Amazon Supply Chain to Lower Costs

Zappos and Amazon both have highly effective supply chains with different focuses - Amazon's is an efficient, cost-effective model for the modern mass retailer (Kirkpatrick, 2009)

while the Zappos supply chain includes the flexibility required to maximize customer service (Kirkpatrick, 2009). Zappos can likely exploit the Amazon supply chain to save on costs and negotiate lower supplier costs without sacrificing the flexibility needed to provide world class customer service. Researching how the two supply chains can complement each other will reveal strengths and weaknesses with respect to Zappos' needs. Flexibility in shipping is one of many strategies that Zappos customer service representatives utilize to maintain their high level of customer service/relationship building.

Option 2: Further Expand the Zappos Product Line

Zappos believes that they can leverage their loyal customer base by applying the same principles to other product lines ("Zappos CEO," 2015) and has already begun to expand its offerings beyond shoes to include limited clothing and houseware offerings (Hsieh, 2010). This option will increase profits if product lines are aligned with Zappos customers' needs. From there they can use their reputation to attract new customers who value the high level of customer service and unique shopping experience they provide. To successfully expand their product lines, Zappos would need to ensure that they maintain their high level of customer service and culture, including the overall shopping experience. Failing to do so could result in a net loss of customers who no longer feel that they are receiving the shopping experience and customer service that previously engendered their loyalty.

Option 3: No action/Maintain the Current Status

This option would take no action and continue business as usual. This would not address Zappos' challenge as it would not generate additional profits. However, it would not allow Zappos to continue to fulfill their mission statement of providing the best customer service with no

potential complications associated with changes (supply chain or additional product offerings). While this strategy would ensure that Zappos most important feature – customer service and relationship building – is not disrupted it would sacrifice potential opportunities for increased profit.

Recommendations

The recommendation is to study options 1 and 2 – seek opportunities to advantageously merge their supply chain with Amazon and strategically add product lines. The take no action option is rejected as it does not address Zappos’ challenge of adding profit.

6. Implementation

A number of steps should be taken in order to implement the recommended actions.

Leveraging the Amazon Supply Chain to Lower Costs

Zappos would need to work collaboratively with Amazon and conduct extensive studies in order to determine areas of opportunity. This includes savings in shipping costs and lower wholesale costs. Any potential effects on how Zappos currently conducts business must be identified so that an informed decision can be made as to what extent, if any, that Zappos modifies its supply chain to take advantage of Amazon’s infrastructure.

Further Expansion of the Zappos Product Line

Zappos would need to conduct extensive market research targeting both their existing and potential customers. Areas should include the likelihood of current and potential customers to order from Zappos beyond their current offerings. Research should also be conducted to determine

what the needs of Zappos' current and potential customers are, the current market for those goods identified, and Zappos' position to enter and gain market share for those goods. This is an opportunity for Zappos to take advantage of Amazon's buying power in order to negotiate wholesale pricing.

The secondary effects on customer service resulting from the addition of products to the Zappos web site must be analyzed and determined. It is critical that Zappos ensures their ability to maintain their high level of customer service and culture, including the overall shopping experience.

7. Evaluation and Control

A number of measures can be implemented in order to evaluate and control the changes to Zappos.

Leveraging the Amazon Supply Chain to Lower Costs

Zappos should develop a team to continually collect data that can be used to determine any costs savings realized following the implementation of supply chain changes. Average transit times for each shipping type can be tracked as well as unit costs for each shipping type. Customer service can be monitored to determine if there has been a drop in the level of customer service. The success/value of alternate customer service tools in place of expedited shipping, if applicable, can be evaluated both from the customer service representative and customer perspective.

Further Expansion of the Zappos Product Line

Similar to the data collection on supply chain changes, Zappos should have the ability to readily collect data to evaluate the profitability of any additional product areas. Decisions on items to keep or areas to expand will be similar to those made in the implementation.

The addition of products ideally will correlate with additional customers and transaction which will require additional customer service representatives. The effects on customer service resulting from the addition of products and customer service representatives must be analyzed and determined. Customer service can be monitored to determine if the additional products have resulted in a drop in the level of customer service. If so, root causes for the drop in customer service level should be determined. Possibilities include inadequate training of new staff required to accommodate rise in customer levels, inadequate training on new items, inability to manage new items on the spot, or customer experience not consistent with new items.

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