So what business are you REALLY in?

My contention is that many boards, CEOs and leadership teams do not fully understand the business they're in. 74% of acquisitions fail. 23% have a neutral effect and a miniscule 3% actually result in increased enterprise value, principally due to a lack of understanding of the acquisition. Here is an article citing one perfect example:

Jim Dudlicek, Editor-in-Chief of Stagnitomedia, the leading resource periodical for specialty, gourmet and convenience retailing said it perfectly in an article published October 15, 2013. *I can't say that it was a complete surprise to hear of Safeway's decision to pull out of the Chicago market after its 15-year attempt to make a go of Dominick's.*

But I can say the news came with some sadness. I grew up in the Chicago suburbs, and my family became regular Dominick's shoppers after one opened close enough to home to make straying from our neighborhood Jewel a convenient option. As an adult, I remained loyal to the banner, even as ownership passed from the DiMatteo family to Safeway (by way of Yucaipa), even as longtime local customers expressed their discontent with changes to the stores and lack of availability of some of their favorite brands.

But even with its own management style and its own strong private brand programs, **Safeway sadly never seemed to maintain a firm grasp on what the banner meant to the old guard***. Indeed, "I told you so's dominated much of the new media and complained of a lack of quality and customer service. Declining revenues and a growing number of closed stores reflected consumer response.*

So what's next for Dominick's? It seems unlikely at this point that the banner name will survive; several locations already are slated to be turned over to market-leading Jewel-Osco, itself under recent new ownership. I would expect the rest of the chain to go the way of Genuardi's - it'll likely be divided up among other players looking for a bigger share of Chicagoland's grocery dollar, in particular Mariano's, which is expanding aggressively throughout the Chicago area and has a store in at least one former Dominick's location (I know because it's my own neighborhood store), and is run by Bob Mariano, Dominick's last pre-Safeway CEO.

It'll be a shame to see the 95 year-old Dominick's name vanish from the Chicago grocery scene, and it's a shame to see Safeway retreat in defeat from a major market, now even more fragmented than when it arrived a decade and a half ago.

What you do and what business you are really in are two entirely different things altogether. What you do highlights specific tasks, functions you perform each day; what business you are in gets at the core of why you do what you do. The question: "What business are you really in?" is of enormous significance. In a nutshell it forces you to answer a question few are willing to face: "Do you really understand your business's role in the marketplace?" Herb Kelleher put Southwest Airlines on one of the most extended winning streaks in world history by recognizing that his airline wasn't competing with the other carriers, he was competing with people driving their cars to nearby business destinations.

He also realized that airline travel had been largely commoditized and that in order to win, he had to be focused on corporate culture and driving innovation and cost savings from within. During his tenure, Kelleher created an atmosphere in which Southwest employees became well known for taking themselves lightly—often singing in-flight announcements to the tune of popular theme songs—but their jobs seriously. Southwest has never had an in-flight fatality. Southwest is consistently named among the top five Most Admired Corporations in America in *Fortune* magazine's annual poll. Fortune has also called him perhaps the best CEO in America.

It's Who You Are, Not What You Do That Matters

Dominick's, Randall's and Genuardi's, headquartered in Chicago, Houston and Philadelphia respectively, were old, established, some would say "impenetrable brands bought, rebranded and literally destroyed by much larger Safeway Stores, Inc.

So aren't they all in the same business? NO! These three niche players were in the business of serving a particular brand of customer who had become accustomed to squeaky clean stores, personal friendly service, outstanding perishable departments, hand-made salads, artisan bread, local brands and community involvement. Safeway bought these premium brands ostensibly for the "synergies", one of the worst reasons for an acquisition, left the premium pricing in effect and removed every single attribute that made Randall's, Dominick's and Genuardi's who they were.

This is where knowing what business you are really in makes all the difference in the world. Most business owners have a vague idea of who they serve, in other words the general market, but have no idea why customers or clients really choose their business. The truth is often surprising, in fact.

Think. Spend some time thinking about the specific folks you serve with your products. I'm not talking about an overall view of the market. I mean at the individual level. Who are they? What are their needs? Where do they live? What does their day look like? Why do they choose your business? What makes them happy?

Think about your hiring decisions along these lines. The fit imperative is so often overlooked, it astounds me. I'm not talking about right or wrong here, any more than I'm saying that Neimen's is right and Stein Mart is wrong. They are just in totally different businesses. Billions of dollars in enterprise value are destroyed and countless consumers and employees disenfranchised when colossal blunders like hiring Bob Nardelli to run Home Depot occur. Home Depot sold the same products as many of its competitors but was in the business of serving a customer who had become accustomed to a particular brand of personal service. During Nardelli's tenure, Home Depot stock was essentially steady while Lowe's stock doubled, which along with his $240 million compensation eventually earned the ire of investors. His blunt, critical and autocratic management style turned off employees and the public. Nardelli was notably criticized for cutting back on knowledgeable full-time employees with experience in the trades and replacing them with part-time help with little relevant experience. This move reduced costs, but hurt customer service at a time when the segment itself was growing and Lowe's was making strong inroads nationwide.

Talk. Getting answers to what makes folks really do what they do. And while I know that asking folks what they want can be a mixed bag, that's just what I want you to do. When Lou Gerstner took over at IBM, his board had given him a mandate to break IBM up into service lines for better focus. Instead of marching off like a lemming to carry out his orders, he went out and spoke to a couple dozen of his largest customers, a novel concept for a CEO, I know. Lou asked why they chose IBM's products and services, who would provide them in his absence, what features they enjoyed most, what features they saw as must-haves, what difference it made in their lives, what their typical day looked like, what competing products and serves they'd used, why they initially chose his products and what would happen if your product or service wasn't available anymore. The result was that He learned that a disassembled IBM was the very last thing customers wanted. They wanted a single point of contact and a provider who listened and helped them solve problems.

As a result, Gerstner is credited with saving IBM from going out of business in the early 1990s. The subsequent refocusing on the IT services business (which grew to nearly 50% of the IBM's revenues), the embrace of the internet as a business phenomenon, and a broad effort to revive the company's culture are widely seen as having resulted in one of the most remarkable turnarounds in business history.

Listen. You know to listen when others are talking, but that's not my point here. What I really, really want you to focus on is hearing the true meaning behind their words. It's not so much what they say as much as what they mean. Maybe they say the appeal of your service is cost and convenience, but what you really "hear" is that your business appeals to fledgling companies that don't yet have the resources to hire adequate staff. Wouldn't that help in your marketing?

One of the most interesting experiences of my career occurred shortly after my entry in to a regional supermarket chain in 1991, ostensibly as the heir apparent to the COO. I was told by the board that I would have to play a role as a field operator for a period of time in order to gain credibility as the company had never recruited executives from the outside. After about nine months on board, touring stores, talking to customers and store level employees I had drawn the conclusion that we had lost our identity. Our tag line was *The Low Price Leader* and it was prominently displayed on the front of all our stores and in six foot tall letters on all 170 tractor-trailers we had rolling up and down I75.

When I advised our CEO of my anecdotal findings, based entirely on conversations I'd had on the front lines, he was clearly infuriated. He stated with no equivocation that I couldn't possibly have been more wrong and that our customers and employees knew exactly who we were and what we stood for; even though we were an LBO company, cash strapped and entirely incapable of being the low price leader. Eight weeks later, on July 8th, 1992, a date still referred to as black Friday, the company's ad agency, with the assistance of one of the nation's leading consumer research firms, presented the findings of a nearly $2 million research project the CEO had commissioned after our conversation, on the outside chance I'd been right. For the low, low price of roughly $2 millon, one of the most prestigious research firms in the country delivered precisely, not approximately, the report I delivered for free, with some impressive looking charts and graphs as an augment. The following week, I was offered a new position to lead the change initiative I'd recommended. The first new prototype store we rolled out, which included the existing premium pricing, along with a premium product and service offering, produced a 21% same store revenue increase and a corresponding 460 basis point increase in gross margin for a bottom line increase of 1,360%

I can promise you one thing: If you spend some time thinking about what business you are really in, the answers won't be the ones you started with.

Rob Andrews, Chairman & CEO Allen Austin