

Nordstrom's Revamped Strategy:

Case Analysis

based on a Nordstrom COVID-19 Business Case

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Multichannel Retailing, Fall 2021, Boston College

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Culture and Positioning

Nordstrom operates a chain of specialty department stores with a unique focus on customer service, upheld through their distinct customer-driven and entrepreneurial culture. Employees are encouraged to use their best judgment and think on their feet, always striving towards the goal of serving customers on their own terms. This service model supports Nordstrom's positioning as a high-end, fashion-focused retailer serving more affluent customers, while also enabling the company to reach a lower-priced customer base through their discount brand, Nordstrom Rack. Overwhelmingly, the focus on putting customers first in all business operations and decisions allows customer service to emerge as Nordstrom's distinct competitive advantage.

Elements of Strategy

Channel Integration

The most significant way in which Nordstrom has integrated its online and in-person shopping experiences is through buy-online pick-up-in-store offerings, effectively treating the digital and nondigital shopping channels as one. Nordstrom's buy-online pick-up-in-store ("BOPIS") offering was unique when it was first launched in conjunction with the Reserve & Try app around 2016, adding digital capabilities and increased customer convenience to the Nordstrom shopping experience. As the company expanded the concept into the 'Trunk Club' and 'Express Services' offerings in 2019, the concept proved not only popular among consumers but also beneficial for Nordstrom's bottom line; half of all digital sales in the year, which grew by 7%, were attributed to the BOPIS channel. Yet, despite the apparent customer and brand benefits the service offers, it also poses some risks. With in-store traffic already decreasing, BOPIS may further encourage online shopping habits to persist, turning expensive

brick-and-mortar locations obsolete. Further, since the onset of the pandemic, BOPIS offerings have come to be not only common but expected from retailers, thus significantly diminishing the original advantageous effects of the service to the Nordstrom brand. While Nordstrom finds strength in augmenting its offering with fitting room access to provide a further point of differentiation from BOPIS services offered by other retailers, the company must be aware that the service itself no longer functions as a strategically competitive activity.

Local Market Strategy

The local market strategy leveraged by Nordstrom is an effective way to make use of the company's existing people and product assets alongside its global infrastructure and scale. Specifically, the Nordstrom Local concept is a creative way to hyper-focus on particular groups of consumers and to the fullest extent deliver on the brand intention of serving customers on their own terms through use of outstanding employee talent. The spirit of employees has historically been an integral part of the Nordstrom story, effectively powering their "customer-first" competitive advantage; however, as shopping becomes an increasingly digitized experience, the value of and need for these employees is shrinking. While the specialized services offered by employees in Nordstrom Local stores are difficult to replicate in a digital format, the convenience of online shopping and the increasing movement away from store visits in general may outweigh consumer interest in those services. In effect, Nordstrom runs the risk of not deriving the payoff necessary to justify such an investment in hyper-targeted stores, especially because they don't serve large markets and don't serve the company's core business function of selling fashion. In an increasingly digital world, brick-and-mortar stores performing only auxiliary services are difficult to justify from a cost perspective, especially if they come at the expense of greater investment in online capabilities.

Full-Line Stores using Digital Innovation

The rapid rate of digitization and technological change has challenged retailers to rethink their traditional store concepts; Nordstrom has effectively done this by introducing a wide array of digital innovations to its full-line stores. The increased elements of personalization and added ease of use aided by the digital innovations encourages more in-store traffic, distinguishing Nordstrom stores as offering an “experience” rather than simply shopping. However, similar to the Nordstrom Local concept, the investment may not be worth the payoff as global trends show in-store shopping being replaced by online. Considering these costs, Nordstrom must be wary of investing in technology for technology’s sake, which will lead to high costs and little payoff, over investing in technology for the customer’s sake. Those determining strategy at Nordstrom will need to consider: is this technology truly driving sales, or is it just a “nice to have”? While the former could be beneficial for the company’s bottom line, the latter could end up doing more harm than good. Further, the technologies in store have the potential to diminish the value of the employees in store, running counter to Nordstrom’s culture of employee empowerment and dismantling the idea of customer service as Nordstrom’s distinct advantage. The purpose of luring customers back to Nordstrom stores should be to offer them the unique customer experience served by Nordstrom employees, but if customers enter the store only to interact with technology, they may miss the Nordstrom advantage altogether.

Assortment Expansion

Nordstrom’s brands have room for product expansion, but the company must be judicious as to what categories and price markets it enters, cautious not to dismantle the existing Nordstrom brand that has been held favorably by consumers for so long. To maintain the brand image, Nordstrom must ensure that any product expansions relate back to the core value

proposition of the brand: delivering fashion in a customer-driven way. For example, the proposed expansion into home goods in Nordstrom stores would be appropriate insofar as home decor is considered an extension of fashion and thus would fit in with the existing Nordstrom brand story. While it would require some additional training for employees to ensure that the high level of customer attention offered could be extended to the category of home goods, the expansion could be a creative way to gain a greater share of wallet from existing customers. On the other hand, the proposed downmarket move of Nordstrom Rack is inappropriate in the context of the brand story as it jeopardizes its specialty-fashion, high-end element. The attempt to appeal to deals-oriented shoppers rather than fashion-oriented ones puts the company at risk of isolating its current target market, who derive value from knowing that they're buying from a fashion-focused retailer. Introducing this market change also distracts the company from focusing strategic efforts and resources on transitioning the Rack to the highly digitized world. From a strategic perspective, it is more important for Nordstrom Rack to focus on how to win with its current target market rather than how to expand into others.

Recommendations

Among Nordstrom's existing strategic elements, the most detrimental and risk-exposing element is the operation of Nordstrom Local stores. While the company should continue to follow the "local market strategy" concept whereby they leverage local people assets alongside global infrastructure and scale, Nordstrom should do away with Nordstrom Local. The stores require major upfront capital investments only to serve the narrow market surrounding the location, thus turning minimal payoff, particularly given the trend towards online transactions in favor of in-person ones. To continue to deliver on the high level of customer service offered in Nordstrom Local locations, the specialized services should be offered in certain full-line store

locations instead, such as those in major metropolitan areas or iconic fashion locations where the size of the market reached is much wider than those reached by the few Nordstrom Local stores. Augmenting particular full-line stores with specialty services would combine the brand benefit of Nordstrom Local without requiring the additional real estate investment.

One element that the Nordstrom strategy is missing is sustainability--a consumer concern that's been gaining momentum over the past several years, particularly in the apparel space, and has aggressively accelerated since the onset of the pandemic. Given the fervor behind this trend and the rate at which other major companies are adopting it, Nordstrom would be remiss not to consider sustainability as part of the revamped strategy. Rather than think of it as separate from the business, Nordstrom should incorporate sustainability into the existing components of its strategy. For example, regarding assortment expansion, Nordstrom should expand its offerings through Nordstrom Rack to include second-hand clothing from brands typically found at Nordstrom. This expansion would allow the company to reach new consumers or appeal to existing customers in a new way without moving the Rack down-market. In turn, instead of harming the brand image, this expansion would bolster credibility of the Nordstrom name in line with consumer interests. The company should also incorporate sustainability into the strategic element of full-line stores with digital innovation by offering an upcycling service. To leverage digital capabilities, customers could interact with a system that takes a picture of their old piece of clothing and helps them reimagine what the piece could be transformed into. Featuring this system in stores could help attract sustainably-minded shoppers back to store locations, thus justifying other investments in brick-and-mortar and capitalizing on opportunities to entice customers to purchase other items they may find while in store. Further, the "reimagining system" reinforces the notion that Nordstrom stores are a place of discovery and inspiration.