

Extended Essay - Business Management

Evaluation of



Topic: A investigation on Zoom's customer oriented approach.

Research Question: To what extent has Zoom's customer - oriented approach led to its success?

Word Count:

Table of Contents

INTRODUCTION

METHODOLOGY

LITERATURE REVIEW

MARKET ORIENTATED APPROACH

RATIOS

SWOT ANALYSIS

CONCLUSION

BIBLIOGRAPHY

APPENDICES

1 Introduction

Zoom Video Communications is a company that offers teleconferencing services, including video meetings, voice, webinars, and chat across desktops and mobile devices. Founded in 2011 by Eric Yuan, it aims at empowering people to accomplish more through video conferencing. This extended essay aims to answer the question, "To what extent has Zoom's customer-oriented approach led to its success ?" With the current outbreak of the coronavirus(COVID-19), the demand for video conferencing platforms skyrocketed. It stumbled upon my interest in why Zoom is the most popular platform, beating other competitors yet being the newest company with just going public in 2019. To be specific, I wondered how Zoom established its heads over established players such as Microsoft's Skype or Cisco's WebEx and newcomers such as Bluejeans network.

Being a company that focuses on customers more than anything, I want to know where this has brought them. This essay aims to assess Zoom's success through customer-oriented approach and to what extent their success can be contributed to their marketing strategy. This paper will first start with a literature review introducing customer oriented approach. Then I will discuss Zoom's customer oriented approach as well as its success. I will then discuss how the pandemic has impacted Zoom. Next, Zoom's financial statement will be utilized for financial ratio analysis to evaluate the company's success from a financial point of view. Finally, I will end this paper with a swot analysis that summarizes everything in the paper and assess this company in a more structured form.

1.2 Methodology

The primary sources of information gathered to investigate Zoom's success are secondary sources: Zoom's annual and quarterly report, academic journals (google scholar, Science direct), and various business websites (Harvard business review). By using a wide range of academic sources, I can be sure that my research is reliable and valuable and can answer my research question objectively. However, there are limitations to each source. With Zoom's financial

statements, it is based on one specific period, and one period may vary from another and is very unstable. It is not useful for the future. With academic journals, many of them vary with quality and google scholar. For instance, they do not even have criteria for selecting “scholarly materials,” with some having to pay membership to view them. There are new articles every day with business websites, and what I used the previous day may be outdated the following day. It is continually changing. But despite these limitations, this wide range of sources helped me complete my extended essay with a relatively high degree of reliability.

2. Literature review

Every business has a marketing approach, and the customer-orientation approach is one of them. Customer orientation means when a business places its customers above everything or, in other words, focused on satisfying customers and making them happy. A significant result of customer orientation is its positive impact on a firm's creativity, the ability to develop new ideas, and innovation, the ability to put those ideas into practice. Customer orientation lies on three underpinning concepts: customer response, market sensing and the customer relating.

Customer response refers to a firm's ability to satisfy its customers by analyzing customer responses and the speed of the reaction- quick actions. Market sensing refers to the strength of the firm to identify trends in the market before competitors. This means identifying and evaluating current and future customer demand(e.g., faster, cheaper, smaller). Therefore, market sensing and customer response will result in innovation because the focus on satisfying customers requires the firm to respond to the anticipated change in customer's needs, wants, and preferences for a market offer. Customer relating refers to the firms' ability to retain and develop close relationships with customers and encourage organizational openness to share customer information throughout the firm(). Through ways such as customer surveys or focus groups, companies can generate unique information about their customers. This information is then shared throughout the company and as a focal point for everyone in the firm, which stimulates creativity for generating different ideas to improve customer experience and meet their demands. Approaches to producing creative and novel ideas from information gathered include

interpretation of customer complaints, assessing sources of customer dissatisfaction, or making observations from buyer behaviors().

Customer orientation may help assess when to put ideas into actions. For instance, customer knowledge not only in more useful ideas as explained above, but also fosters motivation and reduces the risk involved with action because it justifies the need for the firm to pursue that particular innovation action(). Thus, learning about customers to assess the extent of risk involved in an innovation action is essential for the firm to pursue a course of action in responding to customers.

3. Zoom's success

3.1 Zoom's customer oriented approach

So, where has customer orientation approach brought Zoom?

Zoom is an excellent example of a successful organization that places its customer above everything. Zoom's CEO, Eric Yuan, was once a worker at WebEx for Cisco. However, when he spoke to a WebEx customer, Eric was frustrated because they had nothing positive to say about their product experience. Since then, he was determined to create a product that could deliver an experience that would help their lives. Eric soon left WebEx and started Zoom, aiming to provide cloud video communication that would make customers happy().

In an interview with Eric, he said that looking into the customer's perspectives shows that a company cares about them. So when building a product, Zoom would think about whether a particular feature will deliver value to its customers. And when every decision made is from the customer's perspective, customers will feel more like a business, forming an emotional connection. The Harvard Business Review has a great article called, "The new science of customer emotion" This article explains the power for a company to create emotional connections with their customers. Emotional connection means that customers are emotionally connected with their brand, that the brand aligns with their motivations and helps them fulfill

deep, often unconscious desires. According to the article, there is an emotional connection pathway as they transition from "(1) being unconnected to (2) being highly satisfied to (3) perceiving brand differentiation to (4) being fully connected." This pathway guides companies in where they should invest and focus. For Zoom, working on having customers fully connected is what they have been trying to do. Analysis shows that moving customers from highly satisfied to fully connected can have three times the return of moving them from unconnected to highly satisfied. And the highest returns, according to studies conducted by the team, come from focusing on customers who are already fully connected to the category—from maximizing their value and attracting more of them to the brand.

Here is how Zoom has been looking into customer's perspective to move to fully connected. Zooms deploys many creative ways to gather VOC (voice of the customer) feedback. One way is how Zoom partners with industry analyst firms who are also eager to talk with users of the companies to make accurate market assessments about them. In November 2018, Zoom partnered with leading analysts firm Gartner on its peer insight review program. It generated 2456 user ratings from its customer base. It received an average feedback score of over 4.7 out of 5 which is extremely high for a technology/software organization(). Some of the customer dissatisfaction was then analyzed. So linking back to the pathway, Zoom has spent years building on their product and with the positive feedback they have received throughout the years, they have definitely reached a highly satisfied state. It is apparent how Zoom constantly obtain feedback from its customers to improve and take action to move their customers to feel fully connected. In addition, they conduct case studies(Exhibit 1) on different companies using Zoom, reporting on what different companies think what they find challenging to enhance their product better. Zoom also publish blog keep the customers informed about what these have done. "customers will like to talk with us, share our stories with others, and, essentially, help us further improve our product experience and make our business better." - Eric Yuan.

Meeting the customers' motivation, such as a sense of belonging (the idea of being valued in a constantly changing community) or sense of well being (sense of satisfaction from using the product), will result in an emotional connection with Zoom. Of course, not every customer has the same motivation, and it is Zoom's job to get to know their customers better. When customers are emotionally connected, Zoom's action or innovations with user/product design are then justified which helps minimize the risks of wrong investment as well as increase customer loyalty. This creates a virtuous cycle of customer-centric growth in which Zoom gets more successful as time goes on and as more customers use Zoom(). In 2018, Zoom's Net Promoter Score (NPS) was over 70. NPS is a metric that measures customer satisfaction and loyalty. Skype, a competitor, on the other hand, has an NPS score of 40, 30 points behind Zoom. This score indicates how customer orientation helps improve customers' experience and how it is critical to Zoom's success, especially in the long run.

3.2 Zoom's gaining popularity along COVID-19.

Now 2020 with the outbreak of the coronavirus, people are forced to move everything online. Zoom, the market leader for videoconferencing, has stepped in for schools and other businesses to fill the demand for a video conferencing platform. Zoom is witnessing history with its amount of new users, nothing like anything they have seen more than 200 million daily participants, a 200% increase from last year(). One thing that Zoom did well is that they did not change their pricing model throughout quarantine, where a massive demand for video conferencing platforms is needed. This worked well because although economic theory would suggest raising the price in a time of higher demand, Zoom didn't do this as they would be seen as taking advantage of the pandemic and people would be upset. They even offer the service for free to most individuals which boosted their morale.

As thousands new users sign in to Zoom everyday, demand to satisfy new and different customers has increased. This is because Zoom was originally designed for use in business, built for large enterprise institutions. However, just as 2020 began, Zoom was not expecting that every

person in the world would suddenly be working, studying, and socializing from home. Zoom now have a much broader set of users who are utilizing our product in a myriad of unexpected ways, presenting them with challenges. Amendment and continuous update to satisfy customers is necessary for Zoom to keep its users to continue using Zoom in the future and this is exactly what they have been doing. For instance with the new flood of new users, Zoom thought it was necessary to provide proper training tools and support to help them understand their own account features and how to best use the platform. They started offering training sessions and tutorials and proactively sending out resources to guide and familiarize users with Zoom's videoconferencing platform. Furthermore, with more schools moving to online learning, classes are happening online through Zoom(90,000 schools across 20 countries). Zoom has changed product specifically for education users. Zoom is dedicated on making changes toward their product to smoothen customers experience and as different customers have different needs, it is really a challenge for Zoom. But to work through this challenge and act based on what customers want, it really make Zoom stand out and sets the reason clear for why they are so successful. As mentioned above, part of this success and Zoom's ability to innovate can be contributed to customer orientation. Being in a costumer oriented company, the business has a same goal and every one can contribute to that goal in improving users experience. Thus, motivated in making innovations and justifying the need for the firm to pursue an innovation action.

However, with millions of new users, there are unprecedented problems. One major problem regarding new users is security and privacy issues. For instance back in March, “ZoomBombing” referred to the ability of hackers to enter a Zoom session and take over the display or audio in attempt to disrupt and cause chaos due to public url where everyone could access private meeting. In addition, it was discovered that the Zoom IOS application was sending analytics information (mobile operating system type and versions, device model, etc)of users to Facebook when the app is installed and being used. But on the other hand, it is only with these new users, that Zoom is able to discover new issues with their platform. The

COVID-19 made Zoom change the addressment of users to regard privacy security and their unique uses; the concept of marketing response or the ability to respond to customer needs in time in a customer oriented business.

On March 20th, published blog post to address incidents or harassment's clarifying protective features that can help prevent this, such as waiting rooms passwords. On March 27th, Zoom took action to remove facebook SDK in their IOS clients and reconfigured it to prevent it from collecting unnecessary device information from our users. Over the next 90 days, according to Eric, Zoom plans to shift all engineers to focus on their biggest trust, safety, and privacy issues in developing new features for security(). Furthermore, Zoom will develop security education program to ensure employees understand the importance of security. This again reinforces on how customer orientation not only product innovation but also creativity and innovation throughout the whole company. That it unifies to company to work toward one goals, stimulating new ideas to solve problems customers have and satisfy their needs. Finding flaws in Zoom's platform on one hand hurts Zoom, but on the other it benefits Zoom so it could meet the demand for a wider range of customers. It is almost like two forces pushing each other and driving each other to become better for both the customer experience side and the product side for Zoom. This may be power of customer orientation and Zoom has been one of the best at "making their customers happy" throughout the years and especially now.

"We appreciate the scrutiny and questions we have been getting – about how the service works, about our infrastructure and capacity, and about our privacy and security policies. These are the questions that will make Zoom better, both as a company and for all its users. "-Eric Yuan

3.3 Inside Zoom

Employees, motivation

3.4 Why people use Zoom

People use Zoom for several of reasons. Employees are happy and motivated to help. Sunk cost fallacy. Time social norm.

4. Ratios



Zoom has a an overall excellent financial record. According to its annual report in 2019, Zoom has been recognized by industry analysts as a market leader by Gartner. This is partly due to their excellent performance. As of fiscal year 2019, there has been a 118% increase in Zoom's revenue(\$151.5 million to \$330.5 million) from 2018. This places them to be the fastest-growing video conference company. Zoom also has a healthy balance sheet. Both Zoom's short term and long-term asset exceeds its short term and long term liabilities.

Profitability ratios are calculated to assess on how well the company is growing and a measure of success based on numbers and the three rations going to be used are gross profit margin, net profit margin, and cash flow margin.

Gross Profit margin

Exhibit 1
$$\frac{\text{Revenue} - \text{COGS}}{\text{Revenue}} = 68.4$$

The gross profit margin measures how successful a company is in terms of generating profit. It takes away the costs of goods sold from the revenue. In Q1 fiscal 2020, Zoom reported a gross margin of around 80%. In its most recent quarter that number slipped to around 68%. In short, the company managed to convert many free users to paying customers. The higher the margin better but the margin alone would not give a whole picture because it does not include all the cost.

Net profit Margin

Exhibit 2
$$\frac{\text{Net-profit}}{\text{Revenue}} \times 100 =$$

Net profit differs from gross profit since it takes away the COGS plus any other expenses such as tax or interest payed on debt from the revenue, where as gross profit only takes away the COGS. In 2019,

Cash flow margin

Exhibit 3

Cash flow margin is another profitability ratio that measures and expresses the relation ship between cash generated from operation and sales. It measures a firm's ability to translate sales in to cash.

ZOOM	2020	2019
GROSS MARGIN		
NET PROFIT MARGIN		
CASH FLOW MARGIN		

Zooms competitors are chosen based on the same industry that these companies operate in.

Webex

Skype

GotoMeeting

Logmein

Swot analysis

Strength	Weakness
-----------------	-----------------

-Loyal costumers	-Limited operating history
Opportunities	Threats
-Industry fast growing -Continue to grow from COVID-19	-Negative media coverage.

5. Why is Zoom successful?

In conclusion

Much of Zoom's success can be contributed towards Zoom's customer oriented approach.

As a CEO that genuinely cares about his customers, Eric yuan was named Glassdoor #1 CEO of the year 2018. Glass door recognizes top leaders in the US and it was stated that Eric was given an employee approval rating of 99%. Such a high rating is worth noting because it means that the CEO's management will serve the company through the future and continue to succeed with low employee turnover rate.

<https://jamanetwork.com/journals/jama/fullarticle/2760500>

<https://www.accenture.com/hk-en/about/company/coronavirus-business-economic-impact>

<https://hbr.org/2015/11/the-new-science-of-customer-emotions>

<https://www.zdnet.com/article/zoom-ceo-strives-for-sustainable-customer-happiness/>

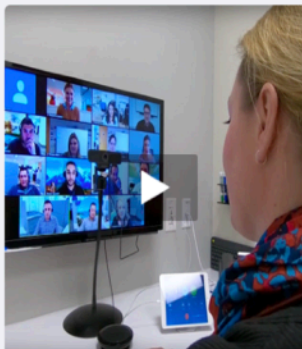
<https://blog.zoom.us/a-message-to-our-users/>

Case Studies



Veeva

"Zoom handles all types of communications for us. Whether you're on a mobile phone or you're in a conference room, you're using Zoom and it all fits together. Zoom is how we get things done around here." [Watch the Video](#)



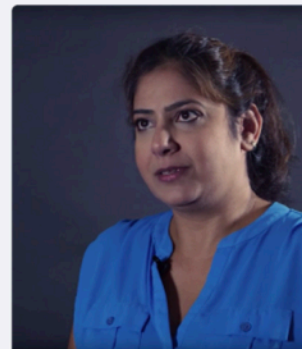
 **BAYADA**
Home Health Care

"The video and audio quality... work well in low-bandwidth situations, and on all types of devices-both of which are crucial in home health environments." [Read More](#)



Fortune 100 Technology Company

"Zoom is very progressive. It invests in the right areas and is responsive to our requirements and requests." [Read More](#)



UBER

"We like that anybody on the go can use it. We have a very mobile workforce and we don't want to be tied down to just offices. We are everywhere, so it's very important to have the most easy way to go and start meetings." [Watch the video](#)

