

CHAPTER 12 Organizing Work

BEFORE YOU READ take an *Overview* of the subject matter by *Assessing Your Prior Knowledge*. AS YOU READ apply the new *Reading Technique*, learn the *Vocabulary*, and complete a *Language Activity*. AFTER YOU READ check your understanding through *Fact and Idea Review*, *Critical Thinking Question*, *Guided Discussion*, *Authentic Assessment*, and *Mini-Quiz*.

Great Service Wasn't Enough

Nordstrom grew too fast. Now it has to rebuild its reputation

by Seanna Browder in Seattle

It looked like a slam dunk. In the late '80s, Seattle-based Nordstrom Inc. set the **gold standard** in department-store retailing. Its reputation for quality, fashion, and customer care was **unparalleled**, its customers among the most loyal in the industry. And while other chains were still reeling from the buyout craze of the decade, Nordstrom profits were growing by double digits. So the decision to expand beyond the West Coast seemed like a no-brainer.

It didn't quite work out as planned. After opening stores in 22 states, the company today is struggling to put its fractured brand back together. Over the past few years, Nordstrom has been battling weak sales growth, disappointing profits, and volatile stock performance. Retail experts say Nordstrom took its eye off fashion trends, sending its customers scurrying to competitors. And the 99-store chain also failed to modernize quaint systems like the handwritten notes on customer preferences that worked on a regional basis but **wreaked havoc** after the expansion. "We have not been able to keep up with the changing needs of the customers," concedes William E. Nordstrom, a co-president and one of six Nordstroms now in the company's executive ranks.

The damage wasn't hard to spot. Net income took a dive of 11%, to \$147 million, in 1996. Shares, at a high of nearly \$53 in 1996, plunged to a low of \$34 in 1997 and have since risen only to about \$40. While the income trend has improved, Nordstrom still has a lot of work ahead of it. Last year, total sales rose 3%, to just over \$5 billion, but sales at stores open at least one year, the most accurate way to measure a retailer, fell 2.6%.

After two years of cost-cutting and modernization, management is now scrambling to woo back customers. But many of the strategies, from new ad campaigns to Internet experiments, are still works

in progress, leaving the open question: Can Nordstrom reinvent its stores and marketing message? "They have a few precious moments to do this," says Peter Glen, a New York-based retail consultant.

How did one of America's premier retailers get in this fix? The problems can be traced directly to the start of the chain's expansion a decade ago. As Nordstrom grew, management failed to centralize common functions. The number of buyers chain-wide ballooned to 900—compared with the lean team of 100 in charge of buying for R.H. Macy & Co. Vendors were driven to distraction by the multiple and conflicting orders. "The **fragmentation** of the buying organization works at **cross-purposes** sometimes," says Paul R. Charron, chairman of Liz Claiborne Inc.

"**LOST TOUCH.**" Customers were equally put off. As Nordstrom grew, the retailer became less adept at keeping up with lifestyle changes. While working women started to dress more casually for the office, for example, Nordstrom continued to stock its old, buttoned-down styles. And shoppers noticed. Nita Ostlund, 54, was a loyal Nordstrom shopper for 20 years. But lately, the store has disappointed her. "I think they've lost touch with the customer," she says.

Despite signs of shopper revolt, Nordstrom execs first focused on cost-cutting in an effort to boost profits and regain the confidence of investors. In 1997, Nordstrom cut the number of buyers by 19%, organized itself into divisions, and made dramatic slashes in inventory. That helped boost net income 11%, to \$207 million, for the fiscal year ended January, 1999. Analysts expect earnings to rise another 16% to 18% this year.

This strategy appears to have bought the company some **slack** with investors. "This is a good story. The trend is positive," says Mark Grolig, principal of institutional investor Palley-Needelman Asset Management Inc., which owns 2 million Nordstrom shares. "Management has targeted doubling earnings in the next couple of years, which is very aggressive. But with these changes, hopefully they can get there."

Nordstrom has also moved to tackle its computer phobia—possibly the last major retailer to do so. Until recently, there was little centralized gathering of customer trends. Salesclerks kept notes on

shoppers' likes and dislikes in looseleaf binders. "This company was in the Dark Ages," says Jennifer Black, president of Black & Co., a brokerage based in Portland, Ore.

This year, Nordstrom built a new multimillion-dollar data center in Denver to help collect and analyze buying habits, lifestyle trends, and inventory management. Even the information kept in salespeople's binders is going online. The goal, say company execs, is to back up employees' intuition with solid data to build a more consistent and on-fashion merchandise mix. That should result in better same-store sales by late '99, says Michael A. Stein, the new chief financial officer Nordstrom recruited from Marriott International Inc. last year.

But other improvements are still in the experimental stage. The company is taking itself through a crash course in Internet retailing. It launched a modest E-commerce Web site in October that is not yet profitable. But it has also invested in online shopping services such as Streamline, which arranges a multitude of personal services, from shopping to errand-running via E-mail, and Scotty's Home Market, a grocery-shopping service. Co-President Daniel Nordstrom says the partnerships will give the company insight into how upscale Yuppie shoppers—the kind Nordstrom wants to attract—are using the Internet to shop. "We don't see a lot of boundaries between different product categories on the Web," he says. Outsiders agree it's a good move. "It's a smart way to approach the Internet," says Harry A. Ikenson, Hambrecht & Quist's senior retail analyst. "They are learning without taking incredible financial risks."

RAVE REVIEWS. Other tactics poised for roll-out include an ad campaign. It's under development now by Minneapolis ad agency Fallon McElligott. The retailer is also carving its marketing into more distinct **demographic** groups to lure both the traditional Nordstrom woman and the younger shopper. Youth efforts included promotions of the hot sneaker Skechers and prom dresses licensed from the hit Gen-Y show *Buffy the Vampire Slayer* and running ads for Doc Marten boots on alternative-rock stations. "They are trying to

formulate a way to become not only the mom store but the young women's store," says Dean A. Ramos of Kansas City investment bank George K. Baum.

"They" is the operative word. Nordstrom has one of the more eccentric management structures in Corporate America. For four generations, it has operated under a tradition of "**consensus** management." Family members hold most of the top positions and public squabbling is unheard of. Currently, a group of six brothers and cousins, all in their 30s, hold the title of co-president, the biggest such group in the company's history.

To groom the new group, which attained their current title in 1995, Nordstrom has kept John J. Whitacre, 45, who also worked alongside the previous generation of Nordstrom men. Whitacre, now chairman and CEO, directs the six "with an **iron hand**," says retail analyst Walter Loeb of Loeb Associates Inc. And Nordstrom has opened its executive ranks to other outsiders. Stein, the new CFO, drew rave reviews from Wall Street analysts at a recent meeting. "He brings a new sophistication," says Loeb.

In part to make sure this huge office of the president functions smoothly, Nordstrom brought in Marakon Associates Inc., a Stamford (Conn.)-based management-consulting firm, for a broad review of the company strategies. Among the recommendations: create more defined areas of responsibility for the Nordstrom six so they don't undermine one another. "While the management structure is unconventional, it can be a potential strength as long as clear decision-making and accountability are present," says Paul Favaro, managing partner at Marakon.

Still, the big unknown for Nordstrom is whether it can win back its once-loyal customers. While the retailer has struggled to regain its footing, they're being lured by everything from reinvigorated specialty chains such as Ann Taylor to new Internet shopping sites. Nordstrom may finally be on the right track. Question is, has its customer already pulled too far ahead to catch?

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BEFORE YOU READ

Overview

When a successful and established department store like Nordstrom decides to expand nationwide, the last thing you would expect would be plunging profits. However, after Nordstrom began expansion in the 90s, organizational problems and outdated methods wreaked havoc, and their unparalleled reputation for quality, style, and customer service came into question. Quick growth can expose the weaknesses and limitations of even the most stable business, so Nordstrom management has responded with plans for a major overhaul during the next few years.

Assessing Prior Knowledge

1. Have you ever shopped in a Nordstrom department store or a similar upscale retail establishment? What were the merchandise and the service like, compared to lower-priced stores? Were customers provided more personalized attention when shopping in this type of place?

2. If you walked into any place of business in this day and age, and discovered that they had not incorporated computers into their operations, what would you think about them? Would you lose confidence or trust for the company's managers?

AS YOU READ

Reading Technique

You and a friend have decided to start a small summer business selling sports clothing and shoes at local swap meets and flea markets. To learn all you can about how to organize and run a company, take note of the mistakes and successes of Nordstrom as you read the article. On a separate sheet of paper, write down any questions you have and consider whether or not the article satisfies your curiosity.

Vocabulary

gold standard Gold being used as the standard of value for a country's money. A nation's unit of money value is declared by the government to be equal to and exchangeable for a certain amount of gold.

unparalleled Unequaled, unrivaled, unmatched, and having no parallel or counterpart.

wreak havoc To injure severely, ruin, destroy, or devastate.

fragmentation The process of breaking up, dividing, or scattering into incomplete or disconnected fragments or parts.

cross-purposes An opposing or contrary purpose.

slack Not tight or firm. It is also the condition of being let up on or loosened, or being given relief from a pressured or situation.

rollout The first public showing of anything new, i.e., an aircraft, space vehicle, or automobile.

demographic groups The division of the human population into sections, according to information and statistics, such as size, age, diseases, geography, distribution, births, and deaths.

consensus Agreement in opinion of all or most of the people consulted. It is also a general agreement or approval by a group regarding a course of action.

iron hand Ruling in a firm, strict manner.

Language Activity

The article begins with this sentence: "It looked like a slam dunk." What does this statement mean in regards to Nordstrom? What effect is achieved by starting off a piece of journalism with an opinion or editorial statement such as this? Think of two other ways that the author might have begun the article. How would a more objective or informational (expository) sentence have changed the reader's first reaction to the topic?

AFTERYOU READ

Fact and Idea Review

1. After Nordstrom's expansion into 22 U.S. states, what was the result? According to retail experts, how did Nordstrom create a negative situation for themselves?

2. What strategies and organizational changes did Nordstrom management eventually implement in order to woo back its customers, regain the trust of investors, and improve their profit margin?

3. Describe the new ad campaign and Internet ventures that Nordstrom has developed. Why is their approach considered to be smart?

4. Describe Nordstrom's "eccentric" management structure, and how it is different from the leadership of most corporations. After reviewing Nordstrom's strategies, what recommendation did a management-consulting firm make to ensure that Nordstrom's office of the president functions smoothly?

Critical Thinking

Compare and contrast the differences between the traditional "chain of command" line of authority existing in most companies, and the "consensus management" structure existing at the top of Nordstrom's organization. How are decision making and communication affected by Nordstrom's consensus management structure?

Guided Discussion

Keeping customers satisfied is one of the most challenging tasks of any store, because profits are based on selling popular merchandise and providing good service. Have a class discussion about the most annoying situations you have encountered in a department store. On the board, make a list of the stores and situations. How could better organization of the store have prevented these negative situations from occurring? Was it necessary for a supervisor or manager to intervene or give approval? Could responsibility for customer-related decisions have been delegated in a better way? Once the problems occurred, what would have been the most effective ways to deal with them, without losing a loyal customer?

Authentic Assessment **Write and Perform a Skit**

Separate into groups of two to three students. Imagine that you are shopping at a department store. You're disappointed or upset because the styles are old-fashioned, the fitting rooms are dirty, or there aren't any employees around to help you find clothing or merchandise that was advertised on sale. You ask to speak with a manager or supervisor to complain about the situation and ask for better service. On a separate piece of paper, write a skit about your encounter with this person. What assistance do you receive? Does this person accept responsibility for solving the problem? What does she or he say or do to make sure you remain a happy customer? Focus on writing dialogue for a manager who is sensitive to the customer's needs, demonstrating problem-solving skills. Also, write dialogue for the customer who challenges the manager to solve the situation in a satisfactory manner. Perform your skit in front of the class.

Mini-Quiz **Completion**

Please fill in the blank with the most appropriate word(s) from the choices in parenthesis that follow each sentence.

1. _____ of an organization is one potential disadvantage of decentralization.
(fracturization; fragmentation; modernization)
2. The focusing of Nordstrom executives on _____ helped to boost profits and regain the confidence of the company's investors.
(volatile stock performance; slashing inventory; cost-cutting)
3. Identifying distinct demographic groups is one of the main _____ strategies that Nordstrom is using to attract both traditional and younger shoppers.
(marketing; partnership; customer care)
4. Having six family members simultaneously hold the title of co-president created the necessity for a _____ management structure.
(eccentric; consensus; unconventional)
5. Well-defined areas of _____, clear decision-making, and _____, are necessary for a smoothly functioning organization.
(consensus/intuition; centralization/modernization; responsibility/accountability)
6. After its expansion, Nordstrom needed to quickly _____ itself and its marketing message.
(reinvent; reinvestigate; reorganize)