



The Mountain versus the Valley

Why the Pacific Northwest is destined to
become the Global Hub for Digital Business

By Tim Goggin & Erik Wirsing

Some have called the collective technology center that comprises Seattle, Portland, Vancouver, and Alaska the next Silicon Valley, but is that a valid description? Delve into the rich history of the two regions to find out why the Pacific Northwest is something entirely different, and how it is on the brink of a customer-centric digital revolution.

ACT I

A Continental Divide



The Other Gold Rush

By all accounts, Johan was a hardy man. Born to a blacksmith in Sweden only 60 miles south of the Arctic Circle, he was no stranger to hard work, or to brutally cold climates. He'd manned the family farm before immigrating to the United States at the young age of 16 with five dollars in his pocket. He'd worked his way across the continent on dangerous railroads, in unpredictable mine shafts, and in lumber yards and shipyards. And he'd successfully made it all the way to Seattle, a small mill town that was feeling the effects of the financial panics of 1893 and 1896.

After all that, heading to Alaska to hunt gold would be a cinch, Johan thought.

But as he trudged through the snow-laden Chilkoot Trail with hundreds of exhausted fortune-seekers, he wasn't so sure of his assessment. This was nothing like the other Gold Rush he'd read about, the more famous one that took place 50 years earlier in 1849 down in sunny California. The Klondike Rush in Alaska was fraught with peril. Biting temperatures, snow drifts, and avalanches. Treacherous passes and the icy waters of the Yukon River. Johan knew that if he could make it over the disputed Canadian border to Dawson City by winter, he'd have a chance at survival, but even then, he'd heard tales of unsanitary conditions, fires, and epidemics.

Arriving in the boom town, he was amazed at how prices had skyrocketed for even simple goods. He was glad he'd stocked up in Seattle, and for the tough clothing and equipment he'd acquired there from outfitters like Clinton Filson. Johan was immediately surrounded by saloons, brothels, and men who hadn't shaved or showered in weeks, some of whom were paying with their dwindling gold dust. Only a few hundred out of 20,000 had struck it rich.

Johan took what money he had and invested it in a claim on Gold Run. When it unexpectedly hit pay dirt, he was about to become one of the fortunate few to collect, but his claim was challenged and he was sued. Everything hung in the balance and fate intervened when another party offered him \$30,000 for the claim. After splitting the money with his two partners, he headed back to Seattle with \$13,000 and never looked back again.

*Rail Station,
Alvik, Sweden,
Johan's hometown*



*Ascending Chilkoot
Pass, May, 1898*

Johan took his earnings and went to business school and decided to join his friend, Carl Wallin, in the shoe business in 1901. He stood out by focusing on the customer experience and offering the highest quality service. By the time he retired in 1928, he had unwittingly launched a business that would become a fashion empire. He also could have no idea that he was part of an early movement that 90 years later would change the world—a movement that would come to be called Digital Business Transformation.

His anglicized name was John Nordstrom.



John Nordstrom at his shoe store in Seattle, early 1900s

Going to California

Most Gen-X youngsters growing up in the 70s and 80s—the bulk of today's business and tech leaders— didn't live in California, but we dreamed of our own manifest destinies and personal gold rushes. Who didn't want to strike out for the west? Old tales of swashbucklers and cowboys. Hollywood celebs, rock stars, surfers, and skateboarders. The land of Disney, *E.T.*, the Lakers, and the 49ers.

What about Napa, Sonoma, and the nation's premier wine country? Sequoias, the Sierra Nevada, and Yosemite. The Beach Boys, Journey, the Eagles, Jefferson Starship, and the Grateful Dead.

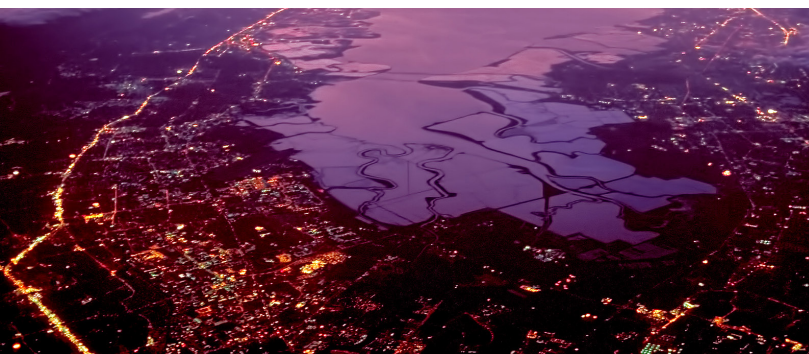
But it wasn't just the lore and pop culture that affected us—it was the technology. This is where Atari consoles were created. This is where a little company with a curious fruit logo was born. Books like *East of Eden* taught us about the special harmony between beauty and opportunity in California.

Then came the dot-com boom and the promise of an area called Santa Clara Valley, dubbed "Silicon Valley" by tech heads and day traders. And we all know the rest of the story.

But what we didn't know was that something else was quietly happening hundreds of miles north. Though it began centuries ago, it's only just playing out today.

Left: Silicon Valley is generally considered to have been the center of the dot-com bubble, which started in the mid-1990s and collapsed after the NASDAQ stock market began to decline dramatically in April 2000.

Right: Mt. Saint Helens erupts on May 18, 1980.



In the Shadow of the Valley

The thing about the Pacific Northwest is that for most of its existence, it's been overshadowed by the bright light of California and the Valley. To a lot of folks east of the San Andreas, the Pacific Northwest was a mystery. Unlike happy California, places like Washington, Oregon, British Columbia, and Alaska were seen as dangerous and forbidding. It was the place where great mountains unexpectedly erupted, where killer whales hunted in the waters, and where Kodiak bears roamed the woods.

One of the first PC games, “The Oregon Trail,” was littered with threats like dysentery, smallpox, and wagon wrecks (how often did you actually make it to the end of the game?). What about how dark and dangerous the movie *Goonies* was (set in Astoria, Oregon)?



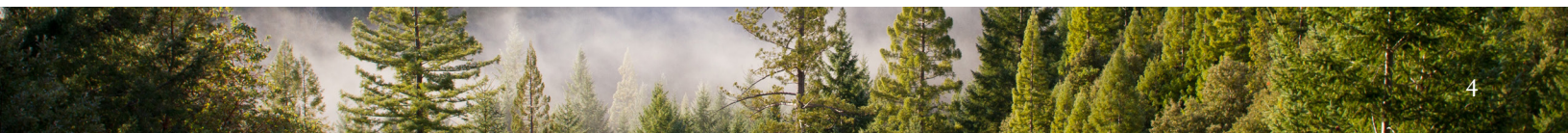
Later, this same theme played out in entertainment like “Twin Peaks,” “Deadliest Catch,” and *Into the Wild*. Didn’t *The Ring* series take place in Seattle and Astoria? And even though California actually has more serial killers per capita, it’s the Pacific Northwest that gets the morbid fame in Ted Bundy, Gary Ridgway, and the I-5 killer.

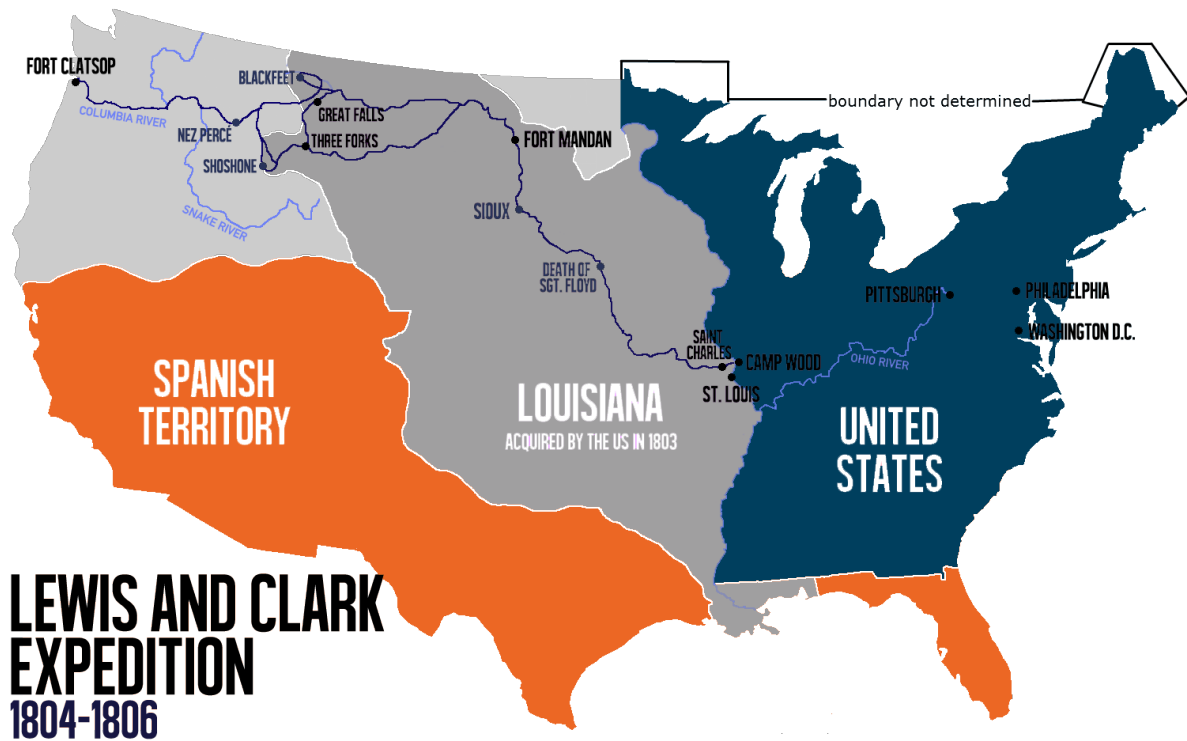
Funny, then, that this beautiful region—where Mount Rainier, Mount Hood, and Mount McKinley all proudly stand—is now drawing more and more talented people, from startup entrepreneurs to corporate moguls, and from nimble developers to tech-savvy marketers, and for a variety of reasons that go back a long way.

Two Roads Diverged in a Wood...

At the beginning of the 19th century, when the Mexicans had a firm grip on California (it wouldn’t become a state until 1850), two explorers were on their way to a place that America had acquired, but had not yet named. It was a rugged, untamed swath of partly contested land that would later come to be known as Oregon Territory and the Pacific Northwest. If you’ve read any of the accounts of Lewis and Clark, you were probably surprised to learn that they made it back from their expedition in one piece. From the beginning, in all those journal entries, the territory earned its reputation as hazardous and disconnected from the world.

A destination for fur-trappers and lumberjacks.





It would be decades before much else happened there in the area of commerce, and it would take something momentous to draw the attention from the rest of the country. That something was gold, and this is another case of California outshining the Pacific Northwest. We've all heard of the 1849 Gold Rush—it even has a pro team named after it—but far fewer know anything about the Klondike Gold Rush of 1896-1899 that men like John Nordstrom and Clinton Filson were so much a part of.

While things were going one direction in California, another kind of trail was being blazed in the PNW. If we look at the regions in a side-by-side comparison of chronological events, a pattern begins to emerge.



California

Pacific Northwest

1898



1898: Installation of electric lighting

Take **Clinton C. Filson**. He was a former Nebraska homesteader who saw an opportunity to help some of those fortune hunters get outfitted for the Alaskan wilderness. While the League of California was proposing the installation of statewide electric lighting in 1898, Filson was setting up shop in Seattle and providing high-quality gear for camping, fishing, and logging. Today, anyone carrying a Filson bag will almost always hear about a happy Filson product experience from a passerby on the street. Famous for its customer service, Filson ownership is a point of pride.



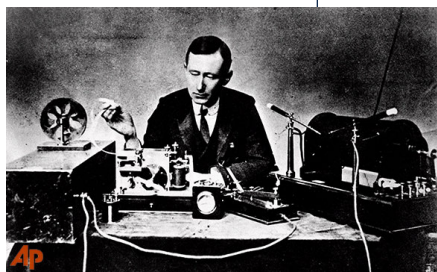
1898: Filson opens first store in Seattle



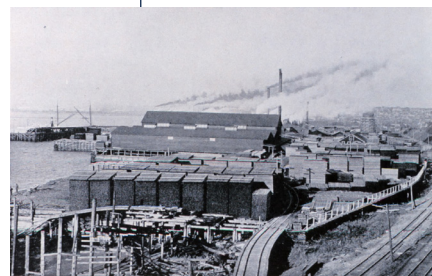
1898: First Weyerhaeuser mill, Everett, WA

1899

It was about this time that a determined logger named **Frederick Weyerhaeuser** was looking for his own gold in the form of trees. As the first ship-to-shore wireless signal was being sent in San Francisco in 1899, Weyerhaeuser was making his way to Washington State where he built a lumber empire that now employs 15,000 people and controls six million acres of timberland.



1899: First ship-to-shore wireless message





California

Pacific Northwest

1901



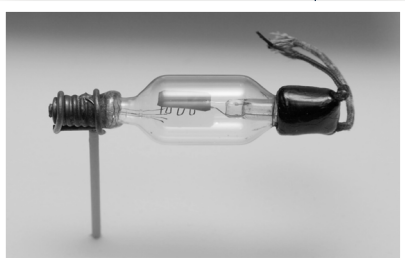
1901: Stanford University (founded in 1891) gains reputation for technology

In 1901, about the time Stanford University was starting to carve out a tech niche for itself in Palo Alto (it had been founded in 1891), our friend John Nordstrom was opening his modest shoe store in Seattle.



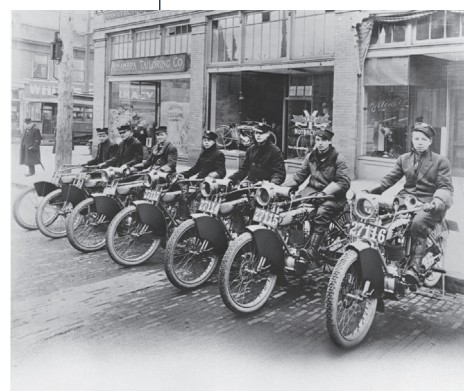
1901: John Nordstrom opens first store

1906-07



1906: De Forest grid Audio (De Forest would move to San Francisco in 1910)

Close to the time noted technologist Lee de Forest was relocating to San Francisco to start the North American Wireless Corporation, James Casey was in Seattle creating the American Messenger Company. Today, that company is known as United Parcel Service (UPS) and delivers more than 15 million packages a day.



1907: United Parcel Service founded in Seattle

1916



1916: Ruins of unfinished Stanford library after SF earthquake

In 1916, while the Santa Clara Valley inhabitants were busy building a technology stronghold that would come to be called "Silicon Valley" decades later, William Boeing was incorporating his modest airplane manufacturing plant and it now serves all the major airline carriers and armed forces.



1916: Boeing first incorporated as "Pacific Aero Products Co"



California

Pacific Northwest

1937-39

And finally, while **William Hewlett** and **Dave Packard** (recent graduates of Stanford University) were

tinkering in their garage funded by some of the first venture capitalists, a humble pilot by the name of **Linious “Mac” McGee** was flying his runs between Anchorage and Bristol Bay in a three-passenger aircraft. This little airline made sure medicines, food, and other

essentials were delivered to people in remote towns in Alaska in what they still call “Milk Runs” to this very day. This became Alaska Airlines.



1939: The Hewlett Packard garage and the birthplace of Silicon Valley



1937: McGee flies supplies to remote Alaskan communities

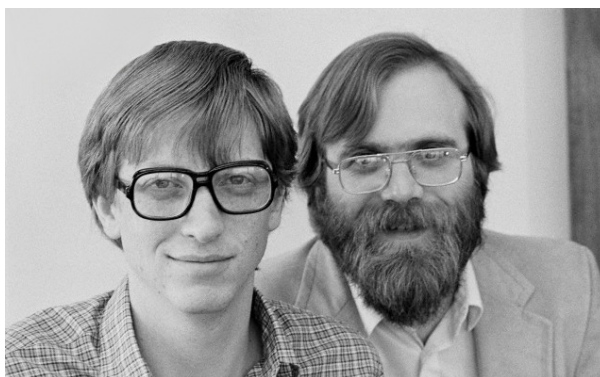
The list keeps going: 1930 – **Eddie Bauer**; 1938 – **REI**; 1964 – **Nike**; 1971—**Starbucks**.

The pattern in these early stages of the two regions is clear: from the start, business thinking and approaches in California and the Pacific Northwest ran along very different fault lines in a great continental divide.



1970s

By the mid-1970s when Microsoft came on the scene, the split was complete.



ACT II

The Case for the Customer



Clinton Filson kept in close contact with his customers, improving his goods to meet their specific needs. The stampede depended on Filson. In that era, clothing wasn't a matter of choice, but of survival.

Education versus Determination

“The strongest thread that runs through [Silicon] Valley’s past and present is the drive to ‘play’ with novel technology, which, when bolstered by an advanced engineering degree and channeled by astute management, has done much to create the industrial powerhouse we see in the Valley today.”

*Dr. Timothy Sturgeon
MIT and Berkeley, 2000*

Stephen B. Adams points out in his “Regionalism in Stanford’s Contribution to the Rise of Silicon Valley,” that:

“A very powerful sense of regional solidarity accompanied the rise of Silicon Valley, since from the 1890s, Stanford University’s leaders saw its mission as a service to the West and shaped the school accordingly. At the same time, the perceived exploitation of the West at the hands of eastern interests fueled booster-like attempts to build self-sufficient indigenous local industry. Thus, regionalism helped align Stanford’s interests with those of the area’s high-tech firms for the first fifty years of Silicon Valley’s development.”

While California and the Santa Clara Valley were characterized by technology innovation and scholarship, the Pacific Northwest’s success depended on durability in a harsh environment, which ultimately led to a rich tradition of emphasis on the tactile, human experience and exemplary customer service.

The Pacific Northwest was never a playground for experimentation. Instead, it was a place where you had to survive and thrive. The Frederick Weyerhaeusers and John Nordstroms of the world went there to start companies that simply had to make it. There was no playing with “novel technology” for them. There was also no Pacific Northwest equivalent to Stanford driving an academic fervor for economic development or an entrepreneurial spirit. In the PNW, you cared for your customer first.

As such, Pacific Northwest ventures didn’t start out as technology companies—they were all supply chain companies that were formed in response to immediate customer needs, be it coffee, clothes, books, or lumber. Also, they still exist today and most remain enormously successful.



Kurt Cobain of Nirvana. Can you imagine this being born in Silicon Valley?

As time went on, the strong sense of solidarity in Silicon Valley encouraged exclusivity and self-protection, and was largely fueled by an academic pipeline—it was no coincidence that this would become the cradle of the dot-com boom. On the other hand, any solidarity in the PNW came from flourishing in an isolated region and a difficult climate where you simply had to be scrappy—it's no coincidence that this was to become the cradle of grunge and flannel. And in the atmosphere of the young Pacific Northwest, you often had to take care of one another and band together to do well.

This means that both regions are equally isolated, but in their own unique ways.

What if Amazon ran Uber?

If you were to ask anyone what comes to mind when they think of Silicon Valley, you're going to inevitably hear terms like “stalwart startup culture,” “academic powerhouses,” and “fierce, cutthroat competition.” This isn't to say that California doesn't have some history of traditional supply chain companies—one only needs to mention enterprises like Gap, Pottery Barn, Sephora, and Apple. Yet Silicon Valley tends to be more popularly characterized by ventures such as Facebook, Twitter, PayPal, Uber, and Airbnb more than anything else.

These are all startups that were born in the cloud and offer platforms as their products. After all, Airbnb is the largest hotelier in the world and owns and operates not a single hotel. Uber is one of the most profitable transportation companies in the world and doesn't own a single car.

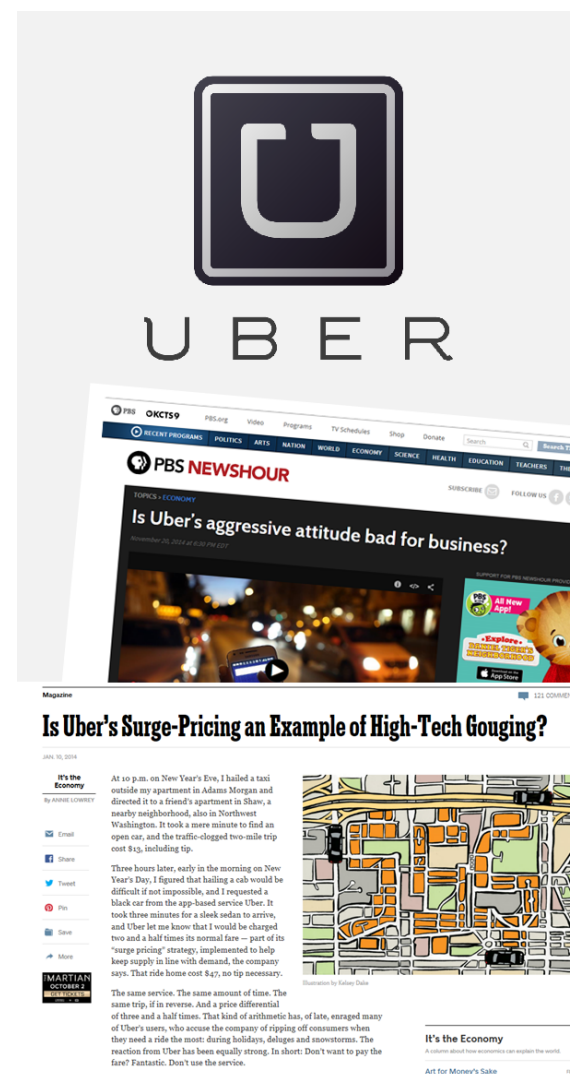
The obvious difference between these tech startups and Pacific Northwest mainstays like Amazon, Starbucks, and Nordstrom is that the latter are supply chain companies that manufacture or distribute tactile goods.

However, there is another important (and often overlooked) contrast that needs to be dialed up:

Pacific Northwest companies are among the strongest in customer service.

Amazon, for instance, recently took a lashing in the New York Times because of how much emphasis they place on their customers over their employees. The Nordstrom brand is defined almost solely by its white glove customer service, and has been since the early 20th century. Starbucks locations are crowded every day all over the world, not because of the quality of the coffee, but because of the customer experience they offer. Alaska Airlines has won the JD Power customer service award for eight years in a row.

Now take Uber. The company has a reputation for strong-arming city governments. The drivers are constantly complaining about income. The surge rate Uber levies on its customers is highly unpopular and punitive. If



you go to their website, you won't find a customer service line. We might say the same thing about Twitter, Facebook, and any number of Silicon Valley tech giants. It just isn't an area of focus for them.

Now imagine if Uber were started by a Pacific Northwest company like Nordstrom or Amazon and you can't help but wonder how different it might be. If the customer truly came first, would there be such a thing as surge rates? Would it be easier to find a customer service representative? Would the overall experience be better?

Blurred Lines

Everett, Elmer, and Lloyd were brothers who ran a very successful company, but didn't always agree on everything. It was 1963. A lot had happened with the family business since their father John opened the first Nordstrom store some 62 years before. With his recent death, they knew their agreement on the future of the company was crucial. Do we stay in the shoe business, or do we take a risk and expand?

After a lot of consideration, the brothers decided it was time to take a chance. Nordstrom purchased Best Apparel that year and made the move into women's clothing, eventually moving into children's and menswear over the next few years. This expansion was a radical move for a shoe store, yet it secured their future for decades, until another innovation was required from another Nordstrom generation 30 years later...

By the mid-1990s, e-commerce was knocking on the door and it wasn't planning on being a guest—it was going to move in. A new startup called Amazon.com had set up shop just down the street and was already making business headlines. Instituting an e-commerce model was a tremendously challenging and expensive aspiration, but Nordstrom leadership made the decision to do it. It was the only way to compete, stay relevant, and to please their customers.

Throughout the decades, other Pacific Northwest mainstays like Starbucks, Nike, Microsoft, REI, Alaskan Airlines, Boeing, and Costco have had to make similar decisions to ensure their future. For them, as it has always been, it's about survival and thriving. But their strategies also consistently keep the customer at the center, no matter the tool or technology. More importantly, these companies never lose sight of the tactile, physical experience that happens between their customers and products.



Amazon's transportation business would likely be more consumer-friendly than Uber's.



Gartner defines a digital business as “the creation of new business designs by blurring the digital and physical worlds.”

Gartner also writes that, “The emerging digital world requires human-centric digital leadership... It is the notion that people must be a central focus in the manifestation of digital businesses and digital workplaces.”

Gartner

It is this idea that while digital-only products and platforms are great (Uber, Airbnb, PayPal, Twitter, etc.), human beings will always also demand a rich physical interaction with the products and services they choose. This means that traditional enterprises that deal in supply chain, merchandising, healthcare, manufacturing, or even software have to undergo transformation to stay competitive.

Even Microsoft and Amazon—usually thought of as “tech companies”—were built on supply chain principles and have a lot of physical products to think about, whether we’re talking software discs, Xbox consoles, or books.

At the end of the day, the journey to becoming a digital business applies more to conventional enterprises than to born-in-the-cloud startups. The digital burden is on older companies to modernize their technology capabilities to forge stronger relationships with their current and future customers in the digital space. And they have to do this while connecting with existing systems already in place like manufacturing, supply-chains, employees, etc. And this is what Gartner means by blurring the lines between digital and physical worlds.

The other point Gartner makes clear is the need for human-centric digital leadership—that people must be central, not technology. This is another way of saying that everything we do as businesses has to be laser-focused on the customer. This will always be the case. That is until our customers stop being humans.

ACT III

From Technology Innovation to Human Integration



Mind the Gap

Adam Brotman represents a new breed of C-suite leader in a rapidly evolving digital world. With the usual corporate titans like the CEO focused on vision-setting, the CMO driving marketing campaigns and customer satisfaction, and the CIO pressured with keeping the company lights on while also being a part of the business conversation, a gap has recently become very visible for many companies. It's a gap between leadership realities and digital demands and it requires a specialized shepherd called a Chief Digital Officer, or the CDO. If you were to ask Brotman why Starbucks—a coffee chain of all things—needs a CDO or a digital app, like most Pacific Northwesterners, he'll simply tell you it's because “customers have been asking for it.”

With its popular member rewards and loyalty programs and card-carrying customer base, Starbucks had a strong platform to build on when investing in app innovation. Now people can browse, search, and purchase on a mobile app and have food and beverage products waiting for them when they get to a retail location. Brotman works in tandem with the CEO, CMO, and CIO to bridge gaps and guide the digital present and future of the coffee giant.

And Starbucks is just one of the many Pacific Northwest supply chain companies that's looking to fuse the tactile, physical, and digital worlds to make for a single, delightful customer experience.

Nike is considered a digital master by MIT and George Westerman. This Oregon-based company is a leader in fusing the digital experience of software with the very physical experience of running, boxing, or any other sweat-inducing activity. While companies like FitBit and JawBone are focused on digital hardware and software, Nike is intimately familiar with the human experience in addition to the technology because of their physical products that range from shoes to fitness gear. As a result, they've managed to build an enormous user base for their apps that lead to customer loyalty and future product purchases, not to mention a ready-made marketing platform.



*Adam Brotman,
Chief Digital
Officer, Starbucks*

Amazon Prime memberships are popular and profitable. Supply chain practices are improving all the time at Amazon, who's in the business of getting products to people all over the world—they don't care where you are. They've been bullish in their investments and innovations around shipping, from free, two-day shipping with Prime, to drones knocking on your door. All of this takes constant digital innovation.

Alaska Airlines has recently been praised for becoming "one of the top airlines in the world for using technology to speed passengers through the boarding process." CEO Brad Tilden doesn't reference technology when asked about why they're investing in an easier boarding process. He instead starts with the customer experience: the stress of the passenger. The technology only comes into play after the customer pain points have been identified. So customers can use technology like apps and websites to check in, print bag tags, and more.

And like John Nordstrom and two subsequent Nordstrom generations have done, the retailer's leadership merged its in-store and online presence, overhauled and consolidated its buying process, and even purchased Trunk Club in an effort to win digital customers. This investment lets them reach a wider range of customers and deliver the award-winning customer experience in the digital realm. For Trunk Club in particular, they have fused the physical and digital experience by allowing their male customers to choose customized clothing packages online and have it elegantly delivered to the front door.

The Power of Partnership

The thing to keep in mind about the PNW is that it's not one-dimensional. It's not just a pasture full of inventive, old-school enterprises meeting and embracing the digital revolution. It also happens to be a land of startups.

There is no shortage of these in the Pacific Northwest that were born in the cloud. Redfin, Expedia, Zulily, Apptio, Zillow, PayScale, and SmartSheet are just some of them.



In fact, one of the things that makes this region so unique, and so well-positioned for being a digital business leader, is that it has a rich mix of established enterprises and fledgling tech companies. All of them—from the largest to the smallest—are trying to carve out their digital niche.

So what is the big opportunity? For one thing, there is a perfect blend of old and new—traditional and cutting-edge—that makes healthy partnership possible. Large, established enterprises can teach startups a lot about customer service and survival, while startups have a lot to teach enterprises about how best to implement technology. Amazon has created Launchpad, its own Kickstarter-esque platform, to help startups get the funding they need (while of course getting a cut). As mentioned before, Nordstrom recently purchased Trunk Club so they didn't have to build a similar model from scratch.



In this vibrant ecosystem, startups can also band together to create better offerings, and enterprises can work together instead of competing to create amazing customer experiences, as in the case of the Microsoft band and Starbucks in-store payment, and the famously deep partnership between Boeing and Alaska Airlines (unlike the other major carriers, Alaska only keeps Boeing aircraft in its fleet).

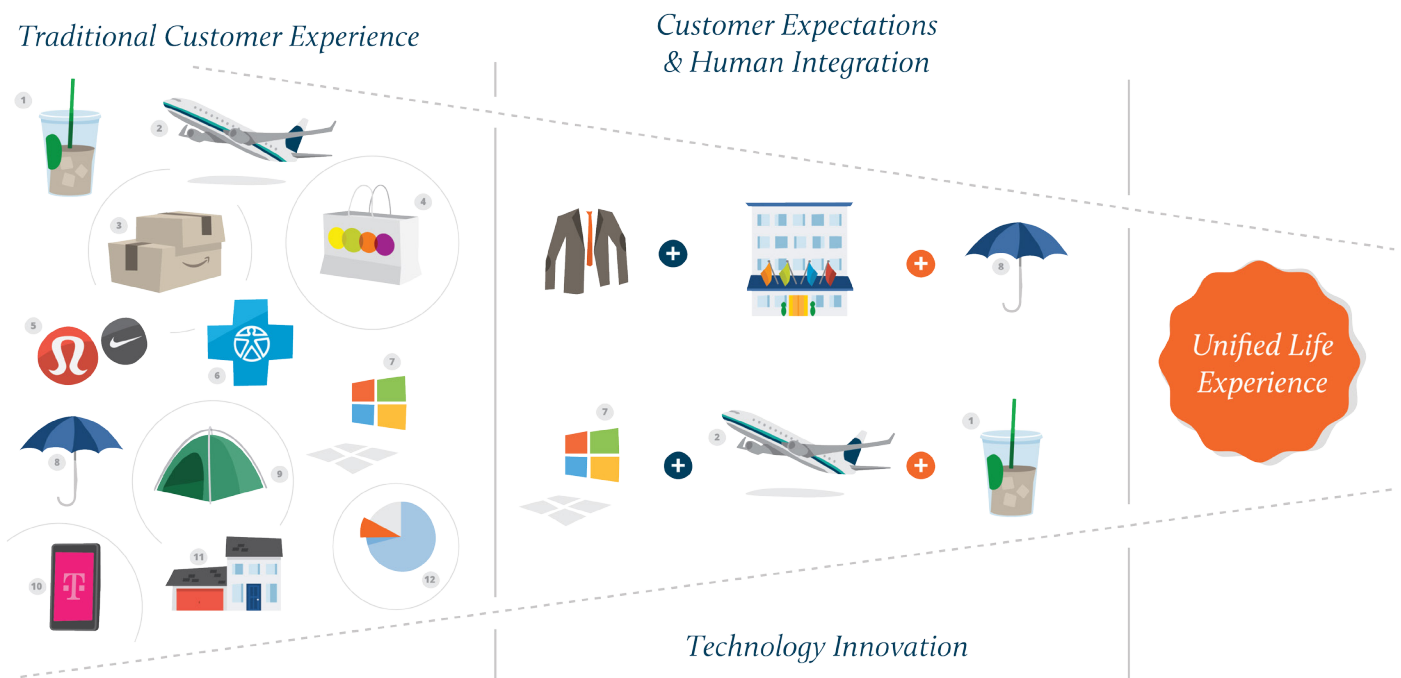
Unified Life Experience

When we stop and think about the day-to-day and play-by-play of a human being, it's easy to see siloes. For example, one silo would be clothing—the act of trying them on, ordering them, or returning them. Another silo would be travel—the act of buying tickets, booking hotels, or renting cars. Another one would be food and entertainment—the act of planning, going out, or eating. There are dozens of other siloes: fitness, work, healthcare, education, insurance, philanthropy and volunteering, and hobbies. What about city governments? They're involved in our lives too, particularly when it comes to taxes, construction, and parking, to name a few.

A human life is complex. It's a frenetic adventure in multitasking. Companies can use technology all day long to empower their customers and claim that they are making experiences better, but they are still doing it in siloes. Uber for transportation. Airbnb for accommodations. Nordstrom for fashion. Amazon for shopping. And so on.

But if digital business transformation is going to continue heading in the direction of the customer (which it will)—and if technology will continue to empower the customer (which it will)—then the future won't be about customer experiences as we know them today, forcing people to leap from lily pad to lily pad to navigate through their needs. It will be about a unified life experience brought to the customer by an alliance of cloud and supply chain companies using cutting-edge technology.

And with every digital and physical need covered by a range of small and large companies, the customer-centric yet tech-savvy stronghold of the Pacific Northwest is best positioned to connect the dots of the human experience. It just requires opening up to partnership, even with traditional competitors.



The “digital business funnel” hypothesizes that as customers become more tech-savvy and demanding, and as technology advances, they will come to expect more than just standard, siloed customer services.

Digital for Human's Sake

In the end, digital business transformation is gritty. It's hard work. Many companies won't make it. It's about surviving and thriving through very tough conditions. It's also about being ardently customer-centric and recognizing the humanity through all the digital haze.

Humans are naturally tactile creatures. While we like our apps for how they solve our problems, we still love the feel of the phone they're delivered on. No matter how many innovative experiences Starbucks offers, we will still always need the coffee in our hands and enjoy the sense of being in the café. And while we might find ordering from Nordstrom's website convenient, it's the shoes, clothes, and makeup that we want.

The best digital businesses will ensure the best customer experience and that means using technology elegantly to ensure people get what they desire.

In many cases, Silicon Valley's inventive and academic culture is to create the technology and then find uses for it that produce a profit. In the PNW, the culture is to find out what customers want and build the technology and digital investments to make the customer experience the best it can possibly be. Silicon Valley relies on technology innovation to build profitable platforms. The PNW is moving rapidly toward technology integration and blurring the digital and physical worlds.

Neither one is necessarily better or worse than the other—both regions generate plenty of revenue and success—they're just as different as a valley and a mountain.

The End

For more information or to share your thoughts, contact us.

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