

INSIGHTS INTO ASSA ABLOY'S ACQUISITION STRATEGY

Our Exclusive Interview With the CEO of Its Entrance Systems Division

By Tom Wadsworth, Editor

On March 26, we had a rare opportunity to sit down with Juan Vargues, the president and CEO of Assa Abloy Entrance Systems, a leading global company in the door and access systems industry.

WE BELIEVE IN A DIFFERENT WAY OF DOING BUSINESS

Based in Sweden, Assa Abloy has about 44,000 employees in more than 70 countries worldwide. Since 2008, its Entrance Systems division has rapidly expanded from sales of \$500 million (USD) to almost \$2 billion (USD). Its companies include such familiar names as Amarr, FlexiForce, Dynaco, Albany, Megadoor, Crawford, TKO, Kelley, Serco, and others.

The setting for our interview was the R+T Asia show in Shanghai, China. In our hour-long discussion, we covered a wide range of topics. The interview below focuses on the questions and answers of greatest interest to our readers.

How did the Amarr acquisition present some unique challenges?

Vargues: It really wasn't that challenging compared to other acquisitions. The challenges are always quite similar. It is a very well-established company with great people and a good management team. But like all companies, they need to be challenged with some new perspectives.

Amarr has developed very well. So have many other companies in North America, like Besam, Megadoor, Hunter, Albany, Dynaco, and 4Front.

Your approach appears to be different from that of other companies involved in acquisitions. It seems that you're here to stay, and you're going to make this work without interfering too much.

Vargues: Yes, we believe in a different way of doing business. The acquired companies are here to stay as a part of our vision to be the market leader in door-opening solutions.

We are making several acquisitions per year. When you make many acquisitions, you realize that you cannot get involved in every detail of every company. A company needs to be managed by its own management.

I've noticed another aspect of your approach. You tend to value the people at the companies you acquire. You came from Besam, one of the companies acquired by Assa Abloy, and several others on your team were a key part of an acquired company.

Vargues: Half of the people on our senior management team came from

management and puts in somebody else. We want to keep the knowledge and the expertise that is already there.

You will have noticed that there's not that much of a management change at Amarr. We know that you cannot make major disruptive changes in a company.

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Another key part of our thinking is, we believe in specialization. It is key. We want Amarr to be world class, specializing in sectional doors.

We don't want them to start selling our other brands; we believe there is much more space to grow in the sectional door industry. We believe it's very difficult to be world class in several disciplines at the same time and with the same people.

You can't be "Jack of all trades, master of none."

Vargues: Exactly. We want to keep the specialization, and we want to increase recognition of the existing brand.

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Will the Amarr name go away?

Vargues: As a company, absolutely. But not as a product. The product will remain. This is important for us and for our customers.

Entrematic is the company name, but we keep the product brands. That's our way of putting everything together.

I assume that you're looking for a garage door opener manufacturer in America. But I would guess that you're having a problem finding a company that is willing to sell.

Vargues: Yes.

But if you keep knocking at the door long enough, someone will eventually sell.

Vargues: That's one of the problems. In order to buy, somebody has to be willing to sell. (Laughs)

We have to ask, "Why should somebody sell to us?" The company is their life and their family. Why should they sell to us and not to somebody else?

We acquire market leaders. If you're a market leader and considering selling your company, you want to be sure that your baby is going to be taken care of. And we do that. That has been the story of Assa Abloy. It is in our DNA.

Of all the companies you've acquired over the last 20 years, there must have been one company that didn't work out.

Vargues: There are two in my own area of responsibility that I am not happy about. Actually, those two were our first acquisitions.

And you know why? Because I was listening far too much to all the gurus telling me what we should do and what we should not do. I was listening to the gurus instead of listening to my guts.

And what were the gurus saying?

Vargues: They were saying you must take charge of the company by owning the systems, getting into details, and all that kind of stuff.

That approach often ends up in a disaster.

Vargues: Yes, especially when the company is a smaller company of five or 10 million dollars, and you tie up the ownership in negotiations for six months to one year. Over that time, the company loses some direction while the owner is working on the sale. When the deal finally goes down and you start pushing for results, then everyone gets nervous, and that's the beginning of the downfall.

So, you've learned from those early mistakes.

Vargues: Big time. You have to be so careful.

It seems as though you've dialed into how to do acquisitions productively.

Vargues: Assa Abloy has done numerous acquisitions, and we've learned a lot. It's important to take your time. You cannot run all these companies from the top. At the same time, you need to have a clear strategy and give vision to these companies.

We believe in decentralization and coordination. As a global company we need common processes, and everybody understands the need for coordination. Centralization leads to a slower decision-making process and tends to create a management structure that is removed from the realities of running the business.

The companies must be run by their own management teams. You cannot replace their management team by sending in your

own troops. Because then, it's not the same company. You cannot come in and be making dramatic changes. This just creates fear in the company.

Our approach is different. We are proud of their history but focus on developing an even better future. So, part of my job is to get people excited to be part of Assa Abloy. We buy market leaders. Good management is critical. We don't buy companies having difficulties.

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For the sectional door market, how have you found your expansion efforts in the United States to be different from your efforts in Europe?

Vargues: The two markets are different. The European market is a combination of manufacturers that sell indirectly through dealers and sell directly by owning their own distribution. The major players there have historically been selling indirect, but it's becoming more direct. The reason for that is the market is getting tougher and more price competitive.

For the sectional door industry in America, nobody is selling direct to the consumer in a significant way yet.

Would you consider buying another garage door manufacturer in the U.S. market?

Vargues: Yes, we never say no to good opportunities.

The American market is growing. One of the main differences between the U.S. and Europe is that Europe is not growing.

In the U.S., you have a constantly growing immigrant population. That creates a growing market with growing needs. In the near term, we know that the U.S. economy will grow much more than the European economy.

So, yes, we are still interested in acquisitions in the American market but also in the rest of the world. ■