ITW Acquisitions at Center Stage in the 1980s and 1990s

When John D. Nichols took over as CEO in 1982, he was determined to keep ITW growing by investing more cash into the development of new product lines and in acquisitions, while cutting costs elsewhere to maintain profitability. He kept production costs low, for example, by developing what he termed "focus factories," where a single product was produced in a highly automated setting.

Nichols expanded ITW's industrial tools and systems businesses by purchasing Heartland Components, a maker of customized replacement industrial parts, in 1982; Southern Gage, a manufacturer of industrial gages, and N.A. Woodworth, a maker of tool-holding equipment, in 1984; and Magnaflux, a maker of nondestructive testing equipment and supplies, in 1985. Nichols formed a separate operating unit for automotive controls in 1983, and a division for producing equipment for offshore geophysical exploration, Linac, in 1984.

In 1986 Nichols made another significant acquisition when he purchased Signode Industries for $524 million. The Glenview, Illinois, manufacturer of plastic and steel strapping for bundling items, sketch film, and industrial tape fit in well with ITW's own plastics line. Nichols followed company tradition by breaking Signode down into smaller units, and within a year and a half over 20 new products had been developed as a result of the acquisition, which nearly doubled ITW's revenues. Also in 1986, Cathcart retired as chairman, with Nichols replacing him, while retaining the position of CEO.

Under Nichols, ITW acquired 27 companies in related product lines in the 1980s, while only 3 firms had been purchased before Nichols's tenure. These acquisitions meant that company debt reached higher levels than in the past, but these levels were not out of line with other industrial firms. More importantly, revenues surpassed the $2 billion mark for the first time in 1989 and earnings continued to increase steadily, reaching $182.4 million that year.

Acquisitions continued to fuel spectacular growth in the 1990s for ITW, growth that was only partially slowed down by the recession of the early years of the decade. The largest of 15 acquisitions in 1990 was that of the $200 million revenue DeVilbiss spray painting equipment business of Eagle Industries Inc. which built on the prior year's purchase of Ransburg Corporation, also a maker of spray painting equipment. In 1993 ITW added the Miller Group Ltd., a maker of arc welding equipment which had $250 million in revenues. As usual, Miller's operations were soon broken apart, with seven separate units emerging.

The years 1995 and 1996 were transitional ones for ITW, as Nichols handpicked a successor and then stepped aside. W. James Farrell, a 30-year ITW veteran who had served as president, moved into the CEO position in September 1995, replacing the retiring Nichols as chairman in May 1996. During his 14 years as CEO, Nichols oversaw an amazing period of growth--from $450 million in 1981 to $4.18 billion in 1995 when earnings reached $387.6 million. Through Nichols's aggressive acquisition program and his commitment to a decentralized organizational structure, ITW boasted of 365 separate operating units by 1996. During his tenure, Nichols also increased the company's presence outside the United States such that by 1996 about 35 percent of revenues were derived overseas, primarily from European operations.

The Farrell-led ITW essentially picked up where Nichols left off. The company made 19 acquisitions in 1996, including Hobart Brothers Company, a maker of welding products, and the Australian-based Azon Limited, a manufacturer of strapping and other industrial products. The possibility that Farrell would be even more aggressive than Nichols was raised in late 1995 when ITW made its first hostile takeover bid in the company's history, a $134 million offer for fastener maker Elco Industries Inc., a venture that failed after ITW was outbid for Elco by Textron.

Soon after taking over, Farrell hinted that some organizational changes might be needed at ITW as he raised doubts about the wisdom of a nearly $5 billion company being divided into 365 operating units. Nonetheless, with company revenue growing 20 percent per year and profits increasing even faster (40 percent in 1995 and 25 percent in 1996), it was hard to argue with the proven ITW formula. ITW was certainly likely, however, to look more to overseas markets for growth than it had in the past.

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