

# Zappos strategic hrm essay sample

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Zappos is a blooming online shoe retailer that has made its name by being “unconventional”. As the company grows, it is vital to define the core values from which they develop their culture, brand, and business strategies. Some of the 10 core values that all the employees live by are: Deliver WOW through service, Pursue growth and learning, and Be Humble. This report focuses on how these values have helped Zappos plan their market tactics strategically. Mission Statement

Zappos does not have a formal mission statement, as their CEO believes that Zappos does not need one. Zappos appeases consumers by delivering “WOW through service” and appeases shareholders by pursuing “growth and learning” and doing “more with less.” Zappos employees live by the 10 core values (refer to Diagram 1).

Strategic Planning

SWOT Analysis

Strength

Excellent Customer Services

Zappos’ aim is to deliver extraordinary customer service. Unlike conventional start-ups that focus on their budget for marketing, Zappos made a very thoughtful decision to re-direct its budget towards delivering exceptional customer service, helping the business to thrive where others have failed when it was first incorporated. CEO of Zappos, Tony Hsieh highlighted many deliberate decisions that the company made for the long-run, such as encouraging customers to order as many products as they wanted in order for them to “try them on”, and offering free return shipping for a full 365 days. These efforts have been proven to work as the company reports that

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around 75% of its sales are derived from repeat business. Hiring Only Employees that Suit the Culture

To ensure that their vision is displayed properly in their brand proposition, it is vital to recruit employees that match their corporate culture. This is why regardless of their position; all new employees must go through a 4-week training focusing on customer service. At the end of the first week of training, Zappos offers employees a payment for the time they spent plus a bonus of \$2, 000 to leave the company, if they find that the company does not suit them. This practice gives employees an opportunity to make educated choices about their own happiness, and whether they can fully commit to Zappos' standards. Weakness

Culture mismatch with Amazon

Amazon acquired Zappos in 2009. However, whether or not the fun and playful culture of Zappos that contributes to their success, will match with the culture of Amazon remains a question. Furthermore, Amazon also has their own products lines selling shoes which might create cannibalization or internal competition. This merger might also affect the company's supply chain since Zappos offers overnight shipping. No Physical Storefront Presence

Although with a growing number of online shoppers, majority of people would prefer to buy products at a physical store where they can try on the products. Thus, Zappos is in a disadvantageous position as they lack the storefront publicity, with the current online outlet as the only channel for customers. Opportunities

### Innovation on Product Offerings

As an online retailer, Zappos could also expand their product line, offering other fashion products such as handbags or accessories. With the strong brand name created by providing excellent customer service and sales, in 2006, Zappos provided outsourcing services to other companies in handling sales, customer service, and shipping. In 2011, the company also launched an educational website for SMEs to seek Zappos' executives for advice with monthly fees. Lastly, Zappos could also expand and diversify away from retail, to businesses such as hospitality or banking, where customer service is dominant. Threats

### Cyber-Attacks

As an online retailer storing private information of customers, Zappos may face unauthorized access by hackers. In early 2012, more than 24 million customers' personal information, including email, billing and shipping addresses, have been accessed illegally by hackers. However, Zappos announced "critical credit card and payment information was not affected and distributed an apology letter to all customers for the breach, along with instructions on how to reset their passwords to ensure security was up to standard, to regain trust from customers. Lawsuits for Wages

The biggest threat for Zappos will be the low wages offered to their employees, with customer service representatives paid \$11/hour, while warehouse workers paid \$8.25/hour. With average customer service representatives' salary of \$23,000, this is 3% below the national average salary. Although Zappos has an amazing work environment, their non-

competitive customer service representatives' wages might expose themselves to poaching from competitors. However, the company does offer free medical services and 401(k) (retirement savings account in the U. S.) in order to stay competitive in the labour market. Recommendations to SWOT

We would recommend opening physical Zappos stores in highly populated areas. Together with their established brand, they can continue to grow and sell products to customers where they can experience the Zappos " WOW" service on a face-to-face basis with Zappos' personnel. In doing so, Zappos can widen their market to capture consumers who enjoy the physical shopping experience of trying out the products, and those who shun online shopping for security reasons. Existing customers who do not wish to wait long for the deliveries of their goods can also make a trip to the nearest store. This propagates the same culture that has gotten Zappos this far. To wean them off the risk of exposure of customers' information, Zappos should invest in more secure technologies to mitigate such reputational damage.

Zappos should also liaise with its parent company, Amazon, to match their product lines so that their products' target segments do not overlap. Zappos have been Stars in the BCG Matrix with high market growth rate and high relative market share (Diagram 2). Zappos should continue re-investing heavily to maintain its position and growth in the market. When growth slows and its market share does not wane, Zappos may transition to a Cash Cow. Zappos may consider concentric diversification of adding new businesses that are related to its core competencies of impeccable customer service. To maintain its position, it can utilize the strategies outlined below. A major

competitive advantage will derive from vertical integration of its supply chain and distribution channels. Corporate Level Strategy

Zappos follows a concentration strategy through online retailing. Zappos was one of the first online retailers in USA during the 1990s and gained first mover advantage when demand of goods and services through online stores grew rapidly. However, Zappos can achieve better reviews and support through pursuing vertical integration strategy. Acquiring manufacturing factories will ensure a consistent supply of goods, and increases control over the cost and allocation of resources to achieve maximum cost reduction over the long run. Thus, this reduces uncertainties and allows management to focus on targeting a larger customer base. Business Level Analysis – Point of Differentiation

Zappos' customers are largely based on repeat customers that drives their growth. Zappos differentiates itself through the extensive network that delivers ordered items quickly and efficiently to customers. Furthermore, shipping costs are absorbed and there is a 365 day, no questions asked returns. Zappos places high trust in their customers to not take advantage of this service. Zappos only sells the physical quantities available in their warehouses unlike rival firms that chose the tactic of placing the items on out of stock. This shows that Zappos is being honest in their quantity where they place huge emphasis on fast delivery of products to their customers. While some may argue that this might erode their sales revenue by not taking in more orders and allow customers to wait for their products for a longer period, Zappos has shown that having high inventory turnover would

outweigh the losses of potential sales where approximately 75% of Zappos sales are from repeat buyers.

Since the acquisition by Amazon, through concentric diversification, Zappos has forayed into apparel and other related categories such as bags, accessories and housewares. These increased their revenue by targeting a wider consumer group of different taste and preferences. With increase in product varieties, Zappos is able to expand their market share over the years. Their successful strategies resulted in Zappos Insights, a website featuring management videos and guidance from staffs to share their success at a fair price of USD 39.95 a month. Refer to Diagram 1 for tabulated Zappos attributes and consumers' positive reaction. We suggest that Zappos continue to focus on their existing policies: providing more perks to their repeating customers to ensure long term sustainability. They can further improve their loyalty programs to include tie-ups with other merchandise such as Groupon's F&B coupon site to further enhance the brand within Zappos. Human Resources Management (HRM)

HRM are activities that managers engage in to attract and retain employees and to ensure that they perform at a high level and contribute to the accomplishment of organizational goals. There are 5 components to HRM, and all must fit together as each influences the others. Recruitment and Selection

Firstly, Zappos recruits candidates from a variety of sources such as referrals as well as online advertising. Moreover, besides carrying out marketing activities on social media such as FaceBook and Twitter, they also post a list

of current job vacancies on these platforms. In line with doing things the “Zappos” style, they post video “job descriptions” so as to help candidates understand what the job entails. In some cases, candidates may opt to choose out after viewing the video as they feel that they would not be able to fit in. Their recruiting strategy is actually to provide a ‘WOW’ experience for candidates, which is in line with their focus on customer service. This is done by sending an automated reply in acknowledgement of a candidate’s application, and a personalized note to the candidate by the manager upon reviewing the submitted resume to see if there is a technical fit.

The process differentiates Zappos from other firms as they take the time to reply to all their candidates, even if it would be a rejection note. While selecting qualified candidates, Zappos also matches their resumes with customized questionnaires that they created to identify if a candidate is a right fit, based on certain criteria set by hiring managers pertaining to hard skills. Moreover, since Zappos constantly promotes creativity, they encourage candidates to submit cover letter videos instead of cover letters. With cover letter videos, Zappos is able to identify and select candidates with the right culture fit for their company as well. Therefore, the initial recruitment and selection process is very tedious as Zappos has to ensure that candidates are the right fit, so as to protect Zappos’ culture as the company grows.

### Training and Development

After careful recruitment and selection, Zappos’ new employees will have to undergo training for four weeks to assimilate them into the company. The training has two objectives: Firstly, all employees have to learn how to do the



job in the call center. The fact that all employees learn to handle calls is vital as there would be a reduction in waiting time for customers to speak to a service staff since all employees are trained and would be able to assist them, instead of having to transfer customers which might leave a bad experience. The second objective would be highlighting the company's strategy, culture, and "obsession" with customers, so as to ensure that employees know what is expected of them when they officially resume duty. The differentiating factor of Zappos' training is that after undergoing a week or so of training, new employees would be given an opportunity to quit, also known as "The Offer", where they would be remunerated for the amount of time they have worked, with an additional \$2000 bonus on top of it all. All this is done so as to sieve out employees who are a misfit for the company. In line with their strict hiring process, the process of cashing out new employees during their training ensures that employees that remain in the organization truly reflect the corporate culture.

This is why they are more than willing to pay to identify these employees sooner rather than later. Therefore, the training process contributes tremendously to the success of Zappos. This is because Zappos' success is largely attributed to their supreme customer service, and only by filtering employees with the right attitude can they continue dominating their niche in customer service. The strong alignment of both corporate and employee's beliefs, and values would result in their continued quality customer service because employees are the ones who are actually providing the service to customers. Additionally, we can learn from Zappos' success: aligning their recruitment strategies to their corporate values, matching cultural

requirements with candidate fit, as well as measuring and tracking their efforts to increase quality candidates and hires. Performance Appraisal and Feedback

Zappos has shifted from the traditional performance review to one based on self-improvement, whereby employees' success would be determined by how well they embody Zappos' 10 core values, such as delivering "WOW" service or showing humility. Under this new system, managers document the frequency of an employee showing certain behaviors, such as expressing their personality or being passionate and determined. Managers must also cite specific examples of how an employee exhibits these behavior, and from these evaluations, employees can better understand themselves. These assessments are not used for disciplinary actions or promotions, and hence managers may feel more at ease knowing that this would not result in bad relations with subordinates.

Moreover, if an employee scores low on one of the core values, he/she can participate in a free on site class to improve on that area. In addition, employees can also choose to award their co-workers with a \$50 cash bonus per month as a way of showing thanks for their help in the past month. The HR team then sends a monthly newsletter announcing who received the bonuses and why so that the entire organization can learn from their peers to strive for a better working environment. As a result, performance appraisal can be seen to be an important part of Zappos' management, as it serves to motivate employees to do better. Pay and Benefits

Zappos put together a team called P. E. A. C. E (Programs, Events, Activities, Charities and Engagement) team. This team is responsible for coordination events to motivate employees such as keeping track of personal events like employees' birthdays and wedding anniversaries by sending out cards. A Wishez programme was also established where employees can submit wishes on the company's intranet site and other employees can grant the wish. Wishes granted includes christmas cookies and even a car. Managers can also present employees with Zollars as a way of recognition. Zollars, which are fake money, can be used to purchase Zappos products such as apparel and other merchandise. These Zollars are presented to managers by the HR department. In addition, the Zfrogs program allows employees from all levels to pitch in ideas that are eventually evaluated by an executive team. If an employee's idea is selected, the employee is allowed to take time off work on making this idea a reality. Zappos also ensures work life balance for employees with paid time off for vacations and covering employees with medical insurance. This serves as a trade off since the pay for employees in Zappos is slightly lower compared to competing firms. Labor relations

Zappos has established itself as a company that cares about the welfare of its employees by creating a personal emotional connection (PEC) with its employees as well as its customers. This can be seen by the various practises Zappos has in place with numerous benefits for employees and the motivating and encouraging work environment Zappos provides its employees with. As a result, employees and managers share a close knitted relationship, which is like a family. Although the pay is not spectacular, Zappos still stays as one of the Top 100 Best Companies to work for in

Forbes magazine, because employees share the same ideal and work towards a common goal. All these practices Zappos has in place helps in ensuring employees feel empowered and builds a cohesive environment for employees to work in, where they constantly feel motivated and encouraged.

#### Overall Analysis and Recommendation

Zappos' methods of compensation and benefits have been unique with Zollars and cash bonuses from peer appraisals Zappos' market share had grown substantially over the years, and Zappos had done well over the past years in expanding their product range and customer base. To go forward into the future, Zappos needs to have a clear objective with complementary tactical and operational plan of the next 2 years so as to have strategic direction and focus to stay abreast of rising competitors.

#### Appendix

##### Diagram 1: Zappos Family Core Values

As we grow as a company, it has become more and more important to explicitly define the core values from which we develop our culture, our brand, and our business strategies. These are the ten core values that we live by:

1. Deliver WOW Through Service
2. Embrace and Drive Change
3. Create Fun and A Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships With Communication

7. Build a Positive Team and Family Spirit
8. Do More With Less
9. Be Passionate and Determined
10. Be Humble

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