Nordstrom’s Perpetual Inventory System Nordstrom had its origins in a small shoe store ‘Wallin & Nordstrom’ (US) that began operations in 1901 in Seattle (US). The store was set up by Sweden’s John W. Nordstrom and his friend Carl Wallin from Alaska. The duo had met in the late 1890s while trying to strike it rich in the Alaskan gold rush. Later on, they decided to enter into a partnership to put to use the money they made in Alaska. Since Carl Wallin was experienced in the business of shoes (he owned a shoe repair shop), they decided to open a shoe store. Due to the duo’s focus on offering quality, value-for-money merchandise and superior customer service, business flourished despite stiff competition from other local players. As the money poured in, the partners kept moving the store to bigger and better locations. The second Wallin & Nordstrom store was opened in 1923. In 1928, John W. Nordstrom handed over his stake in the business to his sons Elmer and Everett. The following year, Carl Wallin too sold his stake in the business to them. In 1933, John W. Nordstrom’s third son, Lloyd, joined Elmer and Everett. The second generation Nordstrom’s decided to expand the selection of shoes sold in a major way by adding many new styles, sizes, colors and brands. Over the next three decades, the business survived the Great Economic Depression and the Notes Second World War, growing at a slow, but healthy pace. By the beginning of the 1960s, the number of stores had increased to eight, spread across Washington and Oregon. Having made its mark in the country’s shoe retailing landscape, the company began looking for avenues to grow further. A decision was taken to enter the promising apparel business and in 1963, Nordstrom purchased a clothing store, Best Apparel. This store was refurbished and reopened in February 1965. To reflect the change in its business model (from selling only shoes to selling apparel as well), the company renamed the stores ‘Nordstrom Best’ in 1966. In the same year, it began offering men’s suits, sportswear and children’s clothes as well. By 1968, two more stores were added under the Nordstrom Best label, bringing the total to a dozen. Nordstrom was generating $57 million every year in sales by then. In the early 1990s, the third generation of Nordstroms was ready to retire, but they did not feel that the fourth generation (most of them aged below 30) was quite ready to take over the company’s reins. In a major departure from company norms, a few outsiders (not belonging to the Nordstrom family) were brought in to handle the business as Co-Presidents. Bruce Nordstrom remained Chairman along with the other two Nordstroms, John and Jim. Meanwhile, the company got entangled in a series of controversies due to its strained relationships with employee unions. The problems did not end here. In the highly competitive US retailing industry, efficient supply chain management practices are not considered just a tool for deriving competitive advantage. Rather, putting in place a structure to manage the entire supply chain as effectively as possible is seen as a key for survival itself. Since margins happen to be low for any typical retailer, cost control is considered another crucial issue. As costs related to the management of inventories are in the hands of the retailer to a large extent, inventory management has emerged as one of the key attributes that help derive a competitive advantage in the industry. Nordstrom made its first move towards modernizing its inventory management practices in the form of a new Windows NT based inventory management system, launched in November 1993. It was a very basic initiative that offered information to buyers as to the items that were to be stocked. Since all the stores were networked using this solution, sellers could find out the exact position of a particular item across the Nordstrom system. The effects of this initiative were felt within a year. The company reported an increase in net earnings from $141 million for the financial year 1994 to $202 million for 1995. While this could be attributed to the overall improvement in the US economy, company sources agreed that the new system had played a major role in increasing the sales. Nordstrom’s CFO, John Goesling said, “It is too early to measure the full impact of the system, but we like what we have seen thus far. We are going to continue to invest in merchandising information systems.” Industry observers felt that Nordstrom had still not done enough to sustain this performance in the long run. As compared to the industry norms, its inventory management practices left a lot to be desired. As a result, Blake Nordstrom withdrew the ‘Reinvent Yourself’ campaign and made largescale changes in the top management cadre. But, like his predecessors, he realized that many of the problems could be controlled by setting right the inventory issue. Talking of how inventory management scored over the other strategic options he was pursuing to set things right, Blake Nordstrom said, “The schedule that was on the drawing boards had little chance of being successful. I did not think the timeline and resources were realistic.” By the beginning of the 21st century, reports appeared about how Nordstrom was finally willing to speed up the implementation of a perpetual inventory system, an initiative started by Whitacre. The implementation of the system was expected to be completed by 2002. Blake Nordstrom said, “We recognize that Nordstrom was founded on the simple idea of taking care of customers. We want to reconnect with them through improved merchandise execution. Our focus is taking appropriate steps toward implementation of a perpetual inventory system in 2002.” The above initiatives made many analysts comment that Nordstrom was all set for a revival. Therefore, the news of profits for 2001 declining by an astounding 50% over 2000 was seen as a very disturbing development. The share price had fallen from a high of $44.81 in 1999 to just $19 in mid-2001. What was even more appalling was that Nordstrom had not fared well on what it considered to be its core competency, customer service. In 2001, Neiman Marcus was ranked the leader among all department-store chains in the US with respect to customer service. Skeptics reportedly felt that Nordstrom was making yet another round of empty promises. Considering that it had been talking of reaping the benefits of the new inventory system for quite a few years without any result, the skepticism seemed quite logical. Under these circumstances, the company’s healthy results for the second quarter of 2002 provided a long-awaited respite from a series of negative developments. Profits stood at $65.9 million as against $36.3 million for the corresponding period in the previous year.

Questions

1. What losses did Nordstrom suffer due to the inventory mismanagement?

2. What was Blake Nordstrom’s most interesting move to put the company on the right path?