Zappos

A Model of e-Commerce Business Success

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Today, websites can be created and go live in less than 24 hours. These may range from blogs about a particular dog’s life to powerful marketing tools filled with fancy graphics and videos. You may think this is not possible for a business however, but it is. One may choose to open an online retailer by simply hosting links from other online retailers and receive a small commission for driving business to these sites, acting as a middle man. With thousands of retailers to choose from, it may be too overwhelming to know which to choose. However, Zappos.com, a true “e-tailer”, sought to be different; it sought to be the best. Numerous articles have been published, commending the company. One particular example includes its listing at #15 on Fortune’s 100 Best Companies to work for\(^1\). Our team believes they have achieved their goal of being one of the best—certainly in the world of e-commerce. What we wish to understand is why they are the best. Our questions include:

1. Why has Zappos’ e-commerce business model been such a success?
2. What makes Zappos unique compared to other online retailers?
3. Similarly, how does Zappos differ from brick and mortar shoe retailers?

In this paper we will analyze Zappos in order to find out what makes it so successful. We will do this by, exploring how the company started, how it operates, what their company culture is like, how its competitors operate, and how it differs from its competitors. Our team chose this topic based on the recent media coverage of the company, recognizing that the company’s success may be based on some formula that has enabled the company to grow and prosper. Through this paper we intend to breakdown the business of Zappos in order to offer

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recommendations on how to improve efficiency, customer satisfaction, and related business attributes within an e-commerce business.

The history of Zappos as an online powerhouse begins with Tony Hsieh, CEO and co-founder of Zappos in 2000. However, it started off with much more humble beginnings. Nick Swinmurn, an online entrepreneur looking for a specific boot in a specific color, began Shoesite.com in 1999 after his frustration in his search. He wanted his shoe-store to be different—stocking all colors, sizes, and style while also having the ability to ship to anywhere in the world. With $150,000, Swinmurn started Shoesite.com in June of 1999. By July however, he had already renamed the site, Zappos.com, and began offering more than 100 brands. After a change in venue of the company’s office space, Swinmurn met Tony Hsieh of Venture Frog (a venture capital group that happened to be in the same building).

The two men joined forces in 2000, with Venture Frog investing $1.1 million dollars into the company. By that time, Zappos had grown to a company of 30 employees, offering more than 150 brands, and grossing sales of $1.6 million in that year. In early 2001, Zappos.com had become the largest shoe retailer in the world, offering more brands than any other store and a “bulletproof guarantee”: a one-year return policy with free shipping both ways. At the time when asked how they had become so successful, Swinmurn was quoted in Footwear News as saying “the best strategy is selection and service”. As sales grew, Swinmurn and Hsieh learned that controlling inventory was an important facet of service, and soon acquired a 100,000 sq. ft. warehouse in Kentucky to house their inventory. Two factors went into this crucial decision. The

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Footwear News (February 24th, 2001)
first was the cost of land in Kentucky. The second and most important factor was the warehouse’s proximity to the UPS global shipping hub—which was located next-door.

By 2003, other retailers began to offer their selections online as well—hoping to cash in on the increasingly fast growth of Zappos, whose sales were topping $70 million in 2003. In 2004, Zappos moved its headquarters to Las Vegas, Nevada to cut costs while finding additional funding from other sources. Its inventory housed in Kentucky grew from $5 million to $13 million in 2004. By 2008, it was offering over 1200 brands, 200,000 styles with over 900,000 unique UPCs.

Because of their dedication to customer service and attention to details when marketing products, Zappos became one of the highest rated online retailers. In 2008, 75% of their customers would return more than 2.5 times in the next 12 months with a higher average sales price per order. Believing that word of mouth is the best advertising, Zappos created a following of believers who felt confident spending money on expensive shoes without ever seeing or feeling them.

Amazon, another online retailing giant, purchased Zappos in July of 2009 for 10 million Amazon shares, valued at $888 million at closing day, and $40 million in cash and restricted stock to Zappos employees, for a total of $928 million. Amazon, owning an online shoe retailer already, left all employees and management in place, probably in part because Zappos.com was outcompeting their existing shoe department. But with profit margins floating in the 3% - 4% in 2008, many feel the deal was to control market share rather than for profit. But why couldn’t

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Amazon, with sales of over $24.5 billion in the year of 2009, compete with Zappos in this market?

Zappos’ focus on product selection and documentation was key to the growth-rate that the company has seen and the sheer volume at which it does business. This is most visible on the company’s website—the customer shopping interface. On Zappos’ website, products are presented with multiple high quality pictures that can be magnified to show fine detail. Clicking the product’s picture brings up more detailed images of the product in multiple angles (as shown in the picture to the left). Many products even have a video with a Zappos employee manipulating the product, describing it in further detail and their own opinions.

Color options are not just mentioned in the product description, but actually have separate pictures depicting the product in its different color options. The product descriptions themselves are short and precise, but include details such as weight or materials used in construction—a feature not found on many other sites. Also included is information on size, width, arch, describing them such as “true to size” or “moderate arch support,” etc.

Customer reviews are also integrated into the website and encouraged by Zappos (seen to the right). These reviews include three categories of rating: an overall rating, a comfort rating, and a style rating. Personal comments are also included. Many customers often leave detailed reports from first
impressions to after months of use, which allows the customer to get an overall picture and opinion of the product before buying. It even encourages past purchasers to describe their experience with the product, with comments such as, “felt half size larger” or “felt true to width”--helping you find the perfect size the first time. Many of the features found on the site may be familiar to you now, but Zappos was one of the first in the e-commerce world to implement many of these solutions and tools that now help you shop online.

In this picture is shown the product interface page.

Upper left: Picture, selection options and pricing.

Right and Bottom: Items customers purchased who purchased this item.

Middle: Description of the product including weight, materials, and design features.

The products Zappos sells also come with some very key service features. Every product in stock comes with a one-year return policy and free shipping both ways if you are unsatisfied with the product or have found a competing price somewhere else. In addition, due to the companies proximity to the UPS WorldPort Hub, all products ship next day. It is service features like this that have Google’s customer service rating for Zappos, with over 4500 unique user
reviews, at a solid 5 stars. Yet the company’s service excellence does not end there. In fact, the largest part of Zappos success as an e-commerce business lies within its employees and the culture of the company itself.

In 2009, following the sale of the Zappos to Amazon, Tony Hsieh created a power point that he presented to his company’s employees. He wanted to reassure his employees that not only would he and other management still be running Zappos, but that the employees and their customers were still the company’s priorities. He pointed out that Zappos has always been about service, and that the employees were the reason it was successful. But, this wasn’t by chance, or even just selective hiring, it was created by vision and drive.

In interview in Sparaxoo.com, Tony outlined 3 simple steps to creating the brand culture of Zappos that other companies could only dream of. The first step he said was to figure out your company’s core values. Second, commit to your core values. Most importantly he said, was to hire and fire employees based on these core values— which for Zappos are:

1) Deliver WOW Through Service

2) Embrace and Drive Change

3) Create Fun and A Little Weirdness

4) Be Adventureous, Create, and Open-Minnded

5) Pursue Growth and Learning

6) Build Open and Honest Relationships With Communication

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7) Build a Positive Team and Family Spirit

8) Do More With Less

9) Be Passionate and Determined

10) Be Humble

Zappos has taken this philosophy so far as to pay employees $2000 to leave their job when they feel they were not meeting these standards. As for new employees, all new hires must go through an extensive 5 week training course. Surprisingly, the main focus of this course is not learning to up-sale products or customer service scripts, but instead customer service. While other companies are outsourcing their customer service to other countries, Zappos instead empowers their employees to use their own judgment and experience to solve problems—believing their employees are not only intelligent but creative. They do not worry about scripts, but instead focus on creating the most satisfying shopping experience for their customers. With the company’s support and great service additions to their products such as a one-year return policy, employees can instead focus entirely on customer satisfaction. One example of the type of customer service experience Zappos offers was an instance where a recently widowed woman called to see if she could return some shoes she had ordered for her husband, who had died a short time after receiving them. The Zappos customer service representative not only accepted the shoes back, but also sent the customer flowers. In yearly peer evaluations, 50% of their score is based on the employee’s ability to inspire and live Zappos, a culture of giving and receiving respect, despite profits or losses. As with paying employees to leave, they will “fire”

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customers that they have found to be abusing the respect that Zappos has shown them, while also showing that they stand behind their employees who return that respect.

Zappos even hosts different blogs on its website for their employees to promote their unique culture, with topics like CEO & Coo, Parents, Health and Fitness, and Technology. Entries range from silly videos titled “Episode 2: Chris needs a desk” in a mini-series filmed at the offices of Zappos, to “Amazon and Zappos, 1 year later” by Hsieh, reassuring employees that the culture and family created at Zappos has not and will not change. With 18 different blogs to choose from, and numerous authors for each, everyone can find something to relate to and write about. An example (shown below) is an outdoor themed blog.

The Zappos culture also extends into corporate social responsibility. In 2009, Zappos gave back to their communities and the world with organized charity events every month,
sometimes twice a month. In October, they had their 7th Annual Goodie Two Shoes give away, donating 7000 pairs to over 1500 disadvantaged children in 14 local boys and girls clubs. In a cold February in Kentucky, 32 Zappos Fulfillment Center Employees raised $5,785 for the Special Olympics by jumping into the Ohio River in Louisville. To prove the support of his employees, the facilities manager jumped in while wearing a Speedo after having pledged to his employees that he would do so if they were able to raise over $1000.

We have talked about the internal culture and operations of Zappos. However, in order to understand and benchmark why the company has been so successful, we must take a look at its competitors. As Zappos primarily sells shoes, we will be taking a look at similar businesses and comparing them to the company to identify its strengths. For Zappos, its competitors come in two forms: brick and mortar retailers; and other e-commerce shoe businesses.

In the case of the shoe industry, brick and mortar retailers are physical stores that offer shoes for sale. These retailers consist of a series of physical stores that house individual lots of inventory. Some examples may include stores such as Foot Locker, Payless Shoes, and Nordstrom. These stores offer a relatively narrow selection of shoes due to economies of scale and limited warehouse and/or store space. Some stores specialize in only one or a few types of shoes. Foot Locker for example specializes in athletic footwear.

There are a few advantages to having a physical store:

- Physical location allows customers to try on shoes before buying.
- Serviced by salespersons who also stock inventory.
For most of us, the tactile sensation of trying before buying is crucial to our purchasing decisions. Thus a brick and mortar retailer holds that advantage over Zappos. The other advantage is having salespersons as an interface with customers. In some ways it can be advantageous in the whole shopping experience. However, it can also be a hindrance. Most brick and mortar retailers employ people who serve a number of functions in a single job. An example would be at Payless Shoes where the employees not only sell the shoes and assist the customers, but stock inventory, clean the shop, answer telephones, and checkout customers. This often results in a reduction in service quality through too many tasks being handled by one source.

Zappos other competitors in the shoe industry are from its same field, e-commerce. These businesses operate in much the same manner as Zappos. They operate and own a large warehouse or a series of warehouses that house inventory. They also operate a customer service center to deal with customer issues and a server complex to facilitate the transactions and sales-process as well as the logistics end of those processes. Below is a chart of some major e-commerce shoe competitors along with Zappos and their qualities:

<table>
<thead>
<tr>
<th></th>
<th>Shoes.com</th>
<th>Piperlime.com</th>
<th>Manufacturer Outlet Sites (ex. Nike.com)</th>
<th>Zappos</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owned by:</strong></td>
<td>Brown Shoe Company</td>
<td>The Gap</td>
<td>Shoe Manufacturer</td>
<td>Amazon</td>
</tr>
<tr>
<td><strong># of Brands Offered:</strong></td>
<td>700</td>
<td>250</td>
<td>1</td>
<td>1,037</td>
</tr>
<tr>
<td><strong>Free Shipping:</strong></td>
<td>Yes (Ground). Both ways.</td>
<td>Yes (Ground). Both ways.</td>
<td>No</td>
<td>Yes (Next-Day). Both ways.</td>
</tr>
<tr>
<td><strong>Shipping Time:</strong></td>
<td>5-7 days (Ground)</td>
<td>3-5 days (Ground)</td>
<td>2-9 days (Ground)</td>
<td>Next-Day</td>
</tr>
<tr>
<td><strong>Return Policy:</strong></td>
<td>60 Days</td>
<td>45 Days</td>
<td>30 Days</td>
<td>One-Year</td>
</tr>
</tbody>
</table>
Although Zappos’ competitors operate in much the same way as it does, they do differ in some key areas. Although most of its competitors offer free shipping and returns, the time for that shipment to arrive differs significantly. Shoes.com take 5-7 business days to arrive at its destination, unlike Zappos which ships Next-Day. It is a policy that perhaps gives Zappos a competitive advantage over its competitors. The argument being that with next-day shipping, consumers are more likely to purchase from Zappos because they can get their order sooner and thus see if they like it sooner. Return policies are certainly more restrictive with its competitors in terms of time. But perhaps the two things that differ most between companies are product selection and customer service.

In terms of product selection, Zappos’ competitors offer fewer brands to select from. The reason for this differs depending on the company. In the case of Shoes.com, it is because the company is owned by the Brown Shoe Corporation. All 700 brands that Shoes.com offers for sale are under Brown’s corporate umbrella. We believe they do not offer shoes from other companies either because they do not want to sell their competitors shoes, or their competitors do not want to distribute their shoes through another competitor. At Piperlime.com, the number of brands offered are only about 250. This has to do with the fact that the company is owned by “The Gap”. As it turns out, Piperlime shares the same warehouse and selection as its parent company, thus shoe brands are restricted to whatever is sold in The Gap. This differs from Zappos which stocks 1,037 different brands. Their advantage being not only their policy to offer
the widest selection possible, but their ability as a large company to bargain with different vendors.

The other important difference between Zappos and its competitors are its unique culture and customer service. For example, while its competitor Piperlime.com may have 24/7 customer service, the quality of that service differs. The Piperlime customer service center is not located in the United States but in India and thus its customers often find it hard to talk to them. This differs from the Zappos call-center which is located in Henderson, NV. This is just one example.

In the end, it seems that Zappos success as an e-commerce business comes from a number of factors which we have itemized in our model of Zappos’ success:

- Large selection.
- User friendly shopping interface.
- Warehouse capable of moving goods quickly.
- No shipping costs or return costs.
- A focus on customer service.
- Zappos strives to make people the most important component of an e-commerce business.

The last item mentioned is perhaps the most important. In this project, we were amazed to find that in a company that conducts its business online by the way of e-commerce, it was not so much the technology behind the business that made it successful as an e-commerce business, but the people behind that business. Zappos success is largely due the fact that its employees are empowered to make the right choices, and are backed by a company that supports them in
creating unique customer experiences. This focus on its employees and its customers coupled with a unique company culture has the ultimate effect of bringing customers back for more. It was for these reasons that Businessweek said they were able to rise out of the dot-com era and continue to be around\textsuperscript{6}.

Works Cited


Footwear News (February 24th, 2001)


