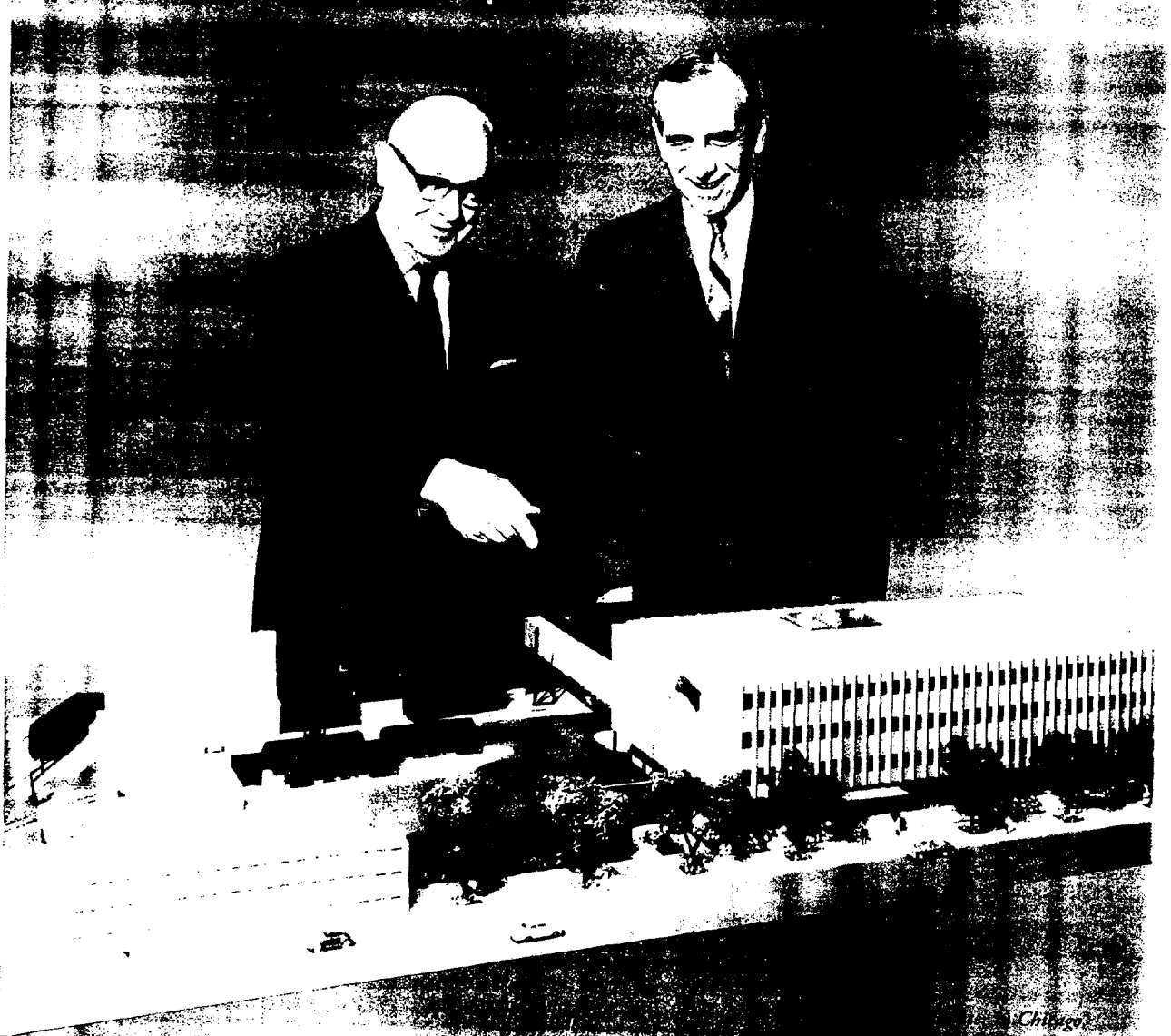
Spreading Thin

1966-1978



[illegible] Chicago, Baldwin beam while reviewing [illegible] part of a major model of Sherwin Williams's [illegible] Baldwin.

Chapter 6

In 1966, Sherwin-Williams celebrated the 100th anniversary of Henry Sherwin's entry into the paint business in a spirit of enthusiasm and confidence. During this anniversary year, Steudel retired as chairman after 58 years with the company, leaving what appeared to be a very sound enterprise, free of debt, with record-breaking earnings, and commanding by far the largest share of the market for coatings in the United States.

The growth and expansion of the Steudel era, however, masked significant long-term problems, many of which traced back several decades. One fundamental tension arose out of the success of Kem-Tone. During its first 75 years, the company had earned a reputation for premium quality exterior oil paint for professional painters. After 1941, however, Kem-Tone's extraordinary success took Sherwin-Williams in a new direction; the easy-to-apply latex paint was ideally suited to the new mass market of the do-it-yourself home decorator. Sherwin-Williams pursued this market eagerly by expanding its store network and catering to retail consumers. Stores reinforced this trend by carrying many new home decorating and improvement products, including waxes and polishes. Yet at the same time, they still sold to their traditional customer base of professional painters and building contractors.

As long as demand remained high and the company prosperous, this tension remained below the surface. The rising cost of raw materials, however, exposed serious problems. The coatings revolution of the 1920s and 1930s had made Sherwin-Williams accustomed to yearly decreases in the price of raw materials. Each year, the company raised retail prices a bit, resulting in a comfortable margin. This pattern continued during World War II, when commodity prices and demand were both artificially regulated.

The postwar period brought a new instability to this way of life. With the pace of chemical innovation slowing, and with the outbreak of postwar shortages, the cost of raw materials began to level out before rising ominously. The paint industry could no longer rely on an extra bit of margin each year. Sherwin-Williams's profits began to decrease until, by the early 1960s, the company earned less per gallon than at any time in its history. High volume masked this trend, but as the tremendous pent-up demand of the postwar period tapered off, sales began to slow and profits to plunge. Sherwin-Williams suddenly found itself in the uncomfortable position of a high-cost producer. Part of the problem lay with production costs. The company had remodeled and built few plants during the postwar years, and as a result, many operations were outmoded and inefficient.

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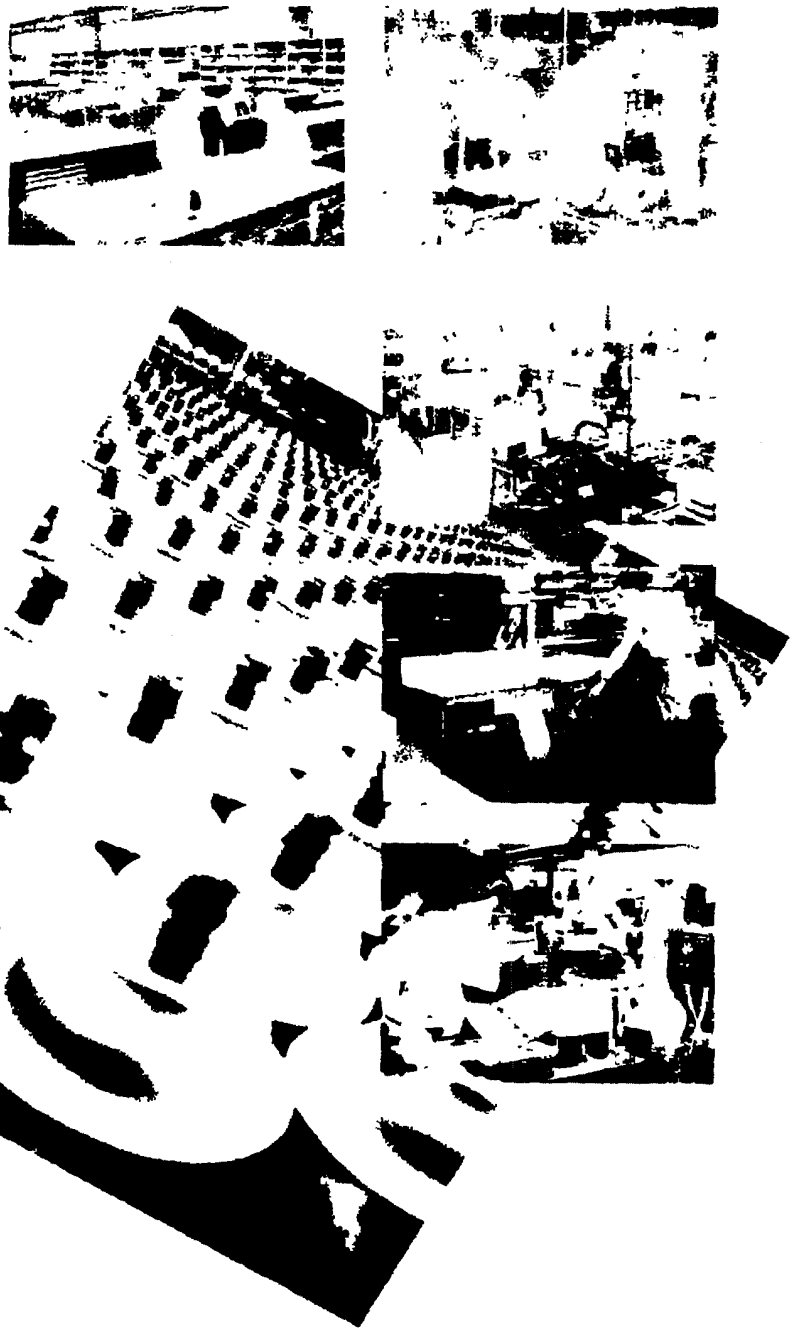
From the beginning, Sherwin-Williams produced its own printed matter, including labels and color cards. The first printing department was a 10 by 12 foot room next to Mr. Sherwin's office in the old cooperage next to the Cuyahoga River. In 1874, according to Mr. Sherwin's recollections, there was one pressman, one assistant, "three or four fonts of type and a very rickety foot power press."

In 1951, the Graphic Arts Division moved into a modern 100,000 square foot building in North Olmsted, Ohio.

Pictured clockwise: the composing room, the pressroom, the press finishing department, the bindery, and the sampling department. In 1987, Graphic Arts moved to a new facility at Fountain Inn, North Carolina.



With its 1966 acquisition of Sprayon, Sherwin-Williams added significantly to its packaging business.

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In 1966, Baldwin embarked on a four-year, $120-million expansion and diversification program, a projected expense that equalled the total capital expenditures made by the company over the previous 31 years. Baldwin chose to finance this program by borrowing large sums for the first time in the company's history. Sherwin-Williams then proceeded to build or modernize a number of paint and chemical plants, warehouses, and research and development facilities. It opened an efficient new paint factory in Morrow, Georgia, a new container plant in Elgin, Illinois, and chemical plants using new titanium dioxide and alkali blue pigment technologies. It also began work on a new research and development center in Chicago, named in honor of Steudel.

Baldwin also sought to diversify the company to offset slow growth in the paint business. In pursuing such a strategy, Sherwin-Williams followed the example of many American companies for which tax laws and antitrust considerations made diversification an attractive option at that time—in 1968, for instance, twice as many business mergers occurred in the United States as in any previous year. Sherwin-Williams made three major acquisitions. In 1966, it bought Maumee Chemicals, a company which specialized in the production of saccharine and paracresol (used to create BHT, a widely used anti-oxidant that kept food fresh). In an effort to strengthen the small aerosol container line it had began in 1956, Sherwin-Williams also acquired, in 1966, Sprayon Products of Ohio, a well-established aerosol packager specializing in spray paint. Two years later, it acquired Osborn Manufacturing of Ohio, a producer of power-driven brushes and custom-made foundry equipment. Osborn's history was closely intertwined with that of Sherwin-Williams, having been founded by A.T. Osborn, a former partner, in the nineteenth century, of Henry Sherwin and Edward Williams. John Sherwin Prescott, a vice president of Sherwin-Williams and grandson of Henry Sherwin, served on Osborn's board of directors.

As a result of these acquisitions, the company reorganized in 1968 into three functional departments. The paints, varnishes, and coatings department included chemical coatings, trade sales, and automotive refinishes. The pigments, colors, and chemicals department included the specialty chemical business and the pigment and dye businesses. The paint-related products department included sundries, such as containers, trays, and brushes.

Sherwin-Williams faced a serious challenge at this time arising from an increasingly important retail phenomenon within the paint industry, the mass-merchandising or discount store catering exclusively to the do-it-yourself decorator market. Those discounters and mass merchandisers who wanted to sell the powerful Kem line in their stores directly threatened Sherwin-Williams's carefully structured and very successful distribution system for its Kem products which it had built up in the early 1950s. It sold each paint product at one uniform price throughout the

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"More Than a Paint Store:" ads from Life magazine and a typical branch store window display.



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network of its approximately 1,500 company-owned stores, 10,000 authorized dealers, and 30,000 specified Kem products dealers. In 1958, changes in the law brought an end to this network. Thereafter, Sherwin-Williams and its affiliated companies, such as Martin-Senour, Lowe Brothers, and Lawrence, could only suggest, but not specify, retail prices for Kem products.

Sherwin-Williams had tried to anticipate the rise of discounters, and agreed to permit K-Mart department stores to sell its paint in leased departments. There were 191 K-Marts around the country selling Kem-Tone by 1967. Increasing numbers of discount chains, however, wanted to sell Sherwin-Williams products, and were able to obtain Kem and other paints from its affiliates. Further changes in the law required Sherwin-Williams to relinquish its exclusive deal with K-Mart and to release its Kem brands to any discounter who wanted to sell them. These chains then sold Kem paints at half the suggested price, and deeply undercut Sherwin-Williams's company-owned stores and dealers. By 1971, with its exclusive arrangement lost, and with price competition accelerating, K-Mart decided to assume control over Sherwin-Williams' leased paint departments, although the company continued as K-Mart's supplier.

In 1969, in the midst of this whirlwind of change, Walter O. Spencer, former chemist, Chicago plant manager, and vice president of Operations, succeeded Baldwin to the presidency. Baldwin, in turn, became chairman of the board. At 42, Spencer was the youngest company president since Sherwin himself, and was expected to "inject large doses of innovation and vitality" into the company. His brightly colored shirts, moustache, and long sideburns reinforced a brash reputation. Noting that he didn't "always do what's expected," he began to try to shake up the company. His mission was to "work wonders" on Sherwin-Williams's old-fashioned organization and conservative management team.

Having observed the overwhelming success of the discount retail chains, and taken the measure of the booming do-it-yourself population, Spencer decided that Sherwin-Williams should pursue the lucrative home remodeling market. Unless it did so, he believed that the company would lose its standing in the market. Spencer was also convinced that the company needed to target the newer and more numerous customer group of women and younger buyers, rather than rely on the traditional, and shrinking, base of men over 45 years old. "We wanted to get Mrs. Jones to think of our place if she had a decorating problem," Spencer asserted. In one stop, a customer could get carpeting, window treatments, wallpaper, and paint.

Spencer sought to transform many Sherwin-Williams branches into retailing operations. The company already had the most extensive store network in the industry; what it needed, he insisted, was some image-polishing to attract the do-it-yourself public. In 1972, the company launched its "More than a Paint Store"

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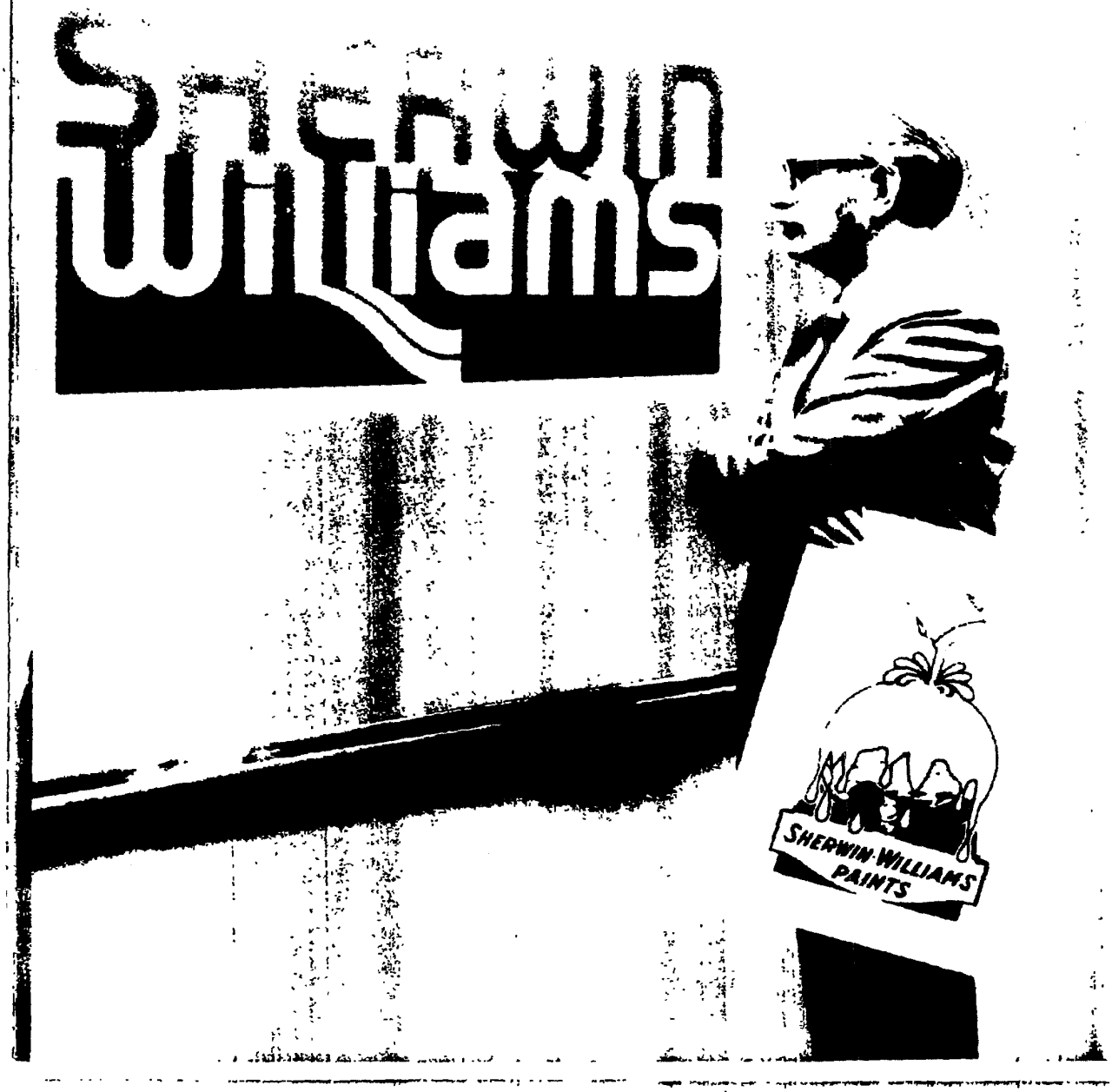
President Walter Spencer admires the new Sherwin-Williams logo, which he believed was more appropriate than the 75-year old "Cover the Earth" symbol.



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advertising campaign. Stores were decorated with eye-catching window displays showing that they were rescue stations, beauty and antique shops, travel agencies, and school houses—not just paint stores. The company offered unusual promotions in this advertising campaign. For example, when a store was decorated like a beauty shop and the theme was "we beautify your home," a customer could buy a $20 lighted mirror for $15. When the store was a travel agency and the theme was "your passport to a painting adventure," a customer was offered luggage at a discount. The company also ran full-page ads in *Life* magazine, showing its stores as retailers of home-improvement products staffed with individuals with specialized expertise.

Still, Spencer believed, more needed to be done. "We weren't going out and asking our customers what they wanted to buy, how they wanted to buy, and where," he stated. "We had not upgraded the stores and were not aggressive enough in the marketplace. We needed more pizazz!" As a result, he inaugurated a more ambitious retail strategy and launched a massive effort to upgrade some stores and to establish others in metropolitan markets. These "Idea Centers" were designed to meet all home-decorating needs. Sherwin-Williams hired women to work in these stores, advertising that customers could "Ask Shirley Williams" for advice on picking wallpaper, carpeting, and draperies. By late 1974, over 600 stores provided professional decorating consultants to assist customers, with a new "Color Harmony Guide" to display coordinated decorating ideas at a glance.

At the same time, the company embarked on an extensive market survey designed to provide information about how employees, other companies, and members of the public viewed its 75 year-old "Cover the Earth" logo. The research showed that although the symbol was one of the world's five best-known, it confined the company's image to that of a paint manufacturer, rather than a retailer of many home-decorating items. "The logo had been around for a long time," conceded Spencer, but he believed that "the company was more than the logo would indicate." He felt that the image did not capture the diversity of Sherwin-Williams businesses, including saccharin, specialized chemicals for foods and perfumes, organic chemicals, textile chemicals, containers, brushes, machinery and foundry equipment, adhesives (Sherwin-Williams had recently acquired Hadley Adhesives, founded in 1906, a custom formulator of glues and adhesives), graphic arts, and aerosols.

Rather than continue to restrict itself to the "Cover the Earth" logo, Sherwin-Williams chose to focus on its name, which the research showed was one of the company's strongest equities. Top management sought to convey a "broader" image, and launched an ambitious corporate identification program to devise a new print logo displaying its name in bright, crisp, blue-and-white colors, and then to spread the new symbol throughout the company.

In 1975, as part of the second stage of its retail thrust, Sherwin-Williams opened a new store, unique in the American home-decorating scene. This pilot

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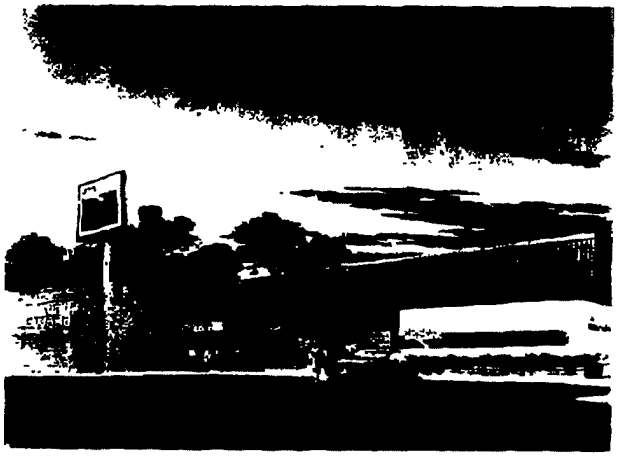



On opening day, customers lined up outside Sherwin-Williams's adventurous new "Decorating World" store in Charlotte, North Carolina.

Other branch stores were upgraded to carry a wider variety of items for the home, including a large selection of carpeting.

venture, called "Decorating World" and located in Charlotte, North Carolina, was many times larger than a traditional 4,000-square foot Sherwin-Williams branch, and was designed to act as a laboratory for new marketing techniques. Decorating World offered customers both a complete selection of decorating products, including paint, wall and floor coverings, draperies and other window treatments, and seasonal items, like lawn furniture and kitchen and bath accessories. All of these items were available in various price categories. Decorating World also provided innovative customer services, such as "how to" decorating clinics and a child-care center.

Unfortunately, efforts to change the company's image proved much more complicated and costly than anticipated. Creating a new logo and implementing the corporate identification system alone cost $15 million. Relocating, upgrading, and enlarging stores and expanding product lines proved enormously expensive. Decorating World, in particular, in the words of one Stores executive, was a "marketing success and a business disaster—too complex and too costly to operate." Even after the upgraded stores began to attract home improvement customers, Sherwin-Williams management had insufficient retail experience to capitalize fully on their patronage. The new retail strategy also risked alienating the stores's traditional base of professional painters and building contractors. Ultimately, the company's thoroughgoing efforts to capture a new market while attempting to retain its traditional one made for a divided approach that served neither sector properly.

Forces external to the company further undermined Spencer's initiatives. Half the cost of a can of paint derived from its raw materials, most of which were based on petroleum. In 1974, the energy crisis made raw material costs skyrocket, causing Spencer to acknowledge that, "in terms of margins, the good old days are gone, particularly in the paint business." Federal wage-and-price controls barred the company from raising its prices and forced it to borrow money to cover operating expenses.

In addition, Sherwin-Williams' traditional strategy of investing heavily in raw materials was no longer paying off, and its Chemical Division began to lose money. Technology was changing so rapidly that even large infusions of capital could not guarantee Sherwin-Williams a competitive market position. Many of the plants it had bought or built over the past decades produced pigments and chemicals that were in danger of becoming obsolete in the coatings business. Instead of using 90 per cent of its own raw materials, Sherwin-Williams had to sell 90 per cent to other companies; what had been vertical integration had become horizontal integration, with the company continually working to sell these products to others. Hopeful of a turnaround, Spencer pressed ahead, divesting, closing outright, or converting a number of pigment and chemical plants.

In 1975, in a major effort to counter discounters who were increasingly using Sherwin-Williams branded paints as loss leaders, Spencer made a controversial decision to remove Sherwin-Williams paints from all markets except the company's

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An Innovative Operation

The charter of the Richmond automotive refinish facility stated as its purpose, "To construct and operate a safe, clean, efficient plant in Richmond that will produce the highest quality automotive re-finish plant in the world and keep itself ahead of the industry in competitiveness and profitability."

The plant, which opened in October 1976, has more than lived up to its charter. It is an innovative operation, organized not around traditional factory hierarchies, but around "open systems management." When it first started production, skeptics regarded this approach, which involves the employees in all aspects of production and quality control, as a radical experiment which would not succeed. They soon discovered their error.

The Richmond plant immediately set the standard for all Sherwin-Williams plants anywhere in the world. Productivity is 30 per cent higher than in comparable plants, and the cost per gallon of finished products made at this facility is a full 45 per cent lower than at other plants manufacturing the same products. While a number of factors have contributed to its high level of productivity, management attributes most of the cost reduction to the plant's human resources. No other plant in the industry has had as many continuing safe hours under its belt. In 1980, the Richmond plant won the National Safety Council's Award of Merit for logging over a million employee hours without losing a single workday because of an accident—reflecting a perfect record since opening in 1976.

Work at the plant is done by nine teams, each responsible for a different function, and a team leader coordinates the team's efforts. Each member learns, and rotates through, all the team's jobs. Even the plant architecture is specifically designed to integrate workers into the process: there are no assigned parking places, no separate entrances, and no time clocks. Everyone has the same benefits program, including an incentive plan.

In 1984, in an extraordinary move, all 200 plant employees decided, after a landslide vote, to plow some of their productivity bonus money back into the company. They presented Sherwin-Williams with a check for $21,282.71 to cover the costs of building a safety access road behind the plant. "The attitude of the employees brought a lump to my throat and tears to my eyes," said Leonard Ward, division president and general manager at the time. "My first reaction was to refuse the gift—it's so large. Then they made me realize that this is their own very special way of expressing their appreciation to Sherwin-Williams."

A plant tour during opening day at the Richmond facility.

Inset: Ross Silberstein, plant manager, and Len Ward, automotive refinish division president, smile as they accept the Richmond employees' check.



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own stores. In return, the company gave its longtime dealers generous financial terms and proposed that they sell the Martin-Senour brand instead. Many dealers, however, chose rival brands with more established market shares, and Sherwin-Williams lost 12 million gallons of paint sales in the transition, representing 10 to 15 per cent of its total paint sales volume. Although implementation proved costly, this move was seen as imperative for Sherwin-Williams to recapture its own name brands and to allocate its different paint lines strategically between mass marketers, dealers, and its own stores.

Spencer also sought to replace old plants and technology. To become the low cost producer of the coatings industry, he earmarked $100 million in capital investment to build two new plants, an enamel and lacquer coatings facility for auto refinishing in Richmond, Kentucky, and an emulsion plant in Chicago. The plant dedicated to the automotive refinish business was long overdue. In 1958, Sherwin-Williams had invented acrylic enamel, a significant technological breakthrough that applied easily and dried instantly. From this invention came a new product, called Acrylyd, that was introduced in 1963. To show how easy it was to use, demonstrators applied Acrylyd in tuxedos. This new acrylic enamel technology, and later, isocyanate technology, proved so successful that, in the 1960s, the company began to open its own specialty automotive branches. Business soared for the "refinish experts," as they called themselves, and Sherwin-Williams went from last place to become the number-two supplier of auto refinishes in the United States, and third or fourth in the world. By 1975, Sherwin-Williams operated fifty automotive branches; with business increasing at 20 per cent a year, automotive refinishing was the fastest growing part of the company.

Despite its success, the auto finishes business suffered from second-class status in the company. Its managers had to "beg, borrow, or steal" production capability out of the coatings plants and adapt this, which was difficult as auto refinishes involved "high tech" processes which were expensive. The decision to build the Richmond plant was a clear signal that the company was serious about developing this area of its business. With its new production capability, the division actively pursued a multibrand strategy of selling Sherwin-Williams automotive refinish products from its branch stores directly to body shops; selling its Martin-Senour brand to National Automobile Parts Association (NAPA), a distributor that was the world's largest chain of automotive aftermarket stores; and selling its Acme and Rogers brand through still other channels.

Industrial coatings was another business segment that yielded innovation and expansion during the 1970s. The coil coating business, one of the fastest growing paint markets, grew at 15 per cent per year and involved a wide range of customers,

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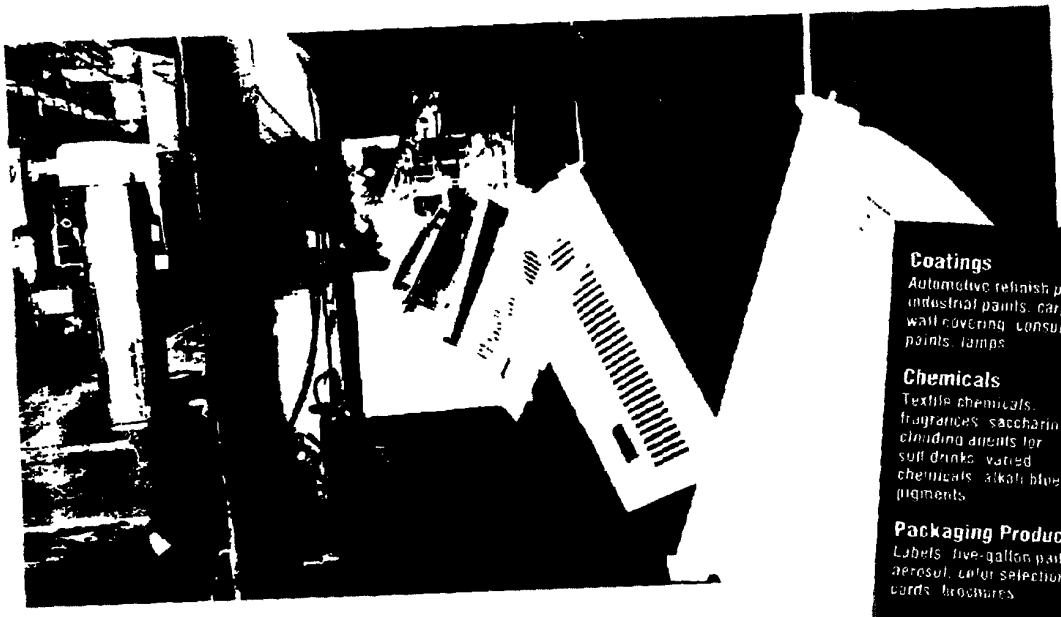

Coatings
Automotive refinish paints, industrial paints, carpeting, wall covering, consumer paints, lamps

Chemicals
Textile chemicals, fragrances, saccharin, clouding agents for soft drinks, varied chemicals, alkali blue pigments

Packaging Products
Labels, five-gallon pails, aerosol, color selection cards, brochures

Specialty Products
Paint brushes, paint spreaders, anti-rust sprays, anti-spatter material for welding tips

Sherwin-Williams Canada
Consumer paints, decorative accessories, mirrors

International Coatings
Paint, enamel



The Sherw

Reorganized Rededicated

Polane, an important new industrial finish, was introduced in 1971.

Top: a Polane finishing line.

In 1977, Sherwin-Williams announced its first major reorganization in seven decades. The product of five years of study and changes inside the company, the new structure grouped distinct businesses into separate divisions, each headed by a general manager.

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including the business machine, structural steel, and the aircraft industries. Innovative industrial coatings research and development emphasized energy-efficient coatings. In 1971, for example, Sherwin-Williams introduced Polane, a successful new industrial polyurethane finish which could be applied to a wide variety of surfaces without baking, and which was very effective for use on heat-sensitive plastics. Polane, which had been first developed in the 1960s by the Lowe Brothers affiliate, soon set the standard in the industry.

Despite positive showings by chemical coatings and automotive refinishes, and even though sales volume for the rest of the company reached an all-time high, Sherwin-Williams earnings in the early 1970s continued to be disappointing, having dropped steadily from their peak in 1966. In fact, the rapidly accumulated acquisitions and the capital expenditures of the late 1960s, combined with the further expenditures and new directions of the 1970s, had produced a highly diverse, debt-laden company. Spencer remained upbeat, however, contending that "a price had to be paid" for the new Sherwin-Williams, and that in fact, the company was approaching its strongest position in years. In 1976, he initiated a wave of selling off operations, including Osborn and a textile chemical plant. The company also sold plants in Detroit, Dayton, Gibbsboro, and in Europe, as well as a lab in Toledo. All told, it took $16.4 million in write-offs from these transactions.

When he first took office, Spencer had been determined to reverse Sherwin-Williams's 100-year history of centralized control. He had long chafed at the company's top-down organization and the paternalistic relationships that grew out of it, convinced that such a system was increasingly ill-suited to a rapidly changing business environment. Starting in 1971, he began a series of restructurings in order to change the company "from a traditional, highly centralized, functional organization to several business area organizations, each headed by one man responsible for sales, production, research and development, and accounting and control in his business area."

The company reorganized along divisional lines, creating five profit centers of Coatings, Chemicals, Auxiliaries, International, and Sprayon, all of which were organized into groups. It instituted a formal strategic planning function and overhauled the financial office. In 1976, Spencer restructured the Coatings Group under its own vice president. He then broke it into three divisions, Consumer, Automotive Refinishes, and Chemical Coatings. Although he sought to make each of these responsible for its own profits, sales, manufacturing, distribution, and research and development, they were not decentralized in their operations, and were not true "profit centers." In addition, the overarching corporate structure remained in place.

By 1977, this restructuring was essentially complete. Under the new system, the Coatings Group included for the first time under one umbrella the diverse collection of autonomously run affiliate companies and all the different subsidiaries of

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Sherwin-Williams buttons from the 1890s to the present celebrate employee recognition and achievement and promote the company's numerous advertising and sales campaigns.

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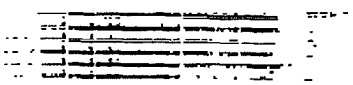
Sherwin-Williams. It was, in turn, restructured into five divisions. These included Consumer, which encompassed all production, technical development, distribution, and direct sales of paint, other than chemical coatings and auto refinishes; Trade Stores, which was responsible for all sales, merchandising, advertising, and operation of the company-owned stores; Chemical Coatings; Automotive Aftermarket branches; and International Coatings. Other groups included Chemicals; Packaging Products, which managed containers; Specialty Products, which managed Sprayon and Hadley Adhesives; and Sherwin-Williams Canada.

Despite Spencer's determined efforts, Sherwin-Williams remained, in his words, "a troubled company." Although he predicted that it would break even in 1977, the actual financial results for that year proved much worse. At the end of the fourth quarter, the company reported a loss of $8 million on sales of $1 billion, and its interest expense exceeded its earnings. Sherwin-Williams was unable to pay its dividend for the first time in its history, and it owed $196.6 million in long-term debt. The value of its stock had plunged from the high $40s to the $20s in little more than five years. Following this distressing performance, serious questions were raised about the company's financial controls, and the board of directors re-organized itself to include fewer insiders. As the stock price slid precipitously, the company became a takeover target. Several Cleveland companies considered buying Sherwin-Williams, and Gulf & Western, a well-known conglomerate, was on its way to acquiring 13.4 per cent of the company's stock.

In March 1978, Spencer resigned, citing the frustrations of trying to decentralize a company of Sherwin-Williams's massive size and formidable traditions, and of trying to fashion a market-driven organization from a production-focused structure. "The job is no longer any fun," he said. He was succeeded by 60-year old interim president William Fine, who had been a member of the board for over twenty years, and who had held of a number of top financial and operating positions in the company. In the meantime, the board launched a search for a new president.



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