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John Nichols Takes Charge

Instead of trying to change the world, The Marmon Group's CEO relies on internal company innovation and sector specialization to better compete on the global stage.

John D. Nichols doesn't seek the spotlight, but his ability to lead the manufacturing sector often thrusts him there.

A modest man who prefers to let his actions do the talking, Nichols has an illustrious manufacturing background. From 1980 to 1996, he led Illinois Tool Works Inc. (ITW), today a $10 billion diversified manufacturing company with 625 decentralized business units in 44 countries. In 2002, he came out of retirement to take the helm of The Marmon Group, the Pritzker family organization of primarily industrial companies, with revenues totaling $6.4 billion in 2004. True to the philosophy instilled by co-founder Robert A. Pritzker during nearly 50 years as CEO and shared by Nichols, the member companies of The Marmon Group operate independently under their own management.

As large as the enterprise is, Nichols believes that specialization in 10 industry sectors allows Marmon Group member companies to offer innovative strategies to their respective customers. What's more, because the organization is both a consumer and distributor of metal, management can bring this supply chain knowledge to the table. He believes that competitive battles are won and lost through critical thinking and analysis and taking action locally, not through protective legislation.

Before joining ITW, Nichols served as executive vice president and COO of Aerojet-General Corp., a subsidiary of General Tire and Rubber Co., and held several positions with International Telephone and Telegraph Corp. and Ford Motor Co. Well respected for his business acumen, he was named to the National Business Hall of Fame in 1999.

Forward spoke with Nichols about business strategy and how domestic companies can remain competitive in the global marketplace.

Q: WHY DID YOU PURSUE A CAREER IN MANUFACTURING? WHAT KEEPS YOU MOTIVATED TODAY?

A: The nice part to producing products versus being a financial analyst is that every day, when you ship your product out the door, you know that it's good and that the customer wants it. Your report card is daily. I'm often sorry for people who have to deal with one crisis after another and never get to see the beginning, middle or end.

In the manufacturing sector, you have people at all levels, making products and being really creative. At Illinois Tool Works, we were recognized for our number of patents and for our creativity. It's fun to be known for innovative solutions, and that's something we're cultivating in The Marmon Group as well.

Q: WAS IT DIFFICULT COMING INTO THE MARMON GROUP, SUCH A LARGE COMPANY WITH AN ESTABLISHED TRADITION AND CULTURE?

A: Bob [Pritzker] and I were friends when I first came to Chicago in 1979. On and off, we used to exchange ideas about running a business. If you parallel our two companies from 1980 forward, ITW and Marmon moved along a path that was very similar. We had many of the same philosophies: decentralized operations with reasonable autonomy to the operating entities.

We used to share a box at the symphony and tell “lies” about whose system was the best, but we generally had an admiration for what each was doing. Bob asked me to come to management meetings and talk about my style, and he'd do the same, so I was pretty familiar already, on a superficial level, with his approach to success.

However, there's a difference between a founder who has personally built an organization, acquiring entities and being intimately involved, and someone like me who comes in with a similar management style but not the intimate knowledge. Bob maintained very horizontal operations at The Marmon Group; at Illinois Tool Works, I believed in structuring operations into business sectors. So when I came on board, we built 10 different sectors with a president for each. It gave me the ability to have a number of managers who day-to-day could create and implement strategy. With about 150 companies in a diverse set of 10 specialized niches, there's no way I could be there to make everything happen myself.

Q: HOW HAVE YOU TRIED TO IMPART YOUR OWN VALUES WITHOUT DISRUPTING ROBERT PRITZKER'S BEST PRACTICES ALREADY IN PLACE?

A: While we use many of the same management techniques, the organization was changed to build on the fundamental culture Bob had established. As a testament to our success, we have had virtually no management turnover.

For 35 years, I've been developing a set of thinking processes, based on Pareto analysis, or 80/20, in which people analyze what they're really good at and identify customers they can serve really well and their core competency products in order to determine how to simplify all of their business activities.

Some people call this approach lean manufacturing, some Six Sigma, and others name it self-directed work forces. There are many facets from each of these methods, but we don't label what we do. You just have to instill simplicity and trust—you can't solve complicated problems with complicated solutions. People have to trust that management is there to solve the problem without looking for the perpetrator.

Q: WHAT WERE SOME OF THE IMPORTANT CHALLENGES YOU FACED AT THE MARMON GROUP?

A: My first priority was going from a horizontal organization to a vertical organization focused on 10 business areas. The challenge was getting people to really identify the products and customers that represented the major parts of their business. It was hard for them because nobody does that. I've had people come in to benchmark companies, and I'm always surprised that people don't take this common sense approach. Why? Because it's hard to be simple.

Our competitive advantage is our focus on the customer. We look for opportunities to be involved in decisions for procurement, operations management and to solve problems and create advantages for them. “Partnership” assumes something more formal, but we try to be involved with our customers to our mutual advantage. We always talk about value-added processes, not just selling a bar or tube or any of our other products.

Q: HOW DO YOU INTEGRATE YOUR UNITS WITH CUSTOMER OPERATIONS?
A: We're in an interesting situation where we're a distributor and a consumer of metal. We consider the flow from our supplier to the customer, which is our way to realize a cost advantage. We focus on total operational costs rather than just cost per piece. Typically our suppliers come in and they see our *kanban* and quality systems, and then our customers come in the next day and we talk about how to better the flow. And if we're innovating correctly, we link ourselves with our suppliers and with our customers.

Our management gets together regularly with our customers' operational management, whereas before perhaps they often only dealt with a purchasing department. You have to look at the linkages. Too often companies have been compartmentalized and driven by narrow incentives.

Q: WHERE DO YOU FIND CAPITAL FOR STRATEGIC GROWTH?
A: The majority of our major plant expansions are internally financed—we reinvest our profits. Bonus depreciation also helps us.

Capital investments are essential if you are in markets that off-shore entities can attack because of low labor costs. We have the benefit of proximity to offset that advantage. We should build on the technological innovation that has made the U.S. manufacturing industry successful. I hope that the brain power of this country continues to innovate, and that's possible through process reinvestment.

Q: WHAT IS YOUR VIEW OF EMERGING GLOBAL ECONOMIES AND THE DOMESTIC MANUFACTURING SITUATION? WHAT CAN U.S. MANUFACTURERS DO TO COMPETE?
A: The emergence of offshore manufacturing services, whether China or India, is tough, but we went through it before—the Japanese and Maquiladora threats, among others. China has changed its political structure and manufacturing base to become more efficient and productive. They've subsidized their basic materials and set up infrastructure that was not there before. They're now a very strong competitor as well as a proficient supplier.

U.S. manufacturers need to work on technologies and processes. There are a fair number of companies that have made the mistake of moving their technology as well as manufacturing offshore instead of investing in their own capabilities. Their management became fascinated by low labor costs rather than analyzing their manufacturing processes. If I look at the bulk of our products, we have less than 8% direct labor costs. We have problems with health and legacy costs as well as other factors, but legacy costs don't go away if we move to China.

This administration's former Bonus Tax program was a tremendous incentive to invest and keep jobs here. Now you may cut the number of jobs required, but you've saved the remaining jobs and maintained control of your innovation. If you lose that control, then you lose a vital link to future competitiveness.

There are certain business components that aren't core competencies with a heavy labor content that make sense to outsource. As part of our Pareto analysis, we identify our core competencies, and anything not a core competency is open to being outsourced. But, keep in mind, there can also be a domestic supplier.

Don't miss the fundamental issue: When we as manufacturers sell to our customers, we want to make sure that they look at the installed cost, rather than just focusing on piece-part cost.

Q: HOW HAVE MANUFACTURING TRENDS AFFECTED THE WAY YOU APPROACH YOUR OWN CUSTOMER BASE IN THE NEAR TERM?

A: There is no doubt that the folks who have chosen to go offshore have reduced the market. That's not a problem for us, but a problem for the country. We don't have enough market share in any one of our sectors that we can't get more market share through innovation.

My own forecast—maybe not in my lifetime—is that some of our critical, core manufacturing businesses will come back. If you look at the previous challenges, what we perceived as an advantage collapsed. A great futurist predicted that by 2010, Japan would be the dominant manufacturing entity in the world; now the U.S. outsources to China.

I think we'll see the same thing happen with these emerging economies that have inspired such worry. There's a place for our core manufacturing in this country, and we have plenty of opportunity to succeed. We're still the leading manufacturer in the world, and there's room for superior performance—that's where we're focused.

Q: DO YOU FIND THE BUSINESS CLIMATE THE SAME IN OTHER COUNTRIES? WHAT DOES IT TAKE TO COMPETE GLOBALLY?

A: Our primary manufacturing presence outside North America is in China and the U.K., and most of our other international entities are sales and service organizations. To do well in Europe and other foreign markets, you have to be local to be international.

One of the great keys to the success of ITW, which truly manufactures on a global scale, is using the same processes around the world. They're implemented differently, but they're the same processes. We've taken that same approach here.

Q: DO YOU FEEL THE MANUFACTURING BASE IN NORTH AMERICA IS ERODING? HOW CAN THE U.S. STEEL INDUSTRY WORK TOGETHER WITH CUSTOMERS TO STOP THE EROSION?

A: I believe strongly that there are certain things that the government does which inhibit growth. Maybe Mittal, U.S. Steel or General Motors can do something about that. While we are supportive of change, our focus is on our own business and succeeding in the existing climate. I believe that companies have to be an integral part of the solutions by strengthening their own businesses and their relationships with suppliers and customers. There are ways around these problems.

Q: DOES U.S. TRADE POLICY GO FAR ENOUGH TO ENSURE FREE AND FAIR TRADE? DOES THE PATH FOR ECONOMIC GROWTH OF DEVELOPING COUNTRIES CONCERN YOU?

A: No one has adequately defined “free and fair.” It's always in the eye of the beholder. The government should be part of the teams that work on those problems—we definitely should be talking through government and industry partnerships. However, if you count on government to solve all your problems, that's a mistake. Change has to come from within the U.S. manufacturing sector by investing in our own abilities. When it comes to global trade issues, why spend a lot of time worrying about something you can't fix? We must look at the possible solutions to improve ourselves, not the problems inherent in what others are doing.