Strategic Management's Group Project

UMUC

Introduction

This paper is an evaluation the online retailer-Zappos-to determine its business strategies and growth objectives. First, background information on the company which covers different aspects including the company objectives, mission and vision is provided to familiarize the reader with the organization. Ethical decision-making, social responsibility, stakeholder analysis, and corporate governance are also considered in this evaluation as they play significant roles in determining the profitability of an organization. Frequent analysis of firms is important as it helps to determine, prioritize and implement most viable opportunities for growth and enhancement.

Background Information

Nick Swinmurn established Zappos.com in 1999, with the assistance of investor, Tony Hsieh (Zappos, 2014). The organization initially started as a middleman, completing customer orders by having other companies fulfill the orders, however this method only allowed for a 25% cut of the revenue, and after the dotcom crash, it was no longer an option (Bloomberg Businessweek, 2010). The organization made the transformation from middle man to supplier in 2002, when the CEO, Tony Hsieh sold his San Francisco loft and gave himself a salary of $24, in order to afford a warehouse in Kentucky (Inc.com, 2014). The move to develop a stock of items readily available for sale proved to be the right idea, and in 2004, Zappos was able to secure $20 million in capital funding from Sequoia Capital, which has also helped establish other well-known online organizations, such as Google and YouTube. The organization caught the eye of Amazon in 2005, however Zappos CEO felt the timing was wrong, so he turned down Amazon’s $370 million offer, only to sell four years later; however, this time for the option to maintain its eccentric culture and for a large sum of $1.2 billion (Hsieh, 2010). Some core values for Zappos are to be adventurous, creative and open-minded (Zappos, 2014).

Balanced Score Card

The balanced score card requires management to translate each perspective of the organization's mission statement into a series of specific measures of critical strategic concern (Blackwell Encyclopedia, 2005). Zappos' mission is to provide the best customer service possible and attempts to achieve this through a number of different strategies. These strategies include hiring competent representatives and polite customer care agents at the call centers.Zappos also provides for free shipping both ways and 365 day return policy (Hsieh, 2010). The first factor of the BSC is customer perspective. According to CEO Tony Hsieh (2010), the organization's philosophy is investing on customer service rather than spending money on marketing. When the customers are satisfied with the service, they would market the company on its behalf.

Instead of looking at the organization through an expense-minimizing lens, the organization looks at itself through branding lens, which ultimately affects all internal business processes. For example, rather than having a call center that attempts to answer the most calls possible, the representatives are trained to build emotional connections with the customers and attempt to resolve calls as thoroughly as possible, without following a designated script (Hsieh, 2010). This desire to create the best customer loyalty team also affects how the organization encourages learning and growth in its employees. The employees are encouraged to be totally committed to the organization and those who appear less committed are encouraged to quit by being given $100 (Taylor, 2014). The organization also creates a goofy culture where everyone is friends with everyone else (Chafkin, 2009).

Mission and Vision

The purpose of a mission statement is to help an organization focus on what really matters and to effectively communicate these values to employees. A good vision connects an organization's present to its future; it encourages employees to be committed to the organization, gives meaning to the employees, and establishes principles and a standard of excellence. Zappos mission is simply: to provide the best customer service possible (Zappos, 2014). The vision of the organization is that in the future, when approximately one third of all retail transactions are conducted online, customers will choose to purchase from the organization that has the best service and the best selection of products (Zappos, 2014). Zappos initially started as an online shoe store, but as of today, a visit to the retail website reveals the organization sells shoes, clothing, bags & handbags, home items, beauty items, and accessories (Zappos, 2014). Thus far, the organization's actions of providing good customer service, a wide range of products and free shipping both ways, are aligned with the company's vision.

Zappos' vision reflects a future of what the organization will be like; it directs its employees, by providing a clear idea of what the organization seeks to be. The vision is relevant to the organization and the times; it connects the public to Zappos' core values of providing 'WOW' customer service, and challenges the organization to greatness. However, providing a vision that simply has a purpose of beating the competition is not unique, vivid or inspiring. All of these factors are considered essential components, according to author George Ambler (2013), in creating an effective vision. A simple modification can perhaps encompass all components in order to make Zappos' vision more effective. The proposed modified vision for Zappos is "Providing consumers with the best possible experience from the moment they open their browser or pick up the phone, and assisting in the development of everyone's' self esteem, because every individual is worthy of being treated like royalty".

Zappos' mission statement lacks several components proposed by McMurry University (2014), which include naming who is the organization's customer, its products or services, the industry it competes in, the technology it uses, its commitment to economic objectives, its beliefs and values, its strengths, its public image, and how it feels about its employees. Vague or generic mission statements will likely be forgotten or dismissed (Olsen, 2010). A slight modification to Zappos' current mission statement will ensure an impact is made on its employees and the people it serves. The proposed mission statement is "Developing leaders in customer service to provide anyone seeking to purchase something online that will bring happiness into their home, or heart, with the assistance that makes their shopping experience as enjoyable as using the product itself." A great mission and vision, as well as a clear understanding of how well the organization responds to external factors will lead the company into a successful future.

Industry Analysis

An External Factor Evaluation or EFE matrix, is a strategic management tool used to assess the current conditions of an organization (Maxi-Pedia, 2012). By conducting an EFE, Zappos is able to determine its current conditions and how it prepares the organization to respond to outside threats and opportunities. An opportunity that Zappos has been able to cease is providing business advice to other organization seeking to improve their overall practices and culture. Zappos has created Zappos Insights, which is a department within the Zappos family of companies that shares the organization's culture with the outside world (Zappos Insights, 2014). The organization conducts tours, training events, Q&A sessions, and even a three-day culture camp (Zappos Insights, 2014). Zappos Insights is the beginning of Zappos future.

In efforts to continually increase the bar for best customer service, Zappos has also created a robotic warehouse system that allows items to be shipped within 8 minutes of the order being processed, which has received praise from logistics-industry and trade publications (Madrigal, 2009). This ability to process orders quickly and accurately, combined with the famous free shipping both ways, and elite customer service, has separated the organization from other competitors. Other competitors such as JustFab.com or Showdazzle.com are attempting new ways to attract customers by offering one low price, or stylists to pick out shoes for its members based on their likings, however Zappos' customer service still outranks these competitors in customer service, according to Stella Service, an organization that objectively measures organization's customer service performance (StellaService, 2014).

The last threat, and likely the most significant, is the compromised reputation of Zappos that resulted from a 2012 data breach that affected more than 24 million customers (University of New Mexico, 2014). The organization immediately addressed the security breach by advising customers via email that a breach had occurred and advising them of what information was stolen, which included names, email, billing, and shipping addresses, phone numbers and last four digits of credit card information (University of New Mexico, 2014). The organization then made the strategic decision of disconnecting its call centers, because it feared the influx of calls would cause an overload to the system. This decision was not in line with the good reputation the organization had spent over 12 years to build.

Long-Term Objectives

Goals that are designed using specific language, with measurable terms, that are aggressive, realistic, and time-bound are the most effective (Saylor, 2012). With this in mind, Zappos' objectives that have been made clear through the actions of the organization, and several publications that have been discussed throughout this presentation, will be redesigned in order to maximize effectiveness. The CEO has made it clear that it is important to brand Zappos as a leading service provider. The organization wants to achieve this success by spreading Zappos' unique culture, while educating other businesses. A slight modification to these objectives using SMART guidelines can transform it into a more effective objective.

The proposed objectives are to create several organizations under the Zapposbrand that meet the needs of customers that are currently not being reached in its current product sales. Zappos will continue to determine if it is the leading provider through customer feedback and will enter other service industries within 5 years. While Zappos is preparing to enter these other markets, there is no reason customers should suffer, so for this reason Zappos will continue to educate business and over the next year, will expand the classes it offers, in order to spread Zappos' infectious culture, in the hope of changing the way everyone does business. The success of other companies will only further challenge Zappos to exceed customers' expectations.

Competitive Analysis

A competitive analysis allows a company to analyze its strengths and weaknesses based on a series of data showing the company's performance. This data reflects the effect the company has on the target market, and how effective the company is at marketing its product or service to the public. A competitive analysis can help a company see where it may need to adapt to be more competitive within the market. Zappos is currently the leader within the industry. The unique quality that Zappos boasts is its 'WOW' factor of customer service and culture. This is reflected through the direct marketing that Zappos does, and can be seen in the numbers that reflect the return on marketing based on internet ads and how often they are clicked. Zappos leads the competition with the most ad coverage at 81.05% (Adgooroo, 2014). This number represents roughly the number of prospects that see the ad compared to the number of prospects the ad is meant for; a higher percentage means a better coverage of the market. This number can be compared to the Click Through Rate (CTR), in order to measure success.

Zappos has a CTR of 4.10%(Adgooroo, 2014), which is a measure of the number of times an ad is clicked when it is seen. This number is calculated by taking the number of clicks and dividing it by the number of impressions or how many times an ad appear. Having a high CTR is an indicator that an organization's advertising is working. Zappos has a CTR that is almost 25 percent better than the next highest CTR at 3.36% which belongs to Macys(Adgooroo, 2014). The success rate of the organization's advertising shows that the company is encompassing its culture, and it seems to be working. Zappos holds the best average marketing position at 1.43 where Macys is in second at 2.47 (Adgooroo, 2014). Even though Zappos pays $1.10 per click that they receivebased on the number of clicks and the money they spend, as compared to Macys at $0.86, or Nordstrom at $0.92, Zappos is getting a higher return on their marketing and more traffic so it is worth the extra spent money (Adgooroo,2014).

Financial Analysis

In 2009, Zappos was acquired and became a subsidiary of Amazon.com. Since that time Zappos has operated the business in the same manner as it did prior to the acquisition. However, since that time Zappos no longer reports individual financial data, or publish an annual report. All of its financial information is included as a portion of the reported Amazon financial data. The acquisition occurred for a sum that was equivalent to 928 Million dollars. This was done in the form of 10 million shares of Amazon stock worth roughly $888 million dollars and the employees will also receive $40 million dollars in cash considerations (Lacy, 2009). The acquisition was big for Zappos and has profited Amazon as well. Since there are currently no formally released documents that can profile the financial data for Zappos, Amazon's financial data would be considered the data that would need to be analyzed to see how the parent company of the subsidiary is functioning.

Amazon itself has been a strong company and sees yearly growth in revenue of roughly 30% per year. This is a tremendous level of growth, and few companies can continue to sustain this volume of growth for an extended period of time. 2012 was a down year in terms of net income for Amazon. The company reported a negative number after a 631 million dollar income the previous year. The company bounced back in 2013 posting 274 million dollars Net Income and showing the company's resilience.

Amazon's liquidity is the ability the company has to pay off the short-term debt obligations it has accrued. The current ratio for the company shows a balance of the current assets in relation to the current liability. Any number over 1 means the company is capable of paying off the current short-term debts using short-term assets. Amazon maintains a current ratio over 1, therefore is considered liquid, which is a positive sign for the company. However, this ratio does not tell the entire story. The quick ratio measures the liquidity of a company when the current inventories are removed. Amazon yearly has a quick ratio below 1. This shows that without the current inventory the company possesses it may not be able to pay off all of the short-term debt if it comes due. The Debt/Equity Ratio is basically a measure of how much a company has financed the growth of the company with debt. Amazon has a very good debt/equity ratio as the number is below 1 and considered to be a low number. This shows that Amazon has not accrued debt in order to promote growth as a company, which is a sign of a successfully operating and growing business.

The efficiency of Amazon is excellent. Asset turnover and Inventory Turnover are both measures of how efficient a company operates. Asset turnover is a display of how much revenue a company generates per dollar of assets. In this case Amazon has a decently high assets turnover ratio, 2.05:1 in 2013. This represents that Amazon is generating at least 2 dollars in revenue per dollar of Asset. Amazon has a very high inventory turnover ratio. Since the company operates by selling goods, this is not surprising. The high ratio however, 8.06:1 in 2013, expresses that Amazon is thriving at what is the company's bread and butter which is selling items.

Amazon surprisingly is not very profitable as a company. Amazon showing a ROA of .75% and an ROE of 3.06% in 2013 would be considered low against competitors who offer similar services. Ebay, for example, in 2013 posted a ROA of 7.27% (which was a decrease for the company) and a ROE of 12.83%. These numbers are substantially higher than Amazon's. Overstock.com also boasts higher number with an ROA of 35.28% and a ROE of 115.06%. This shows that while Amazon is profiting, it is not getting a good return on its money. This could be in result of 2012 where the organization posted a negative ROA and ROE, and the company needs time to bounce back. However, these numbers are still much lower than they should be for a company as successful as Amazon.

Technique Analysis

The technique analysis performed on the Amazon data was a SPACE Matrix. SPACE matrix is a management tool used to analyze a company. It is used to determine what type of a strategy a company should undertake (Maxi-Pedia, 2012). This matrix is more involved than a SWOT analysis and can be used for competitive advantage. The matrix is broken down into four issues; financial strength, competitive advantage, environmental stability, and Industry Strength. Financial strength and competitive advantage are internal issues, and environmental stability and industry strength are external issues. Each issue is broken down further into factors that affect each issue, and those factors are given a rating. The factor ratings are averaged for each issue and those issue averages are charted.

Financial strength is a category that is a strong point for Amazon, but is trending in the wrong direction currently. Amazon has a very high cash flow, but is posting lower earnings per share data yearly, and has taken a hit over the past few years in net income. The working capital is present but the amount is decreasing yearly at a small rate. The company also has a very good debt/equity ratio; however, the company is accruing slightly more debt than before. The overall rating for Financial Strength is good, but needs to at least maintain the current level of success for Amazon to continue considering this as one of its strengths. The competitive advantage that Amazon has is massive. It is a top competitor among the major companies in its category. Amazon holds a large portion of the market share and has a very high rate of revenue growth. Amazon has also developed a completely vertically integrated company with loyal customers to all of the subsidiaries the company has, including Zappos. All of the subsidiaries produce top quality products and services helping Amazon keep the competitive advantage that it has.

In regards to the external issues, Amazon does well in the current environment, and uses the strengths of the industry to its advantage as a company. The market has been stable for the past few years which have kept the inflation rate stable. Both factors are a positive for Amazon as a stable economic climate usually leads to people spending more money. The changes in technology recently has also been strength of Amazon, as it has kept up with the changes and used them to market new products to the public. As with any company there is constant pressure competitively from other large companies, but it is nothing more than a minor threat as there is also competitive pressure created by Amazon towards other companies within the industry. The industry itself is very strong right now due to the constant increase in technology. Companies like Amazon thrive as more technology is released due to the multiple platforms they run involving recent technologies, such as Amazon Instant Video, or the new Amazon Fire Stick. The ability to continue growing and becoming profitable within the industry will allow Amazon to become a larger, more powerful company over time.

Based on the result of the calculated SPACE Matrix it is suggested that Amazon's strategies should be aggressive. These strategies could involve promoting growth, infiltrating new markets, expansion, new acquisitions, or pushing smaller competitors out of the market. For the most part the strategies that Amazon has used in the past have been aggressive, this Matrix shows that Amazon has been using the proper strategy, and based on current position the same strategy should be used moving forward into the future.

Action Plan for Zappos Company

Action plan defined as an approach that helps organizations to focus on their ideas on the next steps required to attain a specific goal comprises of a statement that expresses what is required to be achieved in set period of time. Preparation of an action plan helps organization to arrive at their objectives in the long run. In other description, action planning is termed to as "heroic" act as it helps in turning dreams into reality and as well enables explanation of the strategies that can be adopted to make organizations concrete as well as their vision and missions. With these facts Zappos has emphasized on coming up with action plan to enable them ascertain the mode that their organization will use to convene their objectives (Greening et al 1994).

For the last 9 years, the aspirations as well as the brands offered by the Zappos Company have evolved in presenting the best range of their products with the ambition of being a company offering the supreme online services not only in their shoes products but as well in several other categories (Porter et al 2002). Zappos has believed that it is the pace at which a customer obtains an online service that plays a significant role on the perception of the customers on shopping online.

Zappos action plan focuses on building customer based relationships that will enable them deliver the best appreciable services to their customers as friends and partners. They have also ensured good relations with their employees since Zappos acknowledges that satisfied employees deliver best services to the customers.

Zappos evaluative plan

Zappos Company has emphasized on evaluating their action plan through adaptation of holacracy a performance that is widespread entailing structuring, governing as well as operating an organization that is observed to take place of present top-down way of controlling and predicting model of management and delegation of authority.Holacracy is viewed as a new “operating system” that brings about speedy evolution in the center progression of an organization.

Researchers have indicated that when the extend of city doubles, productivity as well as innovation amplifies by almost 15 percent, hence on the other hand once companies grow innovation and productivity for each employee drops down which have led to Zappos strategize on how make their organization seem like a city with reduced bureaucratic corporation. This system is viewed by Zappos as being more of organizing since it enables employees to operate like entrepreneurs hence self-directing their tasks instead of being directed by a manager on how they should handle issues (Vadim 2014).

Having realized the challenges they have formerly undergone through action planning, Zappos Company has set a goal focused on ensuring they position themselves as leaders in online service provision bearing in mind that getting customers associated with their brands and offering the best suitable customer services will enable them grow their products beyond other categories apart from the shoes venture. They have also ensured working more closely with their customers whom they perceive as their friends as well as their employees to building corporate relationships that will facilitate their delivery delightful services thus detecting any deviations that might come along their operations inhibiting their business objectives and focusing to handle them early enough for smooth operations.

Corporate level strategies of Zappos

The corporate strategy level comprises of the top level management who play the role of growth and expansion as well as creating business linkages for their organizations. This corporate level focuses on establishing long-term goals for the organization, an area that Zappos Company has played a great role to ensure they meet their long-term goals. The corporate level of Zappos Company has focused on removing the boundaries between the top and bottom management thus working close with their employees to create an environment that fits everyone (Donald et al 1981).

They have also ensured they provide adequate resources to enable smooth operations as well as creating time to mingle with their employees so that they can learn each other better promoting their working relationships. Additionally, they have emphasized on adopting competitive strategy that majorly focuses on differentiating their products with those produced by their rivals creating a unique market that suits a wide range of their customers, delighting and satisfying them.

Business Level Strategies of Zappos

This level is the middle level in management that helps in implementing the strategies generated by the top management to ensure success. Their strategies are focused on shorter period ranging from 3-5 years. Zappos has ensured they implement these strategies effectively through focusing on the areas that they have realized to be weak and focusing on ensuring their social businesses achieve their objectives and goals. They have emphasized on ensuing they provide the resources acquired from the top level as well as overseeing them to guarantee their maximum utilization to bring out the desired results. They have also practiced working closely with the bottom level to build advanced relationships geared towards delivering their best to their customers to support growth and expansion.

Conclusion

Zappos has ensured they work closely with this level through providing the required skills and knowledge by conducting seminars and interacting with all employees to emphasize on offering reliable services to their customers. They realize that this level interacts closely with their customers since they play a crucial role of acquiring feedbacks from the customers that help the other levels in reviewing any complains or other issues that need to be adjusted to suit customer's satisfaction (Porter et al 2002). Zappos has always advocated for ensuring the function level interact freely as well as embracing their core values which include: "creating fun and A little weirdness and delivering WOW through services" among others.

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