

# Textron: Seventy-five Years of Leadership in Business

Written by Gary Bliss

## Founding as a Textile Company

Textron Inc. started as a small textile company in 1923, when 22-year-old Royal Little founded the Special Yarns Corporation in Boston, Massachusetts. Revenues that first year were just \$75,000. This modest beginning was the seed that ultimately grew to become the world's first conglomerate, today known as the multi-industry company.

Textiles boomed during World War II, bringing relief from the cyclical nature of the textile business and ushering in a period of growth and activity for the company, which was now doing business as Atlantic Rayon. A major line of business during the war was the production of parachutes.

## Vertical Integration

In 1943, with World War II government contracts dwindling, Little faced the challenge of declining revenue and underutilized production capacity. He developed a vertically-integrated company which controlled every aspect from raw goods processing to distribution of consumer products. He moved quickly from producing parachutes to making lingerie, blouses, bed linens and other consumer products.

This new operation needed a brand name. Atlantic Rayon's advertising agency suggested "Señorita Creations," which was rejected in favor of Textron. The "Tex" was derived from textiles and the "tron" from synthetics such as Lustron, which had been a product of Special Yarns.

The theme of Textron's advertising campaign in the 1940s reflected Little's vision: "From yarn to you, it's Textron all the way."

In 1949, Textron closed the decade with \$67.8 million in sales.

## The Birth of the Conglomerate

In 1952, facing yet another decline in demand for textiles, Royal Little received approval from the Textron

Board of Directors to diversify by acquiring businesses in unrelated industries. He planned to maintain textile operations as an earnings base while acquiring non-textile businesses.

In 1953, Textron purchased its first non-textile business, Burkart Manufacturing Co. of St. Louis, Missouri. This company provided cushioning materials to the automotive market.

The pace of acquisitions was great and Little referred to this activity as his "cross-country buying sprees." Of the more important businesses added in the early 1950s were Homelite, best known as a chainsaw company that was retained until 1994, and fastener maker Camcar and camshaft maker CWC, both of which remain part of Textron today.

Little's success building a diversified company prompted other businesses to follow his model. Textron avoided many of the costly mistakes of other conglomerates by entering new lines of business with small, incremental investments, where other conglomerates made massive, headline-grabbing acquisitions when they moved into new industries.

## Closing the 1950s on a Strong Footing

1958 was a milestone for Textron. It was the first time diversification was tested during a recession. While sales declined 4%, earnings rose 24%. Little's novel idea of a diversified company had proven itself.

As the 1950s drew to a close, Royal Little wanted to round out Textron's earnings base by increasing its share of government contracts. To do that, he purchased the military business of Bell Aircraft Company in 1960 and formed Bell Aerospace which included Bell Helicopter.

At the same time, Little added another company which also remains a part of Textron: E-Z-GO, maker of golf cars.

## Royal Little Leaves and Textron Continues

Textron's founder, Royal Little, retired as chairman at the end of 1960. Sales had grown to \$383 million. Little's successor, banker Rupert Thompson, led Textron into the new decade alongside company president G. William Miller.

In 1963, Textron sold its last textile operation.

Consumer product divisions defined the Textron of the 1960s and 1970s. Notable acquisitions during this period include Speidel, maker of watchbands, Sheaffer Pen, staple and nail gun maker Bostitch, and Gorham, the Rhode Island silver company.

Miller succeeded Thompson as CEO at the end of 1968.

Acquisitions under Miller included snowmobile maker Polaris, Australian card maker Valentine Holdings, and, outside of consumer products, the venture capital firm American Research & Development Corporation (ARD).

Miller's tenure at Textron ended in 1977, when President Jimmy Carter nominated him to be chairman of the Federal Reserve. Joseph Collinson succeeded Miller at Textron as chairman and CEO.

In 1979, Collinson retired, and he was succeeded by Robert P. Straetz as chairman and CEO. E-Z-GO founder and former president Beverly F. Dolan was then named president of Textron. By the end of 1979, revenues had risen to \$3.3 billion.

## Staying Independent through Growth

In October 1984, just as Textron emerged newly strengthened for growth in a reviving economy, Chicago Pacific Corporation, a shell holding company with revenues of only a fraction of Textron's, made an unsolicited offer for Textron.

Given the value of Textron's assets

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and the minimal corporate debt, Textron was, in the words of John Adams of the Boston brokerage firm Adams, Harkness & Hill, "an investment banker's dream."

The takeover failed due to Chicago Pacific's insufficient capital and the determination of Straetz and Dolan to keep Textron independent. It nonetheless sent a clear message that Textron had to start acquiring large businesses or it could be acquired.

In November 1984, Textron announced plans to acquire Avco Corporation of Connecticut, a conglomerate of almost equal size with pre-acquisition revenue of \$2.9 billion. Overnight, Textron nearly doubled in size and carried greater debt, and was thus better protected from hostile takeovers.

Dolan, who had become chairman in 1986 upon the retirement of Straetz, initiated the second major acquisition of the decade that same year. Ex-Cell-O, another diversified manufacturing company, was considerably smaller than Avco, with \$1.1 billion in sales to the aerospace, defense, automotive and industrial markets. This acquisition made Textron a major player in the automotive industry.

Dolan's aggressive acquisition strategy protected Textron, but also created considerable debt. By the end of the 1980's, Textron divested more than 20 divisions as well as several product lines to reduce corporate debt.

#### **Hardymon Builds a Focused Operating Company**

In 1989, James F. Hardymon came to Textron as president after a 28-year career at Emerson Electric, including service as its president and COO. He was named Textron CEO in 1992, and chairman a year later. From his years at Emerson, Hardymon was known for his strong operations background

In order to increase corporate oversight of operations, Hardymon brought Lewis Campbell, a top General Motors executive with over 20 years of engineering and operations experience, to Textron as executive vice president and COO in 1992. In 1994, Campbell was elected president and COO. Adding Campbell strengthened Textron's focus on operational excellence.

One of the first actions during Hardymon's tenure as CEO was the acquisition of Cessna Aircraft Company in 1992. As the market leader in light and medium business jets, Cessna balanced Bell's significant defense-related business activity.

A top priority in Hardymon's early years was establishing a track record of consistent growth to build credibility with all constituencies, including positive attention from Wall Street. Once the track record was established, Hardymon and Campbell needed to change the mix of Textron's businesses to maintain the record of consistent growth going forward.

To that end, Textron decreased its holdings in military contracting, insurance and consumer products. From 1989 to the end of 1997, Textron divested five non-core businesses with \$2.8 billion in revenue and bolstered its core by acquiring 28 businesses with \$3.9 billion in revenue. Internal development was supported with \$7 billion allocated to research and development and capital expenditures. Over this time, the company migrated from deriving 56% of revenue from core businesses to obtaining 100% from the core of Aircraft, Automotive, Industrial and Finance.

Meanwhile, Textron focused on increasing international revenue as a source of growth. In 1989, approximately 28% of Textron's revenue was from non-US operations. By the end of 1997, this figure had risen to 39%.

#### **Building One Team with One Vision**

Hardymon and Campbell focused on changing Textron from a classic holding company to an operating company dedicated to building and growing businesses.

A rigorous management process was developed to coordinate strategic, financial, and human resource planning across the company. Through this process, Textron sets goals, tracks them, meets them, and raises the bar again.

Increasing teamwork among Textron's employees was, and continues to be, a priority. Cooperation among engineering, sales, marketing, product development, operations and other functions is fostered through cooperative councils, forums and meetings that bring together different divisions and segments. Stronger ties also have been built across the company by transferring and promoting personnel from one division to another, a rare occurrence in Textron's past.

#### **Textron Tomorrow**

On March 5, 1998, Textron announced a succession plan under which Lewis Campbell will assume the additional title of Chief Executive Officer on July 1, 1998.

This continuity of leadership, committed to building a focused operating company delivering consistent growth, positions Textron, for a very bright future.

As Jim Hardymon stated at the recent Annual Shareholders' Meeting, "with this succession, our company will not miss a beat."

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