

# Value proposition and cost-volume profit analysis



Nordstrom's Value Proposition and Cost-Volume Profit Analysis Fiscal Year 2001 Nordstrom Inc. (NYSE: JWN) is an upscale retail store which started in the year 1901 as a single shoe store in Seattle, Washington. With it's the second century of its operations, Nordstrom faces challenges that could make their business weaken. Due to the slowing down of US economy in 2001, Nordstrom faced challenges that urged them to take steps to modify their business strategies to cope up with new and stronger market threats.

With the looming economy especially on the second half of 2001, Nordstrom tried to strengthen its value proposition by reinforcing their customer service to not only meet but also exceed their customer's expectations. Competition in the retailing industry then is very tight that Nordstrom needed to modify or strengthen their value proposition to the consumers. To keep a strong enticement for the people, the company tried to keep their prices relatively low compared to their competitors while asking the manufacturers to work with the retailers in reducing goods markups to reduce the prevailing market prices (Merrick, 2001, p. B4).

In 2000, the increase in selling, general and administrative expenses was due to increased costs of direct selling, credit and sales promotion, and information services resulting from Nordstrom's investments in newtechnology. These new investments are the results of their effort to expand operations through installing full-line stores, rack stores and Faconnable boutiques (Nordstrom, 2001, p. 9). This increase in over-all costs did not help in keeping their product prices low thus they slashed 5.6 % of their 45,000 employees. Since they need to keep their very good customer service reputation, back-office employees are the most affected by this

laying-off more than the front-liners or sales staffs. This one of the largest job cuts in history helped in reducing costs to maintain a balance in keeping their prices low as well (Merrick, 2001, p. B4).

Nordstrom restructured its inventory system as well which they called ‘ Perpetual Inventory System’.

This gives the customers the ability to know what Nordstrom offers and will be offering for them to decide better on what to buy in the future (Nordstrom, 2001, p. 4).

These efforts of increasing the sales growth and managing merchandise inventory levels incur costs in the short-run but a potential ‘ profit increaser’ and cost-minimizer in the long-run. The Cost-Volume Profit (CVP) analysis is a powerful tool which helps to understand the relationship of profit on selling prices, sales volume, unit variable costs, total fixed costs and mix of products sold.

The effort to increase sales thus affects the sales volume, mix of products sold and unit variable costs. Keeping their modified inventory affects the total fixed costs on the other hand. An increase in the company’s total cost will increase the break-even point (BEP) level so Nordstrom needed to operate at the point higher than the BEP to gain profits. If these measures increased costs, Nordstrom needed to sell more units/volume in order to keep their total revenue relatively higher than the total costs (Caplan 2007: McGraw-Hill, 2007).

In 2000, with the urge to reach out to each possible target customers, Nordstrom initiated its advertising campaign “ Reinvent Yourself” which

aimed to appeal to the taste of the youth by bringing out more modern clothes in the rack and painting their stores orange to appear youthful. The concept can be seen as a timely strategy and Nordstrom seemed to try to get along with the trends of their competitors.

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Though this brought a slight increase in sales especially on the women's apparels, however, this campaign alienated their faithful, elder customers because Nordstrom appeared to be pursuing a teenage and 20-somethings store defeating its over-all objective of increasing total sales. This mistake shared in the 49.7% decrease in 2000's net income which sacked the by then Chief Executive John Whitacre but his failed campaign still reverberated in 2001 thus the company strived to recover from such losses (Merrick, 2001, p. B4).