Nordstrom, Inc.: Designing a Balanced Scorecard[1, 2]

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ABSTRACT

The case involves designing the Balanced Scorecard (BSC) for Nordstrom Inc., an upscale department store chain. The case provides an analysis of the retail industry; a summary of the company's history and culture; top management's letter to customers, employees, and shareholders; a concise note on BSC; and the first draft of the Nordstrom's Strategy Map. As a first step, students are required to glean Nordstrom's strategy for success from Nordstrom's highly informative letter from its top management to its customers, employees, and shareholders. Students are put in the role of an independent outside consultant and asked to develop a set of Key Performance Indicators (KPIs) and Key Result Indicators (KRIs) that are effective and unique to the culture at Nordstrom for each of the strategic objectives indicated in the Strategy Map. In particular, the case, by providing useful examples, challenges students to develop leading, not lagging, indicators. Since almost all the students are familiar with the retail industry and Nordstrom, in particular, as many have shopped and even worked there, they are able to devise specific metrics that fit Nordstrom's unique customer-driven culture.

Keywords: Balanced Scorecard, Key Performance Indicator (KPI), Key Results Indicator (KRI), strategy, retail,

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[1] This is a fictitious case. All information contained herein was fabricated by the author(s). Any similarity contained herein to actual persons, businesses, events, etc. is purely coincidental and is the responsibility of the author(s). Please contact the case author directly with any concerns.

[2] A detailed Teaching Note is available upon request by emailing the author at sudpa@pugetsound.edu

INTRODUCTION

Wade Thomas, an independent management consultant, was perusing the results of the work he and his associate, Janet Matlin, had done over the past five months as external facilitators on Nordstrom's Balanced Scorecard (BSC) project. Their primary purpose during the five months was to develop consensus on Nordstrom's strategic objectives for each of the four BSC perspectives – financial, customer, internal business process, and learning and growth. To this end, they had conducted dozens of interviews with Nordstrom's top management, its store managers and sales personnel, its customers, and its suppliers. They had held five half-day focus groups of between six to ten staff members to gain insight into the respondents' attitudes, beliefs, experiences, and thoughts on Nordstrom's culture, its mission, its strengths and weaknesses, its customers, and the external environment. The list of strategic objectives for each of the four perspectives that was developed at the end of the five-month process is presented in Exhibit 1 (Appendix) in the form of a strategy map linking the various objectives.

Wade knew that designing a BSC required a fair amount of subjective judgment and a good knowledge of the company and its culture. He felt the best way to begin the task of designing a BSC was to know more about Nordstrom and the retail industry in which it competed.

NORDSTROM, INC.

Nordstrom's website (http://shop.nordstrom.com/c/company-history) describes the company's history, which is summarized here. Nordstrom, Inc. started as a small shoe store in downtown Seattle in 1901. John Nordstrom, a 16-year old from Sweden, arrived in New York city in 1887 with $5 in his pocket and without knowing a word of English. After making his money from a gold mine stake in Alaska, John opened a small shoe store in downtown Seattle with his friend from Alaska, Carl Wallin. By 1960, John Nordstrom and his three sons were the sole owners of the largest independent shoe store chain in the United States. By 1966, they had added women's clothing, menswear and children's clothing. In 1971, they went public and the company was formally named Nordstrom, Inc. Two years later annual sales surpassed $100 million, and the first Nordstrom Rack opened in Seattle as a clearance outlet for the full-line stores.

Over the years, Nordstrom has acquired a number of firms and entered into several strategic alliances. In 2000, it acquired Façonnable, an upscale European apparel collection for men and women. In 2005, it acquired a majority stake in Jeffrey. It purchased flash sale site HauteLook in 2011 for $270 million. Flash sale sites allow members (who typically join for free) to purchase designer clothes and accessories at a 50-70% discount during a private sale that typically lasts only a few days. Flash sale sites like HauteLook, Gilt Group, Rue La La, One King's Lane, Ideeli, and Beyond the Rack, were developed to allow design houses to sell their excess inventory without damaging their brand image. In 2012, Nordstrom entered into a partnership with TopShop, a British fashion retailer, to sell TopShop merchandise in Nordstrom's stores. Currently, the company is run by the fourth generation of the Nordstrom family and a team of company executives. It is a leading fashion specialty retailer offering compelling clothing, shoes and accessories for men, women and children. Nordstrom currently operates a total of 347 stores located in 40 U.S. states and Canada with 128 full-line stores, 215 Nordstrom Racks, two Jeffrey boutiques, and two clearance stores. In addition, Nordstrom serves its customers through Nordstrom.com, nordstromrack.com, and private sale site HauteLook. Nordstrom, Inc (JWN) is publicly traded on the NYSE and in 2015 had annual sales of $14.1 billion and profits of $600 million.

Nordstrom's Annual Report describes its four distinct yet complementary businesses: in-store full-price (Nordstrom full-line stores), in store off-price (Nordstrom Rack stores), online full-price (Nordstrom.com), and online off-price (HauteLook and nordstromrack.com). The term "4-wall sales" applies to sales from Nordstrom full-line, Nordstrom Rack, and Jeffrey stores combined.

THE RETAIL INDUSTRY

Nordstrom Inc. belongs to the GICS sub-industry classification, Department Stores (25503010). Standard and Poor's (S&P) Capital IQ further classifies Department Stores informally into Moderate, Upper-Moderate and Better department stores. This classification is useful to strategy consultants, since economic and demographic factors as well as merchandising strategies vary across the different types of department stores. As per the S&P Capital IQ informal classification, Nordstrom falls into the Better Department Store category.

S&P Capital IQ examines the various factors that affect the performance of the retail sector. Population growth and demographics are important factors in retailing, since they determine the number of potential shoppers and their preferences and needs. The largest and most important group for retailing is the Millennials (or Generation Y), which includes 78 million Americans born between 1978 and 2000. Millennials have strong brand awareness and are adept at researching and shopping on the web. The second largest group is the baby boomers. This group of 76 million Americans born between 1946 and 1964 is shifting its spending to leisure and healthcare as the boomers reach and pass the age of 65 – a trend that does not bode well for retailers. Finally, the Generation X group includes 49 million Americans born between 1965 and 1976 who tend to remain single longer than the baby boomers. As members of Generation X get married and raise families, their purchases should help retailers.

Current and anticipated economic conditions have a huge impact on retailer's sales and profits. Disposable personal income has more impact on total consumer expenditures than any other single economic variable. When consumers' incomes are increasing, they are willing to spend; however, when personal incomes are declining or anticipated to be lower, they spend less, especially on discretionary and luxury items, which negatively affects high-end retailers, such as Nordstrom. The Consumer Confidence Index (CCI), which measures the relative financial health, spending power, and confidence of the average customer, has historically been a good predictor of consumer spending. Other factors like a rising Gross Domestic Product (GDP), falling interest rates, or a rising stock market can provide a boost to retail sales.

The internet and mobile technology has had a significant impact on both consumers and retailers. Consumers can now use the internet to do product research, compare prices, read product reviews, compare retailers, and make purchases at any time of the day or night. Mobile technology has taken these opportunities even further by allowing customers to access the internet anywhere. Retailers have had to adapt and integrate these technological advances into their core strategies. They are using the internet to advertise and showcase their products and services, learn about their customers' tastes and habits, and sell a wider range of products and services to a broader audience than they were able to do in their brick and mortar stores. Data from the Census Bureau of the Department of Commerce validate these trends – total retail sales for the third quarter of 2016, adjusted for seasonal variation, were estimated at $1,212.5, an increase of 0.9% from the second quarter of 2016 and an increase of 2.2% from the third quarter of 2015. In comparison, the estimate of U.S. retail e-commerce (online) sales for the third quarter of 2016, adjusted for seasonal variation, was $101.3 billion, an increase of 4.0% from the second quarter of 2016 and an increase of 15.7% from the third quarter of 2015. Although ecommerce sales are still a small percentage of total retail sales, quarter over quarter increases in online sales far outpaced the gain in overall retail sales. Department stores are increasingly using a multi-channel approach to reach, sell and serve their customers. The different channels might include brick and mortar stores, mail-order catalogues, print and television advertising, as well as various interface technologies such as websites (their own and social media websites such as Facebook) and wireless devices. Further, mobile technology is allowing retailers to tailor their marketing messages to specific customer segments. Customers are also becoming increasingly adept at using these different channels at different stages of their decision-making and shopping process. Almost all department stores have developed applications ("apps") that allow customers to receive coupons and exclusive offers, browse catalogues, create shopping lists, and make online purchases. Some of the apps, like ShopBeacon, track each shopper's every move inside the store and nudge them to make purchases by offering in-store deals on products that a customer has expressed an interest in, or perhaps, hovered around in the store. Different retailers have incorporated different technological innovations. For example, Nordstrom has added wi-fi functionality in all of its full-line stores and has invested in mobile Point-of-Sale (POS) devices that allow sales staff to check out merchandise anywhere in the store. Walmart introduced "Scan and Go" in 2012 which allows customers to scan the product bar code with their smart phone as they bag their items and pay for them at the self-service checkout counter.

The availability of more refined customer data has allowed retailers to provide personalized service and specific offers on merchandise across multiple channels. For instance, a sales associate can obtain information about a customer who visited a retail store and tried on several outfits without buying, and then use the information to target the customer with specific products the next time the customer is online. Multichannel retailing does pose challenges to retailers – they need to make significant technological and operational investments to ensure that customers enjoy a seamless experience across multiple channels. This includes integrating back-office technologies across channels, managing the supply chain so that inventory is visible and available at all customer touch points, instituting employee training programs, and establishing incentive schemes that drive multi-channel success.

High-end retailers such as Neiman Marcus, Bloomingdale's, Ann Taylor, and Nordstrom are moving into the off-price segment. The off-price label has traditionally applied to retailers that sell brand name or designer products at reduced cost to take advantage of overproduction, canceled orders and forecasting errors made by

manufacturers and full-price retailers. Off-price stores allow upscale retailers to expand their presence in new markets with new customers without cannibalizing sales from their full-line stores. High-end department stores are rolling out new off-price stores that cater to shoppers with upscale tastes but shallow pockets who are more careful about what they buy and how much they spend. For example, Neiman Marcus' LastCall, Saks Fifth Avenue's OFF 5th, and Nordstrom Rack sell inventory at prices 45-65% below full-line store prices. They can do it profitably by selling a combination of clearance merchandise from their full-line stores and inventory bought inexpensively from vendors. Off-price stores provide a buffer during recessions as strong sales in the off-price market help offset weak sales in their full-price stores. With the purchase of HauteLook in 2011, Nordstrom has made further inroads into the off-price segment. After being acquired by Nordstrom, HauteLook now has a distinct advantage over the other independent flash sale sites because it has access to the high-quality Nordstrom inventory.
Finally, although department stores have historically not looked beyond their country of origin, they are now increasingly beginning to expand internationally. Saks Fifth Avenue and Bloomingdales have entered into licensing agreements with local third parties to open licensed stores in the Middle East, Asia, and Eastern Europe. A large number of retailers, including Nordstrom and Target, are expanding into Canada. A number of retailers such as Barney's, Bloomingdales', Macy's, Saks Fifth Avenue and Neiman Marcus have partnered with Borderfree, Inc., a partnership that allows retailers to transact with customers in more than 100 countries with their local currencies.

THE NORDSTROM WAY

Nordstrom is defined by its culture of customer service. Nordstrom's excellence in customer service is so well known that books have been written on the subject. One such text, *The Nordstrom's Way to Customer Service Excellence* by Spector and McCarthy (2005) forms the basis of this section. Nordstrom's relationships and interactions with its employees and customers strongly support its mission - to offer the customer the best in service, selection, quality and value.

This focus on customer service begins with the hiring process at Nordstrom. New employees attending orientation receive a half-inch thick binder containing information on the company, employee guidelines, compensation programs, safety programs, and employee events. The Nordstrom's Employee Handbook in its entirety is a card with the following provided on the front and back side – the front-side reads: "Our number one goal is to provide outstanding customer service. We have only one rule…"; and the back-side reads: "Use good judgment in all situations." Employees are encouraged to be entrepreneurial and are empowered to make decisions that satisfy the customer. Unlike most department stores, at Nordstrom, salespeople are allowed to sell merchandise from any department throughout the store. Also, Nordstrom is decentralized; buying and selling decisions are made at the local level.

At Nordstrom, all layers of the pyramid work to support the sales staff; the sales staff in turn are focused on serving the customer. Such an environment has encouraged "Nordies" (as sales staff called themselves) to perform "heroics" - actions taken above and beyond the call of duty to satisfy customers. Examples include driving to another Nordstrom store, or even to a competitor in some cases, to obtain an item that a customer wanted; changing a customer's flat tire in the parking lot; driving to a customer's residence to deliver merchandise; and writing thank you notes to customers.

The compensation system at Nordstrom encourages this entrepreneurial spirit. The most important metric on which employees are evaluated and compensated is Sales per Hour (SPH). Employees are given a target SPH which varies by department. If actual SPH is less than the target SPH, employees are paid the base hourly wage. If actual SPH is greater than the target, the employees are paid commissions ranging from 6.75% to 10% of net sales. The rate depends on the product category. Reaching and exceeding the target SPH has other benefits, including better hours (for instance, when more customers are shopping) and an increased chance of being promoted to manager. All promotions are strictly from within the organization. The compensation scheme creates an intense drive among salespeople to satisfy customers and make sales.

However, in 1989, Nordstrom's employee policies and its performance measurement and incentive system came under attack from its employees, unions, regulatory agencies and the media. The Harvard Business School case *Nordstrom: Dissension in the Ranks?* by Simons and Weston (1999) provides details of the employee situation at Nordstrom. The complaint was that Nordstrom's policies pushed employees to work "off the clock" without being paid. It was alleged that the time employees spent doing work such writing thank you notes, delivering packages to customers and other "heroics" were not recorded or compensated. Further, it was charged that Nordstrom's use of sales per hour as a performance metric encouraged employees to work "off the clock" since the metric induced them to underreport the hours worked when they submitted their time-sheets. Management denied these allegations, noting that the complaints were unsubstantiated, and the company's policy was "to pay employees for the time they have worked". Nevertheless, the charges by the union led to an investigation by the Washington State Department of Labor and Industries, whose ruling stated that Nordstrom had systematically violated state wage and hour laws in its failure to pay sales staff for performing certain services.

In response, Nordstrom set up a $15 million fund to pay back-pay claims and instituted a new system which allowed salesclerks to submit time sheets for work done after hours. Employee reaction was mixed – while over a thousand employees filed back-pay claims, many came to management's defense. In its 1989 Annual report released in March 1990, the company noted, "We are disappointed that there is now litigation regarding the payment of retroactive wages and related issues. Our policy has always been to pay our employees for the work that they perform, and this policy has not changed over the years. Employee initiative and enthusiasm has always been important in servicing the needs of customers, and we appreciate the efforts of our employees. They are the foundation of the Company's success. Some mistakes have been made in compensating our employees, and we are in the process of correcting them. We believe, however, that our sales employees are the highest paid in our industry. And we also believe that they will continue to provide the customer service that they have become known for because they enjoy selling for the Company and because they are rewarded for their efforts through commissions on their sales." By the end of 1990, most of the charges were dropped and Nordstrom settled the remaining five charges. In 1991, Nordstrom employees voted overwhelmingly to oust the union.

Nordstrom's obsession with satisfying the needs of the customer goes beyond providing excellent customer service. Nordstrom's stores are designed to make it easy for customers to walk around and shop the entire store. The store layout is typically in the form of a wheel with the escalator as the hub and the spokes being the aisles to the various departments. Aisles, escalators, fitting rooms, and waiting rooms at Nordstrom are larger than most department stores for the convenience of the shoppers. The display fixtures, artwork, and furniture (including a piano that is often played by a pianist) are selected to give a residential, warm and inviting feeling. In many of its larger stores, there is a concierge who provides information about the store, checks customers' coats and packages, and even helps customers get a cab. Other features include free gift boxes, free personal shopping services, and inexpensive shoeshines, and some Nordstrom stores even provide mammograms. Nordstrom excels at stocking its stores with the right items in the right sizes at the right prices. It has a wide selection of brand-name products in various colors, sizes, shapes, and in enough quantities to avoid stock-outs. In addition, it has a no-questions return policy, on-site tailors, and in-store restaurants and espresso counters.

Readers are strongly encouraged to read top management's letter to customers, employees, and shareholders which lays out Nordstrom's strategy for success and is part of its Annual Report.[3] The first paragraph of this letter from its 2013 Annual Report is instructive.

"At Nordstrom, we've always aspired to do one thing well: serve our customer in an exceptional way. We've found that good things happen when we let the customer be our guide. This approach has served us well, driving our strategy and leading to strong results and consistent success. Our goals are simple: to serve our customers better, to always be relevant in their lives and to form life-long relationships. And while serving our customer face-to-face is the foundation and hallmark of how we've historically served them, today customers seek out our service in new ways. Speed, convenience, innovation and personalization have become cornerstones of the customer experience. Guided by these needs, we continue to invest in the cross-channel experience, combining the accessibility of a pure online experience with the high-touch inclusivity of our stores."

Exhibit 2 (Appendix) provides the scorecard Nordstrom presented in its 2016 Annual Report.

THE BALANCED SCORECARD

Robert Kaplan and David Norton (1992) first introduced the concept of the Balanced Scorecard in their article "The Balanced Scorecard: Measures that drive performance." The concept was based on the premise that all financial measures are lag indicators that report on the outcomes of past actions and, therefore, motivate managers to focus on short-term performance at the expense of long-term value creation. The BSC approach retained metrics that measured financial performance, but supplemented them with measures that, they argued, were lead indicators of future financial performance.

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[3] Available at http://investor.nordstrom.com/phoenix.zhtml?c=93295&p=irol-reportsannual. More recent Annual Reports are available at the same site.

Kaplan and Norton proposed a BSC that summarized the objectives, measures, targets, and initiatives for four different perspectives which collectively provided a comprehensive view of a company's performance. The four perspectives are:

- Financial Perspective that focused on the strategy for profitability and value creation from the perspective of the shareholder.
- Customer Perspective that focused on the strategy for creating value and enhanced experience for the customer.
- Internal Business Perspective that focused on the strategy for improving internal business processes that would, in turn, create value for customers and shareholders.
- Learning and Growth Perspective that focused on the learning and growth of its employees and on improving the organization's capabilities.

Since the publication of the 1992 paper, others have suggested additional perspectives such as those related to the environment, community service, and employee satisfaction. Furthermore, practical applications of the BSC has led to perspectives unique to the industry in which the firm operates. For instance, an architectural or a construction firm could have additional perspectives related to the functionality and aesthetics of the building being designed and built.

More importantly, since the publication of the original paper, the BSC has through the years evolved from a performance measurement tool to a strategic management system by supporting and linking four critical management processes:

- Clarifying and translating an organization's vision and strategy.
- Communicating and linking an organization's strategic objectives and measures.
- Planning, setting targets, and aligning an organization's initiatives.
- Enhancing strategic feedback and learning within an organization. (Kaplan and Norton (1996).

To effectively communicate and execute strategy, Kaplan and Norton (2000) suggest building a strategy map which provides a visual representation of a company's critical objectives and the crucial relationships among them, thus showing managers and employees the cause-and-effect links by which specific improvements lead to desired outcomes. For instance, enhanced employee capabilities in supply chain management (a component of the learning and growth perspective) lead to faster process times (a component of the internal business perspective), which in turn lead to shorter lead times and higher customer satisfaction and retention (a component of the customer perspective), thus ultimately leading to higher revenue and profitability (a component of the financial perspective).

As its name suggests, the fundamental characteristic of the BSC is the balance it provides between short-term and long-term objectives, between financial and nonfinancial measures, between internal and external performance perspectives, and most crucially between lagging and leading indicators. A lagging indicator provides information about what happened in the past and does not give the manager the opportunity to intervene and affect change actively, leaving only the opportunity to affect change in the future. A leading indicator, on the other hand, provides relatively current data that the manager can use to intervene and impact performance.

To emphasize this dichotomy between leading and lagging indicators, we deviate slightly from Kaplan and Norton's original formulation of the BSC by replacing "performance measures" with Key Performance Indicators (KPIs) and Key Result

Indicators (KRIs). Based on our consulting experience implementing BSC at various organizations, we find that introducing this dichotomy helps organizations implementing BSC distinguish more effectively between drivers of performance (KPIs) and ex-post measures of performance (KRIs). Exhibit 3 (Appendix) presents the diagram that illustrates the BSC with this modification.

The process of implementing BSC at an organization begins with its mission and vision statement – where the organization wants to go and what it wants to be in the future. The strategy is a plan of action designed to achieve an organization's mission and vision. In the context of the BSC, critical success factors (referred to as objectives in Kaplan and Norton's original formulation) are factors that are "critical" for a strategy to be successful and that determine an organization's success or failure. CSFs are developed for each of the perspectives and are balanced between the long-term and short-term. Organizations develop their CSFs by interviewing various stakeholders and analyzing the competition and the industry to which the firm belongs. In the context of this case, one possible way to determine CSFs for a particular perspective would be to ask the question, "What do stakeholders related to a particular perspective want from us? Thus, CSFs for the financial perspective could be determined by asking, "What do shareholders want from us?" Similarly, CSFs for the customer perspective could be developed by asking, "What do our customers want from us?" and so on.

Key Performance Indicators are a set of measures that indicate how effectively an organization is performing in relation to their CSFs and strategic goals and objectives. They are leading not lagging indicators of performance and are actionable. They are typically nonfinancial measures (most financial measures are lag indicators); monitored daily, weekly, or at most monthly; and tied to an individual or a team. For instance, customer satisfaction index is a lagging indicator measured either on a quarterly or annual basis and is not an effective KPI. However, "the number of key customer visits in a given week" and "the number of complaints from customers that have not been resolved within 2 hours" are effective KPIs, since they are actionable and drive performance. Effective KPIs drive the behavioral change demanded by the CSF and empower employees to take action and implement change. KPIs should be clearly linked to the CSF; the goal is not to monitor every action that might impact the CSF, but to focus on those that primarily influence a successful outcome, so that employees can focus attention on what matters most to success.

Key Result Indicators tell top management and the board how the organization has performed in relation to the CSFs and strategic objectives. They are lag indicators and typically measure the result of many actions. They give top management a clear indication of whether the organization is moving in the right direction; however, they do not tell the manager what to do to improve performance – KPIs do that. For instance, customer satisfaction index is an effective KRI since it communicates to top management whether the actions taken by frontline managers have achieved the desired outcome.

Next Steps

Exhibit 1 (Appendix) presents the list of strategic objectives for each of the four perspectives developed by Wade and Janet at the end of their five-month project. Now their task was to develop KPIs and KRIs for each of the strategic objectives (Critical Success Factors) and present a first draft of the BSC to top management.

Wade knew from his introductory MBA Managerial Accounting course the importance of developing compelling CSFs and choosing the most effective measures. He decided to peruse his class notes and pick up a few pointers on developing effective performance measures. First, he remembered a paper he had read that suggested that measures managers picked tended to be biased. Lipe and Saltero (2000) showed using experimental data that managers favored common measures rather than measures that were unique to the company or division. This was a handicap since common measures tend to be lagging indicators whereas unique measures were typically more leading. This is a particularly important issue in selecting KPIs, since they are most effective when they are lead indicators indicating to the manager what actions need to be taken to drive future performance.

Second, Wade remembered vaguely an illustration his instructor had adapted from Parmenter (2010) on developing unique KPIs that were more leading than lagging. An airline was facing customer backlash because of repeated delays of its flights for non-weather related reasons. A common metric to choose would be the number of delays in a week or a month. However, this metric was a lag indicator and, therefore, not very effective as a KPI. But the airline developed a new metric called "Red Flag Flights" that tracked all flights that "had the potential to be more than 2 hours late." The ownership of this metric was given to the Chief Operating Officer (COO) and was made available to her on her mobile in real time. The KPI, Red Flag Flights, turned out to be very effective KPI for the airline and delayed flights decreased significantly. For instance, if a flight was tagged as a "Red Flag Flight" and the reason for the delay was that the pilot was not at the gate at the prescribed time, the COO could take action to ensure that a substitute pilot was identified and summoned to the airport, and the flight departed on time. Wade saw value in developing new unique metrics that were leading indicators and would help managers at Nordstrom take the most effective action.

Finally, he remembered a case they had discussed in class in which a BSC implementation had failed because of metrics overload. The company had too many CSFs and metrics and it was difficult for employees to decide what actions to take, since different metrics suggested conflicting actions. Also, having so many CSFs and metrics diluted the focus on key strategic objectives.

SUMMARY OF DISCUSSION QUESTIONS

1. The case presents the first paragraph of Nordstrom's top management's letter to customers, employees and shareholders. What are Nordstrom's main strategies for success?
2. Page 3 of Nordstrom's 2016 annual report (also provided as Exhibit 1 (Appendix) of this case) summarizes eight measures that Nordstrom collectively refers to as its scorecard. Do these measures constitute a BSC? Why or why not?
3. The BSC Wade and Janet were originally planning to design was based on the Kaplan and Norton's original four-perspective model. Based on your reading of the case and your response to Question 1, do you see a need for additional perspectives. If so, what additional perspectives would you choose and why?

Given your knowledge of Nordstrom, develop suitable CSFs for the additional perspectives chosen.

4. Develop KPIs and KRIs for each of the CSFs, including those for the additional perspectives added in your response to Question 3. Provide short justifications for the CSFs and for the KPIs and KRIs chosen.

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Exhibit 1: Strategy Map for Nordstrom

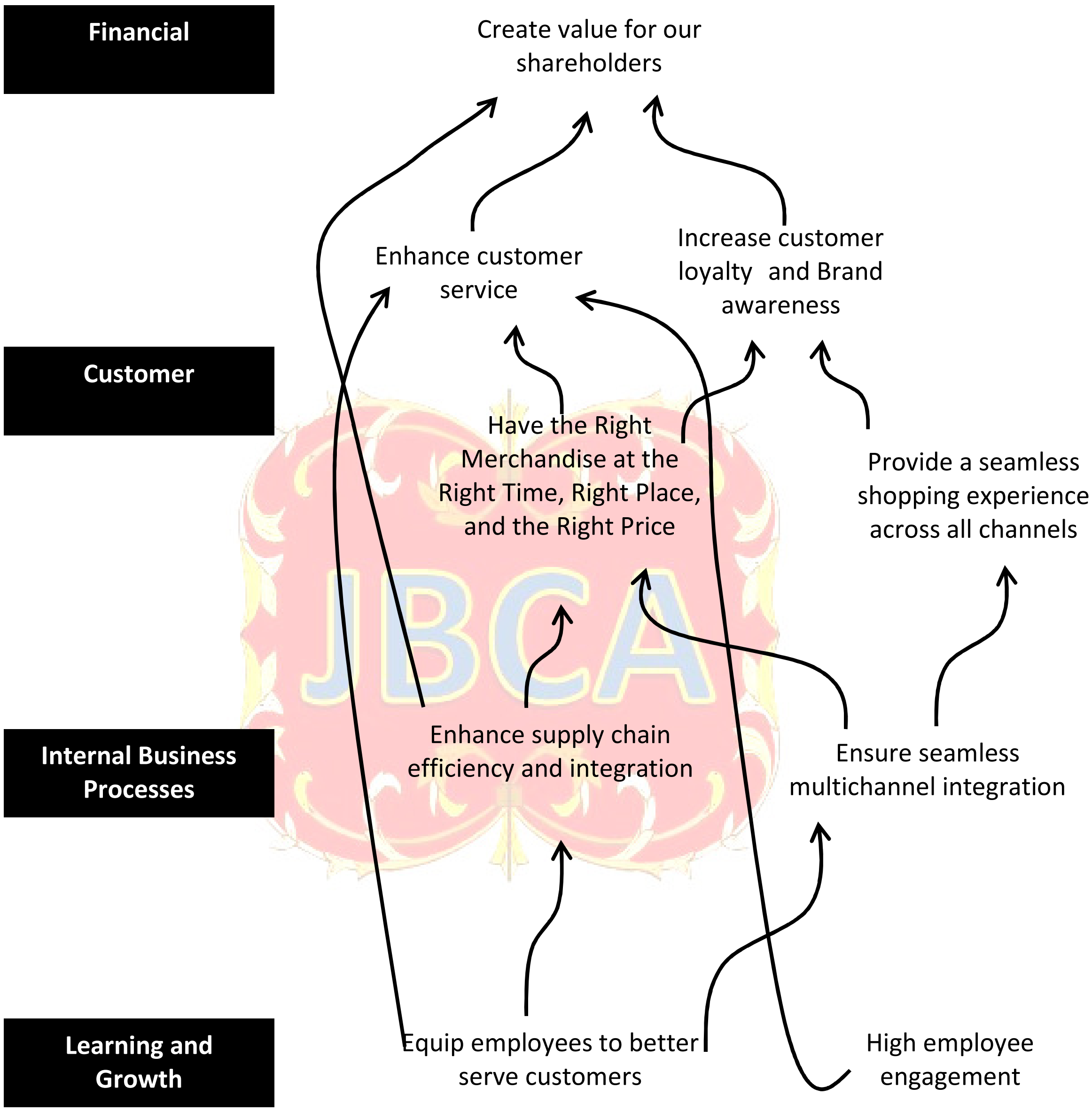
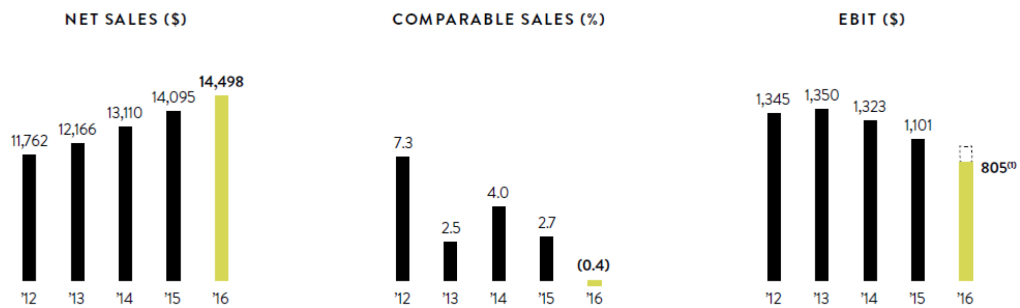


Exhibit 2: Nordstrom's Scorecard from its 2016 Annual Report

A LOOK AT THE NUMBERS

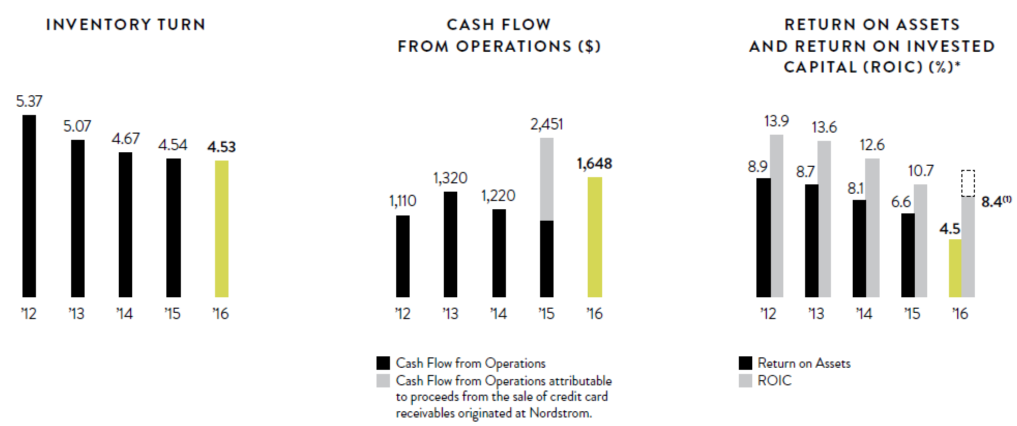
Dollars in millions except per share amounts.

FISCAL YEAR	2016	2015
Net sales	$14,498	$14,095
Net earnings	354	600
Adjusted net earnings	551[1]	n/a
Earnings per diluted share	2.02	3.15
Adjusted earnings per diluted share	3.14[1]	n/a
Cash dividends paid per share	1.48	1.48
Special cash dividend paid per share	n/a	4.85



NET SALES PERCENTAGE INCREASE

'12	'13	'14	'15	'16
12.1	3.4	7.8	7.5	**2.9**



[1]Adjusted net earnings and adjusted earnings per diluted share exclude the Trunk Club goodwill impairment charge of $197 or $1.12 per share (see reconciliation of these non-GAAP financial measures on page 25). This impairment charge, as reflected by the dotted box, impacted EBIT by $197 and ROIC by 3.3%.
*See reconciliation of ROIC (non-GAAP financial measure) on page 26.

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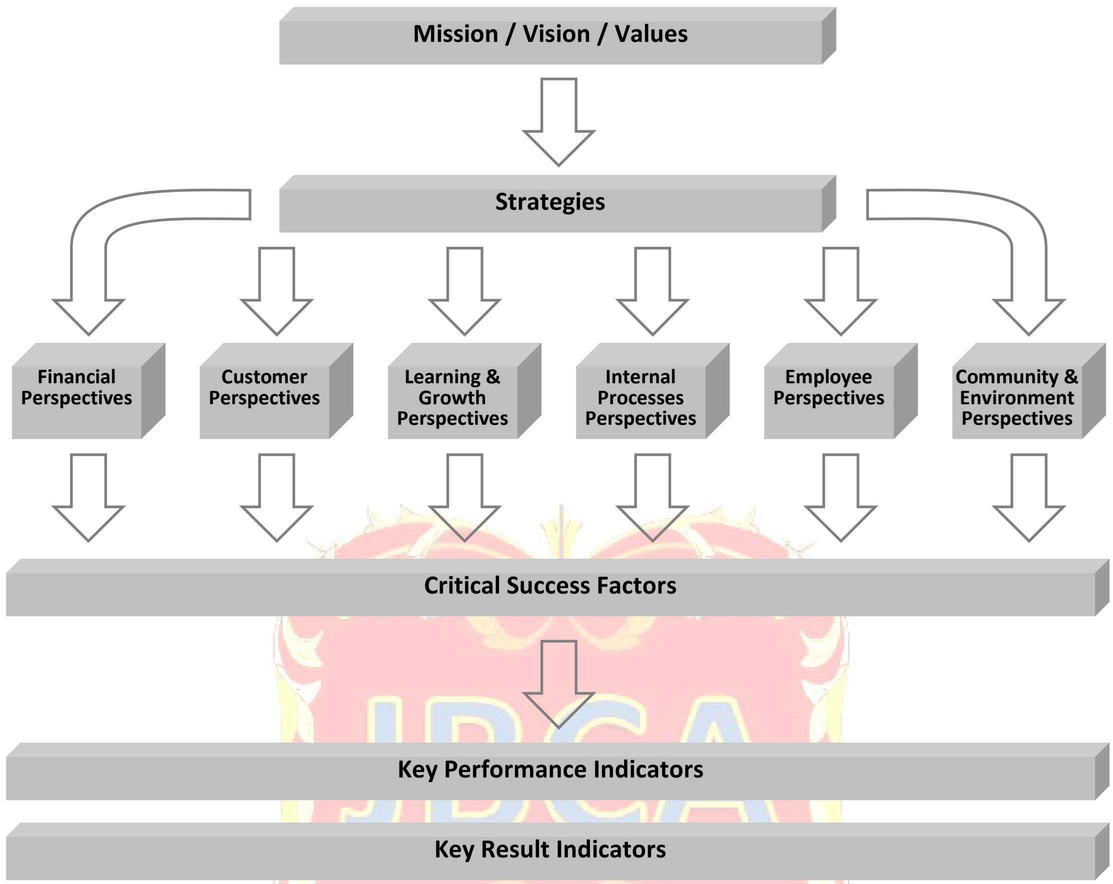
Exhibit 3: Balanced Scorecard



Adapted from Parmenter, David. Key Performance Indicators (KPI): Developing, Implementing, and Using Winning KPIs (Second edition). John Wiley and Sons. February, 2010.