



Business

THE SEARS -KMART MERGER; SEARS HOLDINGS CORP. PRESIDENT; After years in fast food, `coach' on fast track in retailing game

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There was a hint of something grander in the works when Aylwin Lewis met Kmart Chairman Edward Lampert at the investor's Greenwich home on Labor Day.

It was the first meeting in a swift courtship that installed Lewis as Kmart's chief executive officer last month.

Lampert mentioned he was "always looking for opportunities" and hinted something "may happen," Lewis recalled.

"I didn't pay attention at the time," Lewis said Friday. "I thought, `I've got a big enough challenge here.'"

And so he has. The job is an enormous task for the 50-year-old native Texan, a first-time CEO and 26-year veteran of the fast-food industry with no merchandising experience.

But it just got a lot bigger. His new boss announced an \$11 billion deal last week to buy Sears, Roebuck and Co. and merge it with Kmart to create a retailer with \$55 billion in sales and nearly 3,500 stores.

Lewis will add Sears' retail operations to his Kmart role.

"Are you up to it?" Lampert asked Lewis when he dropped the bombshell two weeks ago during one of their daily telephone conversations.

"It was a little overwhelming," Lewis recalled Friday. "[But] immediately I thought, `Well, why not?'"

The challenge facing Lewis is one of the most daunting in retailing. For the new Sears Holdings Corp. to succeed as an operating company, industry experts say, Lewis will have to combine two lousy retailers into a single good one with enough moxie to compete against powerful rivals like Wal-Mart Stores Inc. and Target Corp.

That will entail vaulting all the normal hurdles posed by any merger of two massive enterprises. But it will also mean overcoming a special challenge: Neither Kmart nor Sears has a workable merchandising strategy. So the new company will have to carve a new one--something that would strain the talents of even a veteran merchant, let alone a former restaurant executive.

Lewis is undaunted.

"I'm a realist, so I understand the difficulties ahead, but the upside is tremendous," he said.

The job is a big leap from Yum Brands Inc., a PepsiCo Inc. spinoff with \$8 billion in annual sales that operates KFC, Pizza Hut, Taco Bell and other restaurants, which systemwide generate more than \$24 billion annually for their owners.

Lewis rose through a variety of operating jobs at KFC, Pizza Hut and Yum in the last 13 years, including a two-year stint managing 450 KFC stores in the Chicago area in 1993-95.

In his last post as president at Yum's headquarters in Louisville, he oversaw training and systems support for the chain's 33,000 restaurants worldwide. He also spearheaded a multibranding initiative known as "fish first," which put Long John Silver's stores with other brands under the same roof.

Silver's and A&W All-American Food restaurants reported directly to him.

Print Results

Industry insiders describe the onetime high school football captain as a well-liked and modest executive with a ferocious work ethic and a talent for motivating employees.

"People are drawn to him," said Patricia Dailey, editor in chief of Restaurants & Institutions magazine in Oak Brook. "He has a very clear vision of who he is, who his team is and what he wants to accomplish. When you have somebody who can do that, you attract followers."

He grew up in Houston, the son of churchgoing parents who instilled a strict work ethic.

His father was out the door every morning by 5:30, working various jobs including as a porter for a pipe-bending company. Lewis continued that habit at Yum, where he was in his office before 6:30 a.m. to start 12- and 13-hour days.

His mother bought him books and magazines even when money ran short, instilling an appreciation for reading and learning. Lewis planned on a college teaching career after he graduated from the University of Houston in 1976 with dual degrees in English literature and business management.

Instead, a management trainee job at Jack in the Box to earn money while he was studying for a doctorate in English literature changed his career dreams.

"I fell in love with the notion of serving customers," he said. "Even as an assistant manager, I liked doing the hiring, the ordering, overseeing the food quality. I loved being a leader."

New approaches

He also recalled being drawn to an industry that provides a stepping stone into the middle class for employees who are willing to work hard.

On his way up the corporate ladder, he has tried to change behavior that feels discriminatory.

When he noticed that Yum employees who golfed did business on the course--leaving out those who didn't--he declared his team would discuss no important decisions over golf.

"I felt if I ever got to this position, I'd try to undo some of the stuff that didn't feel good when it happened to me," he said.

Al Salas, who owns 80 Pizza Hut restaurants in South Florida, recalled how Lewis earned the nickname "coach," a revered title in Yum's bottom-up culture.

Lewis, then Pizza Hut's chief operating officer, came to help Salas in the late 1990s when Salas was running 150 restaurants for the chain.

"The 'Red Roofs' were not doing as well as they should, and employees were giving up a little bit," Salas recalled. "He asked a lot of questions before he did anything."

Then he instituted a program called "Owning Friday Night," an all-hands pep rally to kick off the weekend--prime time for restaurants.

Managers made sure they had their best employees on hand, from cooks to delivery drivers, and they set aggressive sales goals.

"You got everybody all fired up to hit that goal," Salas recalled. "What happened was it worked so well it carried on into Monday, Tuesday and through the week. It became an everyday situation."

Salas credits Lewis for his current success as a restaurant owner.

"He gets you to do what you think you can do and more," he said. "He makes you better from the inside out."

Yet some question whether "Coach" Lewis' skills will be enough to set the merged Sears Holdings on track. They speculate Lampert may end up reshuffling his team and bringing in a more experienced executive such as Vanessa Castagna, the former No. 2 executive at J.C. Penney Co.

After the merger, Lewis will be president of Sears Holdings and CEO of Kmart and Sears Retail. He will be part of an "office of the chairman" led by Lampert with Sears CEO Alan Lacy, who will become vice chairman and CEO of the holding company. Lacy

never managed to devise a successful merchandising strategy for the retailing icon.

Stores have big differences

"The challenge before Lewis is to be part of a team putting together two rather disparate enterprises," said Hinsdale-based executive recruiter **Peter Crist**.

"He's going to have to wring out costs and create a strategy that suggests a number of those stores are going to be winners, knowing that he's got Eddie Lampert sitting on his shoulder expecting significant changes," Crist added. "Whereas Sears was slow to change, the dynamic now is going to be high velocity."

Richard Galanti, chief financial officer of Costco Wholesale Corp., points out that it took 18 months for Costco to fully absorb Price Club when the two warehouse clubs merged in 1993. And they had almost identical strategies. Sears and Kmart, on the other hand, are very different animals--one a discounter, the other a mid-range department store.

"What they have in common is that they're both retailers," Galanti said. "It took us 18 months of a lot of hard work. By definition it has to take them a lot longer."

Long before the merger, Sears and Kmart had tried to focus their offerings, cut costs and improve their information systems. But retail experts agree that neither chain has been able to devise and execute a consistent, winning strategy.

To succeed, said a former high-ranking executive at one of the chains, Lewis will first have to figure out who the new company's target customer is and then decide which of the Sears or Kmart brands and formats make the best fit. He will also have to forge a strategy to hone the merchandise mix, create an integrated marketing plan, streamline the supply chain and apply new technology to better manage inventory.

"The problem is you've got two badly wounded organizations with no real foundation for success," retail consultant George Whalin said.

Kenneth Berliner, an investment banker with Peter J. Solomon in New York, agreed. Anybody can put financial controls in place, he said, but merchandising is a lot harder. Coming up with the right products is a real talent."

For now, with less than one month on the job, Lewis, who is devouring books about retailers, said his main focus is learning Kmart's operations and "trying to be a good leader."

"What's going to be very critical to making this work is having a culture that's well-defined," he said. "We'll have two brands, but we have to have a unity of purpose around a culture. If you have that, this deal will be magical."

Few predict magic, but Lewis' fans warn not to underestimate him.

Jack in the Box Inc. Chairman and CEO Robert Nugent said his one-time protege is a quick study with "good strategic thinking skills and wonderful interpersonal skills."

"If anybody can pull it off," he said, "Aylwin can."

PHOTO (color): "I'm a realist, so I understand the difficulties ahead, but the upside is tremendous." --Aylwin Lewis, Kmart Holding Corp. CEO, on the merger with Sears. Photo courtesy of Brunswick Group.

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