



CEO EXCHANGE PROGRAM #401 TRANSCRIPT

“HAPPY CUSTOMERS AND EMPLOYEES: THE RECIPE FOR SUCCESS” FEATURING BLAKE W. NORDSTROM AND JIM DONALD

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BUSINESS SCHOOL**

TEASE

The key to happy customers is happy employees. From the University of Washington’s Business School in Seattle, Nordstrom’s Blake Nordstrom. “Our business is really as simple as people and product.” And Starbucks’, Jim Donald. “We hire 300 people a day, 365 days a year.” How to lace up customer loyalty and brew up a bigger bottom line. That’s next on CEO Exchange.

SPONSOR SPOT

Funding for CEO Exchange is provided by SHRM (the Society for Human Resource Management). In today’s knowledge-based economy, the nature of work has changed. Once driven by materials and machines, success is now powered by people. Competitive strength is no longer only tied to physical resources, but upon workforce talents. SHRM believes that the power of people is not a cost to be managed, but an asset to be leveraged.

OPEN

One world, many ideas, inspiring the next generation, shaping trends and forging the future, ideas that change the way we live. CEO Exchange. And now your host, Jeff Greenfield.

JEFF GREENFIELD

Thank you. Hi. Indeed I’m Jeff Greenfield and I’m delighted to welcome you to a new season of CEO Exchange. We are back with new guests, a very different business environment, but with the same idea we started with. Talking and listening to the men and women at the top of American business. We want to learn how they got where they got, what they’ve learned along the way, not just about business, but about themselves and about life.

Because the decision that the CEOs make, affect all of us every day from how we earn, to how we learn, to how we work, to how we play, we hope that CEO Exchange is going to be a lot more than a show about profit and loss. So to the business at hand.

There's got to be something in the air in Seattle, beside moisture. The good folks here have given the rest of us Grunge Rock, and some great seafood restaurants, and companies that have created entire lifestyles out of their businesses. I think the term corporate culture could have been invented, in fact, to define the two companies, whose CEOs are with us today, because what they are may be more important than what they sell. One company has turned the simple idea of a coffee shop into a worldwide destination. Create environments where customers want to linger for hours.

The other company has made the large department store a welcoming , comforting environment, and not so coincidentally, year after year, both of these companies, Starbucks and Nordstrom, rank among the very best places for employees to work.

Jim Donald came to Starbucks a few years ago, following a career in the grocery industry, that took him from bag boy at Publix, to Albertson's , Wal-Mart, Safeway and Pathmark, to a company whose worldwide ambitions are as eye-opening as the coffee it serves. And we'll be talking to Jim Donald, the President and CEO of Starbucks Coffee Company in a few minutes.

But first, for those of you who equate a trip to the department store with an onset of migraine, Nordstrom offers a very different experience, starting with the live piano music that often accompanies you as you walk down the aisle, and a sales staff that is trained for attentiveness. And oh, yes, shoes. Lots of shoes which is very appropriate for a company that John Nordstrom founded as a shoe store more than a 100 years ago. John's great grandson, Blake, who now runs the show, along with his two brothers, started out working in the shoe department, and so Blake's mission it to make the traditional Nordstrom experience, born at the dawn of the 20th century, a working model for the 21st.

BLAKE NORDSTROM BACKGROUND PACKAGE

“What's particularly kind of interesting is, is this shoe here is, with the buttons here, there was a time when, when we would sell a pair of shoes like this, we would give the customer an actual button hook, so then the customer would use this button hook and pull it over for a tight and even fit.”

It's clear that Blake Nordstrom is hooked on old shoes. The kind that launched the company founded by his great grandfather.

“It's fun to look at some of these fashions, because over the years, they come and go.” Blake, himself, started out working in the shoe department when his father, Bruce, was President. “At the end of high school, towards the end, I thought, well gee, I might like to try something else. I like working with my hands, so I worked in a boatyard here in Seattle, and I did one summer of that and sanding fiberglass and working on the bilge of the boat made selling shoes look pretty good.”

Founded by John Nordstrom in 1901, with a \$13,000 stake from the Alaska Gold Rush, Nordstrom has always set the gold standard for legendary customer service.

KEVIN SMITH, CORRESPONDENT

Nordstrom likes to emphasize its inverted pyramid philosophy. Customers first, employees second, shareholders third. The idea being that if you keep the customers and the employees happy, the results will make the shareholders happy too.

Robert Spector, author of the book *The Nordstrom Way*, says employees go to extraordinary lengths to please customers.

ROBERT SPECTOR- AUTHOR

The most famous Nordstrom story has to do with a customer returning a set of automobile tires. Now, Nordstrom doesn't sell tires. He asked for his money back, and the Nordstrom salesman gave it to him –

KEVIN SMITH, CORRESPONDENT

The reason is that Nordstrom has a unique culture of letting employees make their own decisions, while they develop ongoing relationships with customers. At the opening of a new store in Dallas, Blake described how his great grandfather created this customer-oriented culture.

“Then Mrs. Jones would come in and say ‘hey, I'm looking for a green in a 7B pump’, okay I'll order that. Put that on a piece of paper and that's for his buyer pocket. And so he's right there every day, listening about what the customer likes, dislikes, quality fit..”

When John Nordstrom retired, he turned the business over to his three sons, who rotated the Presidency among themselves. The company went public in 1971, when the next generation, headed by Blake's father Bruce, took the reins. But in the mid-90s, Nordstrom lost its way, when a non-family member was named CEO. The company had launched a disastrous campaign called “Reinvent Yourself” to attract new customers, emphasizing trendy, youth oriented merchandise. “We probably were guilty of swinging the pendulum too far, making some abrupt changes. There was a

handle called “Reinvent” and in our effort to try and reach out and improve that fashion offering, I think we alienated our core customer.”

Blake had been running the off price Nordstrom Rack stores. But at age 39, he assumed the role of President, continuing the Nordstrom tradition of managing by committee with this two brothers. The company has since regained its footing, aided by a computerized inventory control system.

DAN GEIMAN- RETAIL ANALYST, ADAMS WRIGHT RAGAN

And it was designed and has been designed to really give the company a little bit more insight into what’s selling exactly at each store, sizes, colors, exact merchandise. So they can track it better and they can order merchandise a little bit more effectively.

KEVIN SMITH

In Blake’s view, as long as Nordstrom stays in step with its customers and employees, its continued success is virtually a shoe-in. In Seattle, I’m Kevin Smith, for CEO Exchange.

JEFF GREENFIELD

Ladies and gentlemen, please welcome the President of Nordstrom, Blake Nordstrom. Welcome.

BLAKE NORDSTROM

Thank you.

JEFF GREENFIELD

I’ve always wanted to ask an important person and what you do, this question. What is it about shoes? (laughter)

BLAKE NORDSTROM

Well shoes is the roots of our company and for 62 years, all we did was sell shoes. It’s 20% of our total business now, and it is something that we’re awfully proud of and all of us were raised on our hands and knees in the shoe business, and you know, the bulk of our business is to women. Seventy-five percent is to women and –

JEFF GREENFIELD

That’s a surprise. (laughter)

BLAKE NORDSTROM

And so – yeah. And there definitely is with some women, a love of shoes, that God bless them, we love them (laughter). And I guess, we as retailers, have this thought that if you can be successful shoe merchants, you can apply some of those learnings and applications to other aspects of the business, because there is something too, about, greeting the customer, listening to them, getting on your hands and knees, measuring their feet, going in the back, grabbing the inventory, and you have to sell

that customer. You can't clerk it. You can't have the customer just go and pick out the size and all the inventory is in the back. And so I just think that idea of being a salesperson, and being a merchant and listening and suggestive selling, is at the heart and soul of what we do.

JEFF GREENFIELD

Interesting phrase. You can't clerk it. I haven't heard that before. Does that mean what I think it means? You can't just kind of say do it by the book. Do it by rote?

BLAKE NORDSTROM

Right.

JEFF GREENFIELD

Is that a phrase that you guys use a lot?

BLAKE NORDSTROM

Oh I don't know. I just came up with it here. I don't know, appreciation (laughter).

JEFF GREENFIELD

So when you walked into Nordstrom for the first time as an employee, in that shoe department, did you know pretty much from the get-go that as a Nordstrom, this was going to be your life?

BLAKE NORDSTROM

To be fair, you know, I was only 10 years old, when I started and it was strictly a motivation of wanting to earn some pocket money. And so I would come down periodically on Saturdays with my dad and, he'd give me a broom in the back stockroom and the broom was bigger than I was, and I think I got a buck a day, and I used to complain about that, but he says, I wasn't worth any more than that. So (laughter) I had no ideas or aspirations for a career at all at that time. That wasn't on my radar.

JEFF GREENFIELD

So let's move up a few years though. There comes a time past 10, when, you know, you become aware that you are part of a family with a three generation legacy. And I'm just curious, as to whether that was something that was comfortable for you from the beginning of your young manhood, whether you had thought about other alternatives, or whether this seemed like the right place for you?

BLAKE NORDSTROM

Well you gotta understand that it's really been the last 15 or 20 years where our company has really experienced a lot of growth. And up and through the 60s, my dad, hand signed each paycheck. So, I don't think my brothers and I had any ideas of – at an early age – making a career out of it. But working through high school and college, and then getting out of school, it is something that we enjoyed, and there

seemed to be a lot of opportunities if we applied ourselves and so, since then, we've held a number of roles and find ourselves in the positions we have today.

JEFF GREENFIELD

People always say they got to put the customer first, gotta have a value, gotta have a mission, gotta have a statement. This is kind of boilerplate. You guys did it. So as I love to say in other programs, in 30 seconds Blake, how did you do it? What did you do? Take 45 if you want. (laughter)

BLAKE NORDSTROM

Okay great! Number one we don't have a mission or value statement. But hopefully, then that's pretty clear throughout our organization of 50,000, that are empowered to use their energy and their entrepreneurial spirit to take care of the customer, all within the four walls of Nordstrom. So what we did is, we put our hat in hand, and we went to our folks - we went to every store in the company and we asked everyone, we've made some mistakes. What do you think we should be doing? And we got some clear feedback about some opportunities and that created our agenda for the next couple of years and helped us get us back on track.

JEFF GREENFIELD

We're going to come back to that later, because again, the idea of getting feedback is another - as Hamlet might say, "more honored in the breach than the observance", and you and Starbucks seemed to have done it. But there is one particular question that fascinates me about what you're up to.

A couple of generations ago, the Nordstroms ran a triumverate. You had rotating CEOs as I understand it. Now, you are, I guess, technically the CEO and your two brothers are executives, but do you outvote them?

BLAKE NORDSTROM

Here I am on CEO Exchange and I'm not a CEO, so I don't know how I made the cut for this. I'm a President. We don't have a CEO, but I guess the buck stops with them, and our board. I do work very closely with my brothers and we work as a team and with an executive team that we have. But the board ultimately holds me responsible.

JEFF GREENFIELD

I see. So in other words, when something gets a little dicey, your brothers can point to you and say, "no, Blake fits in." (laughter)

BLAKE NORDSTROM

Yeah, I'm the short straw, so I don't know if I got that being the eldest. It's not where we're very close in age, but we do have equal votes. We have a high degree of trust and respect with one another and we honestly believe that working together, there's better outcomes.

JEFF GREENFIELD

We're going to take a couple of questions for you from the audience and first we have one of the professors here at the University of Washington Business School, Dan Turner, who is a Senior Lecturer in marketing. Dan?

DAN TURNER

Recently your organization has introduced a number of technological tools aimed at better management of inventory and merchandise replenishment, and even the relationships with customers. How have your employees, who have traditionally been able to exercise a great deal of skill and discretion in the performance of these tasks, responded to the introduction of these technologies?

BLAKE NORDSTROM

We were priding ourselves as a very decentralized company for many years, and manually going about many functions of our business, and things have all been changed and what we were finding is we weren't as competitive. And so that we had some great merchants and great people on our team, they literally had their hands tied because they were lacking some of the data that our competitors had with state-of-the-art systems. Our challenge was to make a very sizable investment when our business was tough. It wouldn't pay dividends for quite some time, and married in culture and get ownership so that the merchants, it was merchant driven project and not an IT project. So what we're trying to do is balance the art and science of the business.

JEFF GREENFIELD

We got a couple of questions now from students here at the UW Business School as well as some other audience members. So come on to the mike and identify yourself please.

FROM THE AUDIENCE

Hi, my name is Becky Sparks. I'm an MBA student at the University of Washington, and my question pertains to the legendary Nordstrom customer service. With the increase of online shopping that we've seen in the past few years, it's very likely that many Nordstrom customers are using that channel as well. So my question is, how do you carry over that famed Nordstrom legendary customer service into the on-line strategy?

BLAKE NORDSTROM

You, as a customer, should have lots of alternatives, where to find out about information on product and fashion and price and availability and where you want to return it or buy it, and truly be 7/24. So it's less about the catalog or the internet being a profit center, and it's all about the four walls of Nordstrom being successful. So our challenge now is, to have the appropriate systems and approaches, so that it's seamless for you as a customer, to navigate through these multiple channels.

JEFF GREENFIELD

Thank you. I've got one more question for Blake. Come on up and tell us who you are and what's on your mind.

FROM THE AUDIENCE

Hi, Blake. My name is Mark Sullivan. I'm an HR Manager with Washington State Dept. of Natural Resources. When it comes to finding and selecting your HR people, what kind of thinking goes through your mind?

BLAKE NORDSTROM

Well, the thinking that goes through our mind is, we want to get our best people on the selling floor. So whether you're in a support role or not, everything we do is about the customer and selling. So if you're in support, like myself, or someone in Human Resources, that maybe isn't on the floor at that moment, manning a register, do they understand that the resources they're using and the energy and the activities they're doing, is it contributing to a better customer and employee experience? If it's not, then it's something that we have to edit and HR in today's environment, with all the legal issues and compliance and what have you, it would be very easy to be bogged down in all those activities. And our people, I think, do a good job of balancing that. And stay connected to the selling process to our folks, and so they cannot only speak the HR language, they can speak the language of a salesperson.

JEFF GREENFIELD

Thank you. Blake Nordstrom will be back with us shortly, after we meet our second guest. For now Blake, thanks and don't go away, we want you back.

BLAKE NORDSTROM

Thank you.

JEFF GREENFIELD

Okay, so many kids get a job in high school bagging groceries at the local market. Not too many of them wind up as CEOs of a grocery company, but that is exactly the path that our next guest, Jim Donald took, before Starbucks Chairman, Howard Schultz personally recruited him to run the famed coffee company. Schultz was not the first to court Jim Donald, but legendary Sam Walton recruited him to beef up Wal-Mart's grocery business some years ago, but Starbucks is a whole other world. It even has its own language. It calls its employees, partners. It refers to its stores as the third place. The boy from Florida is a long way from home up here in Seattle, but he has quickly become steeped in the Starbucks culture, while learning the business, from the grounds up. (laughter)

JIM DONALD BACKGROUND PACKAGE

“So you just fill your nose, ahh, with an unbelievable flavor.” In Jim Donald’s line of work, you’d better wake and smell the coffee.

“This is what we do. This is the core of our business..” Donald drops into this tasting room, right across from his office, every chance he gets. “Whether it’s a sweet taste, whether it’s an acidic taste, whether it just jumps all over, you can get that by slurping. You can’t be shy when you slurp. So you gotta give them a big slurp like this (demonstrating), and then you spit it out. Now you can swallow it, but at the end of the day, you’d be buzzed!”

Jim Donald became CEO of Starbucks in early 2005. Three years after he joined the company. He had left a distinguished career in the grocery business. Growing up in Florida, Donald started out bagging groceries at Publix, then quickly worked his way up the food chain at Albertsons, owning a home at age 19. “You pick up a little responsibility along the way and before you knew it, you had an aisle, then before you knew it, you had a department, and then you had a store.”

Donald spent 15 years with Albertsons, then Sam Walton recruited him to expand Wal-Mart’s struggling food business. After a stint with Safeway, Donald became CEO of Pathmark, and raced to bring it out of bankruptcy. He succeeded. That caught the attention of Starbucks Chairman, Howard Schultz, who brought Donald to Seattle in 2002.

Were you a coffee fanatic before you came to Starbucks? “Not really. Can’t say that I was. But I am now.”

Donald now runs a company where big plans are always brewing. Even though it may seem that there already a Starbucks on every corner, the company intends to expand from 10,000 stores now, to 30,000 in a few years. Most of that internationally. And that would mean big bucks for Starbucks, which boldly predicts its revenues and profits will grow by more than 20% a year.

SHARON ZACKFIA, ANALYST. WM. BLAIR & COMPANY

When you have a company of this size, it’s rare that they’re still growing this quickly. And I think it’s a testament to the management teams, it’s a testament to the strength of the brand, it’s a testament to their very strong execution.\

KEVIN SMITH, CORRESPONDENT

Of course, Starbucks is about more than just selling coffee. The company likes to talk about the Starbucks experience and it’s not just a coffee shop, it’s the Third Place. “Well you’ve got your home, every day you start and you leave from your home and you go into your office and that’s your second place, using people’s lives, but what we talk about is our store as being the Third Place.”

To give customers even more reason to come in and linger, Starbucks has launched experimental Hear Music stores, where folks can burn their own CDs while sipping

on lattes. Starbucks also offers select CDs for sale in their stores, which are chosen to reflect customer taste, and are selling at an astonishing rate.

HOWARD SCHULTZ

Our customers cannot not only come in and buy their daily coffee, but now they can come in and buy their daily music.

KEVIN SMITH

Starbucks also wants to expand its selection of packaged foods, like ice cream. And offer more hearty fare to attract a bigger lunch time crowd. And with his roots in the food business, Jim Donald clearly has the appetite to point Starbucks in the right direction. In Seattle, I'm Kevin Smith for CEO Exchange.

JEFF GREENFIELD

Ladies and gentlemen, the President an CEO of Starbucks Coffee Company, Jim Donald.

JEFF GREENFIELD

Welcome sir.

JIM DONALD

Thank you.

JEFF GREENFIELD

One thing about your business plan that any of us who live in a metropolitan area are quite aware of, is your desire to keep expanding. You have, I think, 10,000 stores now and the goal is 30 and where I live in Manhattan, you know, between where I live and where I work, I pass conservatively, I don't know, 40-50 Starbucks. (laughter) You've answered this question I guess a hundred – but there is a point at which this is diminishing returns?

JIM DONALD

We don't know where that point is. We are finding that we're becoming a very strong destination for our customers. Our customers are telling us, I get calls every day, hey I need a Starbucks. Where's the closest one? It's a mile away. But I want one a half mile away because I'm on the wrong side of the road. And what we find is that our number one store on return on investment was in our most mature market last year, Seattle. And this is the most populated market on stores per capita. But what we find out is, that when we see the lines getting longer, people don't want to wait for a cup of coffee. They want to experience the Third Place with us. We find that that's another opportunity for us to open up another Starbucks.

JEFF GREENFIELD

Okay, so we're just going to keep seeing more Starbucks. (laughter)

JIM DONALD

1800 stores this year we'll be putting up.

JEFF GREENFIELD

There is this myth or maybe not a myth, that people who start at an entry level job and work their way up to the top, never forget the lessons they learn. Is this true? Do you remember your days as a 16 year old bagger at Publix when you do your work as CEO?

JIM DONALD

When I shave every day, I think about the lessons. And those lessons have to do and are built around dealing with people, whether you're leading people, coaching people, or how you work through them.

JEFF GREENFIELD

How did you become a homeowner at 19? This seems remarkable?

JIM DONALD

Well, it was – my family kind of split up, and I was working full time in the supermarket business, and a friend of mine convinced me that it was time to move out. I was a very old 19 years old and it's time to get on with my life. And at the time, working at Publix, I was full time and attending college. It just seemed like the right thing to do. It seemed like the right time to make the switch.

JEFF GREENFIELD

I'm curious about you and Sam Walton, crossing paths. When he reached out to you, was the temptation in part, hey this is Sam Walton asking me to join him? The legend, or was it just the challenge of what he wanted you to do?

JIM DONALD

A little of both actually. Sam had called me out of the blue under a fictitious name of Tom Moore in the real estate department. And I returned the call from Boise, Idaho. I was with Albertsons. And my plane was leaving. I said "Tom Moore, please." And I'm on hold, I'm on hold, I'm on hold, finally, the phone picks up and I say "Who the heck is this?" He goes, "This is Sam Walton." I said, "Like heck it is! Who is this?" (laughter) I actually said something else, but I wouldn't say it on the program. But he – I said, my plane is leaving. Mr. Walton said, "call me Sam." I said, "my plane is leaving, Mr. Sam. (laughter) Can you – can you call me back?" And Sam was the richest man in the world at the time. He goes, "Sure, when?". I said "Sunday." I went home and told my wife that Sam Walton is calling on Sunday. Well Sunday, I forgot all about it, I was at a road race. He calls, and my wife answers the phone and says, "Mr. Walton, can you call him back?" So now I've told the richest man in the world, to call me back twice." (laughter) But when you look at the opportunity of Wal-Mart back in the early 90s, and have the opportunity to work with Sam Walton, both of those fueled my desire and interest in joining Wal-Mart.

JEFF GREENFIELD

What's interesting to me about this latest career that you've chosen, okay, so you established yourself very well in a series of companies and essentially, if I'm not wrong, one business, Pathmark, Albertsons. Now, the co-creator of one of the most unusual companies or maybe unique, with a culture and a whole business idea that's really different, comes to you, was that part of the challenge?

JIM DONALD

I notice an unbelievable similarity between Howard and Sam, both founders, both entrepreneurial, and that is they had so much passion and commitment, they ate, they slept, they drank the business 24 hours a day 7 days a week.

JEFF GREENFIELD

One of your predecessors, I think it was Howard, but I may be wrong; about this, used to keep in his office a copy of a magazine that they started, *Joe*, that didn't do well. And a drink product that flopped. Was – do you, by the way, do you carry on that tradition?

JIM DONALD

Well, we all have our own failures. And the reason why Howard keeps Mazagron which was the carbonated coffee drink and *Joe* magazine is to remind him that this business was built by being entrepreneurial and taking risk. And if we did not have those failures, we wouldn't have had all the successes that we have had as well. And we encourage our partners, we call our employees partners, to have that same risk taking mentality, with the freedom to fail. And Howard keeps it in his office, so when someone comes in to see it, they ask and he says "this is what got us where we're at today."

JEFF GREENFIELD

We're going to have Jim Donald take some questions now from the audience and first we have one from a faculty member, Charles Hill, UW Business School Professor of Management and Operations.

FROM THE AUDIENCE

Thank you. Jim, I'd like to ask you a question about the apparent desire of Starbucks to turn the world into Planet Starbucks. You've succeeded in the United States because of your unique culture and your unique operations. And what I'd like to know is, how you take that culture and how you take those operations and how you translate them, so they work in countries as diverse as Singapore and now China and France?

JIM DONALD

Yeah, Charles, that's a great question. And what we're finding first is that the experience travels. Whether it's in Europe, whether it's in Asia-Pacific, whether it's in the Mideast. But it's just not happenstance that that occurs. And what we do is, when we select a country that we want to enter, we look first of all, if we're going to go in, company owned, operate it ourselves, or with a joint venture partner. And in

most cases, we enter countries, other countries with joint venture partners. Now there's a process of looking at the joint venture partner and making sure there are aligned to our culture, our values, we bring, since it's a joint venture, their partners over to Seattle for four to six months, and take them through an immersion process that would rival any class at any university in the country. We put them actually in our stores, managing stores, managing districts, and then we send them back.

But we don't send them back alone. We send them back with X paths. With long tenured Starbucks partners, that understand the culture, understand the business, and we keep them in that country, that location for a 2 or 3 year period. And when you combine all of this, and start with a small base of stores, like Paris, we started with 3 stores and we now have close to 20. We're finding that they get it.

JEFF GREENFIELD

If I can just follow up. You do have to, or don't you, have some major adjustments in terms of pricing?

JIM DONALD

There's pricing differences all over the world, in the 37 countries that we operate in. And dependent upon what country that we're in, and dependent upon what the competition is...

JEFF GREENFIELD

So I can actually maybe get a break if I knew what country you were opening in a certain part of the world.

JIM DONALD

You might be. (laughter)

JEFF GREENFIELD

Got another question I think from the audience before we move on.

FROM THE AUDIENCE

(Jennifer) Starbucks is legendary for offering above market compensation and benefits, healthcare benefits to all employees, including part-time employees. I read recently that last year you spent more on healthcare premiums than you did coffee beans. And that this is such a concern to the business, that Howard Schultz is determined to address this more globally. So I'd like to know what ideas do you have to help address the cost of healthcare in this country?

JIM DONALD

Well, if you're right and we spend \$173 million on green coffee and \$175 million dollars on healthcare. And Howard's been in Washington, two times now, addressing this. It is a huge problem for the United States and what we're trying to do is lead by example to other corporations, through lobbying efforts in Washington, DC with all of the senior partners addressing healthcare at every venue that we can, hoping that

and it's already starting to happen, other corporations take the same interest and start taking care of their employees or their partners as well. But what we're finding is, that and this is how we try to sell it. It is a very, very important tool in attracting partners, employees, and a very, very important tool in retaining these partners.

JEFF GREENFIELD

And we want to pursue this in a few minutes. When Blake Nordstrom rejoins us, we're going to be talking about what companies do with and for employees and suppliers. He'll be back in a few minutes. But first we want to give the audience at home a look at the University of Washington Business School. And we're going to do that right now.

SCHOOL TOUR PACKAGE

Hi, my name is Elise Horner, an MBA student here at the University of Washington Business School, here to give you a tour around our Rainey campus. Let's go.

Worried about finding a job after earning your MBA? Most UW Business School students aren't. We have the highest placement rate in the nation, with 97.5% of our students fully employed within three months of graduation.

Students share a strong camaraderie, which shows throughout the business school campus, from McKenzie Hall to the Bank of America Executive Education Center.

Students stay on top of all University of Washington Business School news, thanks to our award-winning business magazine. And thanks to the business school statement of values, the University of Washington Business School is top ranked consistently on the most prestigious academic polls.

Our accessible faculty and friendly student body lend to a liberal academic scene, but make no mistake, the classes are challenging, particularly during the first year course.

In addition to our strong academics, we also get to enjoy the great things about Seattle, including Pike's Place Market, the coffee shops, beautiful mountains, and yes, even the rain.

Hope this gave you an inside look at what student life is like here on the University of Washington Business School campus. Thanks so much for joining me. Looks like I gotta go to class. See you later.

JEFF GREENFIELD

We want to thank one of your fellow students here at the UW Business School for that tour. Please say thanks to MBA candidate, Elise Horner. Elise?

JEFF GREENFIELD

Okay. So you've met two CEOs with a common task, how to preserve the traditions of their companies. The corporate culture or managing change. So in the spirit of the

coffee capital of America, let's blend them together. Blake Nordstrom, come on out and join Jim.

JEFF GREENFIELD

Thank you. Now I get the sense that whether it's the corporate culture of these two companies or something else, there is a kind of a bond that you guys share. Am I on the right track?

JIM DONALD

Well, we're neighbors, first of all. (laughter) But but a funny story. Blake and I are having lunch, and I said, "Blake, can you – do you mind going by Men's Apparel on your way out to meet me for lunch? I need to pick up these two slacks that I had altered. I would really appreciate you doing that for me." He goes, "sure, no problem." We had lunch. He forgets about it. I forget about it. That evening about 9 o'clock I hear this knock on the front door, and there's Blake, with these two pair of pants. (laughter) And I said, "man, that's what I call service."

JEFF GREENFIELD

Man now that is, that is service with an extra –

BLAKE NORDSTROM

I was supposed to bring them to lunch. He paid for lunch and then he gave me gift cards for Starbucks. So I was – (laughter)

JEFF GREENFIELD

When people come to Starbucks, when people come to Nordstrom, are they coming for the coffee? Are they coming for the clothes? Or are they coming for something else?

JIM DONALD

I can give you a personal story. I go into my adopted store, every morning at 5:30 in Wallingford, on my way to work, because I want to connect with Tim, with Keith, with Amy. I know them all. And so it's that great coffee, but it's also that connection that you want to have, that third place if you will, that respite, each and every day. And that's what we're finding is driving our transactions.

JEFF GREENFIELD

We have a Nordstrom suited gentlemen here. Are you a Starbucks regular customer?

BLAKE NORDSTROM

No, I must come clean. I think I'm the only guy in Seattle, I don't drink coffee!
(laughter)

JIM DONALD

He's told me that. (laughter) He's told me that before.

BLAKE NORDSTROM

But my wife loves coffee, and so I, every morning, I pour her a little Starbucks coffee out of the pot, so – (laughter)

JEFF GREENFIELD

Well let me be the skeptic. It's just difficult for me to think that people will come to Nordstroms because of what you sell is so magically better than another store. They're coming – I would assume – for the experience of what they get when they come in to your store. Fair enough?

BLAKE NORDSTROM

Our business is really as simple as people and product. And the third probably element is place or the environment, and so our ability to take great merchandise and great people and create an experience for the customer, that exceeds their expectations. People work hard for their money. There are lots of choices to buy apparel and footwear and accessories. In essence, when they are shopping with us, or one of our competitors, they're voting with their hard earned dollars. And we hope we're creating a reasonable why the customer should put their trust and their hard earned dollars with us, versus somewhere else.

JEFF GREENFIELD

How do you learn when something is going wrong? What I'm getting at here is, I don't know anybody who likes to tell the boss bad news.

JIM DONALD

The interaction with customers is as important as the interaction between partners, or our employees. And I can tell you at Starbucks, we all travel a lot. We're all out in the field. We have open forums. We have roundtables. I am personally accessible each and every day by voice mail, by e-mail, by phone call. Just a quick story. I was running late to a meeting, and my assistant says, "Star is on the phone from South Dakota." I said, "I'm running late." And she goes, "no, you might want to call her back." So I said, "okay. Hold up the meeting with our General Counsel." I called back and I said, "Hello, I need to –" She answers the phone, "this is Star from South Dakota." I said, "Star, this is Jim Donald." She goes, "it works! It's him everybody!

(laughter) He does – he does call back. Thank you very much. Talk to you later, Jim.” Boom! (laughter) They tested us.

JIM DONALD

But, we pride ourselves and Howard has a mandate, “grow big, stay small”. We are in tune to every customer, to every partner, to every store, each and every day.

JEFF GREENFIELD

Blake, if a long time salesperson at a Nordstrom, say in Santa Barbara, feels something is going wrong and that salesperson puts a call into you or one of our brothers. Are they going to get through?

BLAKE NORDSTROM

You can call direct to us and I probably get 20 or 30 customer letters a day, and about that many e-mails and you know, a handful of calls every day. And again, the key though is, to spend a bulk of our time out on the floor, just like Jim was talking about. And so, we’re not a faceless company. And so as we get larger our challenge is not to be separated or removed from that, or have layers or bureaucracy, and it’s to stay close to the customer. It’s less about you know, connecting with someone with the last name of Nordstrom. It’s about people in our company empowered and having the authority to deal with that customer right on the spot, again, treat them the way that they’d like to be treated themselves.

JEFF GREENFIELD

So if I walked into this Nordstrom store and found it not to my liking found something going wrong. And I tried to call up to the top as a customer, I’d get a response from somebody fairly high up? Is it that possible to do that with a company your size?

BLAKE NORDSTROM

If you call right now, you’ll get both my brothers and my dad. They’ll be there right now. They’re holding down the fort while I’m here. And you’ll go straight through. There won’t be a secretary...

JEFF GREENFIELD

All right, well -- Want to take a question now from another member of the faculty here at the University of Washington Business School. Professor Mary Ann Odegaard, a lecturer in Marketing and International Business, I believe?

FROM THE AUDIENCE

Well I also can verify that I called your father the other day, Blake, and he did answer his own phone with nobody in between. So it's true. (laughter)

FROM THE AUDIENCE

My questions really relate to growth that you all have to provide, I guess to Wall Street. And you can, you can grow through same store sales growth and developing new stores. I'm curious what your strategies are for same store growth, and how you decide new – which new communities you're actually going to enter?

JIM DONALD

What we look at is the opportunities that are out there for Starbucks, organically. Growth is a wonderful thing. We hire 300 people a day, 365 days a year, and if we can continue this growth that we're on and we have every, every tool in our belt to do that, we become a company that for all the young students out here, both internationally and domestically, there's going to be one that's going to be favored, cause growth provides opportunities. And we just continue to drive that point.

BLAKE NORDSTROM

I think you mentioned earlier, opening 1800 stores this next year. We're opening one next year. And so maybe it's less about the style or the approach, but it's what is the end result. And so there are different ways to sell merchandise. There are low cost alternatives and Jim talked about his association with Wal-Mart. They're very efficient with their cost. Our model at Nordstrom is a very high cost model. It's high touch. But we think we can have best of class margins and returns by getting more productivity and having better people, and so there are different ways to approach that, and I think where the debate comes in, if you're not performing well, then it tends to stand out, well look your costs are higher than your competition, wouldn't it be a natural to make some cuts there? But in our model that wouldn't work.

JIM DONALD

I think that what employees, partners, shareholders and customers have to understand, is that the bottom line at the end of the day is where you get your Wall Street grade. But there's ways to get there. You can get them through cutting costs like the industry that I came from, the supermarket business, or you can get them by investing back into the business. We have six guiding principles. The six guiding principles is, at the end of the day, you gotta have a profit. The other five talk about diversity, it talks about taking care of the customers, but that doesn't necessarily mean that those five are first and the profit is sixth. They're all blended together.

JEFF GREENFIELD

In terms of where you get your product from, I mean your company is pretty well known for, not just for fair trade coffee, but more generally, really looking at where the coffee is coming from and under what conditions and you've also, your company also looks pretty hard at suppliers. Again, is there any, is there any notion that at some level your customers care about this?

BLAKE NORDSTROM

I believe they do care about it, but I think it's a given. In that you will disappoint them and lose them if you don't operate at that level. Now we're now retailers, we're not manufacturers so we don't own factories. But we source globally, and so it's important that we conduct ourselves in a fair and ethical manner, with our partners. Our vendors' ability to create fresh, compelling, quality merchandise is our ability to be successful and we can't succeed without strong and healthy vendors. And so, we learned that over the years with our shoe business and we try to apply that every day when we interact with them.

JIM DONALD

Blake is right. You have to create a win/win in a supplier community. You have to do what's right, for your customers and for the product and your employees. You have to do us right for that supplier. Case in point would be our farmers in the country of origin. We pay a premium price for coffee. We make sure that we train through our Farmers Support Centers, farmers how to take care of the environment, take care of the communities, building schools and medical centers and that's our responsibility. But while we take that responsibility on, we know that that creates again, a product sustainability that we'll see in the next five to 10, 15, 20 years.

JEFF GREENFIELD

But both of your companies, despite this record, have had – I mean there have been bumps or at least controversies. You had a lawsuit in the late 1990s about overtime. There have been at least one union in New York that has challenged your labor practices. Is there a point at which the interest of labor and management are going to be conflict? That you can't have necessarily the happy family. Or do you think that's just old fashioned thinking?

JIM DONALD

We call our partners employee partners. They share in the success of the company through bean stock, which are options that we give out each year for the hourly employees. We share our benefit packages. They're the same as our partners at store level. It is all part of taking the success of the company and making sure that everybody has a piece of this. And when we do that, the values are all like-minded. The company will continue to prosper.

BLAKE NORDSTROM

I don't believe there is a conflict at all. Matter of fact, I think there's a conflict if you don't execute and conduct yourself in that manner that Jim's talking about. You will not be successful and so, our success is dependent upon these people, roughly 50,000 people in our company, that are out there every day, interfacing with the customer and they're the ones who have the trust and relationship. Nordstrom is each of these individuals. It's not someone sitting in Seattle in the office and so, again, I concur with Jim.

FROM THE AUDIENCE

Thanks for coming. My name is Arkon Kyhan. I'm a full time MBA student at the UW program. My question has to do with corporate social responsibilities and how much you actually publicize that. I think it's great that you both have – both your companies have a lot of commitments with doing well, not for your own employees, but for kind of society at large, whether it's fair labor compliance with Nordstrom or your commitment to care. It's great. It's the reason why a lot of people will buy the beans, or buy the clothes and shoes. It's why students want to work for your companies. I'm sold. But, where do you balance how much credit you take in building that into the brand? Because too much PR will seem like you're tooting your own horn.

JIM DONALD

We're very humble in our approach to talking about what it is that we do. We also see on the other hand, Wal-Mart and some of the things they're doing, they're getting questioned on. And so what we're trying to do is, not necessarily do this to say, this is great for business, but we want to do it to inform our customers and our partners, just how great a company Starbucks is. That it is not just a for-profit company but you can actually be great coffee, great company. And whether it's giving back to the community that each store operates in, whether it's taking care of the cocoa farmers on the Ivory Coast, a lot of that stuff, you know, we just use grass roots marketing to make sure that our partners know it first and foremost. And similar to benefits Similar to benefits like healthcare, and similar to investments, Jeff, you talked about, into your partner base, the investments in the community too, we don't know which is propelling our growth right now, in our increasing transaction. Whether it's our social responsibility, whether it's taking care of our partners, taking care of the customers, but we know there's a blend and it's all working.

BLAKE NORDSTROM

One of the concerns that we have is the downside. If you do not execute or conduct yourself well, on those issues, the reputation of our company is probably our single largest asset and our people are part of that. If we were to have an issue along the lines that you're talking about, somewhere globally, that's the kind of thing that can put it in the media or do untold damage. We are a for-profit company. Our ability to be socially responsible, to be able to give back to our communities, starts with running a successful business. If we run a successful business, we pay taxes, we have people that have wages and we're able to take some of those profits and give back.

JEFF GREENFIELD

What I'd like to do is to get a look at what's called the corner office. Not so much in terms of specific companies, but what life is like. For instance, when you come to work in the morning, is there one thing that you have to do first? Is there a number that you look at? A call you make? Something with that which you don't feel the day has started properly as a CEO?

BLAKE NORDSTROM

First thing I do is look at the figures. How was yesterday? Did we have an increase or not? Cause it's all about having increases. So we look at it all day long. But the first thing I look at, what was our increase? What's our day-to-day and what do we have to do to make our day?

JIM DONALD

I get to the office before the sales are out, and I make either five to 10 calls to stores all over the world. Just to say hey, it's Jim. What's up? And I start my day with actual interactions with store level partners.

JEFF GREENFIELD

You both seem like very calm guys. But I do want to know if anything in the last year, a kind of event, has gotten you angry? A colleague, a competitor? Maybe the press? Maybe a customer? And what do you do about that?

JIM DONALD

Well my charge card came from Nordstroms and I was furious. I thought that (laughter) you know, I can't believe what I paid for this stuff.

BLAKE NORDSTROM

We, this morning, this morning I had a call about 7 o'clock with a customer that was unhappy with us and I've been working on it for a week. And we blew it. We, his son, sent through the internet, some merchandise for Christmas to him and in the gift box was the price stickers. And he wrote me last week and said, "you ruined our family's Christmas." And he's made maybe a dozen calls and he couldn't be more disappointed and frustrated and he's really been venting with a lot of people in our company, and so I heard about it last week. Got his account credited. Got a hold of his son. I was in Chicago until 9 last night so I called him early this morning, and we had about a half hour conversation. And I was frustrated because he's right and we blew it. I was doing all I could to apologize, but I couldn't get that chip off his shoulder. I mean he was just so aggravated by it and when the day is done too, we're human. We make mistakes every day. So I think the key is, do we take accountability? Do we have ownership? And do we allow our actions then to speak for themselves and create a reason why the customer should try us again.

JEFF GREENFIELD

Do you ever wake up in the morning and just want to call in sick? (laughter) Not because you're angry, it's a gorgeous day and I assume at some point it stops raining in Seattle.

JIM DONALD

My wife is in the crowd. I can ask her and she'd tell you that if I'm on my death bed, I'm going in to the office. But I got to tell you, no, because I love what I do. I want to get up out of bed, to my store, to connect to my office and just get things rolling.

BLAKE NORDSTROM

I think I know Jim well enough that (laughter) that I do think we share some things, because I've seen him do it, you know, week in and week out, even though he's off to China tomorrow and he's traveling all over, is in our positions, it's pretty demanding. But we have a lot of flexibility and so there's a morning when you're driving your kid to school or there's a basketball practice or there's some kind of activity, and I think it's not about calling in sick, it's finding those moments, those treasures, when you can be with your family.

JEFF GREENFIELD

Got another question from the audience?

FROM THE AUDIENCE

My question for you, both companies provide a total retail experience to customers, through among other things, as you said, customer service. How do you maintain that customer service though from store to store, and department to department with Starbucks, you have stores all over the world, and with Nordstrom you have departments that are very different from one another. How do you maintain that?

BLAKE NORDSTROM

Well we believe very strongly in promoting from within when it comes to the selling experience, and so literally, every one that's in the store, interfacing with you and others and a customer, started in the stockroom or the Shoe Horn are selling. And that's such a key, key part of it and so I think if we stay focused on that. That really helps. You know, kind of a cultural and environment that we're trying to build and our people staying true and staying focused, to the highest priorities.

JIM DONALD

We want the new hires to understand what the DNA of our company is. Once they understand what the DNA is, hopefully they're there or they can migrate to that point. What's interesting though is a lot of times if these new employees or partners, don't necessarily understand the culture, can't carry it on, they'll self-select out. Or they have so much peer pressure from the partners that are doing things, that they either turn it around or decide to move on.

BLAKE NORDSTROM

Yeah, and usually the organization is rejecting that individual.

JEFF GREENFIELD

Before we say a profound thank you and goodbye, we turn to what we call the lightning round. These are very short questions that require very short, very short, unthought out spontaneous answers. They're not – nobody is going to get in trouble

with them, I promise you that. It's your last meal? Where is it and what are you eating?

BLAKE NORDSTROM

Oh it's at home. He's whispering Starbucks in my ear. (laughter)

JEFF GREENFIELD

Your last meal and it's not Starbucks. Where are you going and what are you eating?

JIM DONALD

I'm eating with my family and I'm eating Shepherds Pie.

JEFF GREENFIELD

What's on your iPOD?

JIM DONALD

Crosby Stills & Nash & Young. I got Neil Young, Guns N' Roses.

BLAKE NORDSTROM

Guns N' Roses? (laughter)

JIM DONALD

Yeah.

JEFF GREENFIELD

Blake?

BLAKE NORDSTROM

Oh I don't even have an iPOD. So how's that? (laughter)

JEFF GREENFIELD

Your favorite indulgence. The indulgence that you indulge because by God, you're going to indulge it and life is short?

JIM DONALD

Vanilla ice cream with chocolate sauce. (laughter)

JEFF GREENFIELD

Blake?

BLAKE NORDSTROM

Boats. I love things mechanical in the water and I – when it comes to boats, that's my favorite thing.

JEFF GREENFIELD

A book or writer that has stayed with you. That means a lot. Either influenced or that you turn to because it's very special to you?

BLAKE NORDSTROM

It's a person here locally. Dr. Dale Turner.

JEFF GREENFIELD

Why?

BLAKE NORDSTROM

He's very inspirational. He was a minister just up the street here and he doesn't preach the bible, or the gospel. He preaches about how you can be a better person and I just find him very inspiring and keeps me very centered and focused on the most important things.

JIM DONALD

The book is out of print now. It's called *The ABCs of Leadership* and it talks about each letter stands for a portion of leadership and I give that book, when it was – when I could get my hands on it to all of our up and coming senior executives..

JEFF GREENFIELD

Okay, like you to complete this sentence. Before I get too old, I really want to?

JIM DONALD

Dunk a basketball (laughter)

BLAKE NORDSTROM

You got no shot.

JEFF GREENFIELD

Blake?

BLAKE NORDSTROM

I don't know how to answer that.

JIM DONALD

You answer it.

BLAKE NORDSTROM

Yeah, there you go. (laughter)

JEFF GREENFIELD

Oh there's so many things. I really want to see the Great Wall of China. I mean there probably will be seven Starbuck stores –by the time I get there.

JIM DONALD

We just opened our first store on the Great Wall of China too. (laughter)
You kind of jogged my memory and I've always wanted to coach basketball at a high school level. So I would tell before I die, I want to be a basketball coach at a high school level.

JEFF GREENFIELD

Okay.

BLAKE NORDSTROM

I think it's this notion of having regrets or things that if you had the time you'd do differently and I, years ago, almost over 20 years ago, my mother passed away and so as a young person, it was kind of a rude awakening, a jolt about taking advantage of each day, and so you know, again, there's lots of things that I wish I did differently, but I don't have any regrets and there isn't a long list that I wish I would aspire to. I enjoy every day.

JEFF GREENFIELD

That's a very heartening way to put a wrap on this, gentlemen. Cause there is a time, you know, as you both know, the last customer has to leave and you close the doors and you turn out the lights and that's where we are at this point in the program. I'm profoundly grateful to both of you, to Jim and Blake, the Nordstrom CEO – President, but you got a pass, and the Starbucks CEO for being here and I want to thank the University of Washington Business School. I want to thank the audience as well. And if this meeting of the minds has helped in any way to contribute to the marketplace of ideas, that's the business of CEO Exchange. I'm Jeff Greenfield.

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