

Illinois Tool Works: Scaling Customer-Back Innovation

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This case presents a hypothetical planning decision from public information. It does not describe an actual internal mandate or include results after the cutoff.

The next phase

Illinois Tool Works (ITW) has spent years using its 80/20 Front-to-Back approach to simplify product lines and focus on important customers and products. The company's current Enterprise Strategy places greater emphasis on organic growth and Customer-Back Innovation (CBI): identifying customers' important problems and developing solutions starting from those needs.

ITW's 2025 Annual Report describes rollout of a reinvigorated CBI framework in 2024 and says divisions customized tools for their markets in 2025. The company reported CBI contributions of 2.0% in 2024 and 2.4% in 2025, and set a goal of at least 3% annual contribution to revenue growth by 2030. Management has also described CBI as the main engine of its organic-growth ambition.

At the same time, product-line simplification reduced reported organic revenue by 60 basis points in both the second quarter and first half of 2026. The company says simplification can lower revenue in the short term as it removes complexity, with expected benefits to margin and longer-term growth. Public disclosures do not quantify the profit or customer effect of specific exits, and they do not show whether resources from simplification support CBI.

Assume a hypothetical ITW planning group must recommend how to sequence CBI capability-building and portfolio decisions for FY2027 and the next 12-18 months. Should ITW use common CBI and portfolio gates broadly across its businesses? Should it concentrate additional support in selected opportunities before expanding? Or should it set enterprise principles while allowing divisions to customize execution? Your task is to recommend a governance and learning approach-not to rewrite ITW's announced strategy or infer an actual internal budget.

A diversified company with uneven markets

ITW reported second-quarter fiscal 2026 results on July 28. The quarter ended June 30. Its 88 operating divisions, as reported for December 31, 2025, sit within seven reporting segments. ITW describes its operating structure as diverse and decentralized and says it does not require each business to submit detailed operating-result information. Corporate management tracks selected measures, but public reporting does not reveal division, customer, project, or product-level CBI outcomes.

ITW's Q2 operating revenue was \$4.301 billion, up 6.1% from a year earlier. The company's bridge attributed 4.5 percentage points to organic revenue, 0.2 points to a combined acquisition/divestiture category, no contribution from restructuring, and 1.4 points to currency translation. The six-month comparison was different: reported revenue grew 5.4%, including 2.5% organic, 0.3% acquisition/divestiture, no restructuring contribution, and 2.6% currency. The company-level bridge does not separate acquisition from divestiture.

Growth rates varied across the seven segments.

Segment	Q2 organic revenue	First-half organic revenue
Automotive OEM	−0.4%	−0.6%
Food Equipment	0.0%	−1.3%
Test & Measurement and Electronics	+10.0%	+7.4%
Welding	+13.9%	+10.0%
Polymers & Fluids	+7.3%	+4.6%
Construction Products	+2.0%	+0.4%
Specialty Products	+1.6%	−1.5%

ITW attributed Q2 organic growth primarily to Test & Measurement and Electronics, Welding, and Polymers & Fluids. It also cited growth in capital-expenditure-related markets. End-market demand, acquisitions, currency, customer mix, pricing, product mix, and simplification all vary. Segment growth does not show which CBI projects succeeded or whether customer-back innovation caused the results.

Simplification and growth at the same time

ITW defines product-line simplification (PLS) as removing complexity and overhead associated with smaller product lines and customers while focusing on larger customers and products. Management attributed a 60-basis-point reduction in organic revenue to PLS in Q2 and in the first half. Its stated expectation is that PLS may lower revenue and overhead in the short term while improving margin; longer-term revenue, profitability, and return growth are expected by the company.

The Q2 PLS effect differed by segment: 80 basis points in Automotive OEM, 30 in Polymers & Fluids, 10 in Construction Products, and 140 in Specialty Products. These are company-attributed revenue effects, not a quantified benefit or cost for any specific product exit. They do not show lost customer relationships, removed operating complexity, future replacement opportunities, or what would have happened without the action.

Separately, ITW attributed 120 basis points to “enterprise initiatives” in Q2 operating-margin change. Positive operating leverage added 90 basis points; higher employee costs and a 40-basis-point unfavorable price/cost effect offset some gains. Net operating margin expanded by 40 basis points to 26.7%. For the first half, enterprise initiatives contributed 120 basis points and operating leverage 50 basis points, partially offset by employee costs and 20 basis points of unfavorable price/cost, for net margin expansion of 50 basis points. The company did not attribute these margin effects to CBI. PLS, enterprise initiatives, 80/20, and CBI are related strategic concepts, but they are not interchangeable measures.

What counts as CBI?

The company’s FY2025 Annual Report lists CBI contribution of 2.0% in 2024 and 2.4% in 2025. Its target is at least 3% annual contribution to revenue growth by 2030. These are company-calculated results and a management target; the report does not provide division-level calculations, project spending, customer validation, stage conversion, or a project margin bridge.

In the Q2 2026 earnings call, CEO Christopher O’Herlihy said CBI contributed 3% to revenue growth in the first half of 2026. He described the metric as year-over-year incremental revenue from new products introduced in the preceding three years, said it is audited and used in compensation, and said CBI contribution should rise in each segment. The call text available for this case is a third-party transcript reproduction, not an ITW-issued transcript or direct audio review. The transcript’s sentence on whether or how cannibalization is excluded is garbled and internally inconsistent; the public record does not establish a cannibalization rule or provide an independent calculation schedule.

The company’s 2025 Annual Report and strategy materials frame CBI as the main driver of organic growth. The Q2 filing reports 4.5% organic revenue growth, but does not connect that total to CBI projects. Organic revenue also reflects markets, price and mix, geography, foreign exchange, acquisitions/divestitures, and customer/product changes. A CBI contribution claim and the accounting organic-revenue bridge are different measures.

Guidance and uncertainty

After Q2, ITW raised its FY2026 outlook. It forecast reported revenue growth of 4-5% and organic growth of 3-4%, with the organic-growth midpoint raised 1.5 percentage points. GAAP EPS guidance rose \$0.15 at the midpoint to \$11.35-\$11.55. The company forecast 26.5-27.5% operating margin, more than 100 basis points of margin contribution from enterprise initiatives, free cash flow above 100% of net income, and about \$1.5 billion in share repurchases.

These are FY2026 forecasts, not results or an FY2027 project budget. ITW’s separate through-cycle organic-growth ambition is at least 4%. The 3%+ CBI target concerns annual contribution to revenue growth by 2030. None of these numbers specifies how much engineering, sales, customer research, or management time can be moved among divisions.

Three plausible approaches

1. **Common enterprise gates.** Use shared CBI definitions, evidence standards, portfolio review points, and measures across divisions. This may make resource decisions and cross-business learning more comparable. It may also impose the wrong evidence or timing on markets with very different customer cycles.

2. **Focused capability support.** Direct extra customer-research, engineering, or innovation-coaching support to selected customer problems or businesses, then scale successful approaches. Selection based only on recent segment growth could confuse market cycles with CBI quality and leave other opportunities underexplored.
3. **Enterprise principles with local execution.** Require each opportunity to document customer need, strategic fit, resources, milestones, and post-launch outcomes while allowing divisions to adapt tools and decision rights. This can fit local markets but may make results difficult to compare or create inconsistent stopping rules.

PLS decisions add a further question. Should ITW continue removing products and customers that do not meet strategic criteria even when doing so reduces near-term revenue? What evidence should show that an exit improves focus or capacity, and how should the company account for lost revenue, customer effects, and replacement opportunities? No public disclosure links PLS proceeds or savings directly to CBI.

Assignment

Prepare a recommendation for the hypothetical FY2027 planning group as of October 4, 2026. Explain:

- which governance approach you recommend for the next 12-18 months, and why;
- where additional CBI support or pilots should be placed and what evidence should guide that selection;
- how to evaluate product-line exits alongside innovation opportunities without assuming savings fund growth;
- which common metrics ITW should use and which decisions should remain tailored to divisions; and
- what internal data would change your recommendation.

State assumptions. Attribute CBI contribution figures, margin effects, targets, and forecasts to ITW. Do not infer that CBI caused segment growth, transfer academic coefficients to ITW, or invent division budgets, project outcomes, customer results, or post-cutoff developments. Financial modeling and Excel are out of scope.

Selected sources

- [ITW Q2 FY2026 Form 10-Q](#)
- [ITW Q2 FY2026 results release](#)
- [ITW Q2 FY2026 earnings presentation](#)
- [Official Q2 earnings webcast schedule](#) and [third-party transcript reproduction](#)
- [ITW FY2025 Form 10-K](#)
- [ITW FY2025 Annual Report](#)
- Research background: integrated literature and evidence review