

Customer First Service: Nordstrom sees Rewards from Happy Customers

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Summary of Analysis

Nordstrom differentiates itself in a highly competitive market by providing top of the line customer service. It's stores provide high fashion, quality items at a premium price, which it's customers are willing to pay for the service provided. During the last half of the 1990's when CEO John Whitacre focused the business on the shareholders, stock value dropped to just over \$10.00. New President Blake Nordstrom began to re-focus on the customer in 2000, resulting in an increase in sales, revenue, and a stock price of nearly \$60.00.

Providing both high-quality items as a premium price as well as lower-cost of similar quality at Nordstrom Rack stores, Nordstrom is able to capture business from both the high price and mid price markets. Expansion and eCommerce are viewed as keys to Nordstrom's future growth; new stores are being added both domestically and internationally, and Nordstrom puts pride in its online presence, including the purchase of members-only site HauteLook.

Company Profile

Founded in 1901 as a shoe store, Nordstrom is now a full line, upscale, family clothing and accessory company. Nordstrom operates over 115 full-line stores as well as a number of off price and clearance stores in over 30 States:

- 117 full line stores;
- 116 Nordstrom Rack clearance stores;
- 2 Jeffrey boutiques luxury stores;
- 1 Treasure and Bond;
- 1 Clearance Store.

In response to falling sales due to the economic turndown and ecommerce Nordstrom opened a line of clearance stores - Nordstrom Rack - and increased its online presence. By offering free shipping with no minimum purchase and exemplary customer service, Nordstrom's online sales are expected to increase over 40% in 2012. To further growth, Nordstrom is expanding into Canada to increase its international footprint and explore new growth opportunities. Nordstrom also operates a federal savings bank through which it offers credit and debit cards with loyalty programs.

Nordstrom's corporate offices are in Seattle, WA, with distribution centers placed strategically across the country. Their primary competition comes from other high end clothing retailers such as Saks Fifth Avenue, Bloomingdales, and Neiman Marcus. Nordstrom differentiates itself by its customer-first approach and superior customer service.

Product Overview

Nordstrom

The full line Nordstrom stores offer upper-scale shoes, clothing, perfume and accessories for men, women, and children. They offer a range of brand names unique to Nordstrom and some shared with competitors. All of Nordstrom's brands are of high quality and fashion and their employees are encouraged to "go the extra mile" for their customers. High quality, fashion, and superior customer service are Nordstrom's key differentiators in the market. Brands and fashions are 'shuffled' depending on customer interest, and brands may be added or dropped to meet demand.

Nordstrom Rack

Nordstrom Rack offers Nordstrom goods and brands at discount prices, often up to 50 to 60 percent markdown from standard retail. These goods are those brands and fashions which have reached 'end of life' in the full line stores and are geared toward consumers looking for good quality at a lower price. Nordstrom Rack stores have had higher sales than the full line Nordstrom stores until 2011.

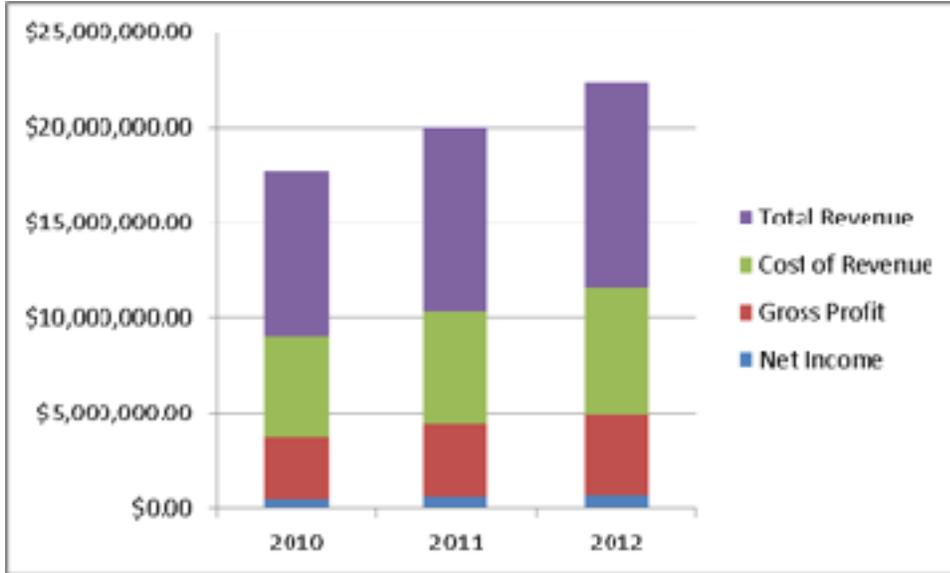
eCommerce

Nordstrom has integrated its brick-and-mortar channels with its online presence; all items available in store are also available on their online store. This integration is complete with both Nordstrom's full line stores and Nordstrom Rack stores, allowing the shopper to have a full shopping experience. All items have free shipping and free returns if unsatisfactory.

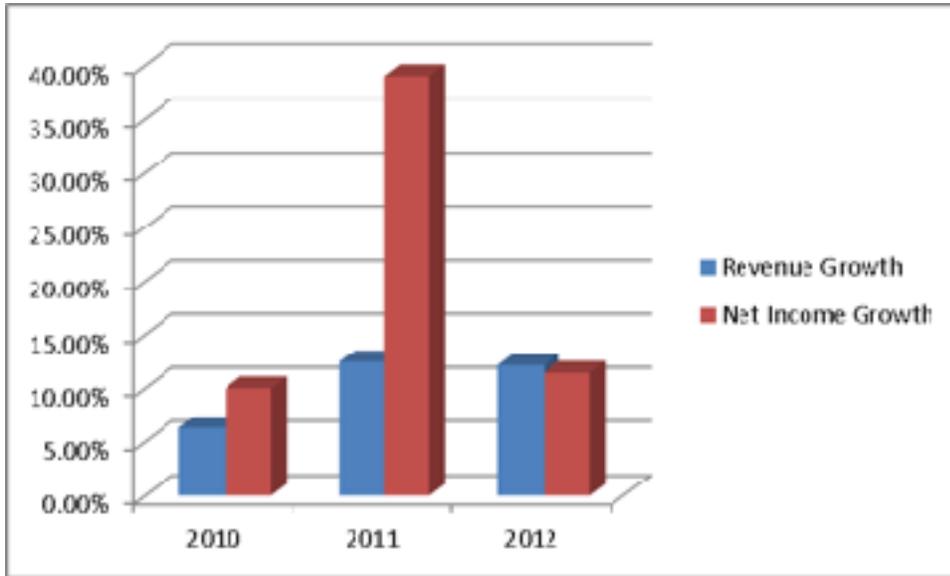
Nordstrom purchased HauteLook in 2011 to further their online presence and continue their tradition of providing top brands at reasonable prices.

Financial Overview

Revenue and Profit



Revenue Growth



Dividend

	2007	2008	2009	2010	2011
Dividend	\$0.54	\$0.64	\$0.64	\$0.76	\$0.92

Key Ratios

	2010	2011	2012
Current Ratio	2.0129	2.5673	2.1592
Quick Ratio	1.4052	1.8797	1.5184
Debt Equity Ratio	1.6622	1.3761	1.8645
Financial Leverage	4.1851	3.6922	4.341

Margins

	2010	2011	2012
Gross Margin	38.24%	39.21%	39.40%
Operating Margin	9.67%	11.53%	11.48%
ROE	31.70%	34.12%	34.35%
ROA	7.21%	8.73%	8.56%
ROIC	11.15%	13.64%	13.13%

Inventory

	2010	2011	2012
Sales per Employee	\$179,729.0 0	\$186,538.0 0	\$192,513.0 0
Days in Sales	84.1315	76.4054	68.104
Days in Inventory	61.5869	58.0274	58.8308
Days in Payment	44.1521	48.6502	48.8088
Cash Conversion Cycle	101.5663	85.7826	78.126
Receivable Turnover	4.3384	4.7771	5.3594

Inventory Turnover	5.9266	6.2901	6.2042
Payment Turnover	8.2669	7.5025	7.4782

Strategies

Nordstrom is interested in attracting two primary markets:

1. Customers interested in the cutting edge of fashion, luxury, and quality, and willing to pay a premium for it;
2. Customers interested in fashion, luxury, and quality who are interested in lower than 'high end' prices.

Customers in either segment may or may not have families.

Competition is fierce. Customers are attracted by a marketing scheme employing the following strategies:

- o Exceptional brand names. Nordstrom's brands are high quality and not to be found in discount retailers.
- o Variety of brand choice. Customers are not limited to a few choice: dozens of brands are available.
- o Customer-first attitude. Nordstrom's primary differentiator and value-add in the market is their attitude toward their customers.

Customer-centric selling.

Nordstrom utilizes a strong word-of-mouth and customer loyalty approach in addition to the standard marketing mix techniques. Every facet of a customer's interaction with shopping at Nordstrom is designed for their experience.

- o Customers are greeted by name;
- o The sales-associate will write a thank-you note to be mailed after a purchase;
- o Employees will call customers on the phone to ensure their purchase was

satisfactory;

- Dressing rooms are large and well lit;
- Sales associates will do everything in their power to find the right item for the customer, including calling other stores, having it sent, mailed, or even personally delivered;
- The stores are large and well lit;
- All items come with a no-question return policy.

Service is not sacrificed at the lower priced Nordstrom Rack stores, and online shopping is tightly integrated with brick and mortar shops: all items are available both online and in-store, and an online purchase can be picked up in-store. All online purchases can be delivered free of charge and enjoy the same no hassle return policy. To attract online customers, Nordstrom is investing up to \$1 billion over the next five years in its online presence and has been identified as one of the pioneers in building an online social media strategy.

SWOT Analysis

Strengths

Nordstrom's strengths lie in their exemplary customer service; their sales associates are known to do just about anything for their customers. They are known for their strong integration between online sales and brick and mortar stores and have a strong presence in both the high fashion market as well as the lower priced value market with Nordstrom Rack.

Weakness

Nordstrom's tax rate has been increasing year after year. This is offset somewhat by increasing sales; this growth, however, is lower than the industry average.

Opportunities

Expansion in international markets could bring increased sales. Domestically, Nordstrom has been adding new Nordstrom and Nordstrom Rack stores to serve larger market areas. An untapped area is the 'bargain bin' market which would compete directly with value department stores, such as Kmart and Target. This might diminish the value of their brand image, however, so is likely not in the future.

Threats

Nordstrom needs to stay atop of changing fashion trends and changing supplier options. Failing to capitalize on a major fashion change could see large drops in sales. Competition in the industry is strong. Nordstrom needs to keep atop of their "A" game.

Management Profile

President: Blake W. Nordstrom

- Birth: 1961
- Education: University of Washington, 1982

Executive Background

- Vice President and General Manager: 1991-1995
- Co-president: 1995-2000
- President: 2000-
- Director, Federal Reserve Bank of San Francisco, Seattle Branch: 2004-2006
- Director, Federal Reserve Bank of San Francisco: 2007-
- Director, Whole Foods Market, Inc: 2011-

Background

Oldest of three brothers. Mr. Nordstrom started with the company at the age of 13 as a stock person and rose through the company. He was a salesman, buyer, and merchandise manager before becoming an executive. Was on the rowing team in college where he graduated with a degree in Economics. Has a strong belief in customer service and encourages employees to go the extra mile for the customer; since becoming President in 2000 and re-focusing on customer service, Nordstrom's stock price has grown by nearly \$50.

Recent News

Nordstrom CEO Blake Nordstrom named Motley Fools CEO of the Week: <http://www.fool.com/investing/general/2012/10/17/this-is-one-incredible-ceo-3.aspx>

Nordstrom Stock Buy Recommendation: http://www.thestreet.com/story/11742287/1/nordstrom-inc-stock-buy-recommendation-reiterated-jwn.html?puc=yahoo&cm_ven=YAHOO

Nordstrom opening third Nordstrom Rack in Long Island: <http://finance.yahoo.com/news/another-nordstrom-rack-coming-211419801.html>

Nordstrom opening Nordstrom Rack in Auburn Hills, Michigan: <http://finance.yahoo.com/news/zacks-analyst-blog-highlights-nordstrom-114227755.html>

Nordstrom supports gay marriage: http://www.chainstoreage.com/article/nordstrom-supports-gay-marriage?utm_source=GoogleNews&utm_medium=Syndication&utm_campaign=ManualSitemap

Nordstrom uses smart technology to help customers: <http://www.equities.com/news/headline-story?dt=2012-10-18&val=609530&cat=tech>

Nordstrom Rack Leases 34,000 square feet in Ohio: <http://www.costar.com/News/Article/Nordstrom-Rack-Leases-34000-SF-in-Westlake/142374>

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