

CASE 1:

ZAPPOS.COM 2009: CLOTHING, CUSTOMER SERVICE AND COMPANY CULTURE

ZEITHAML, BITNER, AND GREMLER TEACHING NOTES

INTRODUCTION

The Zappos.com case study explores a number of key issues related to service marketing and management and business strategy. The case describes in detail the unique service culture and intense customer focus of Zappos.com, characteristics that helped the company grow very quickly during the ten year period from 1999 to 2009. Zappos “wows” customers by offering free shipping both ways, a 365 day return policy, and a 1-800 contact number that operates 24 hours a day, 7 days a week. Customer loyalty team members never operate from a script and have been known to direct customers to competitors if the desired product is not available on Zappos.com. The company hires happy people and retains them by offering free food, karaoke at lunchtime, and ongoing opportunities for additional training and advancement. Zappos’ order fulfillment processes are accurate and speedy - the envy of competitors. As Zappos now faces acquisition by Amazon.com, the key issue for CEO Tony Hsieh and his team is how the company can leverage its renowned customer service and unique culture as it grows in size and expands its offerings into diverse products and markets.

This case is especially appropriate for helping students recognize the importance of service culture in providing exceptional customer service. It provides an excellent example of a successful firm that understands the importance of employees’ roles in service delivery. The case is also suitable for highlighting the role of the customer and customer perceptions of service. Finally, it provides an outstanding opportunity for students to utilize the Service Marketing Triangle (Chapter 11) in a case analysis.

SUGGESTED USES OF CASE WITH ZEITHAML, BITNER, AND GREMLER TEXT

Topics Addressed

- Characteristics of services
- Service marketing mix
- The gaps model of service quality
- Customer perceptions of service
- Customer satisfaction
- Relationship marketing
- Employees’ role in service delivery
- Service culture
- The service marketing triangle
- Strategies for delivering service quality through people
- Customers’ roles in service delivery

Appropriate Chapters

- Chapter 1: Introduction to Services
- Chapter 2: Conceptual Framework of the Book: The Gaps Model of Service Quality
- Chapter 4: Customer Perceptions of Service
- Chapter 6: Building Customer Relationships
- Chapter 11: Employees' Roles in Service Delivery
- Chapter 12: Customers' Roles in Service Delivery

PEDAGOGY

Although there is no teaching note available from the publisher, Harvard Business School, we have prepared an outline to address the substantive issues raised in the case. The PowerPoint slides provided for this case can also be valuable in preparing a discussion of the case.

STUDENT PREPARATION QUESTIONS

1. *Why was Zappos so successful in its first 10 years from 1999-2009? What evidence is presented in the case of the company's success? What general, high-level strategies can you identify that lead to their success?*
2. *Use the Service Triangle to illustrate and analyze Zappos' success from a service strategy perspective. What specific things did the company do to achieve its success in external marketing, interactive marketing, and internal marketing? Is the Triangle well-aligned and where do you see potential threats going forward?*
3. *What would the Zappos blueprint look like? What are the critical points of customer contact with the company and what are customers expecting in these critical moments of truth? Where does the fulfillment process fit in the blueprint?*
4. *What challenges or changes in strategy would you anticipate for Zappos following its acquisition by Amazon? Can the company continue with the same strategy - why or why not?*
5. *Go the Zappos website and check it out. What is one "cool thing" on the website that you think reinforces a concept or strategy connected directly with service marketing and management fundamentals?*

DETAILED ANALYSIS OF QUESTIONS

1. *Why was Zappos so successful in its first 10 years from 1999-2009? What evidence is presented in the case of the company's success? What general, high-level strategies can you identify that lead to their success?*

Students may raise a number of key success factors including:

- The company had a strong culture from "day one" (1998) and exercised careful screening, selection, and training procedures to hire employees for cultural fit
- Obsessive focus on customer service and fostering customer loyalty. For example, CLT = Customer Loyalty Team
- Free shipping

- An online experience that was as close to an in-store experience as possible. For example, Zappos.com features photographs of shoes from nine different angles.
- Strong leadership from Hsieh starting in 2001
- The move to Las Vegas in 2005 allowed them to keep p costs under control and the new location was a good fit
- Investors infused the company with funding at key moments

Evidence of the company's success presented in the case includes:

- The offer from Amazon.com
- Growth in sales (see Exhibit 6)
- Online retail awards

2. *Use the Service Triangle to illustrate and analyze Zappos' success from a service strategy perspective. What specific things did the company do to achieve its success in external marketing, interactive marketing, and internal marketing? Is the Triangle well-aligned and where do you see potential threats going forward?*

The Service Marketing Triangle (Figure 11.1 in the text) can be drawn on a board or flip-chart to stimulate this part of the discussion.

- **External Marketing: What is the promise?**

- Public relations - sharing the Zappos culture, offering tours of company facilities, publishing a 450-page book with employee views on what they like about Zappos culture
- Word of Mouth (WOM) as a result of great customer service (the company did no "regular" advertising)
- Listening to customers when adding new lines and clothing; educating customers about the clothing offerings
- The CLT (Customer Loyalty Team) are "marketers"

- **Interactive Marketing: How does this occur? Who or what keeps the promise?**

- The vast majority of interactions and orders take place online, so the design and navigability of the website, photographs, and ordering processes are critical
- However, the company averages 5100 telephone calls per hour (25 percent of Zappos employees are CLT members)
 - CLT members are considered to be problem solvers, and there is no time limit placed on calls as is common in many traditional call centers.
 - CLT members are evaluated based on customer feedback (i.e., delivering "WOW" service) rather than traditional metrics (i.e., average call handle time)

- **Internal Marketing: How are the promises enabled?**

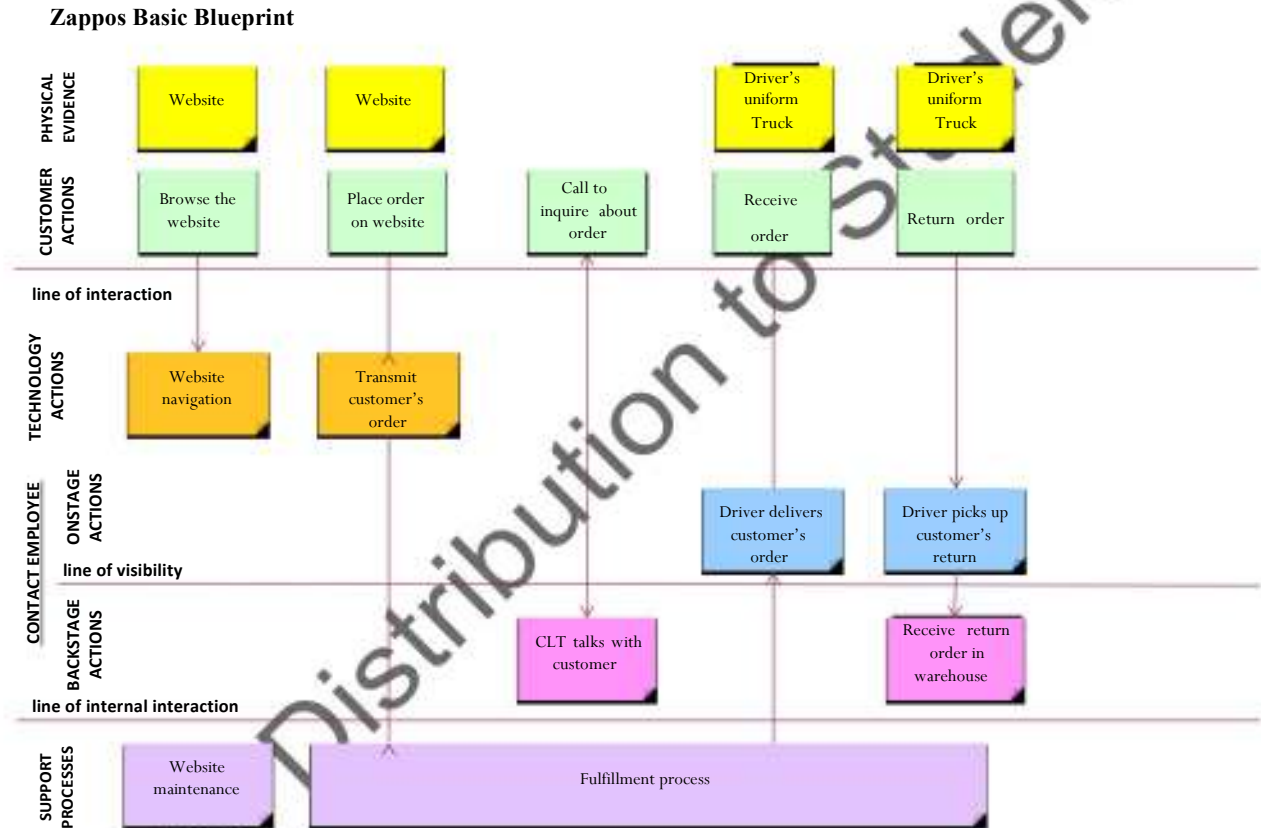
- Zappos "hires happy people" and keeps them happy. This relates directly to the Service-Profit Chain (see Figure 11.2).
- The 10 Core Values were developed with employee input during a yearlong process (see Exhibit 7 in the case); these values guide employee behavior
- The company hires for "cultural fit." All candidates must complete:
 - An unusual application with a crossword puzzle and off-beat questions (see Exhibit 9 in the case)
 - Two separate interviews - a traditional skills-based interview and a culture/values-based interview
- Training/orientation

- Employees undergo four weeks of paid training focused on the call center
- The company weeds out new hires that are lacking in commitment and/or fit by offering them \$2,000 to leave, usually within the first week of training
- Ongoing training and development featuring required core and additional courses
 - Ongoing opportunities include “Science of Happiness” courses (note that Tony Hsieh has authored a book called, *Delivering Happiness: A Path to Profits, Passion, and Purpose*; see section on Additional Readings, below)
 - Skills are fostered and developed via a “pipeline” process whereby employees are provided opportunities to advance toward the “highest level of management”
- Retention
 - There is very low turnover. For example, in 2009 Zappos call center turnover was 7 percent (the industry standard was 150 percent)
 - Many employees moved with them when the company moved to Las Vegas
- Efficient fulfillment processes such as static shelves, carousels, and the Kiva system allow orders to be shipped and delivered in a timely manner
 - One goal is to process incoming merchandise within 24 hours
 - Every product has a unique license plate number (LPN) assigned to keep track of its entire history
 - A member of the “put away” team selects an incoming product, scans the LPN, and stores the product on a rack so it can be retrieved, or “picked” later. Team members can “put away” over 100 items per hour.
 - “Pickers” retrieve products from shelves once orders are received.
- The speed of the fulfillment process is another “WOW”
 - The average time from order receipt to boxed and on the truck =
 - 45 minutes for a single item
 - 3 hours for multiple item orders
- There is support from “behind the scenes”
 - Warehouse workers earn an average of \$8.25 per hour, but perks and free food make the job more attractive
 - Free lunch/Internet access/Karaoke and Wii during lunch
 - Employees are rewarded for “being flexible” - cross-training and taking on various roles in the warehouse
 - The company avoids “pay-for-performance. The employees are not rewarded for being efficient, but the end result is that they are extremely efficient
 - The company installed chiller fans in the warehouse - not for efficiency - but for human comfort
- **Alignment of the Triangle and potential threats going forward**
 - Students may have various opinions about whether the triangle is aligned. This should be a lively discussion. Obviously, Zappos is doing a lot of things well, but the foregoing indicates that there is emphasis (at least from the perspective of the case itself) on Internal Marketing.
 - Potential threats include
 - Scalability of the organization with respect to retention and protection of its culture

- The limits of the CLT to deal with “everything” as they expand, especially as the company offers more diverse product lines
- Educating customers about more diverse product lines as they are offered

3. *What would the Zappos blueprint look like? What are the critical points of customer contact with the company and what are customers expecting in these critical moments of truth? Where does the fulfillment process fit in the blueprint?*

Below is an example of what the basic Zappos blueprint might look like. If students complete this as a separate assignment, it is likely there will be many variations which could provide the basis for an interesting discussion.



The critical points of contact with the company are:

1. The website
 - Is it easy to use and navigate? Is information about products easily accessed? Is the website “fun?” Is the order process secure?
2. The CLT person on the phone
 - Needs to be a problem solver, and not rush the interaction

The fulfillment process is absolutely critical for the “WOW” effect. If time permits, consider having students create a blueprint that “drills down” into the fulfillment process at Zappos in more detail.

4. *What challenges or changes in strategy would you anticipate for Zappos following its acquisition by Amazon? Can the company continue with the same strategy - why or why not?*

The advantages to Zappos of being acquired by Amazon.com include the 1) scale of technology and infrastructure that Amazon has to offer and 2) the opportunity to learn from another successful organization.

The challenges to Zappos include 1) maintaining the company's service culture as they grow and 2) the process of integrating operating policies and procedures with Amazon.com. Although the terms of the deal with Amazon.com indicate that Zappos would continue to operate as an independent entity, the extent to which Amazon's culture and policies might overflow into the Zappos organization is something that Tony Hsieh and his team will have to manage.

5. *Go the Zappos website and check it out. What is one "cool thing" on the website that you think reinforces a concept or strategy connected directly with service marketing and management fundamentals?*

www.zappos.com

<http://about.zappos.com>

FURTHER READING

Hsieh, Tony (2010), "Zappo's CEO on Going to Extremes for Customers," *Harvard Business Review*, July-August, 41-46.

Hsieh, Tony (2012), *Delivering Happiness: A Path to Profits, Passion, and Purpose*, New York: Business Plus.

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