

FEATURE STORY



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ENTREPRENEURSHIP



Collisions Cultivate a Career

By Tom Schuman

For someone in the automobile business, Jim Hallett chooses an interesting phrase – “life is just a series of collisions” – to describe his 40-year career. But collisions, in the form of positive impacts, indeed shaped the growth of the CEO and chairman of Carmel-based KAR Auction Services and the 2014 national EY Entrepreneur of the Year award winner in the services category.

An abbreviated version of some of those collisions is below, condensed to allow for Hallett’s insights on business deals, growing companies and establishing/maintaining a winning culture.

Breaking in

Hallett grew up in a small village in the Ontario province of Canada. His father died when he was just eight months old, and his mother – ironic given his future career choices – did not drive. After college graduation Hallett walked into the bank where his wife worked – “probably in cut-off shorts, flip-flops and a T-shirt; I think her boss was worried about her. But he said, ‘I think you would be good selling cars. My friend is GM of the Chevy dealership across town.’ He hired me that day. It was just a collision.”

Moving up the ranks, another “collision” brought Hallett into the auction side of the business. Instead of sending wholesale trade-ins and over-age inventory off to be auctioned, “I opened an auction in the dealership, in the service department. I became the auctioneer. I heard about dealers doing it in the U.S. It became quite successful, to the point I really enjoyed the auction business.”

Looking back, Hallett views his entry into the auto business as “very entrepreneurial because you’re really working for yourself and that I would be rewarded for what I was able to produce. I also got a new car from the deal – a 1975 Vega. I had very good success, and I fell in love with the business.”

Faced in the late 1980s with the decision to either acquire a new car franchise or open an auto auction, he chose the latter because it didn’t require as much up-front capital at a time when interest rates were high. He also joined the National Auto Auction Association and signed up for its upcoming meeting in Bermuda. That led to the next – and a big – collision.

“I signed up to play golf,” Hallett begins. “Not knowing anybody, I was placed on a cart. I introduced myself to the other gentleman putting his bag on the cart and he says, ‘I’m Mike Hockett.’ He was founder and chairman of ADESA auctions in Indianapolis, Indiana.

“Mike and I hit it off very well. We played golf; we got together with our wives and had dinner; he invited himself to Canada. He said, ‘I

KAR Auction Services, Inc.

- *FORTUNE*® 1000 company based in Carmel that operates used vehicle auction services
- KAR is comprised of ADESA, Inc. (whole car auto auctions); Insurance Auto Auctions, Inc. (salvage auctions); Automotive Finance Corporation; and additional business units
- Approximately 13,000 employees, with 900-plus senior management and other team members (including 250 to 275 information technology professionals) in Carmel
- About his participation in the EY Strategic Growth Forum in 2014: Jim Hallett says, “I think the biggest thing I took away is I realized how many smart people there are in the world, and I got to meet a lot of them. To hear their stories, how they worked through whatever issues they experienced, getting knocked down and getting back up – it was fascinating hearing those stories.”

have a vision. I want to continue to grow ADESA in the U.S., but also develop a separate ADESA Canada.’ It was very entrepreneurial. I said, ‘That sounds like a great idea. Let’s do it.’

“We shook hands and we started ADESA Canada. We were buying auctions, building auctions, acquiring auctions. Mike was doing the same here in the U.S. Our preference was to buy somebody else’s auction – the business was already established, the customer base there, the buyer base there, some kind of facility there, and we could take that and improve on it.”

Fast track

We’ll fast forward through the next 15 always exciting, sometimes turbulent years:

- 1992: ADESA went public
- 1995: “We basically ran out of money. We had gone back and done



Jim Hallett says he “goes to bed every night in a hurry to wake up” and tackle a new day.

a secondary raise and burned through that cash.”

Eighty percent of the company was sold to Minnesota Power, a regulated utility business. Six senior managers, including Hallett, would retain the other 20% for four years at which time, “We would be ready to turn the company over to Minnesota Power, ride off into the sunset, have a good payday and go on to other things.”

- 1996: Minnesota Power bought the remaining 20% and brought Hallett to Indianapolis as CEO for all of North America. Hallett recalls, “Wall Street called it the marriage they loved to hate – a bunch of bureaucratic, regulated utility guys combining their business with a bunch of hip-shooting, entrepreneurial, maverick car salesmen.

“In August of 1996, I arrived in Indianapolis scared to death. Being an entrepreneur in Canada, running a business in Canada, where everybody knew me, I was very comfortable and very happy. Here, I didn’t know the customers, didn’t know the employees, didn’t know the culture. And quite frankly, had never run a publicly traded company or ever worked in a management capacity where I was going to be the guy.”

- 2004: ADESA went from a zero contribution to Minnesota Power’s consolidated earnings in 1996 to 60% in eight years. “When the sub outgrows the parents, it’s time to spin the sub off,” Hallett states. A successful initial public offering took place in June

- 2005: Hallett is fired. “The new chairman of Minnesota Power was previously the CFO. To cut to the chase, I think he saw financial opportunity for himself. He wanted my job. He convinced the board to fire me in May 2005.”

- 2007: ADESA’s fortunes plummeted after the change two years earlier. Hallett stayed nearby, working in Columbus, Ohio, and kept a close watch on the company. He quickly reached the conclusion, “They’re going to have to sell the business – and you know what, I’m going to buy it.”

Many meetings and the involvement of four venture capital/private investment firms later, that is exactly what happened. It may have been the biggest of the “collisions” that marked Hallett’s career, coming back less than two years after being fired.

“I’ve always said that I don’t think there’s any man on Earth smart enough to put all this together; I really felt it was providential; there had to be someone looking over me. It was a \$3.7 billion deal. This was a company we sold in 1995 for \$169 million.

“The first day, April 23, 2007, I walked in and had an org chart all laid out. I had been working on it for three months. I had plenty of time, right. I brought back some people who got fired. If they had a close relationship with me, they were gone (under previous management).”

Despite chuckling as he recalls the quick changes that took place,

Hallett says, “I did not have a bone of retribution in my body. We turned over the entire senior management team and business took off like a rocket. Cars started pouring in here.”

Let’s make a deal

How do you know a potential business deal is going to be a good one? “The most important thing to me is knowing that you can bring those employees into your organization and they’re going to fit your culture. Also, when I shake his hand or hers and say we’ve got a deal and I look them in the eye – and I know there is trust there. The other thing is it’s got to be a good deal for both sides. Lopsided deals don’t work.”

(Bonus: “I’ve done so many deals in my life where I’ve never had a piece of paper signed,” says Hallett, admitting that’s not possible today in running a large public company).

When things are going well, do you seek deals or do they come to you? “It’s really a combination of both. People know that we’re a buyer. People know we’re a consolidator. People know we’re publicly traded, and publicly traded companies get rewarded for one thing and that’s growth.

Often times, people will contact us if they’re thinking about selling their business.”

(Bonus: “We prefer to deal directly with the principal. We don’t get a lot of middlemen involved, and we can do it very quickly).”

Quick deals are not the norm. How do you make those happen? “First of all, I have a mindset that speed wins. It’s the entrepreneurial mindset. Move quick, get it done, don’t put off until tomorrow what you can get done today. This company has a reputation for getting deals done and getting them done in a very timely manner.”

What’s the better environment for company growth – public or private?

“There’s no question that in the public market you have much more access to capital. Capital is really the gasoline that allows you to grow. In public markets, you can grow a lot faster and achieve greater results.”

What did the EY honor mean to you? “I realize that I get a lot of recognition because of my job and often times I get more recognition than I really deserve. We have 13,000 employees. While I’m honored and I’m humbled and I’m appreciative and my family is proud of me, I said in my acceptance speech I accept it on behalf of our employees. I really genuinely mean the only reason I received that award is because of our employees. It was a nice surprise.”

This company could be located anywhere. Why is Carmel and Central Indiana the best place for your corporate headquarters? “I knew nothing about Indianapolis (before 1996). I just knew the job was here. I walked into a love affair. I fell in love with the city, fell in love with the people. Carmel is among the best communities to live in in the nation. As for Indianapolis, most downtowns are not vibrant places. I told the mayor once that I’m probably the best damn ambassador you have, coming from Canada and moving here because I’m a great spokesman for the city.”

What challenges do local entrepreneurs have to



The ADESA unit of KAR Auction Services conducts auto auctions throughout the country and beyond.

overcome? “In my personal experience, I haven’t seen any huge hurdles we had to get past. You could say there is a shortage of talent here, but we have 275 IT people downstairs. There are enough companies here that can attract world-class talent. We’ve recruited a lot of people. Their first reaction: Carmel, Indiana (he expresses in a questioning tone). I tell you what, talk to them after they’re here a year ... they get to live in that big but small city.”

‘Owning it’

We left off earlier with Hallett returning to lead the company in 2007. A year later, the Great Recession brought chaos to the automobile industry. He says ADESA lost 500,000 transactions and the finance business was cut in half. Still, the company “never went backwards.” In EBITDA (earnings before investment, taxes, depreciation and amortization), the organization has advanced from \$350 million annually to just short of \$600 million in 2014.

“All those headwinds we dealt with for five or six years are now tailwinds,” Hallett explains. “We had to take some pretty tough measures. We were willing to do what’s most important to make sure the company comes first.”

Whether economic times are good or bad, Hallett lives by the same approach. It’s one that goes back to his early days in Canada.

“When you grow up owning your own business and running your own business, and your whole net worth is in that business and things go bad, it scares the hell out of you. It frightens your wife to death. That’s the same mindset I bring to this job,” he shares.

“I think I absolutely own this business. I treat it like I own it. And I have the same fears running this business that I had running my little business in Canada. It’s just a different scale. And if you always keep that mindset, it keeps you humble, it keeps you hungry and a little bit scared. And being a little bit scared is not such a bad thing.”

RESOURCE: Jim Hallett, KAR Auction Services, at www.karauctionservices.com