Zappos Case Study Analysis

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Zappos is an online shopping hub for countless consumer brands from fashion to electronics. As a company that prides itself with incomparable customer service, it is necessary for Zappos to further enhance its customer service experience and streamline its supply chain in order to differentiate itself and compete within the increasingly saturated online shopping market.

**Background**

Since the late 1990s, Zappos has grown exponentially through development and careful control of its supply chain. Zappos started as an idea for a shoe selection platform, in a market where only 5 percent of shoe sales happened online. At this time, the online shoe market lacked a platform that enabled customers to select from a wide range of products based on color, size and other varying attributes. The company looked to fill that market gap, while differentiating itself by providing groundbreaking customer service through its call center. This call center was an important piece of Zappos’ fine-tuned company culture, which faced massive morale fluctuation during the growth of the business. Today, Zappos executives have a concrete goal of maintaining a positive culture, and see it as an indispensable asset that drives performance and positive brand image.

In addition, Zappos has differentiated itself through its distribution practices. As the company built capital, it was able to offer customers next-day shipping. Natural variability of external shipping services forced Zappos to revoke these previously guaranteed shipping times, but continued focus on quick shipping without these promises allowed the company to continuously surprise customers with speedy delivery. During this development, Zappos was able to cut out intermediaries in its supply chain. It also consolidated the process down to
suppliers and Zappos’ inventory warehouse in Kentucky, known within the company as its fulfillment center. This resulted in a massive reduction in variability of orders, allowing for a more reliable service overall.

By 2008, the Zappos fulfillment center was accepting orders directly from suppliers, and shipping directly to consumers, while disposing of excess inventory through partnerships with 6pm and Overstock. Despite the company’s success in delivering a great customer experience and effectively managing its inventory, the supplier-to-distribution center channel transaction is continuously a bottleneck in Zappos’ supply chain. Zappos’ current focus is now on how to take advantage of its capital assets and customer service model, rather than risking dilution by expanding to broader markets.

**SWOT Analysis**

As previously noted, Zappos’ most notable strength is its customer relationship management. Zappos’ first priority is its customers. The company works its hardest to make every customer interaction with the company result in a “wow” factor. Zappos nearly perfects customer service with its call center, training operators to handle almost any possible situation independently and hiring people who are as passionate about service as the company is. It even includes expedited delivery at no additional charge. Zappos also excels in brand development, placement and supply chain management. It focuses on signing brands that customers search or ask for, providing a multitude of shoe brands as well as other products. Zappos’ placement is what differentiated the company from the beginning. Unlike a traditional brick-and-mortar shoe store, Zappos is completely online, allowing customers to shop from home. Finally, due to the fulfillment center, Zappos’ supply chain has become highly efficient. Inventory management is
all done in-house, with almost 100% accuracy, and warehousing is almost completely automated for worker efficiency.

Zappos has also suffered weaknesses, such as competition with traditional brick-and-mortar shoe stores, which allow customers to walk in and out with immediate gratification. It also has one imperfection within its supply chain – mainly involving logistics. Large volumes of shipments and suppliers can lead to inefficiencies in the fulfillment center. Shipments coming from individual suppliers creates an overflow of trucks arriving at the distribution center, many of which are only partially filled.

Opportunities are limitless for Zappos as the company continues to grow and the online market for shoes becomes saturated with a constant demand. High end brands are turning to Zappos for online sales to prevent the creation of counterfeit products. “Powered by Zappos” proves outside companies’ need for Zappos’ distribution. Zappos can take advantage of external partnerships to take care of excess inventory, or even to expand its customer base in Canada. There is also the option to improve the supply chain through the expansion of warehouses or transportation methods, as the company holds flexible inventory space.

Zappos has and will continue to face threats imposed by changes in the environment. Possible economic downfall such as the 2009 recession could cause a major decline in shoe sales. Unforeseen circumstances could delay shipping and cause the company to lose customer loyalty. Competition for online shopping is getting steeper, forcing Zappos to expand and differentiate itself from other companies. Limited visibility into the manufacturer supply chain and few details on delivery scheduling continues to cause supply chain issues between the designers and the Zappos distribution center.
Corporate Culture as an Asset

Zappos attributes many of its successes to its strong company culture due to a foundation of reliable and well-trained employees. The influence of nurturing leadership and emphasis on teamwork and extensive training have built the unrivaled customer service base that Zappos takes so much pride in. Therefore, it takes care to build a culture that treats its employees like a family. According to Zappos CEO Tony Hseih regarding his viewpoint on corporate culture, “It’s about teamwork and having fun and not taking ourselves too seriously… it’s about having faith that if we do the right thing, then in the long run we will succeed and build something great.” Working in the positive environment Hseih describes makes Zappos employees more satisfied with their interactions with customers. In the environment Zappos nurtures, employees are encouraged to make decisions independently from managers. This is especially true when that independent decision is made for the purpose of improving customer experience. As a result, a customer’s experience is unique and tailored to their specific needs; customers feel as if they are truly valued at Zappos.

The importance of hiring and training employees that value customer service as much as the company does is the driving force behind our suggestions to the company to further enhance the customer service base that they have already mastered. Because Zappos hires only the most equipped operators and provides for them a nurturing and encouraging environment, it is fair to assume that they can be used not only as trouble-shooters, but also as channels to personally connect with current or potential customers.
Zappos’ Future as an Online Retailer

As previously discussed, Zappos was built around creating and maintaining customer value. One potential method we see Zappos using to differentiate the company and its services from competitors is the creation of a personal shopper program. More than just an algorithm that suggests items a customer may like based on past purchases and browsing history, the personal shopper program will connect customers to real Zappos employees who are qualified to make specific recommendations to a customer, based on person-to-person interactions.

The program allows for a customer to be given one employee in Zappos that he or she can regularly contact for advice, help or just to chat. Personal shoppers will send recommendations for shoes the customer might like, information about recent fashion trends and promotional offers each month. In addition, any calls made into Zappos will be placed through to the personal shopper directly. Both the customers and personal shoppers are encouraged to speak out if they think the fit is not right. Customers can request a new personal shopper and personal shoppers can recommend a colleague they think would work well with the customer the next month.

When a customer first signs up for the program, they can pick their personal shopper based on his or her background and knowledge of different areas of fashion. The personal shopper will then send a personalized email or make a phone call to the customer, allowing the development of a client relationship. After this initial process the personal shopper will make recommendations for the customer and send them their first promotional featured product for the month.
To access this service, customers will pay a one-time subscription fee. Each month the personal shopper can send the customer a list of their recommendations as well as special promotional deals available only to members of the personal shopper program. Zappos should use this program to target working professionals who do not have the time to shop around the site for the perfect shoe. In the end, the personal shopper program should enhance the customer’s relationship with Zappos.

**Long-term Goals for Zappos**

Zappos’ current supply chain has the manufacturers delivering their goods to Zappos’ fulfillment center before shipment to its customers. Page fifteen of the study details the issue of warehouse inefficiencies as a result of this. The warehouse that Zappos uses to stock its inventory deals with traffic management issues because the company does not have complete access to manufacturers’ supply chains. Zappos then cannot plan for the exact day the shipment will arrive at the fulfillment center. As a result, the center is too backed up with traffic for shipments to be taken off the trucks on some days and it has only a small number of shipments on other days.

Executives have acknowledged this inefficient method, but have not found a way to overcome this without placing strain on the manufacturer. They have stated that they do not want to “wow” just their customers and employees, but their manufacturing partners as well. Zappos does this by not placing strain on the manufacturers by holding them to a strict delivery deadline. One way Zappos can overcome this issue is by creating its own fleet of trucks responsible for picking up inventory from manufacturers and delivering it to Zappos’ fulfillment center. With its own fleet, Zappos could then control the schedules of trucks coming into the fulfillment center
without putting pressure on the manufactures. Telling manufacturers a specific date to expect a Zappos truck to arrive at their supplier is much easier for the manufacturers and allows Zappos to schedule and track all shipments coming into the center. This allows for more predictable scheduling, and subsequently better information for customers. The SWOT analysis discussed the inefficiency created by transporting partially-full trucks, also known as LTL (“less than truckload”) shipments. Use of Zappos’ own fleet would also reduce the number of LTLs, getting the most use out of the least number of trucks. Another benefit of having a population of trucks for Zappos’ exclusive use is the potential for the company to own additional mobile advertising space on the side of the vehicles.

**Conclusion**

The case study clearly indicates that Zappos should focus on enhancement over expansion. It is established that Zappos is unrivaled in its customer service experience and has a significant share of the online shopping market. A logical step for a successful company like Zappos would be to look for expansion opportunities into international markets to increase its profits. However, Zappos has conveyed the value it holds in maintaining and refining current customer relationships. Thus, any future measures Zappos makes towards growth should be focused on enhancing current customers’ experiences with the company instead of expanding to new markets at the expense of its current customer base’s satisfaction. Zappos was founded on the basis of top-notch customer service, and the dynamic and immersive experience that customers currently receive would be diluted if the focus turned from becoming better to becoming bigger.
In order to capitalize on these strengths, it is important for Zappos to take these recommendations into consideration. The personal shopping opportunity will allow Zappos to provide its customers with resources that not only make the shopping experience better, but also convey Zappos’ genuine regard for customer satisfaction. This direct support provides a face-to-face aspect of consumer relations. In addition to this direct consumer interaction, taking control of the supply chain and reducing the pressure put on manufacturers to deliver inventory to Zappos’ fulfillment center would improve relationships between Zappos suppliers and the company itself. The combined factors of improved relationships on multiple channel levels in Zappos’ supply chain will differentiate the company and keep it ahead of its online retail competitors in the coming years.