



Zappos and the Apparel Industry

Joby George
University of Virginia

Executive Summary

- + In order to reduce returns during the holiday season, Zappos needs to help consumers with potential sizing and style concerns proactively.
- + Nike is increasingly capturing more value from the shoe market, Zappos must pay close attention to their business strategy and marketing.
- + High end apparel could be compliments to Zappos shoes; expanding into this market could utilize Zappos current strategy and strengths well.

Key problems and opportunities

- + Holiday shopping (Q4 2011, Q1 2012) brings a disproportionately high amount of returns.
- + Nike is becoming increasingly competitive with Zappos
 - + As the table below shows, Nike is extracting more value per sale and per buyer than Zappos, the only competitor, in the shoe industry, doing so.
- + Penetrating into the high-end apparel market could be a natural expansion of Zappos.

Selected Metrics selected using Q1 and Q2 data from 2012

	Revenue/Unit	Revenue/Buyer	Units/Transaction	Transactions/Buyers
Nike	\$53.09	\$162.81	1.28	2.78
Zappos	\$50.46	\$151.54	1.08	2.40

Recommendations

- + Zappos must effectively inform consumers about what they are purchasing, especially during the holiday season.
 - + Can be done through more detailed sizing instructions and better product descriptions
- + Zappos needs to watch Nike for any changes in strategy or marketing, especially when it comes to pricing.
- + Zappos should expand into the “high-end” clothing market by pairing complimentary accessories and trendy clothes to the shoes that customers view.

Holiday returns

Units Per Transaction (#of units)

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Zappos	1.093803382	1.132606393	1.040673788	0.94838579	0.95400496	1.167068585
Nike			1.212492568	1.087469292	1.302080222	1.249272994
Finish Line	1.15689965	1.109589041	1.301267966	1.248709675	1.038394896	1.06315552

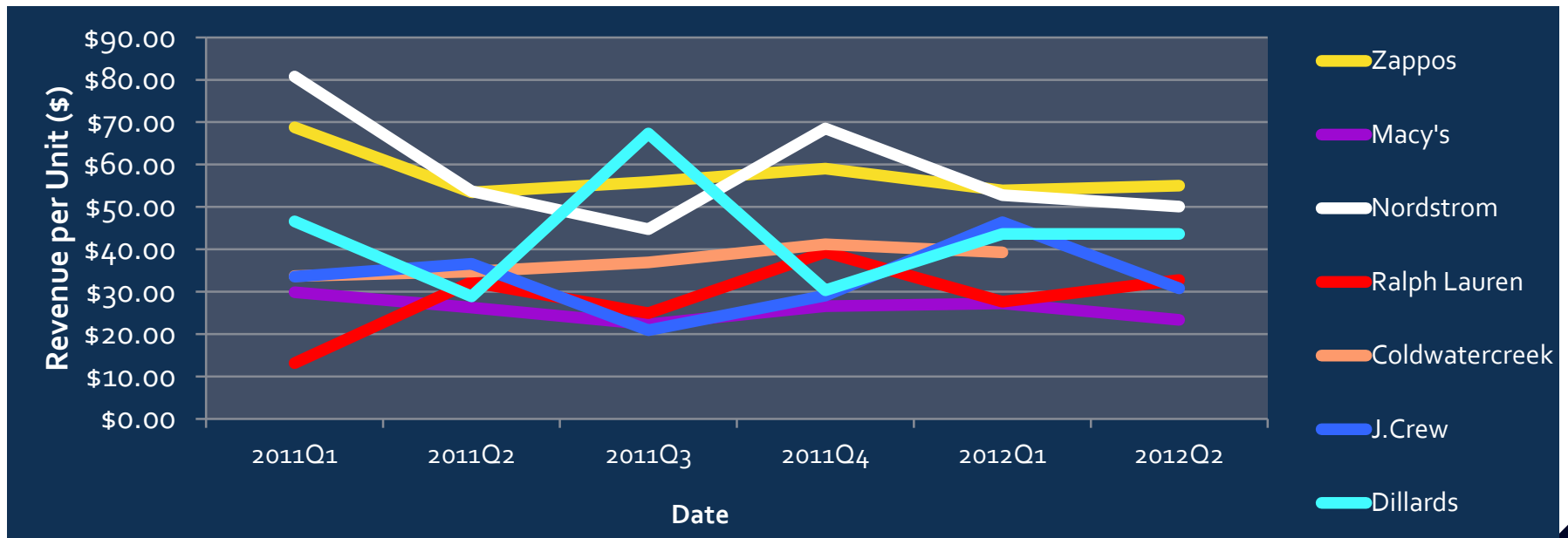
- The massive increase in Q4 customers, who are less familiar with Zappos, leads to a large **increase in returns that are processed in Q4 and Q1 of the following year.**
- In order to address this Zappos should redesign the product display page so customers can process more meaningful information in hopes of lower return rates.

Industry comparisons*

*see Appendix for details

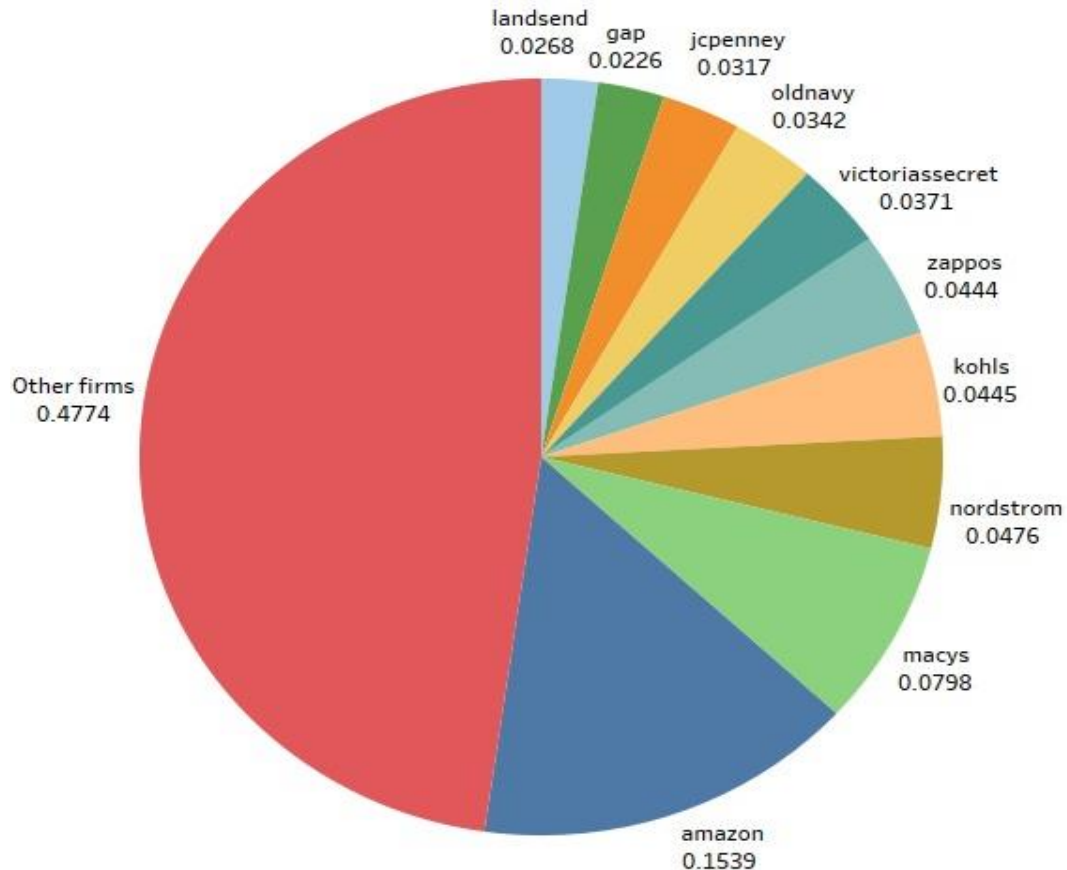
- High-end retail is a complimentary to the shoe market*
 - Both industries target customers who are **willing to spend more money** on apparel, as seen with the **remarkably similar revenue per unit** between all these firms

Revenue per Unit Sold for Zappos and High-End Competitors



Appendix/Methodology

Examining the markets



- In order to look, for niche markets and categories of retailers, the industry was divided by market share.
- The graph shows that **Amazon is the dominant player.**

Exhibit one: General Industry Overview:
Apparel Industry divided by market share (% revenue)

Appendix/Methodology

Examining the Markets cont.

- To learn more about the industry, I used the entire data set to calculate several metrics such as: Revenue/Unit, Revenue/Buyer and Units/Transaction which led me to three distinct markets.
 1. High-end apparel markets –Products with a revenue/unit > \$30 (with the exception of Macy's, which was included because **it brands itself as high end and has a large effect in the market**)
 2. Low-end apparel markets – Products with a revenue/unit of less than \$15
 3. Shoe Retailers– Retailers whose main products are shoes with a Revenue/Unit of over \$30

High End Companies	Revenue/Unit
Nordstrom	\$61.49
Dillard's	\$37.50
Coldwater Creek	\$36.57
Ralph Lauren	\$32.84
J.Crew	\$31.89
Macy's	\$26.28

Shoe Retailer	Revenue/Unit
Nike	\$56.15
Zappos	\$54.93
Shoebuy	\$44.74
Finish Line	\$40.52
DSW	\$37.27
Eastbay	\$35.63

Appendix/Methodology

Finding compliments for the shoe industry

- + My initial hypothesis was that “high-end” products were compliments to shoes. To test this I ran a linear regression on the high end market’s revenue with the total number of buyers, the average shoe price, and the number of units sold through Amazon as the explanatory variables.
- + The reason I chose the number of total buyers in the market was to account for macro-economic factors (i.e. some quarters are stronger than others)
- + The reason I chose the number of Amazon units sold was because of Amazon’s unique role in the market; not only is it the largest player but it sells to all consumers.

Appendix/Methodology

Interpreting the Model

- + The results of the regression show that for every dollar the average shoe price goes up the high-end retail market loses \$2,376,000. These results, in tandem with the similar revenue per unit for both markets seem to indicate the complimentary relationship between Zappos and the high end retail industry.
- + The regression results must be taken cautiously, as there are not enough data to make confident conclusions about the regression.
- + Similarly, for every amazon unit sold the high-end market loses \$14.9, and for every additional buyer, the high-end market gains \$36.3 dollars

Coefficients:

	Estimate	Std. Error	t value	Pr(> t)	
(Intercept)	1.002e+08	2.980e+07	3.363	0.07821	.
Shoe_Price_Per_Unit	-2.376e+06	6.294e+05	-3.775	0.06356	.
Amazon_Units	-1.489e+01	2.038e+00	-7.306	0.01822	*
Total_Buyers	3.626e+01	2.160e+00	16.783	0.00353	**