Wilmington, Delaware.
December 11, 1920.

Copy to Mr. Irenee duPont, Pres.

TO - EXECUTIVE COMMITTEE

FROM - F. W. PICKARD, VICE PRESIDENT.

PAINT AND VARNISH BUSINESS

I attach report from Committee referred to in communication No. 4214 to the Executive Committee on the same general subject from which report it will be noted that the Committee has worked out specific plans and recommendations which they believe will result in turning the tide from loss to profit.

There are a few statements which I believe are open to question, at least as a matter of interpretation, as for instance paragraph numbered 3 at the bottom of page 2, in which it states that the control of the business shall be by means of a counsel of three members. As this would be an organization innovation, I assume the proper interpretation is that the counsel would be in control of the business in the sense only of administering whatever general plan of operation was approved by the heads of the departments involved, namely, Purchasing, Sales, Production and Service.

However, the presentation seems to me an excellent one, and the idea as practical as any which has so far been evolved, and I am inclined to recommend that the Committee discuss this report as a broad proposition and authorize the various department heads involved to approve it with such modifications as it may seem wise to said department heads to make.

This report is sent in under pink cover in view of the fact that the change, if made, should be operative January 1st, and would involve many considerations which should be decided before that time.

F. W. Pickard

LHW 0010393

N50766

December 10, 1920.

MR. C. A. MEADE, VICE PRESIDENT
MR. F. W. PICKARD, VICE PRESIDENT
MR. W. S. CARPENTER, VICE PRESIDENT

A PLAN TO MAKE 10% ON OUR PAINT
AND VARNISH NET SALES

Official forecast #4-A for the paint and varnish business, twelve months September 30, 1920 to September 30, 1921, is as follows:

Gross Sales	$5,112,016
Freight & Delivery	238,358
Selling Expense	847,368
Mill Cost	4,057,716
Administrative	213,125
Net Receipts	244,551
Add December 31st write-down	178,803
Final Net Receipts	423,354

A previous forecast showed approximately a $500,000 loss exclusive of any write-downs, but that forecast has been superseded by the above. Unofficially and without portfolio the undersigned have met together on several occasions and worked out a plan to change the above loss into a profit, which is herewith submitted.

The above estimated loss of $423,354. occurs as follows: $276,608 in the last quarter of this year which includes a write-down of $178,803 and the balance of $146,746 is lost in the first nine months of 1921.

As it is too late to make any changes for the last quarter of this year, we have made our calculations entirely on the twelve months of 1921. On this basis, deducting estimated sales of $500,000 for white lead and oil which we estimate to be sold by the Paint & Varnish Division at a selling expense of $65,000

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we forecast the paint and varnish business as follows:

Gross Sales		$4,500,000
Freight & Delivery	250,000	
Selling Expense	692,300	
Mill Cost	2,982,221	
Administrative	150,479	
Net Receipts	425,000	

This proposed profit of $425,000 for 1921 should be compared with annual losses since we have had the paint and varnish business of from $200,000 to $500,000 actual loss plus the paper loss of no return on our investment amounting to some $300,000 to $500,000 per year. For instance, in 1919, the Paint and Varnish Division lost nearly $500,000 actual cash in addition to a loss of 10% expected returns on the investment or some $500,000 which made a loss of income to the Company of nearly $1,000,000. The forecast for 1921 indicates that there will be an actual loss of some $200,000 (twelve months based on nine months prediction) in addition to a loss of no return on investment of $6,000,000 which means an apparent loss of nearly $800,000.

To accomplish the transformation of a loss to a profit the council (which for convenience we called the informal association of Messrs. S. B. Woodbridge, E. C. Thompson and F. S. MacGregor) proposes some new basic policies as follows:

1. To abandon the effort to fit a volume of business to a certain scale of expenditure already laid down.

2. To select a volume of business for which there is a minimum amount of uncertainty as to obtaining it and arrange our expenditures so that this volume of business will give a profit. In other words, to budget our expenditures to fit the business.

3. Without in any way passing an opinion on the present method of carrying on the business - to plan a scale of living for the paint and varnish business which can be maintained and not live beyond its income, and to control the business by means of a council, composed of the paint sales director, the paint production assistant director and a neutral third member.

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4. To place the responsibility of profits and control of the business in the same place.

5. To concentrate on eastern and southeastern territory economically handled from our plants, and build up a profitable industrial line, in which line the technical knowledge, experience and resources of the du Pont Company can be used to advantage.

We feel that a policy might be adopted to work out of our present unsatisfactory position within the next year or two on a basis of gradually eliminating expenses and being willing to accept a loss for 1921. Just such a program has been in force for almost four years and we feel that the plan submitted now isthe only one that has any possibility of guaranteeing results.

The theory on which the budget is based was embodied in some figures transmitted by Mr. W. S. Carpenter, Jr. in July 1920 to Messrs. F. W. Pickard and C. A. Meade. This letter showed a calculation of the distribution of the expenses by percentages of two of our leading paint competitors, one, three times the size of the other and based on 1914 figures and 1917 figures. This distribution was as follows: For every 100% of net sales, that is, sales less freight and delivery and all discounts and allowances, 53% of this amount should be spent for raw materials, 37% for all expenses and 10% remains as profit. The total investment should be equal approximately to the sales. Therefore, a 10% on sales gives 10% on the investment. Taking the item of 37%, we have divided this into three parts -

17.1% for production
16.2% " sales
3.7% " administrative

To compare our paint and varnish business for 1920 as actually handled with the same business as handled under this proposed plan, the following table is presented;

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Actual 1930		Under Proposed Plan	
Net Sales	5,160,000*	Net Sales	5,160,000*
Freight & Delivery	248,300	Freight & Delivery	248,300
Selling Expense	919,207	Selling Expense	796,000
Mill Cost	4,000,000	Mill Cost	3,440,000
Administrative	203,000	Adminstrative	181,500
Net Receipts before write down	210,507	Net Receipts	494,200

This indicates that there is a net difference between the two methods of operation of $704,707*. This is accounted for by the following discrepancies:

Mill Cost Difference	$560,000
Sales "	123,207
Adminstrative"	81,500
	704,707

With reference to difference in the mill cost-without considerable added time we cannot determine how the difference should be distributed between the purchases and manufacturing expense but calculations show that neither group could probably account for all the difference and that, therefore, it was a contribution by both for the loss in 1930. We feel that purchases should be more closely tied up with the general control of the business.

We have taken our own past figures, analysed them and made the necessary curtailment in expenses to get within this budget. To go over each item in detail that was contemplated would take a number of weeks of very exhaustive work in order to prepare a detailed report, but we feel the indications are such that if our proposed plan is put into effect, the details can be satisfactorily worked out and put into effect immediately as they are each decided rather than hold up everything in order to get a final decision on the plan.

As an example, we may take the Sales Department expenses which are now running at the rate of $919,207. per year. We allow a budget of $892,300. Examples of the changes to accomplish this may be given briefly.

*This assumes that sales prices were proper; if too low then mill cost difference is too large by that amount, and sales should bear additional amount of $704,707 discrepancy.

In the expenses of branch offices we find that Boston is about satisfactory. In Chicago, we can eliminate the position of assistant sales manager, eliminate the Kansas City office and continue the consolidation of the Minneapolis office with Chicago. We would eliminate completely the Columbus and Pittsburgh organizations, and handle that territory between Philadelphia and Chicago offices. New York proper and New York-Philadelphia-sub and Philadelphia can all be consolidated and with the elimination of some expensive personnel and other reductions, make a material saving. Main office expenses can also be reduced considerably, for instance, in general sales expense, we propose to combine the Order Bureau and Storekeeping Division and curtail considerably the expenses of Sales Expense Bureau. Trade Record expense can be curtailed because our paint and varnish business constitutes only a very small part of the paint and varnish business of the country and, under the circumstances, we are not concerned about statistics showing the relation of our business to other paint and varnish businesses of the country. Special Sales Bureau, Technical Educational Bureau, Technical Bureau General Office are either abandoned or the work added to Paint and Varnish Sales Division.

In the production end, which includes all other activities except administrative and sales, we have carefully figured out certain savings which may be illustrated as follows: No charge from the Chemical Department as such work can be taken care of by the Paint and Varnish Technical Department at Gray's Ferry. Elimination of Service Department and such duties as are needed transferred to Production; for example, the functions of the Works Supplies Section should be taken care of by the Purchasing Agent. Finished Products Section work can be handled as far as complaints are concerned by our Technical Department and the standardization of packages, etc., can be taken over by the Purchasing Agent. The Order

Section is to be a small unit directly attached to the sales director. All cost records will go direct from the plants to the Accounting Department, and we have allowed for cost figuring as a part of direct operating expense. Planning Section will be one man attached directly to the assistant director of Production. Salvage Section will work on a commission basis and the Printing Section will bid for business the same as in outside concerns.

As to the Welfare, Fire Protection, Safety and Inspection Divisions, we admit their desirability but in their present form we cannot afford them in the paint and varnish business and we propose, therefore, to have a very much modified scheme - possibly one man only to handle the work of the four sections.

For the administrative item, we have allowed $150,479 as compared with $203,000 for 1920. We immediately allow $73,570 which is the general administrative, comprising Executive Committee, Finance Committee, Legal, Administrative Miscellaneous, etc., because we feel that the Paint and Varnish Division in partaking of the general backing of the du Pont organization and influence should participate in its pro-rata share of this executive charge. The balance left in the administrative item is made up of such items as -

Accounting Department Expense which covers General Division, Production Cost, Accounts Payable, Accounts Receivable and Sales Analysis.

Auditing Department Expense which covers Auditing Division and credits and collections.

Salary Department which covers Administrative, Salary, Payroll and Paymaster Divisions.

We feel that there is a considerable reduction possible in the auditing and credits and collections items but only moderate economies can be expected in the Accounts Receivable and Sales Analysis Divisions, especially in the line of stockkeeping, invoic freight on each of the some thousands of invoices per month is calculated for each gallon. This can be omitted and a so-called freight pool used, which to all intents and purposes is exactly as satisfactory and results in some economy of clerical expenses. The reason that this freight calculation has been made is due to the fact that the 139 sheet for the Paint and Varnish Division is divided into four or five items. We feel that this division proves nothing as the division items showing mill cost, etc., are more or less arbitrarily distributed in spite of an effort to do it accurately and when all is said and done the real answer lies in the total. Accordingly, we feel that the 129 sheet should consist of the total items only covering gross receipts, freight and delivery selling expense, mill cost, administrative and net receipts; such detail as may be needed can be cared for by the respective Sales and P_roduction Divisions.

The investment as of September 30 in the paint and varnish business is as follows:

Including Sales of Products purchased from Chicago Varnish Co. & Investment due to such sales but excluding Mendel St. Plant Investment & Raw Materials Investment sold to Flint Varnish & Color Works

Cash	$ 540,000.00
Receivables	1,635,082.00
Materials & Supplies	943,780.00
Finished Product	1,393,025.00
Fin. Product (Chicago)	66,072.00
Deferred Charges	104,439.00
TOTAL WORKING CAPITAL	4,682,398.00
Total Permanent Investment	1,348,737.00
TOTAL INVESTMENT	6,031,135.00

According to the experience of the Development Department in the examination of other companies, the ratio of one to one for sales and total investment is proper. Therefore, for our forecasted volume for 1921, the total investment should be $4,250,000. Subtracting the total permanent investment (which cannot be changed appreciably) of $1,348,727, we have an allowed working capital of $2,901,273, as compared with a present working capital of $4,683,398. Allowing $1,500,000 for combined "accounts receivable" and "cash" as against the present item of $2,175,083. we have an allowable amount for combined inventories of $1,401,273, as against the present item of $2,403,877. This means that a reduction of materials and supplies and finished product must amount to $1,001,604.

This means that we can work off excess raw materials of $300,000 but that on the other hand we have some $700,000 worth of finished products which must be moved somehow; whether by auction sale or otherwise we are not yet prepared to state, as a good deal of it is obsolete and closed out brands.

For the above stated reasons we cannot forecast a 10% return on the investment too but would suggest at least six months to get the investment down to the forecasted amount so that we may expect a 10% return on the paint and varnish investment in the last half of 1921.

Owing to this investment situation it is advisable that this proposed plan be put in force as soon as possible if it is at all favored, and for that reason we have not taken the time to supply the detailed figures which the councils possess backing up the figures in this report. Also the possibility of getting all write-downs and charged off items into our 1920 books so as to have 1921 start on a fair basis is important.

S. B. Woodbridge

F. C. Thompson

F. S. MacGregor

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