

MCKINSEY & COMPANY - MEDIA SERVICES**INTERVIEW WITH: CHARBEL TAGHER****INTERVIEWER:****PRODUCER: OSATO DIXON****Interviewer:**

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Today, I'm privileged to host Charbel Tagher, the co-founder and president of STI, Specified Technologies Inc. Charbel started his career at McKinsey before leaving to start STI in 1990. From a two-person startup, STI is now one of the industry's leading companies specializing in fire protection systems, serving customers in over 50 countries. Charbel has served as the president of STI for the past 30 years. He has also been involved in the IFC, which is the International Firestop Council, and the FICA. So, with that, welcome, Charbel, to our podcast. Happy 30th anniversary to STI. I want to start off by asking you a question about your personal journey. Give us a little bit of background about yourself.

Charbel:

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Okay, I'm of Lebanese origin and I grew up a little bit in Egypt until I was 13, then in Lebanon until I was 21. And very early in my life—maybe around when I was 16, 17, I'm not sure—I decided that I would come to the United States. And I also decided that I would study business, because I wanted to start my own company at some point. So, I went to college at the American University of Beirut, which is a gorgeous campus and a very good university, and from there I—actually while there—I ran into a couple of professors who had studied at Wharton, gotten their PhD and had connections and all that, and kept impressing on me that Wharton is the place I should go.

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And I did end up at Wharton. And my plan, if you want, my vision for the future, was to get my MBA, do some consulting work so I would learn how CEOs think and how to analyze problems and have a bird's eye view of situations, then go and actually do what I've learned in managing a company or a division of the company, and then do my own. And that's pretty much the plan I executed. You know, I started with McKinsey, I spent four years based in the Paris office and four years based in the New York office, and then I ran the division of a mid-sized company, a company called Thomas & Betts, which at the time was one of the really very, very good mid-sized companies.

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I learned a lot over there. And then there was a management shuffle, and the guy who they thought I was aligned with, he lost the number one position to somebody else. So, within a few months, they got rid of him and they got rid of anybody who they felt was part of his team. I was one of them. They were incredibly nice and generous. And that night when I went home, I opened the champagne because this was somebody now giving me a very generous severance, basically to move on and start my own business. So, I tried to buy a small company. And the closing date was October 19, 1987.

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That was the day of the big crash. Actually, it turned out to be a huge blessing in disguise. And this is one of the lessons in life that some of the things that happened to you that on the spot feel like they're really bad can actually be very good things. First, it was not going to be the right business for me to buy. And second, in preparation for buying it, my wife and I had gotten all of our money out of the stock market two days before it crashed. All in all, it ended up being a very good thing. I worked with a few friends who were buying and selling companies and restructuring them for a couple of years, and then one guy who was working for me at T&B came to me and said, "Hey, I have some ideas and you know how to run a business. I know how to invent products. How about we do something together?"

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And this is how we started STI. So, STI is in a niche of the fire protection business, which at the time was really an emerging segment. And what I liked about that was that this was an opportunity to disrupt a very small, early market, but with a couple of large players that customers really didn't like to work with on the one hand. On the second hand, you start very early in the game and you're able to affect important changes that you can't when you come in too late. And third, it's a life safety business, life safety issue, and I felt that to be able to build a business that saves lives and improves the quality of construction, it made me very happy. This is how we started STI.

Interviewer:

00:06:01.6

So Charbel, I want to talk a little bit about STI. When STI got started, you were competing with some of the large entrenched players. How did you compete with them and how did you win?

Charbel:

00:06:12.3

This is where some of the fundamentals that they teach you at McKinsey came in really handy. At first, I have to say, I find it much easier to compete against a big established company than with a small, scrappy competitor. Because the small, scrappy competitor, like me, this is all they have. They have to move heaven and earth and defend themselves. The big company, they keep moving people through the smaller divisions and

these people are really not committed to the specific division, they're committed to their career. And so, they're not going to pay the same attention to customers, etc. that we would.

00:07:07.3 The other thing is big companies have a way of really mistreating customers. And we thought that there was a significant opening there, because a lot of the distributors and contractors that the industry had and still has—many of them are mom and pops by the standards of American industry. Smaller companies. They're not the giants and they don't like too much to be slapped around by a giant who all they care about are the quarterly numbers. So, we devised a whole game plan, which had to do with becoming really good at a number of things, because, as you well know, anybody can beat you if you're good at only one or two things.

00:08:07.0 I identified 10 or so key factors for success and we decided, and figured out how, to do them really, really well, which made it much harder for others to compete. But the other thing is we added the human element to the company. We wanted the company to be a supplier that you actually want to deal with, that you enjoy dealing with, where you feel you have a connection to people and that these people are going to be there for you when you need them. And that's what we did, and that's what made the difference.

Interviewer:

00:08:50.4 Charbel, you sort of get me to the next question, which is I hear STI is known as a company with a soul.

Charbel:

00:08:58.4 Yes.

Interviewer:

00:09:00.2 Can you give me insight into what does it really mean for you at the company and your customers and your suppliers?

Charbel:

00:09:06.8 This goes back to what I was saying that we want to be a company that people want to deal with. How would you or our employees want to come to work? Don't do it just because they have to come to work and make a living. How do you do this? Well, many, many years ago—again, when I was at McKinsey—I was working in North Africa, in Algeria. Algeria was—and I think it still is—a socialist country. And my boss told me something that influenced me for life. He said, “These people, our clients, don't even have to come to work. They're going to be paid whether they come or not. And if they come and they do an amazing job, they're not going to get paid any more or any less.

- 00:10:01.8 So, at the end of the day, they're going to do a good job because they decide that they like you and they want to do a good job to please you. And if you treat them like people, you will get so much more out of them than otherwise. And this stayed with me for life and it very much influenced the way I deal with people, because I do believe that the best way to get the most out of people and to get them excited is to make them want to do things as opposed to force them to do things. This is reflected in our mission as STI. It is reflected also in our culture and values. All this has been spelled out in great detail.
- 00:10:56.6 And basically, we've been teaching it to all of our people, we've been living it. And while none of this is terribly complex, being consistent with it is not something easy. That is the difficult part. And just to emphasize the human aspect of it, what I really want is for people, when they come to work, to feel good about coming to work when the day is over. Even if it's been a hard day, even if there's been a lot of demands, I want them to feel good, that at the end of the day, it's been a productive day. It's been a day where nobody has asked them to do anything unethical, that they disagree with, where we have done the best that we could for our customers, and where we have made them feel like they can be good, honest, intelligent employees who can contribute their thinking, who can talk about what they feel needs to be done, about their suggestions without fear of retribution.
- 00:12:22.3 If there are problems, that they can bring them up. And in fact, one of our fundamental values is what we call honest conversations. And I think this is very important. Most companies, in fact, many families do not have honest conversations. They're afraid of discussing the conflicts, things that you disagree with or ideas that you have that maybe they think will not be very well received. We try to encourage people to do that and especially new employees, because they're not used to that. But this, I think this is one of the fundamental things that creates a company with a soul. This is one aspect. The other aspect, too, is you have to realize that people who do a good job deserve stability.
- 00:13:21.3 They deserve a long career with the company. And at Christmas of 2008, when companies were laying off people left and right, we made a commitment to our employees. We said we would move heaven and earth before we lay off anybody who does their job. But good day or bad day, if you don't do your job, you won't be there with us very long. When the crisis was over in 2012, not only had we not laid off a single person, we have actually hired 50 percent more people than we had before. So, this past March when the crisis pandemic hit, I reminded everybody that the commitment was still ongoing.

00:14:11.1 And I told them, “I want you to focus on three things. Number one, take care of yourself. Number two, take care of your family. Number three, take care of our customers. And if you do those three things, we will do quite well.” And in fact, we did do those three things and we did very well. These are the values that you have to live. In order to be able to do this, there's a lot of pieces that have to fall in place. You have to have strong financials, which means you cannot take stupid risks. You have to take risks. But they're calculated risks. They're intelligent risks.

00:15:01.7 You have to be able to deliver things, quality, in time. You have to be able to innovate. You have to do a lot of things that allow you to grow, to keep jobs, to keep people happy, to keep them productive, etc. And that's the fun part of doing business the right way.

I want to go back to, if you don't mind, for just one second, because really the most important question you asked early on: how did we win against those giants? Our core value is providing the best value possible to our customers. And when you focus on this, customers have every reason to come and work with you. But to be able to do this, you have to have a lot of pieces working together and a lot of pieces in place. And we'll talk about some of that later on.

Interviewer:

00:16:08.7 I was going to ask that question, Charbel. If you look at last year, we have seen rapid disruption, right? Not only COVID, but what I call the multiplier effect of COVID. Digital, moving more of AI quantum computing, disruptions like this.

Charbel:

00:16:27.0 Yes.

Interviewer:

00:16:28.5 What do you think is the impact of these disruptions on companies, but also especially private and family-owned companies?

Charbel:

00:16:36.5 I think it depends on the size of the company itself. There are some companies that are very progressive, in the sense of wanting to embrace technology and provide excellent service to customers. And there are other companies that just want to take it easy and go step by step. So, I'm going to talk about companies that are very dynamic. For these companies, the pandemic is going to change—it's really going to change the way everybody does business, but some will profit from it, some will fall behind. In our case, I can see it said that because we have been trying for a long time to provide the best service for our customers and that more and more, of course, of our customers are the young crowd.

- 00:17:40.6 They're not people my age, they're people 20 and 30 years younger than me. And I let the younger folks in the company take the lead in terms of the tools that we needed in terms of what their generation wanted. And we developed some really amazing tools for them. Many years ago, we used to turn to outside developers. We do very little of that anymore. We have our own development team that is able to develop things very, very quickly. So, when COVID hit, we really were ready and really had been implementing a lot of this for many years, the digital tools for our customers.
- 00:18:34.0 On that side, we only benefited because the customers had to use more and more of those tools. The one thing we're really proud of is the combination of those tools and the basic AI that we use in the company on the tech service side allows us to have a turnaround time of—more often than not—2 to 3 hours. Our competition has a turnaround time of sometimes 2 weeks, 3 weeks. So, you can imagine that people working on a job site, waiting for the technical info that they need for the inspector or for the architect or for the GC or even just to do their job, they are not going to wait too many times, that long.
- 00:19:29.5 As a result, we've had—we think we've had—some increased market share because of this, all the technology that we have. Now, there's also a number of other things that are very important here about COVID, and one of them is that, it used to be when you wanted to talk to somebody, you had to go there in person. When you wanted to do a training, you would have to go there in person. And you were lucky if you had 20, 30 people who could afford to take time off to come for training. Or if you wanted to organize a symposium, you would be lucky if you had 50 people. Well, because of COVID—and because, again, we had the tools and we jump on them and we learned as we went, and we improved as we went—our audience went from a few dozen people to, in some cases, thousands of people, all at the same time.
- 00:20:34.8 It was unbelievable. So, it's been very positive for us. We also make much better use of our digital tools too in terms of PR, in terms of reaching people. And the other thing is we've traveled a lot less and we've learned that a lot of things that we thought could only be done by traveling really can be done on Zoom, can be done on Teams, can be done on FaceTime, including sometimes technical support, where a customer would say, “Hey, they tell their salesperson, I need you to come to the job site.” Well, they couldn't come to the job site anymore, so they had to do a virtual session where they would show them what was going on and the sales person or the tech person would say, “Okay, now that I know, here's what you need to do.”

00:21:37.5 It's changing everything. And I think at the end of the day, for those who survive, it's changing it for the better, in the sense that it will be more productive. We will still need some face to face. We will still need shows where you actually can meet other people, but you don't need to spend an hour going to a job site for a 10 minute meeting. So, there's a lot of positive.

Interviewer:

00:22:03.3 Charbel, let me ask a related question. Right. You talked about technology.

Charbel:

00:22:10.3 Yes.

Interviewer:

00:22:11.6 Let's talk about the disruption in the financial markets. I know you're a private company, but if you're a public company, if you look at the markets over the last year, you know what's happening. There's a lot of capital, right, cost of debt has become cheap or almost zero, acquisitions are on the rise, private equity is on the rise, deals are on the rise. What is your take on that, positive or negative on private and family-owned companies which don't play that much in the capital markets today?

Charbel:

00:22:45.8 Well, there's no question that all this money is looking for places to go and it has very few places to go. It's taking more and more risks. It's trying to invest in junk bonds, but it's also trying to invest in private companies and family owned. And a lot of that is going on. And I can say that I get—and I'm sure everybody who's a private company, I'm not an exception there—I must be getting two to three emails a day from private-equity firms and others trying to make contact and wanting to know. And I don't know, they seem to have some computer programs that everybody gets because they all seem to do it at the same time.

00:23:40.9 There are times when I get, three or four e-mails a day, other times that I might get one, other times when nothing happens, and then all of a sudden, I got a bunch more. But I would say on average, probably two e-mails a day, people trying to make contact. I used to answer them out of politeness, I don't anymore. I'd be wasting time, because you answer and then they follow up when you say a polite no and you explain why, they come back with wanting more and wanting a meeting, no matter what. I think that's the impact in general. However, I'm a little worried about all this money out there, because it's looking for places to go and this is when bubbles happen and then bad things happen. And this is why it's all the more important to be financially very strong.

Interviewer:

00:24:41.7 Got it. If you look ahead the next few months, Charbel, right, being optimistic, the indicators are positive. The vaccines have arrived, number of cases are coming down, countries like India, if you see the cases, have come down. As you think about the world post-COVID, what is the next wave for STI? What is the next 30 years? What's the future?

Charbel:

00:25:03.3 Oh, 30 years, I don't know. I can tell you about the next couple of years.

Interviewer:

00:25:11.7 We'll start with that.

Charbel:

00:25:13.9 I think it's a very interesting and positive future. I do have some concerns because part of our -- we deal with almost every segment of construction. The one segment I'm worried about is office buildings. We work with numerous architects and designers and we've established some very, very strong relationships with them, whereby we're aware of projects two to three years before the project actually starts. Right now, we're working on hundreds of these projects and we've been working for a while with them. I'm not sure how many of these projects are actually going to happen, because if you look at the occupancy rates in big cities like New York or San Francisco or Chicago or Houston, the occupancy rate is in the range of about 15%.

00:26:12.0 People don't want to go to the office anymore. When is it going to change? I don't know. How is it going to affect existing space? How is it going to affect proposed new space? I don't know. One thing I do know is that construction is going to continue, but the mix is going to change. We're probably going to see a lot more condo buildings, a lot more, maybe, private homes. We're going to see how all that is going to happen and we're going to have to adapt. But as far as our immediate plans, the goal has not changed and the goal is still to provide the best possible service to our customers and the best possible value to our customers. And I think as long as we do that, we're going to continue to have market share. We're going to continue to invent new niches, which we've done a lot of.

00:27:13.4 Because of our tech-service abilities, we have maybe 15,000 contacts a year with customers. That's a lot of contacts where you learn a lot of things about what customers want, what's going on, and all that. And out of this, you glean a bit of an insight as to what problems are out there, what you can do to help them, new niches that you need to create. So, this is partly how we've grown STI too, because many of the segments we're in today didn't exist. And many segments that we are very strong in today, like healthcare, nobody did them the way we are doing it and they still

don't know how to do them. We're now at the stage where we know enough that we're able to make a presentation at the high level and have a lot of backup from people in the middle and then flip a whole chain of 200 hospitals at the same time.

00:28:26.1 Whereas before, it used to be one at a time. So, everything's changed there and, for us, everything's changed for the better. But I am very excited about the use of technology, more technology in every aspect of our business, provided we don't replace human interaction. But nothing drives me more crazy—and I'm sure it's the same for you and everybody listening—than calling a number and all you have is press one, press two, press three, and you wait forever and you hear 15 times “Your call is so important to us” and you know it's just a lie. It's a complete lie, they couldn't care. And in fact, the other day I was for 20 minutes online with a company and they just shut the line off. They said, “This office is now closed,” boop, that's it. These are the kinds of things that we don't want. We want to really use technology to make things easier and better, but not to eliminate the human element where it's needed.

Interviewer:

00:29:34.9 Got it. Charbel, my last question, I want to sort of ask a retrospective question. What advice would you give to a young Charbel, or what advice would you give for the next generation of leaders looking to emulate your success, especially if somebody is looking to start their own company?

Charbel:

00:29:57.8 Yes, I'm going to have to stay brief on that, because on this we could go on for a while. But there's a few things that are really important to keep in mind. One of them, when you start the company, is that a lot of things are going to happen that you don't expect and a lot of things are not going to happen that you thought would happen. Basically, very few things go according to plan and you have to know that and be ready. So, what does be ready mean? It really means having learned enough that when situations happen you either recognize an opportunity or you recognize a threat or you recognize that things have changed and that now you must adapt.

00:30:57.6 This happened to us a number of times. I'll give you an example, because it's a very important example. We started in 1990. We went to market really in '91, and by mid '93, we realized that we were in the wrong segments and that what we had expected to happen was not happening. We made a number of changes, we did some tests, we developed new products, so that we would be able to go to a broader market. We wanted to stay on the sidelines for a while so that we wouldn't be in the giants' path. We ended up having to be in the giants' path, but here's what happened. In the process of testing, we had developed a new technology.

And we were able to modify the test procedure to have the Underwriter Laboratories staff modify the test procedure.

00:32:02.6 As a result, the test that came after ours by one of the giants failed, because their technology couldn't pass. And they tried it over and over and they failed again. That opened up a huge opportunity for us, because this company had to withdraw from the market. We started going after their distributors, but they wouldn't talk to us, we were still way too small. But persistence pays and we found one distributor who happened to have the largest construction job in the market in the US at that time. And it so happened that they were 20 minutes away from our office; that job and that distributor were 20 minutes away from the office. So, we went there; they opened the door for us. We were not even spec'd on the project, nobody even knew of us.

00:33:01.1 We went to see the architect, we explained to them why they should spec us or allow us after the fact, and they did. And then, we started offering solutions that were half the price and structurally much more sound than what the competition was offering, and we got the job. These are some of the things that can happen, but like I said you have to be ready for it. You know what the definition of luck is? It is where readiness meets opportunity. And this is something very important, because a lot of people wait for things to happen, but this is not how you make your own luck. This is first piece of advice. Things will not go according to plan, but they may go even better than planned, if you're ready, if you have some experience. The other thing is, it really pays to know a little bit about business and not jump in there, because business is complicated.

00:34:05.4 There are so many things you need to learn about strategy, about organization, about how to manage people, about how to work with customers, about stock, and about finance, and all this. So, I really advise people to have a few years of experience before starting your own business. Big companies, medium sized companies, they have a system in place so that if you make mistakes, they catch you. They help you fix the mistakes. Once you're on your own, you're on your own, it's your dime, and you lose it, you're gone. This is why it's important to learn some. The other thing is, along the way when you're working elsewhere a few years, you build networks of contacts. And these networks, these people, very often are willing to help in one way or another, open doors, maybe invest with you because they've known you and decided they can trust you, and that kind of stuff.

00:35:10.7 This is something. Another piece of advice is to establish a strong culture very early on, because as you grow your company, that is one of the fundamental pillars that will keep the company growing or that will see it disintegrate. Part of the culture has to be to encourage people to contribute

and to disagree and this is not part of the corporate culture. This is part of the consulting culture. This is what they taught me when I came in as a young man and they said, “We expect you to contribute and to disagree, not just to wait for your boss to do the thinking for you.” But that’s not how it works in companies usually. What I tell our people is, “I’m not hiring you because of your legs and your arms, I’m hiring you because of your head. So, I expect you to contribute your head and don’t be afraid to do it.”

00:36:11.5 I think this is very important. Another thing along those lines is hire the best people that you can find. Smaller companies, family companies think well, how can we do this? They’re not going to want to come and all this. And I have to point out here that there’s a big difference between a family-owned company and family-run company. You can be family owned without being family run or be partly family run but still giving professionals a chance at running and getting to the top. And if you don’t, you will never get the best people, they will not stay with you. But if you do, everybody will come out to help and everybody will benefit.

00:37:00.5 Once you put these pieces in place, I would say the next big important thing is to treat your customers with affection. Not just with respect, not just with honesty—with affection. They have to feel the love. If your customers feel the love, they will want to stay with you, because I can guarantee they will never feel the love from big companies. Which brings me to the next point, which is never be afraid to compete against a big company. Be very afraid to compete against a small, scrappy guy who has to fight for his life. Big companies offer an umbrella which is unbelievable.

00:37:52.4 They offer a price umbrella, they offer a reputation umbrella, which is again one of the reasons why I tell my people “Do not disparage the big companies and the big competitors.” First, they didn’t get there by doing stupid things, they got there because they are a quality company. So, the first thing you want to do is acknowledge that they are a quality company. The next thing you want to do is show how you’re better than them, not show how they are worse than you. I think this is something very important, in terms of attitude. It’s important to be humble, not arrogant, and it’s important to recognize that others also do some good things. And you want to learn from what they can do and improve on it, and hopefully do much better.

Interviewer:

00:38:53.9 Thank you, Charbel, this is amazing. Thank you so much for your time. We really appreciate you joining us today.

Charbel:

00:39:00.1

There is one more thing I would like to add, just for entrepreneurs, and that is, the odds of building a multibillion-dollar business are very small. It's good to want to aim for that, but the truth is they're small. But the odds of building a very nice multi hundred-million dollar business—that you can live very well on, that you can grow in time and all that—these odds are very high. And I would encourage entrepreneurs to think, not just to think in terms of being the next Facebook, but being maybe the next STI or one of the, many, many small to mid-size businesses that do extremely well and where the owners can live a very good life.