**Case Study 4: Zappos**

Tony Hsieh’s first entrepreneurial effort began at the age of 12 when he started his own custom button business. Realizing the importance of advertising, Hsieh began marketing his business to other kids through directories, and soon his profits soared to a few hundred dollars a month. Throughout his adolescence, Hsieh started several businesses, and by the time he was in college he was making money selling pizzas out of his Harvard dorm room. Another entrepreneurial student, Alfred Lin,bought pizzas from Hsieh and resold them by the slice, making a nice profit. Hsieh and Lin quickly became friends. After Harvard, Hsieh founded Link Exchange in 1996, a company that helped small businesses exchange banner ads. A mere two years later, Hsieh sold Link Exchange to Microsoft for $265 million. Using the profits from the sale, Hsieh and Lin formed a venture capital company that invested in start-up businesses. One investment that caught their attention was Zappos, an online retailer of shoes. Both entrepreneurs viewed the $40 billion shoe market as an opportunity they could not miss, and in 2000 Hsieh took over as Zappos’ CEO with Lin as his chief financial officer.

Today, Zappos is leading its market and offering an enormous selection of more than 90,000 styles of handbags, clothing, and accessories for more than 500 brands. One reason for Zappos’ incredible success was Hsieh’s decision to use the advertising and marketing budget for customer service, a tactic that would not have worked before the Internet. Zappos’ passionate customer service strategy encourages customers to order as many sizes and styles of products as they want, ships them for free, and offers free return shipping. Zappos encourages customer communication, and its call center receives more than 5,000 calls a day with the longest call to date lasting more than four hours. Zappos’ extensive inventory is stored in a warehouse in Kentucky right next to a UPS shipping center. Only available stock is listed on the website, and orders as late as 11 p.m. are still guaranteed next-day delivery. To facilitate supplier and partner relationships, Zappos built an extranet that provides its vendors with all kinds of product information, such as items sold, times sold, price, customer, and so on. Armed with these kinds of details, suppliers can quickly change manufacturing schedules to meet demand.

**Zappos Culture**  
Along with valuing its partners and suppliers, Zappos also places a great deal of value on its employee relationships. Zappos employees have fun, and walking through the offices you will see all kinds of things not normally seen in business environments—bottle-cap pyramids, cotton-candy machines, and bouncing balls. Building loyal employee relationships is a critical success factor at Zappos, and to facilitate this relationship the corporate headquarters are located in the same building as the call center (where most employees work) in Las Vegas. All employees receive 100 percent company-paid health insurance along with a daily free lunch.  
Of course, the Zappos culture does not work for everyone, and the company pays to find the right employees through “The Offer,” which extends to new employees the option of quitting and receiving payment for time worked plus an additional $1,000 bonus. Why the $1,000 bonus for quitting? Zappos management believes that is a small price to pay to find those employees who do not have the sense of commitment Zappos requires. Less than 10 percent of new hires take The Offer.  
**Zappos’ unique culture stresses the following**:  
1. Delivering WOW through service  
2. Embracing and driving change  
3. Creating fun and a little weirdness  
4. Being adventurous, creative, and open-minded  
5. Pursuing growth and learning  
6. Building open and honest relationships with communication  
7. Building a positive team and family spirit  
8. Doing more with less  
9. Being passionate and determined  
10. Being humble  
**Zappos’ Sale to Amazon**Amazon.com purchased Zappos for $880 million. Zappos employees shared $40 million in cash and stock, and the Zappos management team remained in place. Having access to Amazon’s world-class warehouses and supply chain is sure to catapult Zappos’ revenues, though many wonder whether the Zappos culture will remain. It’ll be interesting to watch!19

**Case Study 4: Zappos**

1. Define SCM and how it can benefit Zappos. **(1 Mark)**
2. Explain CRM and why Zappos would benefit from the implementation of a CRM system. **(1 Mark)**
3. Demonstrate why Zappos would need to implement SCM, CRM, and ERP for a connected corporation. **(1 Mark)**
4. Analyze the merger between Zappos and Amazon and assess potential issues for Zappos customers. **(1 Mark)**
5. Propose a plan for how Zappos can use Amazon’s supply chain to increase sales and customer satisfaction. **(1 Mark)**