07-19

App-10/30/07
Info. 12/4/07

# Undergraduate Distance Education Review Form

**(Required for all courses taught by distance education for more than one-third of teaching contact hours.)**

**Existing and Special Topics Course**

**Course:** MKTG 436 Retail Management

**Instructor(s) of Record:** Lisa M. Sciulli, Ph.D. and Varinder Sharma, Ph.D.

**Phone:** 724-357-5774 and 724-357-2113 **Email:** **sciulli@iup.edu** **sharma@iup.edu**

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**Step One: Proposer**

A. Provide a brief narrative rationale for each of the items, A1- A5.

**Please see attached sheet for information.**

1. How is/are the instructor(s) qualified in the distance education delivery method as well as the discipline?
2. How will each objective in the course be met using distance education technologies?
3. How will instructor-student and student-student, if applicable, interaction take place?
4. How will student achievement be evaluated?
5. How will academic honesty for tests and assignments be addressed?

B. Submit to the department or its curriculum committee the responses to items A1-A5, the current official syllabus of record, along with the instructor developed online version of the syllabus, and the sample lesson. This lesson should clearly demonstrate how the distance education instructional format adequately assists students to meet a course objective(s) using online or distance technology. It should relate to one concrete topic area indicated on the syllabus.

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**Step Two: Departmental/Dean Approval**

Recommendation: ☑ Positive (The objectives of this course can be met via distance education)

☐ Negative

Signature of Department Designee 9/24/07 Date

Endorsed: Signature of College Dean 9/24/07 Date

Forward form and supporting materials to Liberal Studies Office for consideration by the University-wide Undergraduate Curriculum Committee. Dual-level courses also require review by the University-wide Graduate Committee for graduate-level section.

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**Step Three: University-wide Undergraduate Curriculum Committee Approval**

Recommendation: ☒ Positive (The objectives of this course can be met via distance education)

☐ Negative

Gail S Sechrist 10/30/07

Signature of Committee Co-Chair Date

Forward form and supporting materials to the Provost within 30 calendar days after received by committee.

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**Step Four: Provost Approval**

☒ Approved as distance education course ☐ Rejected as distance education course

11/15/07

Signature of Provost Date

Forward form and supporting materials to Associate Provost.

**1. How is/are the instructor(s) qualified in the distance education delivery method as well as the discipline?**

The faculty members listed above (Sciulli and Sharma) have Ph.Ds in Marketing. They are well published and current in research in the marketing field. Both have received extensive training on various aspects of on line instruction conducted by the IUP Instruction design center. In addition, both have taught on line courses at IUP. These distance education courses include Principles of Marketing and Marketing Management (Dr. Sciulli) and Consumer Behavior and International Marketing (Dr. Sharma).

**2. How will <u>each objective</u> in the course be met using distance education technologies?**

The course outcomes will be achieved through assigned readings, discussion questions, case analyses, and tests as detailed in the course outline provided with the syllabus and described below. These outcomes will be integrated throughout the course. The assigned readings include the textbook and posted readings. The student is required to read the text and review WebCT content materials including the discussion outlines for each chapter and any supplement materials provided such as Internet links, power point slides, video clips, etc. Read additional materials/articles as posted. Complete all tasks listed above including discussion questions, case analyses, and exams.

Specifically each of the following course objectives / outcomes will be achieved as described below:

1. Demonstrate an understanding of the key concepts and issues pertaining to the retail environment of firms and their retail marketing strategies including store composition, location, and image, target customers, merchandise management and pricing, human resource and logistical needs, and distribution channels.

   The above objective will be achieved via student submissions of discussion questions, case analyses, and exams. Discussion questions include 5 sets with answers submitted via the discussion tool. Students will conduct case analyses which include 5 cases with responses submitted via the instruction tool. Each case exercise will include a critical analysis, evaluation of strategic alternatives, and recommended retail marketing plans for the organization. Four exams completed via the quiz tool.

2. Examine these concepts and issues in a global, ethical, and social framework of retailing as they pertain to facets of strategic planning, consumer buying behavior, customer relationships and demand analysis, institutional ownership and inventory mix, channel composition, and human resource management.

   The above objective will be achieved via student submissions of discussion questions, case analyses, and exams. Discussion questions include 5 sets with answers submitted via the discussion tool. Students will conduct case analyses which include 5 cases with responses submitted via the instruction tool. Each case exercise will include a critical analysis, evaluation of strategic alternatives, and recommended retail marketing plans for the organization. Four exams completed via the quiz tool.

3. Conduct analyses of the retail environment of firms and identify potential problems or opportunities for their operational retail programs using trading area analysis, site selection procedures, merchandise management and planning, and marketing research techniques.

   The above objective will be achieved via case analyses submitted by the student. Students will conduct case analyses which include 5 cases with responses submitted via the instruction tool. Each case exercise will include a critical analysis, evaluation of strategic alternatives, and recommended retail marketing plans for the organization.

4. Develop alternative strategies for integrated retail marketing plans and explain suggestions for implementing such ideas in the future.

   The above objective will be achieved via case analyses submitted by the student. Students will conduct case analyses which include 5 cases with responses submitted via the instruction tool. Each case exercise will include a critical analysis, evaluation of strategic alternatives, and recommended retail marketing plans for the organization.

3. **How will instructor-student and student-student, if applicable, interaction take place?**

Course interactions will be actively arranged and encourage through a variety of WebCT tool such as discussion questions using the discussion tool, case analyses using the assignment tool, exams using the quiz tool, and WebCT mail and message postings.

4. **How will student achievement be evaluated?**

Student achievement will be evaluated based on their performance regarding successful completion of assigned discussion questions (5 question sets), cases analyses (5 cases), and four exams.

5. **How will academic honesty for tests and assignments be addressed?**

Academic honesty for tests and assignments will be addressed using the following tools.

a. Randomized exam questions (each exam will be unique)
b. Fixed time allotments for exams
c. Use Java script protection which will not allow students to copy or paste the exams.
d. Exams answers will not be posted until every student has successfully completed the exam.
e. Release one question at a time to students.
f. Use colored background screen for questions, this, in turn, would make printing of questions very difficult.
g. Multi-assessment tools have been incorporated into the class to ensure academic reliability and adequacy of teaching instruction.

| LSC Use Only No: LSC Action-Date: | UWUCC USE Only No. UWUCC Action-Date: Senate Action Date: |
|---|---|
| | |

## Curriculum Proposal Cover Sheet - University-Wide Undergraduate Curriculum Committee

| Contact Person | Email Address |
|---|---|
| Lisa M. Sciulli, Ph.D. Marketing Professor | sciulli@iup.edu |
| Proposing Department/Unit | Phone |
| Marketing Department | (724) 357-5774 |

**Check all appropriate lines and complete information as requested. Use a separate cover sheet for each course proposal and for each program proposal.**

**1. Course Proposals (check all that apply)**

_____New Course _____Course Prefix Change _____Course Deletion

__X__Course Revision _____Course Number and/or Title Change _____Catalog Description Change

*Syllabus Amnesty for an Existing Course*

*MKTG 436—Retail Management*

*Current Course prefix, number and full title* | *Proposed course prefix, number and full title, if changing*

**2. Additional Course Designations: check if appropriate**

_____ This course is also proposed as a Liberal Studies Course.
_____ This course is also proposed as an Honors College Course.
_____ Other: (e.g., Women's Studies, Pan-African)

**3. Program Proposals**

_____Catalog Description Change _____Program Revision

_____New Degree Program _____Program Title Change _____Other

_____New Minor Program _____New Track

*Current program name* | *Proposed program name, if changing*

| **4. Approvals** | | **Date** |
|---|---|---|
| Department Curriculum Committee Chair(s) | [signature] | 20 Sep 07 |
| Department Chair(s) | [signature] | 9/19/07 |
| College Curriculum Committee Chair | | |
| College Dean | | |
| Director of Liberal Studies * | | |
| Director of Honors College * | | |
| Provost * | | |
| **Additional signatures as appropriate:** (include title) | | |
| UWUCC Co-Chairs | | |

* where applicable

**Syllabus**
**Indiana University of Pennsylvania**
**MKTG 436 Retail Management**

## I. Catalog Course Description

Course Title: MKTG 436 Retail Management
3c-01-3cr (3 class hours 0 lab hours 3 credits)

Prerequisite: MKTG 320 and Junior Standing

Introduces students to all facets of retailing including the history of retailing, retail theories, and decision-making in retailing framework.

## II. Course Outcomes

Upon completion of the course students will be able to:

1. Demonstrate an understanding of the key concepts and issues pertaining to the retail environment of firms and their retail marketing strategies including store composition, location, and image, target customers, merchandise management and pricing, human resource and logistical needs, and distribution channels.

2. Examine these concepts and issues in a global, ethical, and social framework of retailing as they pertain to facets of strategic planning, consumer buying behavior, customer relationships and demand analysis, institutional ownership and inventory mix, channel composition, and human resource management.

3. Conduct analyses of the retail environment of firms and identify potential problems or opportunities for their operational retail programs using trading area analysis, site selection procedures, merchandise management and planning, and marketing research techniques.

4. Develop alternative strategies for integrated retail marketing plans and explain suggestions for implementing such ideas in the future.

The primary course outcomes will be achieved through lectures, assigned readings, discussion questions, case analyses, and tests. These outcomes will be integrated throughout the course as described in the course outline and evaluation methods provided below.

## III. Course Outline

A. Overview of Strategic Retail Management (Weeks 1 & 2) (Outcomes 1, 2, 3, and 4)

Analyzing the framework of Retailing
Building relationships
Strategic Planning in retailing

Set #1 Discussion Questions

Case #1 Analysis

B. Examining Retail Opportunities (Weeks 3, 4 & 5) (Outcomes 1, 2, 3, and 4)

Scanning the Retail Environment
Retail Institutions by Ownership
Developing Web, Nonstore, and Nontraditional Retail Venues
Creating a Store Based Strategy / Inventory Mix

Set #2 Discussion Questions

Case #2 Analysis

**EXAM #1**

C. Target Customers / Store Location (Weeks 6, 7, & 8) (Outcomes 1, 2, 3, and 4)

Identifying and Understanding Customers
Gathering and Process Retail Information
Analyzing Trade Areas and Logistical Needs
Identifying Market Segments and Selecting Target Markets
Determining Competitors Positions
Selecting Site Locations

Set #3 Discussion Questions

Case #3 Analysis

**EXAM #2**

D. Communicating with Customers (Weeks 9, 10, & 11) (Outcomes 1, 2, 3, and 4)

Establishing and Maintaining a Retail Image
Creating In-Store Dynamics
Developing Merchandise Plans and the Buying Center
Designing Pricing and Promotion Mix Strategies

Set #4 Discussion Questions

Case #4 Analysis

**EXAM #3**

E. Managing the Retail Business (Weeks 12, 13, & 14) (Outcomes 1, 2, 3, and 4)

Implementing your Retail Marketing Plan
Managing Operational Needs
Formulating Human Resources / Staffing Requirements
Developing Product and Branding Strategies
Controlling the Retail Plan

Set #5 Discussion Questions

Case #5 Analysis

**FINAL EXAM (According to the IUP final exam schedule)**

## IV. Evaluation Methods

This course will use the text and supporting materials designed by the publisher as well as other materials provided by the instructors during class lectures. Your grade will reflect your performance regarding successful completion of assigned discussion questions, case analyses, and exams. As such, the following tasks are required and described below:

1. Read text.
2. Review text supplemental materials including the discussion outlines for each chapter.
3. Read additional materials/ articles as provided.
4. Answer five sets of discussion questions and submit to the instructor.
5. Complete five case analyses. Each case exercise will include a critical analysis, evaluation of strategic alternatives, and recommended retail marketing plans for the selected organization.
6. Submit case analyses to the instructor.
7. Complete four scheduled exams. Exams will include multiple choice and short answer questions encompassing subject matter discussed throughout the course.

The Grading Scale will be determined as follows:

| | |
|---|---|
| Exam #1 | 15% |
| Exam #2 | 15% |
| Exam #3 | 15% |
| Final Exam | 15% |
| Discussion Questions (5 sets) | 20% |
| Case Analyses (5 cases) | 20% |
| | 100% |

Sample grading scale: A = 90%--100%, B = 80%--89%, C = 70%--79%, D = 60%--69%, and Below 60% = F

## V. Attendance Policy

Although there is no formal attendance policy for this class, student learning is enhanced by regular attendance and participation in class discussion.

No extensions are allowed for any of the graded assignments. If you do not complete any of the above graded assignments by the required date, no make-up assignments will be allowed except for serious and unanticipated consequences for which documentation must be presented to the instructor.

## VI. Required Textbook

Berman, Barry and Evans, Joel, (2006), *Retail Management: A Strategic Approach*, Prentice Hall, Inc.

## VII. Supplemental Readings

Brown, Stephen, "The Wheel of Retailing: Past and Future", *Journal of Retailing*, Summer, 1990, 147.

DelVecchio, Devon, Krishnan, H. Shanker, and Smith, Daniel, (2007), "Cents or Percent? The Effects of Promotion Framing on Price Expectations and Choice", *Journal of Marketing*, 71, July, 158-170.

Harvard Business Review Cases

Mackey, Jack, (2005), "Franchisors Reap Multiple Benefits From Increasing Customer Loyalty", *Franchising World*, May, 49-50.

Manning, Gerald L. and Reece, Barry, L., (2006), *Selling Today: Building Quality Partnerships*, Prentice Hall, Inc.

Maslow, A. H., (1943), "A Theory of Human Motivation," *Psychological Review*, July.

Neff, Jack, (2007), "Who Shops at Wal-Mart … and Who Doesn't", *Advertising* Ages, 78, Sept., 6-7.

Wan, Liz, Baker, Julie, Wagner, Judy, and Wakefield, Kirk, (2007), "Can a Retail Web Site Be Social", *Journal of Marketing*, 71, July, 143-157.

**VIII. Bibliography:**

Ault, Susanne, (2007), "Retailers Think Global", *Video Business*, 27, Aug., 30-31.

Ellinger, Alexander, (2007), Making Supply Chain Management Relevant for Marketing Majors", *Marketing Education Review*, 17, Spring, 101-106.

Kumar, Nirmalya, (2005), "The Global Retail Challenge", *Business Strategy Review*, 26, Spring, 5-14.

Levy and Weitz, (2007), *Retail Management*, McGraw-Hill Irwin.

Michon, Richard, Hong, Yu, Smith, Donna, and Chebat, Jean-Charles, (2007), "The Shopping Experience of Female Fashion Leaders", *International Journal of Retail and Distribution Management*, 35, 6, 488-501.

Miller, Fred, Mangold, W. Glynn, and Holmes, Terry, (2006), "Integrating Geographic Information Systems (GIS) Applications into Business Courses Using Online Business Geographic Models", *Journal of Education for Business*, 82, Nov./Dec., 74-79.

Reynolds, Jonathan, Howard, Elizabeth, and Cuthbertson, Christine, (2006), "The Future of Retail Business Models: Evolve or Die", *European Retail Digest*, 52, Winter, 46-51.

Reynolds, Jonathan, Howard, Elizabeth, Cuthbertson, Christine, and Hristoy, Lathcezar, (2007) "Perspectives on Retail Format Innovation: Retail Theory and Practice", *International Journal of Retail and Distribution Management*, 35, 8, 647-660.

Richey, R. Glenn, Skinner, Lauren, and Autry, Chad, (2007), "A Multilevel Approach to Retail Management Education: Integrating Customer and Supply Chain Perspectives", *Marketing Education Review*, 17, Summer, 27-43.

Wells, William, Burnett, John, and Moriarty, Sandra, (2006), *Advertising Principles and Practices*, Prentice Hall, Inc.

**Syllabus**
**Indiana University of Pennsylvania**
**MKTG 436 Retail Management**
**WebCT based online course**

**Professor: Lisa Sciulli, Ph.D.**
**Office: 406C, Eberly College of Business & Information Technology**
**Phone: 724-357-5774**
**E-Mail: sciulli@iup.edu**

**Professor: Varinder Sharma, Ph.D.**
**Office: 402A, Eberly College of Business & Information Technology**
**Phone: 724-357-2113**
**E-Mail: sharma@iup.edu**

**Location: A WebCT based online course**
**Course Title: MKTG 436 Retail Management**
**Sections 9B1 (Business Majors) and 9NB1 (Non-Business majors)**

## I. Catalog Course Description

Prerequisite: MKTG 320 and Junior Standing

Introduces students to all facets of retailing including the history of retailing, retail theories, and decision-making in retailing framework.

## II. Course Outcomes

Upon completion of the course students will be able to:

1. Demonstrate an understanding of the key concepts and issues pertaining to the retail environment of firms and their retail marketing strategies including store composition, location, and image, target customers, merchandise management and pricing, human resource and logistical needs, and distribution channels.

2. Examine these concepts and issues in a global, ethical, and social framework of retailing as they pertain to facets of strategic planning, consumer buying behavior, customer relationships and demand analysis, institutional ownership and inventory mix, channel composition, and human resource management.

3. Conduct analyses of the retail environment of firms and identify potential problems or opportunities for their operational retail programs using trading area analysis, site selection procedures, merchandise management and planning, and marketing research techniques.

4. Develop alternative strategies for integrated retail marketing plans and explain suggestions for implementing such ideas in the future.

Instruction will be conducted online via WebCT. The primary course outcomes will be achieved through lectures, assigned readings, discussion questions, case analyses, and tests.

## III. Course Outline

A. Overview of Strategic Retail Management (Weeks 1 & 2)

| | |
|---|---|
| Analyzing the framework of Retailing Ch. 1 | |
| Building relationships | Ch. 2 |
| Strategic Planning in retailing | Ch. 3 |

Set #1 Discussion Questions

Case #1 Analysis

B. Examining Retail Opportunities (Weeks 3, 4 & 5)

| | |
|---|---|
| Retail Institutions by Ownership | Ch. 4 |
| Creating a Store Based Strategy / Inventory Mix | Ch. 5 |
| Developing Web, Nonstore, and Nontraditional Retail Venues | Ch. 6 |

Set #2 Discussion Questions

Case #2 Analysis

**EXAM #1**

C. Target Customers / Store Location (Weeks 6, 7, & 8)

| | |
|---|---|
| Identifying and Understanding Customers | Ch. 7 |
| Gathering and Process Retail Information | Ch. 8 |
| Analyzing Trade Areas and Logistical Needs | Ch. 9 |
| Selecting Site Locations | Ch. 10 |

Set #3 Discussion Questions

Case #3 Analysis

**EXAM #2**

D. Communicating with Customers (Weeks 9, 10, & 11)

| | |
|---|---|
| Developing Merchandise Plans and the Buying Center | Ch. 14 |
| Establishing and Maintaining a Retail Image | Ch. 18 |
| Designing Pricing and Promotion Mix Strategies | Ch. 17 &19 |

Set #4 Discussion Questions

Case #4 Analysis

**EXAM #3**

E. Managing the Retail Business (Weeks 12, 13, & 14)

| | |
|---|---|
| Formulating Human Resources / Staffing Requirements | Ch. 12 |
| Managing Operational Needs | Ch. 13 |
| Implementing and Controlling Retail Marketing Plan Ch. 20 | |

Set #5 Discussion Questions

Case #5 Analysis

**FINAL EXAM (According to the IUP final exam schedule)**

## IV. Evaluation Methods

This WebCT based course will use the text and supporting materials designed by the publisher as well as other materials provided by the instructors during class lectures. Your grade will reflect your performance regarding successful completion of assigned discussion questions, case analyses, and exams. As such, the following tasks are required and described below:

1. Read text.
2. Review WebCT content materials including the discussion outlines for each chapter.
3. Read additional materials/ articles as provided.
4. Answer five sets of discussion questions using the discussion tool.
5. Complete five case analyses. Each case exercise will include a critical analysis, evaluation of strategic alternatives, and recommended retail marketing plans for the selected organization.
6. Case analyses submission will be accepted via the assignment tool.
7. Complete four scheduled exams. Exams via the quiz tool will include multiple choice and short answer questions encompassing subject matter discussed throughout the course.

Your final grade will be determined as follows:

| | |
|---|---|
| Exam #1 | 15% |
| Exam #2 | 15% |
| Exam #3 | 15% |
| Final Exam | 15% |
| Discussion Questions (5 sets) | 20% |
| Case Analyses (5 cases) | 20% |
| | 100% |

Sample grading scale: A = 90%--100%, B = 80%--89%, C = 70%--79%, D = 60%--69%, and Below 60% = F

## V. Required Textbook

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Wan, Liz, Baker, Julie, Wagner, Judy, and Wakefield, Kirk, (2007), "Can a Retail Web Site Be Social", *Journal of Marketing*, 71, July, 143-157.

## VII. Special Resource Requirements and Additional Information for Students

1. A "high speed" Internet connection with a PC with sound capabilities is recommended. To view video cases and PowerPoint presentations, it is preferable to have MS-Word, PowerPoint, and Windows Media Player software on your PC.

2. WebCt Exams availability is limited by date and time. No extensions are allowed. If you miss any exam, no make-up exam is allowed except for serious emergencies for which documentation must be presented to the instructors.

3. Academic integrity will be maintained by randomized texts and fixed time allotments for completion of tasks. Thus, each test will be unique. In addition, multi-assessment tools have been incorporated into the course to ensure academic reliability and adequacy of teaching instruction.

**VIII. Bibliography:**


Ault, Susanne, (2007), "Retailers Think Global", *Video Business*, 27, Aug., 30-31.

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Wells, William, Burnett, John, and Moriarty, Sandra, (2006), *Advertising Principles and Practices*, Prentice Hall, Inc.

# MKTG 436
# Retail Management
# (On Line)

Lisa M. Sciulli, Ph.D.
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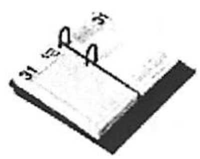
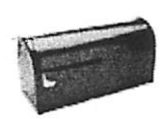
Syllabus



Calendar

Course Content



E-Mail

My Grades

Quizzes / Exams

Case Analysis

Support

To add text to this area of your page, click **Add lower textblock.**

## Table of Contents

To edit a page of content, click the page's title. Tip: Select an item in the Table of Contents before you add a heading, file, or quiz, and it will be added directly below the item that you selected.

**Actions**
indicates a selection is required from the main frame.

**Options: Content Module**

Update student view

Edit Content Module settings

**Options: Table of Contents**

Add heading

Add files

Create and edit HTML file

Add quiz

Edit titles

Delete

**Organize**

Indent item: More Go

Move item up by: 1 Go

Move item down by: 1 Go

**Customize**

Customize page colors

Modify/Add background image

Modify/Add banner image

Edit/Add upper textblock

Edit/Add lower textblock

## Assignments

To view and grade assignments completed by your students, click **Submissions** below.

1 Available | 0 Late | 0 Due soon

Display: All assignments Go September 21, 2007 11:30am

**Case #1 Nordstrom**

Availability: September 21, 2007 11:00am - September 28, 2007 11:00am

Maximum grade: 100

Result: Submissions

## Assignment: Case #1 Nordstrom

### Assignment Information

| | |
|---|---|
| Maximum grade: | 100 |
| Due date: | September 28, 2007 |
| Instructions: | Provide a SWOT Analysis for Nordstrom. Next, answer each of the three following questions: Question 1. According to the Nordstrom Case, Net Sales and Gross Profit have increased on a yearly basis. How can Nordstrom maintain this success in the future? Cite specific retail strategies in the case (merchandising, operations, leadership, etc.) and in the text that you would either encourage or discourage for future use by Nordstrom. Question #2. Describe a "typical" Nordstrom shopper. Now, beyond this target market, who do you feel are viable customers for Nordstrom in the future? Questions 3. Nordstrom is famously known for their vast shoe offerings, piano player, and customer service. Discuss future promotional ideas (i.e., advertising, sales promotion, direct marketing, public relations, and personal selling) for Nordstrom's existing customer base and those you suggested as potential future customers in Question #2. Remember with high end customer service, success comes with the smallest details. |
| Assignment files: | None |

**Actions**

indicates a selection is required from the main frame and that multiple selections are allowed.

**Options**

Edit assignment settings

Import assignment file:

Browse...

Import

Remove

## Assignment Settings: Case #1 Nordstrom

**Basic Settings**

*Title: Case #1 Nordstrom

*Instructions: Provide a SWOT Analysis for Nordstrom. Next, answer each of the three following questions: Question 1. According to the Nordstrom Case, Net Sales and Gross Profit have increased on a yearly basis. How can Nordstrom maintain this success in the future? Cite specific retail strategies in the case (merchandising, operations, leadership, etc.) and in the text that you would either encourage or discourage for

*Maximum grade: 100

**Availability**

Available starting:
- Immediately
- Specify a date

September 21 2007 11am 00

Due date:
- Unlimited
- Specify a date

September 28 2007 11am 00

Cutoff date:
- Do not allow late submissions.
- Allow late submissions.
  - Unlimited
  - Specify a date

September 21 2007 11am 00

**Notification**

Student notification:
- Use external e-mail to acknowledge a student's submission of this assignment.
- Do **not** acknowledge a student's submission of this assignment.

Instructor notification:
- Notify instructor when a student submits this assignment.

Instructor's email address:

- Do **not** send e-mail notification when student has submitted an assignment.

**Submissions**

Multiple submissions:
- Allow multiple submissions. (Grading cannot occur until after the due date.)
- Do not allow multiple submissions.

**Results**

Student score release:
- Release the score once the assignment has been graded.
- Release the score once the availability period has ended *and* the assignment has been graded.
- Do not release the score.

Release column: Release the Assignment column so students can see their grade in the My Grades tool. You c also control the release of this column from the Manage Students page. (See Manage Course Manage Students.)

Yes No

Update Cancel

*Required Fields

HARVARD | BUSINESS | SCHOOL

9-505-051

REV: MAY 11, 2005

RAJIV LAL

ARAR HAN

# Nordstrom: The Turnaround

*Culture is something that is built, layer after layer of layer. It isn't a textbook, it isn't something that you can take notes about and turn around and replicate it. It's an ever-evolving thing that we do.*

—Bruce Nordstrom, Chairman of Nordstrom, Inc.

*Our execution was really poor. And our business is a lot about execution. By narrowing our focus, enhancing the ownership, and getting back to the front line, we were able to make some progress.*

—Blake Nordstrom, President of Nordstrom, Inc.

As part of the third generation of family members to help guide Nordstrom, Bruce Nordstrom had seen many ups and downs in the business. In August 2000, after a somewhat turbulent time in the company, 67-year-old Mr. Bruce (as he was known to employees) had emerged from retirement to resume chairmanship of the Seattle-based retailer. Following a series of changes in executive management, organizational structure, and merchandising since 1996, Nordstrom's top line sales were growing, but troubling financials revealed a decline in same store sales (**Exhibit 1**). Markdowns were driving down margins, and the company's debt-to-capital ratio reached 49% by 2000. Letters pouring into Nordstrom from its legions of loyal shoppers vividly illustrated the extent of these problems: Longtime customers felt betrayed by changes at the store and were taking their business elsewhere.

Deeply concerned, the board convened in 2000 to select a new CEO. However, locating a candidate who understood Nordstrom's fundamental culture of serving the customer was extremely difficult. Finally, in August, the board accepted Mr. Bruce's suggestion that it examine internal candidates, including his 40-year-old son Blake—on the condition that Mr. Bruce would return as chairman.

By the end of 2004, the company was a $7.1 billion retail enterprise under the care of the new Executive Team, which included some fourth-generation Nordstrom family members. President Blake Nordstrom supported the company overall, Executive Vice President of Full Line Stores Pete Nordstrom overhauled merchandising and buying, and Executive Vice President of Full Line Stores Erik Nordstrom streamlined store operations, heightened the service focus, and cut expenses. All three oversaw the integration of a state-of-the-art perpetual inventory system and a new point-of-sale (POS) system. As the changes took effect, same store sales, profits, and inventory turns bottomed-out and began to pick up again. Expenses fell as a percentage of sales, and Nordstrom's stock price recovered from its August 2000 price range of $16 to $18, hovering near an all-time high of $55 by May 2005. Customers continued to write, but their overall message became salutatory and approving.

The outlook on Nordstrom was bright, but the Executive Team had to ask themselves the question of "What's next?" In a constantly evolving retail landscape, what could they do to ensure Nordstrom's continued growth into the future?

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Professor Rajiv Lal and Research Associate Arar Han prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

## History

### *John W. Nordstrom*

In 1887, John W. Nordstrom immigrated to the United States from Sweden. He was 16 years of age and arrived in America with only $5 in his pocket, but his perfect health served Nordstrom well as he labored in mines, logging camps, and mills while emigrating westward, eventually landing in Seattle, WA. The Alaskan gold rush took Nordstrom north in 1896, and he returned to Seattle two years later with $13,000. Upon his return, Nordstrom took business courses and dabbled in real estate while living with his newly married sister. In 1900, Nordstrom married Hilda Carlson, a Swedish immigrant of a similar background as himself, and in 1901, he entered into a partnership for a shoe business with a man named Carl F. Wallin. Nordstrom brought $4,000, and Wallin pitched in $1,000 and his shoe expertise for their first store on Fourth and Pike in Seattle: Wallin & Nordstrom.[1]

The shoe store prospered over the next 25 years, expanding in size and volume, moving to more desirable locations on Second Avenue—at the time the most fashionable street in Seattle. In 1923, Wallin & Nordstrom opened a second location in Seattle's University District. However, as business entered a slow phase, the partners began to disagree more often. With the belief that his sons Everett and Elmer could take a fresh approach to serving customers, Nordstrom sold his share to them and retired in 1928. In 1929, the two stores combined posted approximately $300,000 in sales. That year, Wallin decided to sell his stake also. By 1930, Everett and Elmer owned the whole business, which was renamed Nordstrom's.[2]

### *Everett, Elmer, and Lloyd Nordstrom*

All three of John Nordstrom's sons had grown up running errands around Wallin & Nordstrom, and these experiences grew into careers in the shoe business. After graduating from the University of Washington (UW) Business School at age 20, Everett opened the University District Wallin & Nordstrom, then went on to head the west coast division of the J.P. Smith Shoe Company. Elmer finished his degree at UW in 1926, followed by a stint in the shoe business of the department store Marshall Field's in Chicago, where he professed to have learned "several things [he] should not do."[3] The two brothers were 26 and 24 when they took over their father's share in Wallin & Nordstrom. Their youngest brother Lloyd joined as an equal partner in 1933, when he graduated from UW.

As business evolved, and Nordstrom's expanded to a dramatically larger space on Fifth Avenue, the Nordstrom brothers learned to divide their responsibilities. Everett and Lloyd merchandised women's shoes, the mainstay of the business, while Elmer merchandised men's and children's shoes. Everett took care of the finances, Elmer managed operations and labor relations, and Lloyd handled publicity. None were known to be particularly skilled salesmen, but all were competitive merchants who were focused on providing the best quality and selection of shoes that their stores were known for. In 1938, Nordstrom's was incorporated, and became required by law to bestow formal titles on the three brothers. However, Everett did not want his younger brothers to feel slighted, so he insisted upon a rotating system of titles. Every two years, Everett, Elmer, and Lloyd traded one another for a different position: treasurer/secretary, vice president, or president.

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[1] John W. Nordstrom. *The Immigrant in 1887*. Private publication: 1950. 45.

[2] Nordstrom 50.

[3] Elmer J. Nordstrom. *A Winning Team—The story of Everett, Elmer, & Lloyd Nordstrom*. Private publication: 1985. 24.

Rapid expansion was achieved on the engine of the nation's postwar suburban development, as well as the brothers' strategic decision to lease shoe departments inside regional department stores. By 1959, Nordstrom could claim to have the largest shoe store in the nation. By 1962, the business had grown so much throughout the northwest that, in the following year, the brothers expanded into the women's apparel business. Nordstrom's purchased Best's Apparel, a prominent women's clothier in Seattle and Portland, in 1963, and, after a period of transition, the company acquired Nicholas Unger, Inc., a small Portland-based retailer, in 1965. Nordstrom Best (as the company was called from 1966 to 1973) grew quickly. In 1963, Nordstrom's had 27 stores and leased shoe departments that yielded $12 million in sales. By 1971, Nordstrom Best stores logged $80 million in sales through seven specialty stores, six free-standing shoe stores, and 24 leased shoe departments.

The Nordstrom brothers had instituted a Profit Sharing Plan in 1956, to give their 60 to 70 employees something to "fall back on" and "live comfortably when they retired." As the program required no employee contributions, it became a popular feature of working at Nordstrom's, building employee loyalty and driving performance. The three brothers had long demonstrated a similar commitment to their customers through their policy of fair pricing. Nordstrom's and later, Nordstrom Best, operated on a premise of competitive and fair every day pricing.

### *"The Five"*

The third generation of Nordstroms—Everett's son Bruce, and Elmer's sons John and Jim—had been paid out of their fathers' pockets for sweeping floors and breaking boxes at the stores since they were nine years old. By 1967, they, and Lloyd's son-in-law Jack McMillan, had all become vice presidents at the company, with significant merchandising responsibilities. When Everett turned 65—the age at which the brothers had long since agreed to retire—in 1968, he, Elmer, and Lloyd began to consider ways to withdraw from operations.[4] Unfortunately, they "had nothing to retire on." Over the years, they had only paid themselves equal amounts needed to raise their families, and had reinvested all remaining capital in expanding the business.

Initially, the brothers were inclined to sell their business to a large competitor; indeed, there was considerable interest in the opportunity. However, the third generation had another idea: Convinced that they themselves could "do a better job of running the company than any outside organization," they proposed a strategy and presented a candid discussion of their own strengths and weaknesses as a team, ultimately winning over Everett, Elmer, and Lloyd. However, because the third generation lacked the capital to buy out the brothers' shares, a decision was reached to take the company public.

By 1970, Everett, Elmer, and Lloyd had become co-chairmen of the board, leaving the $67 million business in the hands of 37-year-old Bruce A., 33-year-old John N., and 30-year-old James F. Nordstrom; and 39-year-old John A. McMillan. Robert Bender, a former JC Penney executive, had joined the group as well, as the first executive who was not a member of the family. Together, the team of UW graduates came to be known as "The Five," and employees affectionately addressed its members as "Mr. Bruce," "Mr. John," and so forth. The company went public in June 1971. By the close of the first day of share sales, the brothers had each sold one third of their individual holdings, with the Nordstrom family retaining 79% of outstanding shares. The company was renamed

[4] As Elmer Nordstrom explained: "Everett, Lloyd and I always believed that if the business was to succeed, we would have to retire at an earlier age than we might have liked... Too often we saw businesses fail because they were run by an older member who refused to relinquish his position. Many times as the founder of a business grows old, his thinking becomes more inclined toward security, and risks are avoided that might have led to growth. Employees won't find much incentive for coming up with new ideas if they know they'll be viewed as too risky by an older, conservative boss. The result is sometimes an old taskmaster, surrounded by 'Yes-men,' rather than people who want to take charge and produce. My father retired at 58 and gave us our chance. Now our turns were coming up, even though we were in good health and capable of continuing." 81-82.

Nordstrom in 1973, to commemorate a full renovation of the main downtown Seattle location. That year, the company surpassed $100 million in sales and Nordstrom became recognized as the leading independent west coast fashion retailer.[5]

Like the original Nordstrom's shoe stores, the new Nordstrom built a reputation for having an exceptionally broad selection of merchandise with excellent service, such as price matching and direct-calling customers when suitable shoes or apparel arrived in the stores. To ensure that its merchandise adequately catered to each area of business, every Nordstrom store was supplied by regional or local buyers; to ensure personalized service with a local flair, people in the sales organization were given autonomy over much of their business. Moreover, because "it would be too confusing," the company had no organizational chart.

General merchandise managers reported to The Five, who were each in charge of the budgets and creative direction in their designated merchandise areas, of which there were eight: juniors, children's clothing, cosmetics, shoes (split into women's and men's), men's clothing, women's accessories, women's ready-to-wear, and women's sportswear. Operations varied dramatically by department, some of which had general merchandise managers to whom buyers reported directly, some of which, like Women's Sportswear, had department managers who controlled open-to-buy for their stores, and some of which, such as Women's Sportswear departments in Washington, could buy merchandise outright from local vendors. Men's apparel was another exception, with one centralized buyer for the entire company. Decentralization in the buying organization was most pronounced in shoes, which was historically the most productive area for Nordstrom. The shoe department manager was also the buyer for his or her individual store (**Exhibit 2**).

Buyers typically earned a base salary plus a yearly bonus on the percentage increase in sales over the previous year. A few buyers also had an incentive to improve gross margin performance. Pay structures were decentralized, and differentiated by merchandise category. Steady, year-over-year improvement of sales performance was the driving force behind the company's philosophy and incentives. Salespeople were held up as the top of the Nordstrom inverted pyramid structure, and, with the exception of wage-earning salespeople in low-volume departments like women's accessories and children's, were compensated between 5% and 10% of sales (median = 6 ¾%), depending on the merchandise category. Base hourly pay was set based on the experience of the salesperson (**Exhibit 3**). Department managers, who earned $14,000 to $40,000 on a maximum of $8,000 base salary, plus sales commission and a bonus on sales increase over the previous year, were expected to run their areas as individual businesses, and some even had open-to-buy privileges. Others, like managers for women's accessories, had no open-to-buy, but had reordering responsibilities.

Store managers hired, trained, mentored, and promoted successful salespeople to department managers, and recommended department manager promotions to larger departments or to buyer positions. Promotion was strictly from within the organization. Store managers generally earned between $30,000 and $60,000, with up to 30% being a bonus based on sales increase over the previous year, expense goals as a percentage of sales, and a shrinkage target. In addition, The Five often added one-time bonuses or subtracted from the bonus criteria as deemed appropriate. Store managers reported to regional managers, of which there was one each for Oregon, Alaska, and, starting in 1978, Southern California. Washington state stores reported to Ray Johnson, the store manager of the downtown Seattle store, who was also the personnel manager. He and the three regional managers could report to any of The Five.

It was management's firm belief that decentralized buying and selling stirred an entrepreneurial spirit within each employee, so The Five worked to give each the freedom to serve their local

[5] Bill Dreher and Caroline Costin. *Nordstrom, Inc.—Seattle's Supersonic Retailer*. Deutsche Bank. August 25, 2004. 46.

customers personally. Early on, this had been achieved with the presence of "a Nordstrom in every store" who could personally instill the spirit of entrepreneurship in each employee, making for a tightly knit organization with significant executive presence on the sales floor. However, the organization had evolved to a size that did not permit this management structure, so decentralization and autonomy took the Nordstroms' place.

A decentralized structure made for a complex organization not easily understood by outsiders—particularly the investment analysts who had repeatedly raised questions about Nordstrom's scalability since its initial public offering in 1971. However, decentralized authority over business decisions in the organization was counterbalanced by open access to all company sales data, and open lines of communication to the lowest reaches of the inverted pyramid. Every store manager and department manager could view weekly sales-per-hour results for all employees, and monthly department inventory and gross margin reports across the entire organization. The Five did not dictate action based on sales data. Rather, their implicit expectation was that freely available information would inspire a competitive environment in which managers would compete amongst themselves to meet and exceed the performance of leading departments and stores. At the same time, the Five were always available to coach, mentor, and advise the employees above them, whom they trusted to run their businesses as their own. Although they visited stores frequently and met with store managers on a monthly basis, The Five took pains to not act as inspectors from headquarters, rather fashioning themselves as experienced and available counselors. A store manager calling headquarters for support could always expect one of The Five to pick up, and an employee visiting Seattle could walk into any of The Five's offices, as the Nordstrom family and all managers had an open-door policy. The Five's style of running their decentralized business by committee was present throughout the organization, with many dotted-line relationships between the buying and selling sides. For example, a decision to promote a department manager to buyer always involved the input of store managers, buyers, and regional merchandise managers. Purchasing decisions were always reached jointly, with department managers and buyers contributing equally.

Confusing though it may have been to outsiders, Nordstrom's decentralized structure was a productive one. Sales hit nearly $300 million in 1978, and by 1979, Seattle's leading shoe store had become its leading ladies' apparel store and a strong second choice in men's apparel.

The Five had no intention of expanding into hardlines like appliances and electronics, instead opting to expand their shoe and apparel business geographically throughout the 1970s and 1980s. New growth was funded by sales of 900,000 shares each in 1976 and 1978.[6] By 1979, the Nordstrom family controlled 57% of common stock. While conventional wisdom had held that the west coast fashion capital of America would have no use for Nordstrom's "unsophisticated ways," the company's expansion into Southern California in 1978 was particularly successful: Sales reached almost half a billion dollars by 1980. In keeping with its longtime spirit of decentralization, Nordstrom expanded into new regions by replicating existing organizational structures across geographies. Each new region had its own manager and independent sets of merchants and stores, and each new store had its own back office operations, buyers, and sellers.[7]

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[6] Adjusted for stock splits as of 1979.

[7] Walter J. Salmon and Manu Parpia. Nordstrom. *Harvard Business School Case 579-218*. 1979.

## Co-Chairmen, Co-Presidents, and a CEO

By 1990, Nordstrom operated 58 full-line and Rack stores in Washington, Oregon, Alaska, California, Utah, and Virginia, and had opened its first New Jersey store. Sales reached $2.7 billion, with California's 23 full-line and 6 Rack stores contributing the most sizeable chunk. However, while stores expanded rapidly and sales rose at an aggressive clip, returns on average shareholder equity fell from 15.38% to 12.66% between 1993 and 1996 (refer to **Exhibit 1**). By 1995, recalled Mr. Bruce,

> We had flattened out the business pretty good. Our results were not good. It was evident to my cousins and me that that was our fault—not the culture's fault, but us personally. We were coasting a little bit. So we started with a variety of management schemes in order to continue the culture and yet bring new people into top management. That will always be a very sensitive thing for me, and for our family.

### *Four Co-Chairmen and Two Co-Presidents*

The four third-generation Nordstrom family members became co-chairmen in 1991.[8] They had chosen four top managers and good friends to succeed them as co-presidents: John Whitacre, Ray Johnson, Darrel Hume, and Galen Jefferson.[9] However, this became a short-lived change as a divergence of opinions on how to operate the business "proved cumbersome" to the team, culminating in a record fall in profits in the first quarter of 1993. The co-presidency was revised that year to include just Whitacre and Johnson. The co-chairmen retired in 1995, leaving the business to Whitacre and Johnson, and six members of the fourth generation of Nordstroms, all of whom had been active in the business for a number of years: Mr. Bruce's sons Blake W., age 35, Peter E., age 33, Erik B., age 32; Mr. John (Nordstrom)'s son James A., age 34; and Mr. Jim's sons J. Daniel, age 33, and William E., age 32. In 1996, Johnson retired, and soon thereafter, Whitacre became the first and only CEO in the history of the organization.

### *One CEO and Six Co-Presidents*

According to a local press report:

> The change in guard came as Nordstrom was in the midst of a long-term project to renovate and move into the historic Frederick & Nelson building in downtown Seattle at Fifth and Pine. The project...was finally finished in August 1998 and was hailed by many as part of downtown's renaissance. But the company's earnings continued to be erratic with the young Nordstroms at the wheel. And two years after the opening, it was clear to almost everyone that something still wasn't clicking at Nordstrom.[10]

Nordstrom had increased its national exposure by expanding into new markets, and it had maintained its decentralized structure by setting up a variety of independent business units. In the 1980s, the company had grown out of the Northwest and into the Southwest, and in the 1990s, it had expanded into the East Coast and Central States regions (**Exhibit 4**). By the mid 1990s, this practice

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[8] Robert Bender retired in 1992.

[9] As Bruce Nordstrom explained: "We had run the business by committee, my cousins and I, and before that, my dad and my uncles had. Until those last three years, that system of running it was pretty good. I just always felt that if you could get people who, again, have the same values, and you each have the same amount of ownership of the business, then that's better. One person—I don't care how smart he is—can get off on a tangent, and make a mistake."

[10] Kathy Mulady. Back in the family, *The Seattle Post-Intelligencer Reporter*. June 27, 2001.

had resulted in eight corporate divisions, four of which represented the four regional full-line store groups, and all of which had their own back office operations. There were also up to 16 self-contained buying regions for some categories of merchandise, each with their own infrastructure and creative direction, resulting in a total of over 1,500 buyers.[11] Records for buying and selling were maintained manually.

As they settled into their new positions, the incoming management encountered a barrage of criticism about the business. Citing inconsistent same store sales, questionable merchandising appeal, and a lack of financial controls, analysts accused Nordstrom of "erratic" performance, with low prospects for shareholder growth.[12] On another front, vendors expressed frustration at having to deal with a multitude of low volume buyers to do business with Nordstrom, rather than one buyer for the entire organization, as was the norm at most department stores. Moreover, buyers across the company were exhibiting a wide range of ability, resulting in uneven results across geographies and merchandise categories—a problem often intensified by rapid expansion coupled with Nordstrom's policy of internal promotion.

Issues with buyer ability were compounded by antiquated information systems, which often did not allow merchants to catch buying mistakes—both fashion misjudgments and numeric miscalculations—until buyers became overbought. This contributed to Nordstrom's rising buying cost as a percent of sales, which was estimated to be as high as 5.0% in 1997.[13]

Management tackled these challenges by consolidating its sprawling business units between 1996 and 1998. The four full-line store groups were merged into one, and dramatic changes were made to streamline the company's merchandising operations:

Nordstrom created a new merchandising structure with regional, divisional, national, and corporate levels of management. In the new structure, buyers, who had long reported to the same regional managers to whom store managers also did, would report directly to divisional merchandise managers. Some department manager jobs that previously had buying authority were revised to focus solely on the selling side. The change in merchandising swiftly merged the regional spread for several of Nordstrom's 13 merchandise categories into as few as one national region.

With the agreement of the entire management team, Whitacre decided to implement five changes in information technology: The internet division was started, with a launch target of mid-1998. A merchandise planning system enabling buyers to view their purchasing history over the past 12 months was introduced and implemented by late 1998. In conjunction with vendors, the company moved towards use of universal product codes (UPC) on all its merchandise with completion targeted for the end of 1999. Management also began construction on a cross-dock-based warehouse management system, to be completed in 2000.[14] Finally, Nordstrom would begin integrating a $185 million perpetual inventory system in 2001.[15]

Nordstrom also changed its merchandising direction to increase the fashion quotient and appeal to younger consumers. Advised by teams of consultants, it began a campaign inviting customers to "Re-Invent" themselves. Advertisements for the campaign featured a bright orange theme signaling the company's attempt to appeal to more fashion-forward audiences. On kickoff day, customers

[11] Linda T. Kristiansen and Allison A. Abel. *Nordstrom, Inc.* Schroders. December 21, 1999. 25.

[12] Kristiansen and Abel 1.

[13] Kristiansen and Abel 16.

[14] Steven J. Kernkraut and Glen A. Brenner. *Nordstrom, Inc.* Bear Stearns. September 22, 1999. 16-17.

[15] Christine K. Augustine, Dana L. Telsey, and Monika M. Sieber. *Nordstrom, Inc.* Bear Stearns. May 16, 2003. 13-15.

found stores newly painted orange, departments reorganized, and classic merchandise pushed back to make room for the tight jeans, tie-dyed tee shirts, and strappy heels favored by trendy young women.[16]

Sales results reflected customers' reactions to the changes. New store openings helped drive total sales from $4.1 billion in 1995 to $5.1 billion in 1999, but same store sales growth dropped from 4.0% in 1997 to -2.7% in 1998, then another -1.1% in 1999, and sales per square foot fell from $384 in 1997, to $350 in 1999. Net earnings as a percent of net sales slipped also, from 5.20% in 1994, to 3.93% by 1999.[17] Redundancies in back office operations at regional and store levels drove up SG&A by 3.9% between 1997 and 2000. Company debt hit 52.1% of capital by 2001.[18]

Vendors and analysts continued to complain that even though Nordstrom had "reduced its buying staff to 730 from approximately 1,500," decreasing its buying cost by 0.5% of sales between 1997 and 1999, "it still employ[ed] at least four times the number of buyers as several of its department store competitors."[19] Analysts estimated that while Macy's East had 1.7 buyers per store, Neiman Marcus had 5.0, and Kohl's had 0.2, Nordstrom had 7.0.[20] Some analysts also expressed skepticism about the short-term gains of major upcoming commitments in information technology, commenting that expensive technology typically took years to fully integrate.[21] The litany of public doubt and negative results placed further stress on the executive team, which had difficulty reaching unity on a variety of issues. In the meantime, the market had its own reaction: As rumors circulated that Nordstrom was for sale, its share price fell sharply, losing half of its value from January 1999 to the end of 2000.[22]

The board intervened in August 2000, asking Whitacre to step down. It conducted a search for an outside CEO to turn Nordstrom around. In the process, remembered Mr. Bruce,

> I talked to some of those candidates and I finally told the board, "You know, we've got people right here who know more about this company than any of those other folks. The committee is not such a ridiculous idea." The board didn't want a co-anything though. They wanted the buck to stop with one person. So they finally said, "Okay. Blake will be the president, but only if you come back as chairman of the board." I told them, "Fine, I'll do it. But I'll be there in a support and advisory role."

With that, Blake became president, appointing his brother Pete to head full-line store merchandising, his brother Erik to lead full-line store operations, and Michael Koppel, an outside executive hired in 1999, as interim, then permanent CFO. Other members of Blake's Executive Team included the presidents of Nordstrom Rack, Nordstrom Product Group, Nordstrom Direct, Nordstrom Bank, and Façonnable; executive vice presidents of Human Resources and Diversity Affairs, and Marketing; and Chief Administrative Officer.

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16 Mulady.

17 Nordstrom, Inc. 1998 Annual Report.

18 Dreher and Costin 22.

19 Kristiansen and Abel 16.

20 Kristiansen and Abel 25.

21 Augustine, Telsey, and Sieber 15.

22 James A. Nordstrom and William B. Nordstrom left to pursue outside opportunities in February and August 2000, respectively.

## The Turnaround

The investment community warmly embraced Nordstrom's changes in executive management—especially Mr. Bruce's decision to return as chairman. "I think this is a positive announcement…[T]he whole culture of Nordstrom is to worship the customer and give them the merchandise and service that [they] want," cheered one analyst. "I think the decision to bring Bruce back was an excellent [one]. This man truly cares about the customer."[23]

Mr. Bruce himself was overjoyed to assist in the turnaround. "I really got a lot of complaint letters from customers between 1998 and 2000," he recalled. "They wanted to write to the old man."[24] Reading the letters and watching the "numbers going in the wrong direction" made Mr. Bruce realize that while the goal of merchandising to a younger, more fashionable customer was "absolutely perfect," the execution had inadvertently told "the more mature customer that we would never want to get rid of, that we weren't interested in serving them anymore."

As reinstated chairman, Mr. Bruce's first item of business was a listening tour of the 77 full-line stores. "Hats in hand," Mr. Bruce and his sons approached about 2,000 of their employees on the front line, saying, "Look, we made a lot of mistakes. What are your thoughts? What do you think is most important and how can we improve?"

The responses from the stores were mostly anecdotal, but together, they formed a cohesive picture of the front line. Store employees were disillusioned at having to push merchandise that the core Nordstrom customers did not want. They also felt that buyers were no longer listening to them. There were other problems as well: Moving departments around in the store as part of the "Re-Invent" campaign had confused customers. As store openings accelerated in the late 1990s, Nordstrom had failed to give new stores enough care so that they opened well. As Mr. Bruce put it, Nordstrom had slipped into a "cookie-cutter way of doing things" that did not jibe with the individual attention that the company was known for. "We were becoming more like our competition," he said. "And we didn't provide reason for people to come to us."

Looking back, recalled Blake,

> All the strategies, initiatives, and consultants, and things that we did over the years—not one of them would you find fault with. But given the amount of what was on our plates and given that we would try this for six months, then try something else for the next few months, we weren't getting much traction. Most importantly, our people on the front line that are the face of this company, and the ones that execute it, did not have the necessary ownership, accountability, and understanding of all the strategies and initiatives.

Yet at the same time, it was clear that the "troops" were ready and anxious for positive change. In Mr. Bruce's words:

> I was pretty proud of the culture holding up as far as the service component went, considering we were starting to have a morale problem because we didn't have the right stuff in the stores. The dedication to the customer as far as service stayed pretty darned good. But the thread had been broken between management and the folks on the floor. We weren't connecting.

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[23] Mulady.

[24] Mulady.

When the new management team finally reached out, remembered Blake, "immediately our numbers started to look a little better, even with some opportunities in our merchandise."

### *Formulating a New Strategy*

As the tour concluded, Mr. Bruce, Blake, Pete, Erik, and the rest of the Executive Team focused on creating a turnaround plan. The listening tour had generated goodwill among sales employees, but the Nordstroms were concerned about how the organization would "weather more change," for the customer was still not being served with the merchandise that he or she desired. Also, added Blake:

> We had a pretty short leash [with the board]. There wasn't a lot of patience because we'd been performing so poorly. We were towards the bottom of the heap on some pretty key metrics. The shareholder and Wall Street had lost a lot of confidence in us.

Keenly aware that any change would have to address the needs of all parties, the new management honed in on a few areas that they thought would have a "halo effect" and "float all boats": service, merchandising, operations, and upgrading information systems. "By getting back to the customers, number one, then closely aligned with that, the salesperson—the front line," reasoned Blake, sales should rise, expenses should drop, and "the shareholder should win."

### *Merchandising*

By 2001, journalists breathed a sigh of relief that "Nordstrom fashions returned to a 'wearable' theme."[25] But there were other improvements to be made in the merchandising organization. Pete Nordstrom narrated the recent history of changes:

> Over time, we had a culture of making decisions as close to the customer as possible, which certainly created a lot of value for us, but it became cumbersome as we spread out. We had 13 silos—one for each merchandising division—that were completely insular unto themselves, and were replicated across our 16 buying organizations. We also accommodated our buyers' choices in where they wanted to live and work. If you happened to live in Sacramento but wanted to still be the buyer for San Diego, we would say, "We will allow you to do that." Any place where we had extra room and it was convenient, we placed a buyer. We had buyers all over the place.

Redundancies in the merchant organization and uneven performance across geographies made it clear that the job of the buyer had to change. From the vendor side, Nordstrom felt some pressure to consolidate the buying organization. Pete explained: "It's easier for the vendor if you have one person negotiating the buys. But we don't really benefit from that. It's not as if we have one, all of a sudden, we get great deals." From the organizational side, he continued, powerful norms held the buying structure in place: "We had to move from the idea that a buyer literally had to be on the floor touching the merchandise and interacting with the salesperson every other day, and that was a hard cultural thing for us to get over." What was key to breaking free from both, said Pete, was determining what was necessary for "enhancing our relationship with the customer." "No customer has ever said to us, 'Gee I like that you have 497 buyers,'" he pointed out. "They don't care how many buyers we have. They just want what they want, when they want it."

With customer needs in mind, Pete and his merchant team set about identifying the merchandise categories that could benefit from a more centralized approach. Fine jewelry, hosiery, and At Home

[25] Mulady.

were some obvious categories to begin with. Once those savings were realized, however, Pete set about streamlining the silos:

> We started closely examining how we could improve our efficiency. We still had pressure from all the stores saying that they needed people attached specifically to their agendas, so you had this push and pull going on all the time. But there were always a couple of examples I could point to that were more centralized and worked really well. I think that's when people realized, "Yeah I guess structure isn't the thing. It's the outcomes that matter. The customer doesn't care about our structure. So let's structure as we need to."

In restructuring the merchandising organization, Pete began leveraging the new perpetual inventory system that the company had purchased in 2000. The tool provided an updated flow of information about sales and inventory. Newly installed registers gathered POS data and routed it to a central system from which buyers could pull numbers that were previously unavailable to them. Before perpetual inventory, inventory data was available monthly at a department level. After the system was installed, buyers could view weekly inventory at a stock-keeping unit (SKU) level, enabling them to quickly assess how productive their stock had been, and allowing them to make informed decisions on reordering, so as not to be overbought. The system also enabled department managers and buyers to have more data-driven discussions on inventory management. CFO Michael Koppel illustrated the impact of having perpetual inventory:

> Let's pretend you're a buyer. You've got a particular department, and you're looking at your assortment within that department. That assortment is made up of multiple SKUs. We now have information that says you've got 40% of your inventory doing 5% of sales, and 10% of your inventory doing 40% of sales. We can now tighten our inventory to sales relationship. We've reduced our inventory levels, and quite frankly, I think the real reason we've done that is we've become a lot more disciplined. We've said here's your playing field, stay within it, but by the way, here's a tool that's going to help you win the game. So what's happened is that we've been able to get more business with less inventory. Inventory per square foot goes down, markdowns go down, turns go up, margin goes up.

As buyers became equipped with more information about inventory and sales, explained Laurel Nash, former buyer and current Northwest region divisional merchandise manager for the Point of View/Narrative departments in women's apparel, they learned to manage their financial budgets by planning inventory to match sales forecasts. "In the past, we didn't have the information we needed," said Nash. "Today, we can even run what-if scenarios very easily, often with much detail, and do it in a disciplined manner. Ultimately, we have money to buy merchandise closer to market, so we can buy the products our customers really want."

While a leaner team of buyers and merchants became familiar with new inventory and sales data, and used it to manage sales and margin goals while staying within the financial plan, it naturally felt challenged to maintain close contact with the selling floor. The regional merchandiser position, which was created during the merchandising changes of the late 1990s, was calibrated to be a strong bridge between the buying and selling sides of the company. Nash, who was one of the first regional merchandisers, described the job as having three responsibilities: "people development, event planning, and keeping a connection between the buying team and selling floor." As regional merchandiser, she recalled,

> You were in the stores sharing a passion about merchandise with the sales team and you were also giving analytical information back to the buying team. There was a bit of initial frustration about not being able to directly impact something, and you had to make both the selling and buying sides feel you were there for them. But I had just been a buyer. The buying

it's not an area where we get a lot of bang for an entrepreneurial approach. For example, loss prevention: You don't want each agent saying, "I'm going to be an entrepreneur on this and I'm going to decide how to stop something." That's a best-practice subject. But with things that touch the customer, we get a lot of bang for that entrepreneurial approach. We need the salesperson to feel that they don't have rules, that they're not restricted by many company policies, not restricted by having to check with the manager, and that their job is just to take care of the customer. Department managers and store managers should feel the same way—that their teams are theirs, and that they can go to battle with them.

Centralizing back office operations across stores not only led to financial savings, but also conserved management time, and freed "resources for serving the customer." The store manager, for example, could direct more time and energy towards maintaining a pleasant selling floor experience and planning creative sales events, rather than worrying about supply chain or maintenance activities. The same was true of restaurant operations, which was centralized. Given that it was one of the most productive areas of their stores, it was in store managers' best interest to keep an eye on restaurant activities. But given also the complex job of running a restaurant, store managers would lose time on the selling floor if they had to directly manage the restaurant managers in addition to the store—where the typical store manager had 30 direct reports.

The ten regional managers in the Nordstrom organization were another group who benefited from centralization of the back office. Regional managers, who would still be responsible for profits and loss in their regions, would not have to spend their time managing employees who were arranging housekeeping contracts and store logistics. Operational "back of the house" divisions would take care of these "best-practice" aspects of the businesses and report into full-line store headquarters. However, these aspects of the business remained officially part of the regional managers' bottom line. Consolidating back office operations into best-practice methods contributed to a drop in SG&A: from 31.6% to 30% of sales from 2000 to 2003.[26]

In the meantime, Erik also worked to provide appropriate support to the sales side, so the front line could exercise its full entrepreneurial potential. He and his brothers initiated a program to help struggling stores—called Focus Stores—to achieve their full selling potential. As Mr. Bruce explained:

> They pick three or four stores a year, and take all the head merchants across the country and spend a few days at each store. They'll talk to the salespeople, they'll digest everything that is going on there, and then they'll formulate a game plan with the regional manager and the store manager. And they tackle it. Every store but one that they have tackled in the past three years has had a significant improvement and now performs above the full-line store average. That's like the old days, when every store was vitally important. So we say now, yeah, if you're not performing well, you're really vitally important. We need to get you up and performing like the rest of the troops.

In refining store operations and advising Focus Stores, Erik remarked, his rule of thumb was helping the salespeople be fully engaged and empowered to serve the customer.

> The salesperson, who is at the top of our inverted pyramid, has to feel listened to. That can take many forms. One thing that's helped a lot in the past is better disciplines around our merchandise. Having open-to-buy dollars so you are able to respond to what the floor is saying. That goes a long way. If you're a salesperson and you've got a list of observations and wants, to be able to see some of them in action means a lot. It all goes back to listening to the customer and serving their needs.

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[26] Nordstrom, Inc. 2003 *Annual Report*.

## *Financial Controls*

As the organization adjusted to merchandising changes, information technology systems implementation drew to a close, and debt was reduced, management began to explore new means of achieving better profitability. While the company allowed that a service-intensive selling model precluded its ability to reach the low selling costs of some competitors, it actively sought ways to make its operations more efficient—for example by tying company profitability to the bonus packages of senior managers, or by adding profitability among the incentives for merchants.

As one investment analyst observed:

> Nordstrom has never had the financial controls in place to monitor the sales or gross margin results from the bottom of the organization up. As a result, the company has never had the vision to accurately forecast earnings growth from one quarter to the next. Formerly, Nordstrom divisional structure inhibited the company from having financial controls in place. Historically, each of the geographic regions operated virtually autonomously of the others. Individual store managers and individual merchants had enormous amounts of autonomy as they were not held accountable to a weekly or monthly sales or gross margin plan. As a result, the company never had a good feel for their earnings potential from one quarter to the next and the company would often exceed or fall short of the mean quarterly earnings estimate.[27]

"Before, you were bonused on your world," confirmed Brooke White, vice president of corporate communications. "You didn't have to worry about the whole company. Somebody else could worry about it. You were completely focused on your assignment. So we said, 'Let's have the bottom 50 people in the inverted pyramid also worry about this to some degree.'"

Most recently, said CFO Michael Koppel, the company introduced the concept of GMROI—gross margin return on investment:

> About two-and-half years ago, we shared our charts with our leadership group and said, "The biggest driver of our share price over time is going to be ROIC (return on invested capital). Not day-to-day, week-to-week, month-to-month, but over an extended period of time, it's ROIC. We're going to improve our share price." The next thing we showed them was that they own the two biggest pieces: GMROI and expense. GMROI—margin dollars divided by average inventory—is the single largest driver of ROIC, but it was rarely discussed in the company. So then we just started reporting and giving GMROI out on a monthly basis. We added expense. And it just all of a sudden started to kick in. If you talk to the top 50 leaders of the company right now, they would be able to explain that to you. Two or three years ago, they would not have understood. I think one of the great 'ahas' that we've had in the company is being able to teach people those concepts but not take them away from being great merchants and great providers of service to the customer. This has not been a top-down edict. It has really been an education. Here are the tools, now go for it.

## *Leadership*

By 2005, Blake and his brothers were popular figures in the company, famed for their indiscriminate attitude towards all employees. For example, it was well known that when Blake was in a store—as he was 50% of his time—he approached store employees, from managers to salespeople to maintenance staff, to introduce himself and chat about the business. "Hi, I'm Blake!" he always said, winning points for leaving out "Nordstrom."

[27] Kernkraut and Brenner 18.

Looking back, said Blake,

> It was just over four years ago that my brothers and I got our assignments and, knock on wood, it's nice to see the numbers be reflective of the efforts and the strategy and the work. I'm pleased to say it's been going well. I'd like to think we're in step with The Five. We're all products of that. We were all raised under that environment. We all inherently believe, whether our last name is Nordstrom or not, that two plus two equals something greater than four—i.e. that one person trying to run this business is not going to be successful, whatever the assignment is. There have been some things that we've had to be a little more directive on than The Five. They were directive too, but it was in a much smaller scale. You knew everyone. I think today, we want to make sure we aren't micromanaging. We have more data. But there are a few things we shouldn't be debating—like being overbought. We just can't be overbought in this size an organization. The rest? It's your business so go for it.

## The Company in 2005

In January 2005, Nordstrom was an anchor resident at 94 major malls across the United States—positions more typically filled by department stores like Macy's (**Exhibit 6**). Nordstrom, however, was not a department store. Its customer base, store experience, merchandise, marketing strategy, and merchandising cast Nordstrom as a department-store-sized specialty store, uniquely positioned in a competitive field of department stores and specialty retailers.

### *Customer Base*

Nordstrom customers tended to be upper middle class women. According to a behavioral profile of actual shoppers, the Nordstrom customer was "more likely than average to be employed full or part time, slightly less likely than average to be married" or have children, and slightly younger and more wealthy than the traditional department store shopper.[28] While Neiman Marcus customers tended to be fashion-driven older women whose average household income was in the top 2%, and Macy's customers were moderately fashionable middle-aged women with a household income in the 55% to 70% bracket, typical Nordstrom customers were fashionable women of all ages, with household incomes in the top quintile (**Table 1**).

**Table 1** Core Customer Comparison for Large Stores

| | Department stores (e.g. Macy's) | Nordstrom | Neiman Marcus | Saks Fifth Avenue |
|---|---|---|---|---|
| Age | 35-64 | 25-64 | 43-64 | 35-55 |
| Household Income | \$50,000-60,000 | \$75,000+ | \$200,000-300,000 | \$100,000 |
| Income bracket | 55-70% | 80%+ | 98%+ | 90%+ |
| Fashionability | Moderately fashionable | Fashionable | Fashion-driven | Fashion-driven |

Source: Adapted from Deborah Weinswig and Charmaine Tang. *Nordstrom, Inc.* Citigroup Smith Barney. July 26, 2004. 11. Christine K. Augustine, Dana L. Telsey, and Monika M. Sieber. *Nordstrom, Inc.* Bear Stearns. May 16, 2003. 5. U.S. Census Bureau.

[28] Weinswig and Tang 34.

### *Store Experience*

A feeling of luxury, easy store navigation, and highly personalized service were hallmarks of the Nordstrom shopping experience. Customers entered each store via spacious aisles leading to a centrally located baby grand piano, where a musician played soft tunes throughout the shopping day.[29]

The escalators were always located in the center of Nordstrom floor plans, adjacent to the piano player on the first floor. Customers taking the escalators up to the top floor (typically the third floor), where the popular Nordstrom Cafes were typically located, could view half of the store on their way up, then the other half on their way down. Hard-surfaced aisles ran around the edges of each floor, giving shoppers easy access to all parts of the store, and allowing stores to display much merchandise in plain view. Upon entering a carpeted area of one department, browsers found that the physically adjacent departments in the donut-shaped floor layout were also stylistically adjacent—for instance brass plum (juniors) and t.b.d (young women's trendy casual)—inviting them to explore merchandise just outside their usual preferences (**Exhibit** 7).

Shoppers were assisted by knowledgeable and friendly salespeople, who were committed to serving their customers across the store. In the cosmetics department, for example, salespeople trained in all product lines helped customers navigate the open-sell cosmetics area. Unlike cosmetics salespeople at traditional department stores, who were paid by the brand as well as the store, uniformed by the brand they sold, and physically restricted to their brand island, Nordstrom cosmetics salespeople were Nordstrom employees, committed to selling cosmetics, not just a certain product line. Nordstrom was also known for its high degree of personalized attention, including unusual services like home deliveries and day spas in some stores. Salespeople were charged with serving customers even if doing so meant breaching usual procedures.[30]

Salespeople at Nordstrom used an electronic customer management tool called Personal Book, which was a record of customer preferences, purchases, and outstanding orders. Personal Book replaced paper records of clientele, and kept customer information vested within the company, even if the salesperson should leave his or her job. Its functions enhanced salespeople's ability to offer personalized service to their customers, by enabling them to manage customers more actively. For instance, a shoe salesperson with a customer noted in Personal Book as needing flat shoes in an extra wide size could set aside several pairs of a recent shipment and telephone the person to come try them on. The shoe stockroom, a two-story area with shoes organized by color and heel height in addition to size run, was designed to facilitate quick fulfillment of customer requests, and also to equip salespeople with alternative styles to offer their customers. With Personal Book, a salesperson ringing up a purchase for a customer could also check on the progress of outstanding alterations to merchandise, regardless of whether or not that salesperson was based in the department where the alteration order was placed.

Customers could pay for their purchases with cash, check, a major credit card, Nordstrom's proprietary VISA card, Nordstrom's proprietary card, or a gift card. If the purchase was a gift, customers were entitled to Nordstrom's signature silver and gold gift box and tissue paper. As a service, salespeople typically boxed the gifts before bagging them and handing them to the customer. Both gift purchases and regular purchases were marked with a barcoded Nordstrom sticker that enabled customers to make returns without having a receipt. Nordstrom maintained a flexible return policy, accepting exchanges or returns well beyond the 30-day period to which most retailers

[29] Lisa Gibbs. Research at the mall, *The Miami Herald*. November 29, 2004.

[30] Blake Nordstrom had an expression for such instances—"Erring on behalf of the customer"—and encouraged salespeople to do so if it was within their power to give customers a superior shopping experience.

restricted their product liability. The company did not have an official return policy. Instead, returns were handled on a case-by-case basis, with the ultimate objective of satisfying the customer.

## *Merchandise*

Traditional department stores offered a full array of household electronics, home goods, and apparel. By contrast, Nordstrom primarily offered a "premier selection of fashion apparel [and accessories] for men, women, and children with classic, contemporary, and couture designs." Few home goods were available, save for gifts and seasonal items (**Table 2**).[31]

**Table 2** 2003 Sales Breakdown by Store, by Product Category

| | Nordstrom | Federated | May | Neiman Marcus | Saks Fifth Avenue |
|---|---|---|---|---|---|
| Women's apparel | 36% | 27% | 29% | 33% | 42% |
| Men's apparel and furnishings | 17 | 22 | 19 | 13 | 13 |
| Children's apparel and furnishings | 4 | | 5 | 0 | 1 |
| Shoes | 20 | 31 | 5 | 17 | 8 |
| Women's accessories | 19 | | 26 | 25 | 35 |
| Home goods, other | 4 | 20 | 16 | 12 | 1 |
| | 100% | 100% | 100% | 100% | 100% |

Source: Deborah Weinswig and Charmaine Tang. *Nordstrom, Inc.* Citigroup Smith Barney. July 26, 2004. 35. Copyright 2004 Smith Barney Inc. Although the information in this report was obtained from sources that Smith Barney believes to be reliable, Smith Barney does not guarantee its accuracy, and such information may be incomplete or condensed. All figures included in this report constitute our judgment as of the original publication date.

Rather than dividing its apparel merchandise into typical departments like women's, junior's, men's, and children's, Nordstrom used lifestyle categories. For example, women's clothing featured 12 uniquely named departments geared towards segments of customers by youthfulness and style (**Exhibit 8**). "t.b.d." carried brands like Allen B., and 7 for All Mankind jeans for the trendy, casual woman. "Point of View" featured Tommy Bahama, Lauren by Ralph Lauren, and Sigrid Olsen, among other brands that catered to women seeking mainstream sportswear, coats, and dresses. "Encore" and "Petite Focus" specialized in special sizes.

Nordstrom merchandise was also highly differentiated from that of its department store competitors. Unlike many department stores, Nordstrom eschewed the common practice of entering into multiyear vendor agreements, whereby a retailer agreed to purchase a certain dollar amount of merchandise from large vendors like Liz Claiborne and Phillips Van Heusen, in exchange for a margin guarantee. Nordstrom's top 50 vendors accounted for just 60% of sales, with no vendor contributing more than 3%.[32] To the extent possible, Nordstrom also preferred to price its own merchandise based on comparative quality and value, rather than using the manufacturer's suggested retail price.

To keep its fashion merchandising nimble, Nordstrom generally did not install in-store boutiques or permanent fixtures and floor space for popular brands as many of its competitors did.[33] The company also kept a smooth flow of new merchandise into its stores, rather than frontloading

[31] Dreher and Costin 29.

[32] Kristiansen and Abel 34.

[33] One exception was the designer women's brand St. John, whose image and apparel were deemed to resonate particularly well with the core Nordstrom customer.

product rollout two to four times a year, as department stores and specialty stores typically did. New items and replenishment stock arrived in most stores five days per week. As a result, the estimated SKU overlap between Nordstrom stores and the average department store was low—about 17%.

Private merchandise further differentiated Nordstrom merchandise from that of department stores. Nordstrom's 43 private labels were positioned in premium or middle price ranges and featured classic, mainstream, or modern styles.[34] Together, they delivered approximately 18% of sales.[35] The most prominent private brand was Façonnable, the Nice clothier whose operations—which included 31 international and 5 domestic boutiques by 2005—Nordstrom acquired in 2000. Façonnable apparel for women and men featured a classic, tailored look, and was priced in the premium range.

In the retail landscape, Nordstrom occupied the niche between luxury stores like Neiman Marcus and Saks Fifth Avenue, and the middle-range department stores owned by Federated Department Stores and May Company. Its closest competitor among department stores was Federated's Bloomingdale's line, which carried similarly upscale merchandise, while its specialty store competitors included Ann Taylor, Banana Republic, Chico's, and Talbots.[36]

### *Marketing Strategy*

Its marketing strategy also differentiated Nordstrom from department store competitors. Over the 1990s, many department stores had moved towards highly promotional high-low price strategies, with frequent sales announced in full-page newspaper advertisements, perpetual coupon offers, and large discount signage at stores. Nordstrom, by contrast, maintained "a full-price selling environment" by adhering to a schedule of one annual and two pairs of semiannual sales—one each for women and men. It was able to do so in part because of its highly differentiated selection. However, for products carried at other retailers, Nordstrom applied its longtime policy of competitive pricing, often dropping its price $1 below the other retailer's price. Pricing was consistent throughout all Nordstrom stores nationwide.

By using its proprietary card reward program instead of coupons, the company drove traffic while also building customer loyalty.[37] In-store signage was kept to a minimum, and sale items were discretely displayed, with prime floor space strictly devoted to new and popular merchandise. Its minimal advertising presence kept Nordstrom's ad expenses low. According to analyst estimates, Federated spent 4.6% and May spent 5.0% of their 2002 sales on advertising, while at Nordstrom the figure was just 2.4%.[38]

Like many of its department store and specialty store competitors, Nordstrom's marketing was centralized. However, store managers' and department managers' local initiatives—such as store-based cosmetics trend shows, dress for success events, and prom promotions—were strongly encouraged and financially supported.

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[34] Middle price assumes approximately $200 for a women's suit, while premium assumes $400, and designer, $750.

[35] Deborah Weinswig and Charmaine Tang. *Nordstrom, Inc.* Citigroup Smith Barney. July 26, 2004. 37.

[36] Weinswig and Tang 12.

[37] The program awarded merchandise certificates toward future purchases. Augustine, Telsey, and Sieber 6.

[38] Augustine, Telsey, and Sieber 24.

## *Buying and Selling Structures*

All Nordstrom lines of business except for credit operations were headquartered in its downtown Seattle offices.[39] A centralized merchant structure included one corporate merchandise manager and four divisional merchandise managers—one each for Southwest, East Coast, Central States, and Northwest regions—per merchandising division, of which there were 13.[40] However, the structure could vary as corporate merchandise managers deemed necessary. For example, in women's shoes, there were two divisional merchandise managers—one shared by East Coast and Central States divisions, and another for the Northwest and Southwest—and one national merchandise manager each for high end Salon Shoes and juniors Brass Plum shoes (**Exhibits 5** and **9**).

All corporate merchandise managers reported to Pete Nordstrom, the head merchant. They were paid a salary, plus a bonus based on sales increase, gross margin improvement, inventory turns, buying expense, and company profitability. Corporate merchants allocated merchant dollars and set the creative direction for the company as a whole, and encouraged their divisional and national merchants to manage their businesses like investment portfolios, with diversified vendor commitments every year. "This is a high risk business," stated corporate merchandise manager Minuk, "We don't want to get in a position where if they sneeze, we lose."

Corporate merchandise managers and national merchandise managers were responsible for the merchandising dollars and vendor mix within their own departments—their "swim lanes." Divisional merchandise managers were responsible for execution of the corporate merchandise manager's vision, as well as sourcing new product and properly allocating goods to stores. The few national buyers purchased merchandise for all stores in departments or vendor industries that required one contact person. As Minuk explained, "Some vendors need a go-to person to establish a comfortable relationship, so having a national merchant makes us much more competitive in the business." Corporate and national merchandisers owned their merchandising budgets, and managed the buyers and office assistants assigned to them. Both received a salary and a bonus for sales increases, gross margin improvements, and inventory turns. Corporate merchandise managers were also bonused on company earnings before income taxes.

A varying number of buyers and office assistants maintained vendor relationships and made purchase agreements. They were assigned to divisional merchandise managers and national merchandising managers, depending on the needs of individual divisions. In women's athletic footwear, for example, one buyer bought, replenished, and determined markdowns for the entire company. On the other hand, there were several hundred buyers who did the same in women's clothing.

By 2005, Nordstrom buyers represented the most capable and experienced third of the original 1,500. Strict buying budgets and performance targets were established, with buyers compensated and bonused on sales increases and gross margin increases. The company's spectacular sales growth in the 1970s and 1980s had allowed Nordstrom to let buyers purchase without concern for sell-through—or for budgetary constraints. By the 1990s, however, accelerated expansion by business unit replication placed a strain on the promotion pipeline, creating a flow of inexperienced buyers. These buyers, explained Kirsten Tucker, longtime Brass Plum sportswear buyer and current manager of the downtown Seattle flagship store, were not "good at predicting" market acceptance or "reacting" to inventory movement "to get the merchandise flowing," and, as a result, had become prone to buying beyond their means.

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[39] Credit headquarters remains in Scottsdale, AZ, where banking regulations are more favorable.

[40] E.g. children's, men's, cosmetics, et al.

To address the issue of Nordstrom's outdated inventory management system, a modern perpetual inventory system was put in place by 2002. Perpetual inventory, which one analyst hailed as the most significant change at Nordstrom since its incorporation, enabled buyers to identify productive and unproductive merchandise in their inventories.[41] In doing so, it gave buyers a sense of merchandise productivity, giving them a powerful tool to avoid being overbought or overcommitted to nonproductive SKUs. Its weekly update of inventory levels across the entire organization gave buyers unprecedented access not only to their inventory movement, but also to inventory productivity in peer regions. Speaking from a buyer's point of view, divisional merchandise manager Nash remarked:

> If I were a buyer today, I would know exactly what actions to take. Before, I wasn't optimizing my order with my inventory by store. With perpetual inventory, we're able to quickly reorder styles, sizes, and quantities by store. We can adjust our buy by-store. We're able to see which stores are selling which brands, styles, colors, and in what sizes. As a buyer, you are able to utilize these tools to create a balanced mix for each store.

Once implemented, the new system gave merchants more comprehensive ways to measure the performance of their buyers, and to determine which buyers were the more capable ones—with regard to both inventory management and merchandise selection. It gave them "levers" to control buyer performance and options for additional measurements in the buyer rewards structure. Each quarter, cash rewards were given to leading buyers who were able to successfully leverage inventory data to find, stock, and sell continuous streams of new hit products.

Given buyers' decreasing time at stores, the regional merchandiser position was the link between the merchant structure and the front line. After several iterations of redefinition, the regional merchandiser's job was to continually communicate the merchandising "swim lanes" for departments within each category, and to provide answers to salesperson questions such as "Why did we buy this?, What are the product features?, What does it go with?, What's the fashion trend?, and How should it be displayed?" The job, which was in the process of fine-tuning, also entailed carrying information from the selling floor back to buyers, and answering buyer questions like "What are customers coming in for that we don't have? What's the crew asking for? What's the response to specific products? Is it a quality issue or is it a fit issue?"

Although buyers were less visible in the stores as compared to the early 1990s, store personnel did not feel a strain in communication. On the contrary, said Tucker, the Downtown Seattle store manager, perpetual inventory data pushed department managers to become more articulate about their product needs:

> The ability to communicate with the buyer is the same as it was then. The ability for you as a department manager to feel empowered to run your own business is the same as it was then, and we communicate frequently by phone, email, or in person. Our ability to create and drive promotions that are specific to merchandise is the same. But having perpetual inventory has challenged us to be more specific in our communications. Instead of saying, "We need more cute dresses," we have to talk in terms of style numbers and colors. You have to work to be a better partner with the merchant team than you were before.

A partial view of perpetual inventory data was available to department managers, who could use it to evaluate productivity in their own departments. The reason for limiting the view, explained Erik Nordstrom, was that the system contained so much data that it was easy to feel "pretty overwhelmed

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41 Kernkraut and Brenner 13.

at the amount of information." It was the regional merchandiser's job to coach department managers on using the system effectively.

Perpetual inventory also enabled salespeople to spend less time on markdowns. Before the system, marking down an item was a labor-intensive two-day process that required buyers to manually look up inventory levels and hand-calculate markdown prices before distributing paper copies of markdown items to stores. Store employees would then locate each item on markdown, count every item, log on paper, send the log to a centralized keying department, then re-label each tag for merchandise that had been reduced. With perpetual inventory, buyers could spend two hours or less reviewing consolidated reports across stores in their regions, then place markdown orders electronically in the central system. Store employees could simply view the download and re-mark merchandise with sale prices.

In addition to perpetual inventory, new POS registers, which were fully installed by 2004 at a cost of $85 million, increased the speed of checkout and gave salespeople access to their customers' purchases.[42] Personal Book, which was added to the POS registers in 2004, further enhanced salespeople's ability to build stronger relationships with their customers (**Exhibit 10**).

Salespeople—who remained at the top of Nordstrom's corporate structure—were given register training and product knowledge once hired, followed by periodic reviews. "We meet with them after 45 days then again after 90 days," elaborated Delena Sunday, executive vice president of human resources and diversity affairs. "We can tell early on if somebody's going to make it or not. There's a physical component to sales that people may not be aware of until they start. We try to either coach people to be better, or help them realize that this job may not be for them." All salespeople were paid on commission or hourly wage, whichever was greater. Successful salespeople with the highest productivity were called Pacesetters and were frequently recognized throughout the organization. These top performers had the opportunity to earn additional incentives through their sales results.

Typically, salespeople on a promotion track were groomed to become department managers. Department managers could become department managers of a larger department, assistant buyers, buyers. Buyers could be promoted to manage a larger buying responsibility or to store manager, regional merchandiser, or divisional merchandise manager. By using a promotion track and promoting from within, Nordstrom guaranteed that employees who were lower down in the inverted pyramid had the necessary experience to support those over them.

All department managers reported to store managers. Store managers often met with regional merchandisers and buyers on each of their store visits. One of the store manager's main responsibilities was supporting department managers—for instance by calling buyers to assist department managers in securing needed merchandise. As "servant leaders" striving to maintain a "family atmosphere" among store employees, store managers coached and mentored department managers and salespeople. Customer relationship management—responding to customer visits, letters, and phone calls—was a key part of the store manager's job. Store managers reported to one of ten regional managers, each of whom had roughly nine stores under their care. Regional managers reported to Erik Nordstrom.

42 With customer consent.

## Moving Forward

The results spoke to the success of the Executive Team's turnaround management. In 2004, sales rose to $7.1 billion, same store sales rose 8.5%, expenses dropped 1.1% to 28.3%, and gross profits rose to a new high of $2.57 billion. Most important, the company's debt-to-capital ratio had fallen to 37% by second quarter of 2004, reflecting $1.2 billion in debt. As management introduced new financial levers and increased its institutional familiarity with information technology investments, as fashion merchandising struck the right chords with customers, and as investment firms began issuing 'buy' ratings to Nordstrom's stock once again, two new issues rose to the top of the company's concerns: cash management and expansion plans.

Citing examples of companies who in the past had squandered idle cash, the board was pushing for dividend payouts and a share repurchase plan. As president, Blake wondered: Would that be the best use?

Expansion was another major issue in planning for the company's long term future. While it favored a strategy of same store growth, Nordstrom was on track to open eight new stores and relocate two more between 2005 and 2008, amounting to a capital commitment of approximately $20 million per store and 2% to 3% square footage expansion per year (**Exhibit 11**).[43] The company had also identified some 50 areas for possible future expansion, but concrete plans would be entirely dependent on shopping center development. Also, given that each store required significant capital and planning time, any store growth would have to be something the company planned well in advance. Beyond that growth, however, it was difficult to determine what strategies would be best for Nordstrom to undertake: International? Small towns? Acquisitions? New channels like direct mail or discount stores? New merchandise categories like furniture and home goods? Moreover, the strategy had to be determined in the context of apparel retailers' declining share of wallet, and the uncertain future of department stores in general.

Recalling the years of hard work it took to bring the company to this position, Blake emphasized caution and focus:

> Our goal four years ago was to be in a position of strength. Four years ago, our hands were tied. Our debt was really high. Our system platform wasn't so good. We had some opportunities with our people, our reputation. Our goals have been to get our finances straight—and they're rock solid right now, get our systems in line—and it's a lot better, get our reputation with our people and our customer—and that's better. The most important thing we can do is get more focused on our business and make our core business stronger. Our challenge is to not take our eye off the ball. We exist only because we're selling something. If we don't have the best buyers and merchants and salespeople, then everything else doesn't work. How do we keep one foot square on execution and one foot proactive—on the future and on our strategy? Many businesses have failed there, and that's not necessarily a strength of ours. But I do believe we want to be in a position in the future where more doors are open.

Which doors would they be and how would the Executive Team have to prepare for them?

[43] Company reports.

## Exhibit 1 Nordstrom Financials 1990–2004

| Fiscal year | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| **Financial Position** | | | | |
| Customer accounts receivable, net | $580,397 | $594,900 | $606,861 | $621,491 |
| Retained interest in accounts receivable | 422,416 | 272,294 | 124,543 | 55,659 |
| Merchandise inventories | 917,182 | 901,623 | 953,112 | 888,172 |
| Current assets | 2,572,444 | 2,455,430 | 2,088,028 | 2,057,111 |
| Current liabilities | 1,341,152 | 1,049,549 | 885,145 | 950,138 |
| Working capital | 1,231,292 | 1,405,881 | 1,202,883 | 1,106,973 |
| Working capital ratio | 1.92 | 2.34 | 2.36 | 2.17 |
| Land, buildings and equipment, net | 1,780,366 | 1,724,273 | 1,761,544 | 1,761,082 |
| Long-term debt, including current portion | 1,030,107 | 1,234,243 | 1,350,595 | 1,429,271 |
| Debt/capital ratio | .3654 | .4304 | .4960 | .5206 |
| Shareholders' equity | 1,788,994 | 1,634,009 | 1,372,864 | 1,316,245 |
| Shares outstanding | 135,665k | 138,376,669 | 135,444,041 | 134,468,608 |
| Book value per share | 13.19 | 11.81 | 10.14 | 9.79 |
| Total assets | 4,605,390 | 4,465,688 | 4,111,907 | 4,051,179 |
| **Operations** | | | | |
| Net sales | 7,131,388 | 6,491,673 | 5,975,076 | 5,634,130 |
| Gross profit | 2,572,000 | 2,277,718 | 2,009,805 | 1,871,376 |
| Selling, general, and administrative expenses | (2,020,233) | (1,943,715) | (1,818,381) | (1,725,740) |
| Operating income | 551,767 | 334,003 | 191,424 | 145,636 |
| Interest income, net | (77,428) | (90,952) | (81,921) | (75,038) |
| Net earnings | 393,450 | 242,841 | 90,224 | 124,688 |
| Basic earnings per share | 2.82 | 1.78 | .67 | .93 |
| Diluted earnings per share | 2.77 | 1.76 | .66 | .93 |
| Dividends per share | .48 | .41 | .38 | .36 |
| Comparable store sales percentage increase (decrease) | 8.5% | 4.3% | 1.4% | (2.9%) |
| Net earnings as a percent of net sales | 5.5% | 3.74% | 1.51% | 2.21% |
| Return on average shareholders' equity | 23.0% | 16.15% | 6.71% | 9.78% |
| Sales per square foot for Company-operated stores | 347 | 327 | 319 | 321 |
| **Stores** | 181 | 179 | 166 | 156 |
| **Total square footage** | 19,397,000 | 19,138,000 | 18,428,000 | 17,048,000 |

## Exhibit 1 (continued)

| Fiscal year | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|
| **Financial Position** | | | | |
| Customer accounts receivable, net | $649,504 | $557,190 | $560,564 | $621,704 |
| Retained interest in accounts receivable | 50,183 | 38,830 | 7,097 | 20,158 |
| Merchandise inventories | 945,687 | 797,845 | 750,269 | 826,045 |
| Current assets | 1,812,982 | 1,564,648 | 1,668,689 | 1,613,492 |
| Current liabilities | 950,568 | 866,509 | 794,490 | 979,031 |
| Working capital | 862,414 | 698,139 | 874,199 | 634,461 |
| Working capital ratio | 1.91 | 1.81 | 2.10 | 1.65 |
| Land, buildings and equipment, net | 1,599,938 | 1,429,492 | 1,378,006 | 1,252,513 |
| Long-term debt, including current portion | 1,112,296 | 804,982 | 868,234 | 420,865 |
| Debt/capital ratio | .4922 | .4249 | .4214 | .3194 |
| Shareholders' equity | 1,233,445 | 1,185,614 | 1,300,545 | 1,458,950 |
| Shares outstanding | 133,797,757 | 132,279,988 | 142,114,167 | 152,518,104 |
| Book value per share | 9.22 | 8.96 | 9.15 | 9.57 |
| Total assets | 3,608,503 | 3,062,081 | 3,103,689 | 2,890,664 |
| **Operations** | | | | |
| Net sales | 5,528,537 | 5,149,266 | 5,049,182 | 4,864,604 |
| Gross profit | 1,879,021 | 1,789,506 | 1,704,237 | 1,568,791 |
| Selling, general, and administrative expenses | (1,747,048) | (1,523,836) | (1,429,837) | (1,338,235) |
| Operating income | 131,973 | 265,670 | 274,400 | 230,556 |
| Interest income, net | (62,698) | (50,396) | (47,091) | (34,250) |
| Net earnings | 101,918 | 202,557 | 206,723 | 186,213 |
| Basic earnings per share | .78 | 1.47 | 1.41 | 1.20 |
| Diluted earnings per share | .78 | 1.46 | 1.41 | 1.20 |
| Dividends per share | .35 | .32 | .30 | .265 |
| Comparable store sales percentage increase (decrease) | .3% | (1.1%) | (2.7%) | 4.0% |
| Net earnings as a percent of net sales | 1.84% | 3.93% | 4.09% | 3.83% |
| Return on average shareholders' equity | 8.43% | 16.29% | 14.98% | 12.77% |
| Sales per square foot for Company-operated stores | 342 | 350 | 362 | 384 |
| **Stores** | 140 | 104 | 97 | 92 |
| **Total square footage** | 16,056,000 | 14,487,000 | 13,593,000 | 12,614,000 |

## Exhibit 1 (continued)

| Fiscal year | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|
| **Financial Position** | | | | |
| Customer accounts receivable, net | $661,332 | $874,103 | $655,715 | $565,151 |
| Retained interest in accounts receivable | 31,791 | -- | -- | -- |
| Merchandise inventories | 719,919 | 626,303 | 627,930 | 585,602 |
| Current assets | 1,549,819 | 1,612,776 | 1,397,713 | 1,314,914 |
| Current liabilities | 795,321 | 833,443 | 693,015 | 631,064 |
| Working capital | 754,498 | 779,333 | 704,698 | 683,850 |
| Working capital ratio | 1.95 | 1.94 | 2.02 | 2.08 |
| Land, buildings and equipment, net | 1,152,454 | 1,103,298 | 984,195 | 845,596 |
| Long-term debt, including current portion | 380,632 | 439,943 | 373,910 | 438,574 |
| Debt/capital ratio | .2720 | .3232 | .2575 | .2934 |
| Shareholders' equity | 1,457,084 | 1,408,053 | 1,330,437 | 1,153,594 |
| Shares outstanding | 159,269,954 | 162,226,288 | 164,488,196 | 164,118,256 |
| Book value per share | 9.15 | 8.68 | 8.09 | 7.03 |
| Total assets | 2,726,495 | 2,732,619 | 2,396,783 | 2,177,481 |
| | | | | |
| **Operations** | | | | |
| Net sales | 4,457,931 | 4,113,717 | 3,895,642 | 3,591,228 |
| Gross profit | 1,378,472 | 1,310,931 | 1,297,018 | 1,121,539 |
| Selling, general, and administrative expenses | (1,232,860) | (1,136,069) | (1,029,856) | (940,708) |
| Operating income | 145,612 | 174,862 | 267,162 | 180,831 |
| Interest income, net | (39,400) | (39,295) | (30,664) | (37,646) |
| Net earnings | 146,316 | 163,556 | 202,505 | 140,890 |
| Basic earnings per share | .90 | 1.00 | 1.23 | .86 |
| Diluted earnings per share | .90 | 1.00 | 1.23 | .86 |
| Dividends per share | .25 | .25 | .1925 | .17 |
| Comparable store sales percentage increase (decrease) | 0.6% | (0.7%) | 4.4% | 2.7% |
| Net earnings as a percent of net sales | 3.28% | 3.98% | 5.20% | 3.92% |
| Return on average shareholders' equity | 10.21% | 11.94% | 16.30% | 12.85% |
| Sales per square foot for Company-operated stores | 377 | 382 | 395 | 383 |
| | | | | |
| **Stores** | 83 | 78 | 76 | 74 |
| **Total square footage** | 11,754,00 | 10,713,000 | 9,998,000 | 9,282,000 |

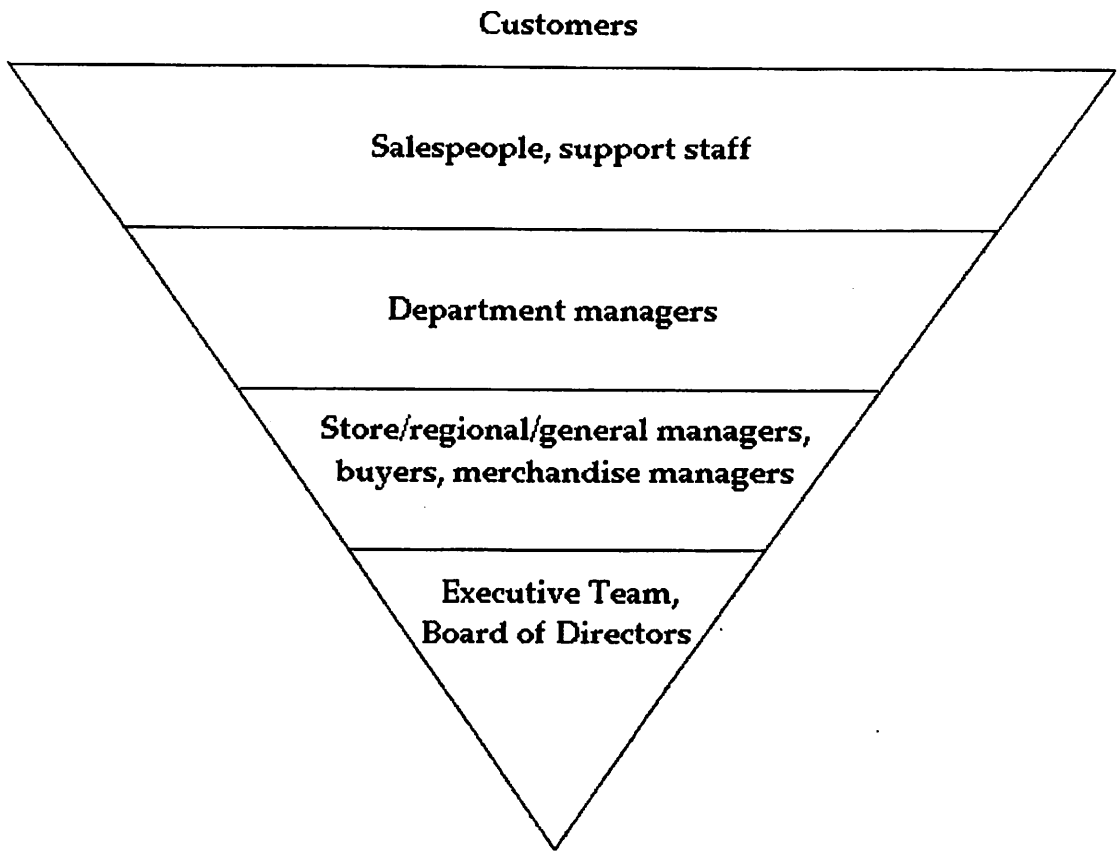
Source: Company reports.

Exhibit 2 Nordstrom Buying Structure 1979

| Department | Member of "The Five" in Charge | Description of Department Organization |
|---|---|---|
| JUNIORS | Jim Nordstrom | A general merchandise manager, under Mr. Jim, two buyers in each region, one each for Sportswear and Ready-to-Wear (RTW). Two department managers (Sports and RTW) in large stores and one department manager in smaller stores. The department managers had no buying authority. |
| CHILDREN'S CLOTHING | Jim Nordstrom | A general merchandise manager, one buyer in each state (division), except in Washington, where the department was broken down into Infants, Boys, and Girls with a buyer for each. Only one department manager per store; no buying authority. |
| COSMETICS | Robert Bender | A general merchandise manager, a regional merchandise manager for every division except Washington, where there were two buyers, who divided the buying responsibility by vendor. One department manager per store; no buying authority. However, they had to take a monthly inventory. |
| SHOES (MEN'S)<br>SHOES (WOMEN'S) | John Nordstrom<br>Bruce Nordstrom | The organization for each, though separate, was similar. Each had a general merchandise manager, and each region had a merchandise manager who controlled the open-to-buys of the department managers in each division. Thus, department managers had full authority to buy for their stores except for imports, which were bought by the merchandise manager in each region. |
| MEN'S CLOTHING | John Nordstrom | Entirely centralized; one buyer bought for the whole company. |
| WOMEN'S ACCESSORIES | Robert Bender | No general merchandise manager, but a buyer in each region. Department managers in each store had responsibility and authority to reorder. |
| WOMEN'S READY-TO-WEAR | Jack McMillan | No general merchandise managers. Department manager in each store for each department; no buying authority. Women's clothing was broken down into several departments by name:<br>1. Point of View: Three buyers in Washington State (broken down by coats, knits, and dresses). Two buyers in Oregon, and one each in California and Alaska.<br>2. Town Square: (Modern Missy) Same structure as in Point of View except in California, where there were two buyers—one for Sportswear and one for RTW.<br>3. Gallery: Two buyers in Washington (dresses and coats), two buyers in Oregon, one buyer each in California and Alaska.<br>4. Collectors: (Better Sportswear) One buyer in Washington (who also bought for Alaska), one buyer in Oregon, and one in California.<br>5. Savvy One buyer for whole company (a new department). |
| WOMEN'S SPORTSWEAR | Jim Nordstrom | A general merchandise manager, then broken down as follows:<br>1. Blouses: Five buyers—two in Washington (divided by region), and one each in other divisions.<br>2. Active: Four buyers—one in California, one in Oregon, and two in Washington, the latter also buying for Alaska.<br>3. Sportswear: Same structure as in Blouses.<br>4. Equipment (skis, etc.): One buyer in California, one in Washington, and one in Alaska.<br>One department manager per store handling all four categories. Department managers in Washington had authority to buy for their stores from local vendors. |

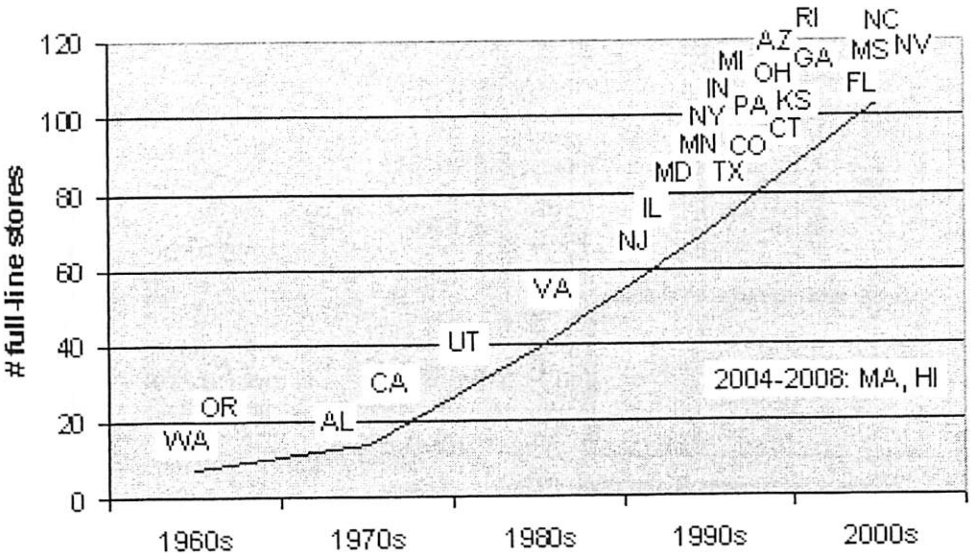
Source: Walter J. Salmon and Manu Parpia. Nordstrom. *Harvard Business School Case 579-218*. 1979.

Exhibit 3 Nordstrom Inverted Pyramid Structure




Source: Linda T. Kristiansen and Allison A. Abel. *Nordstrom, Inc.* Schroders. December 21, 1999. 29.

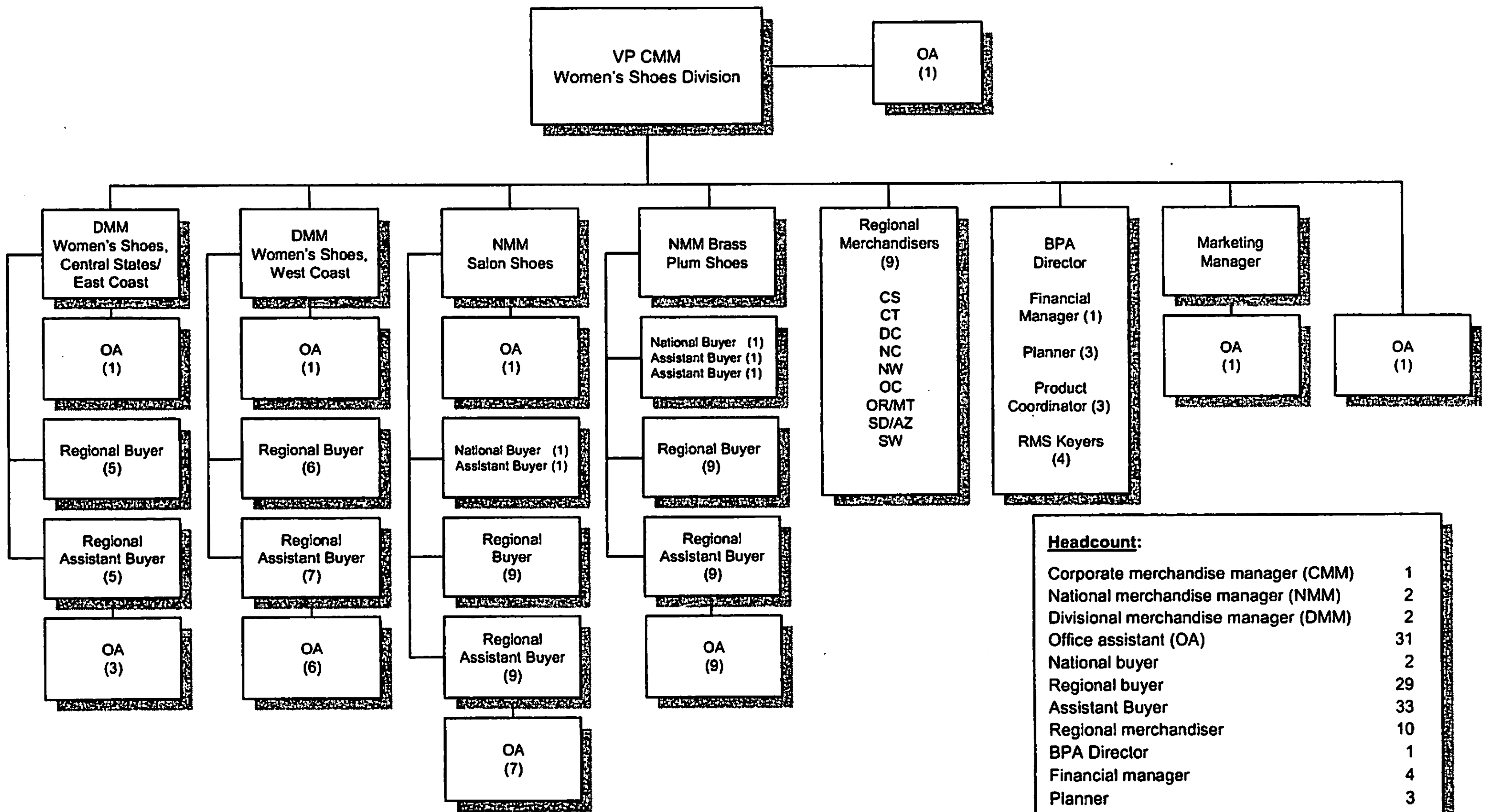
Exhibit 4 Nordstrom Store Growth 1963–2008




| Northwest | Southwest | East Coast | Central States |
|---|---|---|---|
| AK, CO, OR, UT, WA | AZ, CA, NV | CT, MD, NC, NJ, NY, PA, RI, VA | Fl, GA, IL, IN, KS, MI, MN, MO, OH, TX |
| =20.7% full-line stores* | =33.7% | =28.3% | =17.4% |

Source: Nordstrom, Inc. *2003 Annual Report*.
* Based on 93 stores total.

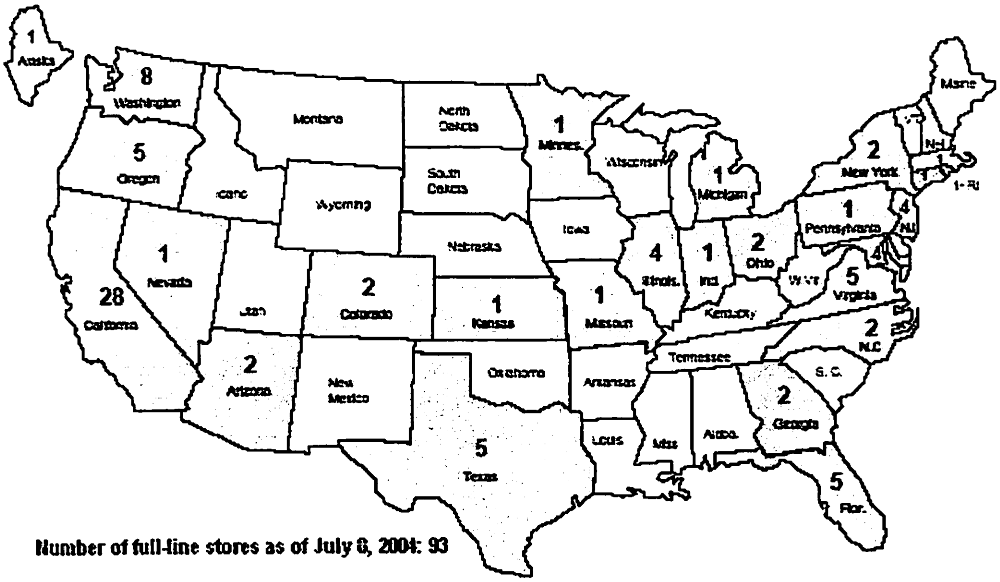
**Exhibit 5** Nordstrom Merchandising Structure for Women's Shoes 2005




| **Headcount:** | |
|---|---|
| Corporate merchandise manager (CMM) | 1 |
| National merchandise manager (NMM) | 2 |
| Divisional merchandise manager (DMM) | 2 |
| Office assistant (OA) | 31 |
| National buyer | 2 |
| Regional buyer | 29 |
| Assistant Buyer | 33 |
| Regional merchandiser | 10 |
| BPA Director | 1 |
| Financial manager | 4 |
| Planner | 3 |
| Product coordinator | 3 |
| RMS keyer | 4 |
| Marketing manager | 1 |
| Brand director | 1 |
| **Total** | **126** |

Source: Company documents.

## Exhibit 6 Nordstrom Full-line Store Distribution 2004




Source: Bill Dreher and Caroline Costin. *Nordstrom, Inc.—Seattle's Supersonic Retailer*. Deutsche Bank. August 25, 2004. 30.

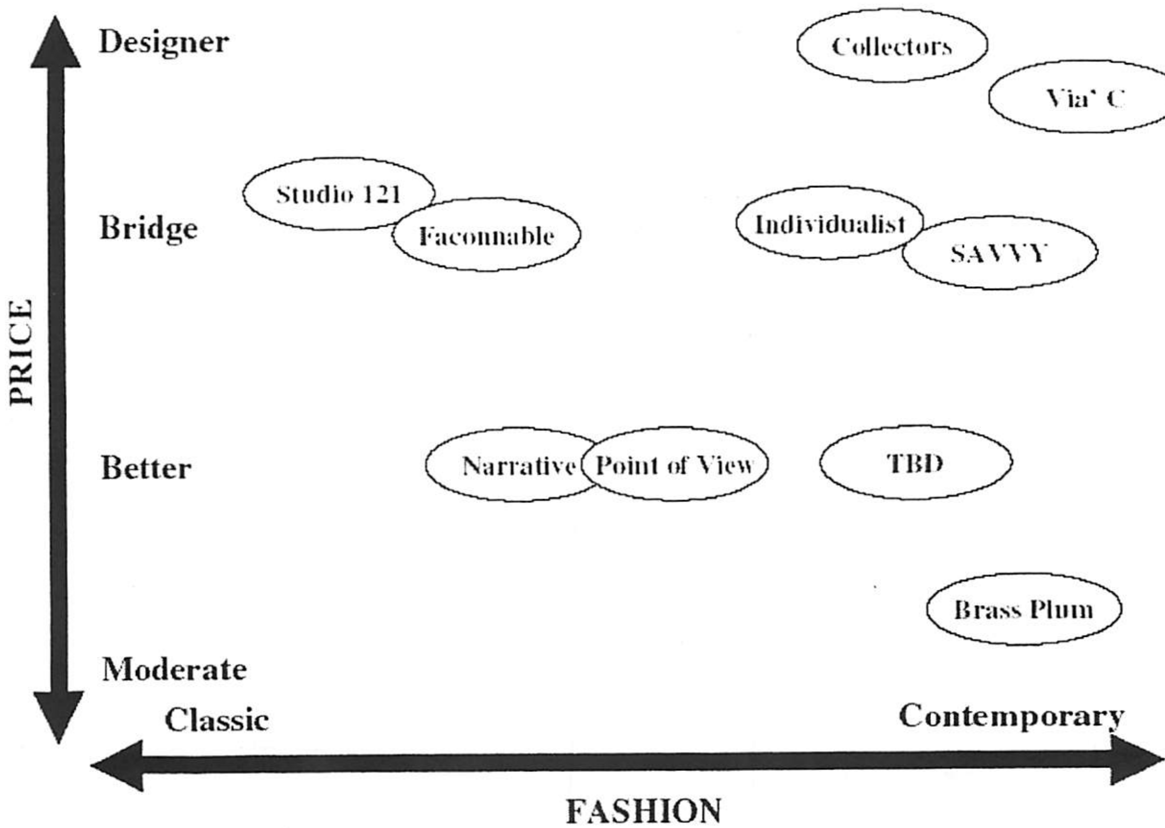
**Exhibit 7 Nordstrom Women's Apparel Departments**

| Department | Style | Brands | |
|---|---|---|---|
| **Brass Plum** | Latest juniors fashion | Brass Plum* | Rubbish |
| | | To the Max! | Roxy |
| | | Lucky Brand | Free People |
| | | Necessary Objects | Paul Frank |
| | | Frenchi | |
| **t.b.d.** | Current, trendy and casual | Halogen* | Allen by ABS |
| | | 7 for All Mankind | Allen B. |
| | | Kenneth Cole | Sweet Pea |
| | | DKNY Jeans | Liquid |
| | | Tessuto | Diesel |
| **Savvy** | Hottest trends | Miss Sixty | Laundry by Shelli Segal |
| | | Earl Jean | ABS by Allen Schwartz |
| | | BCBG | Joie |
| | | Betsey Johnson | Diane von Furstenberg |
| **Individualist** | Contemporary sports- and career-wear | Classiques Entier* | Garfield & Marks |
| | Sharp and sophisticated look | City DKNY | Elie Tahari |
| **Studio 121** | Classic an timeless, high-quality apparel | Studio 121* | Exclusively Misook |
| | | Dana Buchman | Bill Burns |
| | | Eileen Fisher | |
| **Point of View** | Mainstream sportswear | Caslon* | Tommy Bahama |
| | Coasts and dresses | Preview* | Lauren by Ralph |
| | | Karen Kane | Lauren |
| | | Sigrid Olsen | DKNY Jeans |
| | | Tommy Hilfiger | Jones New York |
| **Narrative** | Comfortable and stylish casual-wear | Nordstrom* | Joan Walters |
| | | Liz Claiborne | City Wear |
| | | Northern Isles | |
| **Collections** | Designer | St. John | Jean Paul Gaultier |
| | | Sonia Rykiel | Missoni |
| | | Versace | Escada |
| | | Armani | Calvin Klein |
| **Via' C** | Up-and-coming designer | Proenza Schouler | Dsquared |
| | Cutting edge fashion | Narciso Rodriguez | Zac Posen |
| | | Doo.Ri | Helmut Lang |

Source: Adapted from Christine K. Augustine, Dana L. Telsey, and Monika M. Sieber. *Nordstrom, Inc.* Bear Stearns. May 16, 2003. 18.

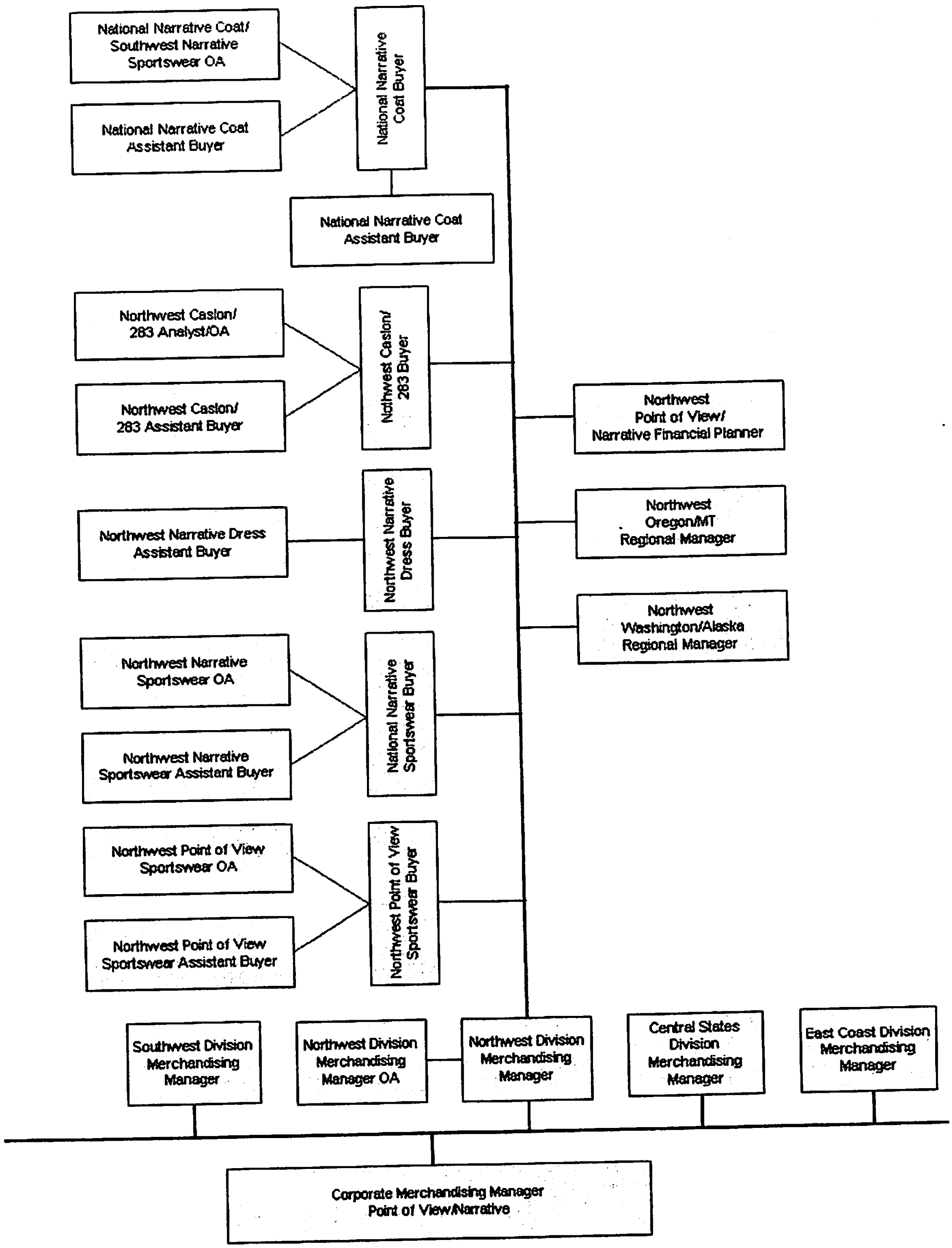
*Private brands

Exhibit 8 Nordstrom Department Positioning




Source: Deborah Weinswig and Charmaine Tang. *Nordstrom, Inc.* Citigroup Smith Barney. July 26, 2004. 27. Copyright 2004 Smith Barney Inc. Although the information in this report was obtained from sources that Smith Barney believes to be reliable, Smith Barney does not guarantee its accuracy, and such information may be incomplete or condensed. All figures included in this report constitute our judgment as of the original publication date.

**Exhibit 9** Nordstrom Merchandising Structure for Women's POV / Narrative Department 2005




Source: Company documents.

**Exhibit 10** Nordstrom Information Technology Upgrades

| System | Function | Benefit | Completion |
|---|---|---|---|
| Perpetual Inventory | • Makes SKUs visible at all times, from receipt of goods in Nordstrom distribution centers to sale to customer<br>• Enables sales associates to track down out-of-stock merchandise in other stores<br>• Facilitates merchandise orders by detailing location and markdown level of SKUs | Keeps track of inventory, limiting shrink and improving visibility in the supply chain | Done |
| Point of Sale (POS) | • Enables price look-up, receipt recall, debit card processing, and gift receipts<br>• Provides direct fulfillment option | Reduces transaction time at the register | Done |
| Personal Book | • Automated reminders for holds, transfers, alterations, etc.<br>• Generates lists to alert customers about events, new arrivals, and markdowns<br>• Tracks follow-through of associates<br>• Facilitates transfer of information between salespeople | Enhances customer relationship initiatives | Done |
| Replenishment | • Provides accurate and timely information about in-stock levels and generates timely reorders | Enables more precise open-to-buys and faster re-orders on top selling SKUs | Done |
| Vendor Ticketing | • Eliminates merchandise ticketing at the distribution center—merchandise will arrive preticketed | Saves time and labor costs | 2005 |

Source: Adapted from Bill Dreher and Caroline Costin. *Nordstrom, Inc.—Seattle's Supersonic Retailer*. Deutsche Bank. August 25, 2004. 37.

**Exhibit 11** Nordstrom Panned Full-line Store Openings 2005–2008

| Year | City | Location | Square footage | Open date |
|---|---|---|---|---|
| 2005 | Atlanta, GA | Phipps Plaza | 135,000 | March 11 |
| | San Antonio, TX | The Shops at La Cantera | 144,000 | September 16 |
| | Irvine, CA | Irvine Spectrum Center | 125,000 | September 30 |
| | Dallas, TX | North Park Center | 200,000 | November 11 |
| 2006 | Palm Beach Gardens, FL | The Gardens Mall | 144,000 | Spring |
| | Canoga Park, CA | Westfield Shoppingtown Topanga (Relocation) | 200,000 | Fall |
| 2007 | Natick, MA | Natick Mall | 144,000 | Spring |
| | Salt Lake City, UT | Crossroads Plaza Mall (Relocation) | 124,000 | Fall |
| 2008 | Honolulu, HI | Ala Moana Center | 200,000 | Spring |
| | Thousand Oaks, CA | The Oaks Shopping Center | 144,000 | Fall |

Source: Company records.