Zappos.com case briefing essay

Business

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com Case Briefing Zappos. com is an online retailer who began selling shoes out of a house in San Francisco in 1999 and has grown to an online superstore with sales of over $1billion. They claim that their success is due to their commitment to customer service and their positive internal culture.

Their growth strategy is unconventional. They reinvest most of their earnings into improving service for customers, rather than spending money on traditional marketing/advertisement. In this way, they rely on word-of-mouth to generate new and repeat customers. To deliver the best possible service, they offer money-back guaranteed returns and free shipping. Additionally, they will often upgrade orders to next-day delivery in order to impress and " Wow" the customer. In the beginning, Zappos. com operated on a " Drop-ship" model, forwarding orders to their partners who would hold inventory and fulfill orders. However, with fulfillment out of their hands, they were faced with problems of control over service quality and began to hold inventory while suppliers became more comfortable with the idea of online retail.

They continued to adapt this internal fulfillment model. By 2003, all shipments were made from their own inventory. Additionally, their inventory management system has developed into an extremely automated process, allowing them to more easily scale the company up to the size it is today (showing 2, 851, 610 products available for shipment on November 25, 2008). As online retail has matured, it has become clear that Zappos has superior quality and efficiency in the industry and many companies have begun to use Zappos as a primary method of fulfilling online retail orders. The operations are still the same; Zappos purchases shipments of shoes from the manufacturer, takes orders via the web, and ships orders to the customer.

The difference is, Zappos integrates their inventory system with their partner’s vertical website (i. e. Clark’s Shoes, http://clarks. zappos. com), and Clark’s Shoes can manage its own brand on the front-end of the system. When the financial crisis struck in 2007 and the economy fell into a recession, Zappos. com was still observing growth.

Despite their success, they are still faced with questions about how to respond to the changing environment, the primary question being; How will we expand or retrench in light of the economic meltdown? To answer this question, we need to look at several fundamental things. What are Zappos’ core competencies and sources of competitive advantage? Are they sustainable? And, is a more cost-conscious consumer going to affect Zappos? Despite automation and efficiency, Zappos’ core strategy is not to be a cost leader. They provide “ Wow” to the customer through exceptional customer service. In the past, this was achieved through short hold times on calls, maintaining exceptional customer relationships, and faster than promised delivery times.

The answer to sustainability becomes clearer when we recognize that consumers will continue to value in these things, even through a recession. The majority of the quality of customer service is created through corporate culture and attitude, not through expensive shipping policy (although this is a significant cost). This is one of the company's main competitive advantages, is sustainable, and is difficult to copy. If, however, it becomes clear that the consumer would truly prefer slightly lower prices and longer delivery periods, shipping with UPS ground could be considered, with two-thirds of customers still able to receive delivery within 2 days. Furthermore, Zappos has a subsidiary discount site (6pm. com) and sells to Overstock. com (another discount site) in order to capture the cost-conscious market share. All in all, the economic climate should not have a significant effect on Zappos' core strategy and may increase its market share due to lower costs than ' brick n' mortar' shoe stores.

The economic climate presents an ideal opportunity for product expansion. As more and more retailers are faced with decreases in profits, they become more interested in efficiency and cost savings. Additionally, as Gen X and Gen Y spend more time on the internet than ever before, they are increasingly comfortable with online retail and the prospect and profitability of selling online is increasingly attractive. Zappos currently restricts its product expansion to those of high consumer/employee interest. The philosophy is; passion leads to success. In order to harness the opportunity of product expansion, I recommend that Zappos focus predominantly on acquisition of passionate, small, online businesses (i.

e. Cilogear, http://www. cilogear. com), integrate, and fulfill orders for those businesses.

They have already begun this process with the implementation of their vertical sites, but it needs to be expanded further. This combination of product innovation and superior service and efficiency is a recipe for success in the future of online retail.