INTERVIEW WITH

FRED RISTOW

SHERWIN-WILLIAMS
CLEVELAND, OHIO

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INTERVIEWED BY

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Beginning of Side A

INT: Fred, could you start from the beginning when you joined the company? What were you doing?

FR: I started with Sherwin Williams back in ~~1950~~ 1952. ~~[illegible]~~ ~~I~~ started with the company, hired by a fellow named Walt ~~[illegible]~~ MAYNOR. He was then the labor relations director for the corporation. He hired me for a project called Applique which was a new venture that we set up a separate laboratory for here on High Street. About six chemists and myself did all the experimental work to get ~~that~~ THIS VENTURE ready for the marketplace.

INT: So you came from a chemistry background.

FR: No. I came from a brush factory. I worked for Cleveland Brush Factory out of high school and ~~he~~ WALT hired me into this PROJECT. I was the security person on this Applique project to make sure that all the ~~security~~ CONFIDENTIALLY was maintained. I worked for Walt in that regard. About two months later, they drafted me. I went into the draft during the Korean War. ~~And~~ They flipped the coin and I ended up in Germany as Chaplain's Assistant for two years rather than go over to Korea. I came out and ~~they~~ SW didn't know what to do with me. So I went to THE Newark plant under Bill Graham, who was then plant manager. ~~And~~ I started out there as a shipping floor foreman. I worked in various SUPERVISING positions in the warehouse, order-

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filling foreman, warehouse superintendent, up ~~from~~ to what they called in those days stock-keeper in the office.

INT: This would be about 1953-54?

FR: Yes. And I stayed there in various positions about seven years. So most of the fifties I would say I spent ~~my career~~ in the Newark facility. DON BENFER ~~Spencer~~ and Joe RINKOSKI ~~[Rankowski]~~ needed a store assistant stock-keeper in Cleveland to work with a fellow called Cliff JAUCH ~~[Yock]~~ who was responsible for ~~all~~ the replenishing of the 1500 + ~~however many~~ stores there were in those days. We force fed the stores rather than have the stores do their own ordering of replenishment. ~~So~~ I was brought back into Cleveland ~~and I worked for Cliff [Yock] who worked for Don [Benfer]. I was called the~~ AS assistant branch stock-keeper. We were instrumental in mechanizing the ordering procedures and putting all those procedures on computer back in the sixties. ~~So~~ The first computerization of the stock-keeping system started with the stores in 1960.

INT: But the computerization was here in Cleveland. It was not at terminals in the stores.

FR: Here in Cleveland. And we used scanners. We used to send the stores scanner sheets and they would just fillED out the SHEETS ~~scanners~~, SENT ~~come~~ back in, and we'd scan them AND CALCULATE ~~and then we'd do the~~ A NEW REPLENISHMENT ORDER ACCORDINGLY.

~~process that way~~. It wasn't INITIATED from terminals like they have in the stores today. That was the first EFFORT AT semi-mechanization, if you'd like to call it that.

INT: How did it work that you ordered for the store?

FR: We kept track by item, by store, of their movement. We set what we called in those days order points and order up to levels. And based on the seasonality of the product we would then determine what ~~we shipped them,~~ TO SHIP, the calculation of what the beginning inventory was, ~~the physical inventory time,~~ THE SEASONAL FORECAST, ON ORDER, ~~then we knew how much they sold. And then based on order point we knew how much more to give them. That's how we did that.~~ THEN A NEW ECONOMIC ORDER QUANTITY.

INT: Were they allowed to send back what they didn't sell? Or did they keep it for the next year?

FR: One of the problems with that system, especially on low volume items, was that often we made wrong decisions of what we put ~~in there~~ STOCK. A lot of it was one time customers coming in for a product, especially in industrial maintenance and the low volume painter items. ~~And then~~ We'd have to go through a quarterly, balancing between stores and ~~then~~ OFTEN even a return to the ~~factory~~ WHSE. to make sure that they always had the proper stock without a lot of ~~old use.~~ LONG TIME SUPPLIES (OLD AGE). ~~So it was with some problems.~~ ~~But~~ We did a fairly good job of managing the volume items and keeping those in stock for all the promo's we had in those days. But the lower volume items it was difficult to force feed what the stores needed WITH A REASONABLE DEGREE OF ACCURACY.

INT: This would be in the early sixties?

FR: Early sixties. It was our first attempt at managing store inventories which were historically always out of control from the standpoint of ~~long [illegible],~~ long time supplies, and imbalanced materials.

INT: How was it done before this?

FR: Before then it was done by the stores making their own decisions on how much to order without a lot of guidelines, without a lot of tools. So basically a person would look on the shelves, look in his back room, and by virtue of ~~the~~ HIS business EXPERIENCE say, "I need something." It was kind of a catch as you catch can approach prior to that.

INT: The store manager was essentially sort of entrepreneur-ish at that time.

FR: Yes.

INT: Did your stock-keeping consolidation, by taking away that option for them, did that make them less entrepreneurs and more branches of the company?

FR: No, because CENTRALLY/ once a year we would set store limits, ~~is what we called them in those days,~~ BASED ON RECENT PAST HISTORY, by units. We would send that information to the individual store to make sure, because of ~~their~~ LOCAL knowledge, ~~that they didn't have some~~ THAT ANY adjustments they wanted to make to that seasonality, to that history, and to the limits that we established WERE TAKEN INTO ACCOUNT. So we always tried to keep the store manager in the loop, so he felt, even though we were doing the ordering for him, THAT we were just kind of an SUPPORT appendage helping him do his job better.

INT: Were they also allowed to buy their own specials at this time? Seasonal furniture and stuff like that?

FR: In those days we didn't have as good a control on the associated products area. ~~They~~ STORES could ~~buy~~ SELECT a lot of the materials and they could get into what I called the "gimmick" areas of other than paint, the basic core business, ~~and get all enamored with something and didn't really focus on selling paint~~. We had a lot of control problems in those days in that area. ~~And~~ Our function wasn't for that area; It was just for the paint side. I just want to clarify that. All the ordering we did was ~~just~~ for the paint products, not for the associated products, wall covering, floor covering, FURNITURE razor blades, whatever.

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INT: Is this that big mainframe computer that I remember hearing about?

FR: Back in those days I can't even remember what the name of that computer would be. It was a mainframe, but I don't recall the type of computer it was anymore.

INT: How long were you on that job?

FR: I would say probably 1966 to 1967. Then I transferred to the other side of the business, which is what they called factory stock-keeping in those days. ~~And~~ I worked for a fellow called Joe ~~[Rankowski~~] RINKOSKI, who was the factory stock-keeper for the corporation. In those days, plant managers or production managers controlled what they made, when they wanted to make it, and how much they wanted to make. ~~And~~ Historically it was VERY interesting. During the off-season months, October through ~~February and~~ March, our plants, especially up north, always looked for work. ~~So~~ Our plant managers had a good way of ~~saying~~ KEEPING PRODUCTIVE BY ~~I'm going to keep~~ making all the whites. And in those days we could force feed the stores with those products DURING THE OFF-SEASON. ~~So~~ We would dump on the stores the volume items during the off-season months just to keep our factories at A GIVEN ~~some~~ production level. It was not a very good system, but that's how we operated in those days. So in the late sixties under Luther Schroeder we became more concerned about the growing inventory and the lack of velocity in our working capital. Our inventory was growing disproportionately as a corporation to our sales growth. In other words, ~~he~~ MR. SCHROEDER was looking for ways to get our inventory turns improved. So we said, the first thing we have to do is ~~we have to~~ get control over what the factories make. ~~And~~ That's a traumatic experience when you have a plant manager out there pretty much making what he wants, when he wants, and then have a method of getting rid of it by force-feeding it through the store system that's ~~as~~ ideal from a manufacturing standpoint. A strictly manufacturing philosophy in those days. The more you make the better, lower that cost per gallon, and somehow the consumer out there is going to buy the product. It was ~~the~~ THAT kind of PAROCHIAL mentality THAT NEEDED CHANGING. I've got to be real honest; For many years it worked. We were the biggest; We were the best; We were NUMBER ONE; ~~quality.~~ We were known for our quality. Our ~~pricing wasn't that important~~ RISING COSTS COULD E PASSED ON; And pretty much what we pushed out there we were able to sell. That's in the sixties. That changed in the seventies! ~~but in the sixties that was pretty much true~~. So we had to get a handle on ~~that~~ OUR TOTAL WORKING CAPITAL (WHOLESALE LEVELS & STORE LEVEL). ~~So~~ My first job was to get ~~a~~ control, ~~of system,~~ because in those days distribution centers were all attached to plants, for the most part. We might have had a few regional distribution centers around the country, BUT NOT MANY. They were more sales STOCKING centers, under the control of the sales department; ~~so~~ when they felt they needed a regional location ~~to have some product in where they didn't have time to get it from the factory distribution center~~ WHERE SERVICE FROM A FACTORY DISTRIBUTION CENTER WAS NOT ADEQUATE, THEY PUT ONE IN. But basically, most of our product was kept at what we called factory warehouses. So the first thing we had to do was get some type of forecasting system that mirrored what our shipments and sales were going to be. So my first job was to ~~get a~~ DEVELOP & PUT A forecasting system in place. NOW, I'm going to jump to the early seventies. ~~Walt Spencer came into view here in 1970 from Chicago. He got to be~~ WALT SPENCER, PRESIDENT, ~~president~~. ~~And he~~ hired a fellow ~~called~~ NAMED Milt Allen ~~, and Milt Allen~~ WHO was then my boss. And it was ~~his~~ MILT'S charge to take us, from a computerized standpoint, from only looking at accounting applications, ~~as far as the computer is concerned,~~ ~~and to put~~ TO PUTTING OUR ENTIRE operations on the computer. ~~So my~~ My first job with ~~him~~ MILT was to get control of ~~this~~ THE whole factory, ~~ordering~~ distribution center ordering routines. ~~And~~ I helped develop the first forecasting system, ~~the~~ AND THE first production control system for the plants AND FACTORY DISTRIBUTION CENTERS. ~~so we knew how much to order, when to order, what the capacity planning as far as different plants, how much they could make on one ship, two ships, three ships by work center. All those types of activities.~~ ~~I probably did that until~~ I STAYED WITH THIS PROJECT UNTIL the mid-seventies. ~~And we got all these systems up in place under the leadership of Milt Allen.~~ Then in the mid-seventies they wanted me to take a look at THE CORPORATE data processing FUNCTION. In those days data processing was corporate and all centralized. But as we got bigger and bigger ~~they~~ SR. MGT. wanted to take a look at accountabilities INTO ~~. So~~ ~~And there were various schemes of breaking operations under Taubmann. And then~~ SR. MGT. ~~they~~ ~~brought Herb Swift from Canada~~ A NEW CORP. CONTROLLER. And they said, "Freddie, ~~I~~ WE want you to work with Herb Swift from Canada," who was then the corporate controller, "and ~~I~~ WE want you to take a look at breaking up corporate data processing," for what we now call the consumer division. It wasn't called that then. It was the coatings group. "I want you to form an MIS group." So the first management information systems department broken away from corporate data processing was under my control. MY FIRST MAIN MISSION WAS TO ~~And what we tried to do in those days was what we called~~ DEVELOP integrated systems. In those days every application had their own master files and their own data UNIQUE MAINTAINANCE. ~~maintained~~. But when you brought information together across functional lines, from personnel, to operations, to accounting, to material management, to distribution, everybody had their own systems applications and their own data files. But a lot of the data is common across functional lines. So what we would try to summarize data up to a division level, the timeliness and the consistency and the accuracy of that data was terrible. So my first job was to do what we called in those days integrated systems. If there's a data element needed for the DIVISION ~~corporation~~, that data element is maintained on one database and used by any application, regardless of the functional area. ~~We called that integrated systems.~~ So the first thing that I did was develop a common product file and customer file for THE CORPORATION, ~~this corporation.~~ So we had consistency. ~~We had accuracy across all functional areas, whoever needed and used that data for their applications. And that was my first job~~. So I formed the first management information systems (MIS) group for the corporation.

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INT: It had been so autonomous that there was not a common product?

FR: Not a common product database. You could have a product called something different on ~~A~~ SEVERAL databaseS. You could have a different number identifying that product on a different database. You could even have a different price. We had a real pricing-billing control issue. We had no control over consistency across all distribution centers of what they charge a customer. Any customer, depending on the sales person out there, could change that database. So you had no control of your margins; ~~or middle control~~. All was after the fact. ~~So~~ We had to centralize that to get control and consistency of what we were charging customers, the discounts we were using, etc. That was a tremendous undertaking that we SUCCESSFULLY accomplished.

INT: Fred, that sounds so important and elementary. How did the company get by without something like that before?

FR: In my view, and not being critical, because I've been through the good times and the bad times with this company, you get so caught up I think in being the biggest, in being the best, and always being able to sell your product AT ANY PRICE in the marketplace. But that changed in the seventies. The OPEC crisis came up on us WITH A VENGENCE.

INT: Excuse me, I want to come back to that.

FR: ~~That came upon us -- and~~ A lot of our raw materials are derivatives from ~~that~~ BASIC OIL FEED STOCK. Our raw materials costs started to escalate. We thought we were on an expansion plane, that we were going to all grow at some phenomenal rate -- We built plants accordingly. We put a lot of additional asset into our total system with that anticipation of excellent sales growth. All of a sudden, we woke up one day in the seventies. Our costs were out of control. Our competition was much smarter. They were looking at the marketplace, seeing the changes out there. Consumers' buying preferences weren't the same. We lost touch with that. And all of a sudden, I would say by the mid-seventies, we woke up one day and said, "My God, we can not just pass on our cost increases to the consumer and have them take it." They're not taking it because our competition is finding ways to control their costs. The Gliddens of the world, the Benjamin Moores of the world, the PPGs of the world, in those days the Du Ponts of the world -- they were finding ways to keep their costs under control. Yet, we were not. We were thinking we could just pass that on to the stores divisions -- our saviours always -- and somehow they're going to get that from the consumer. No longer was that happening. That's when the crunch started. So we borrowed. We've ~~got~~ HAD to borrow EXTENSIVELY for long term ~~we~~ PAYMENT OF OUR STRATEGIC PLANT INVESTMENT. ~~pay for our clients that we're investing in.~~ ~~We always~~ OUR CO. HISTORICALLY prided ~~ourselves~~ ITSELF on Luther Schroeder PHILOSOPHY -- a very conservative financial guy, — WHO always knew how to manage cash and always could make payroll. ~~We didn't have to borrow for payroll normally.~~ IN THE LATE 70'S SHORT-TERM DEBT ALSO BECAME A REAL PROBLEM — WE EXTENDED OURSELVES ~~But now we had to borrow short-term.~~ ~~And~~ I guess we got to the point when Mr. Breen took over in 1979 that this company was just about ready to go under. If it wasn't for insurance companies NOT wanting to call in theIR covenants, ~~I would~~ they could have brought us down in 1979 if they really wanted to do that. They could HAVE MADE ~~make~~ us go INTO Chapter 11. We were in serious trouble! If you ask me why that happened, I just think we got caught up on not recognizing what our competition was doing, NOT CONTAINING COSTS, not recognizing the changing buying habits as far as the consumer is concerned, and the competition WAS ~~is~~ becoming much sharper and our consumer ~~is~~ much more aware of looking for value. We got caught up in all that. It's unfortunate. A lot of "good" people got caught up ~~in that.~~ IN DOING THE

~~Does it make sense?~~
DOES ALL THIS MAKE SENSE?

INT: Oh yes, it really makes sense. It ties in to what other people have been saying. You've said it very well. The last time you were putting together the integrated systems.

FR: The MIS. So then they wanted to break up in divisions. I forget the timing on that.

INT: It was 1977.

FR: 1977. So under Bob Tschannen they wanted to take away what we now call material management, or distribution, from factory operations. So I was brought back to work on that assignment, to develop a material management, distribution organization separate from the traditional manufacturing organization. That was fun. And if you can appreciate, when you take something away and you make vast organization changes like that, from the top right down to the plants, it was a tough job. But we did it. We formed the material management/distribution organizations separate from the reporting chain through to the operations factory side. ~~And we~~ WE wanted to get a focus. We thought it was so critical to get a focus on the logistical, material type of operations, because we are a very material intensive company. The cost of our product, just FROM ~~by~~ distribution ~~center~~ alone, just from a handling ~~standpoint~~ and storage standpoint, in those days was like thirty cents a gallon -- that's a big number -- in addition to the transportation costs, which could be another fifty cents a gallon. So WE WERE ~~you could be~~ fast approaching a ~~what I call~~ logistical related cost of a dollar a gallon. And THAT ~~they~~ needed focus AND CONTROL. ~~We needed to get a way to get that under control~~. We needed to find a way TO BRING LOGISTICAL COSTS UNDER CONTROL ~~to save some money~~. And more importantly, in the early eighties now, if I can just jump ahead, it was the time of customer service. That was where the consumers wanted more than just a QUALITY product on time, ~~a quality product on time,~~ but they wanted value added types of SERVICES, OUR PRODUCT IS REALLY ~~things. And we're a commodity.~~ We like to think that Sherwin-Williams is a wonderful brand, and it is. But still, by and large, paint is a commodity, low margin business. And WHILE ~~when~~ price is very important, ~~and if~~ you can't always sell on "price," which we don't, then what other values can you give to that customer for buying your product ~~vis-a-vis~~ VRS. COMPETITION, ~~somebody else's~~ who PROBABLY has an equally good product quality-wise, etc. ~~And~~ We ALSO wanted to get more of a focus on this nebulous thing called customer service. How do we, from the customer's viewpoint, get them to perceive ~~at least~~ that we ~~have~~ OFFER value added services to them. ~~And~~ One of the real benefits this corporation had (HAS), and there's a lot of forefathers that had foresight on this, is our stores distribution network. Thank God for that base of 2,000 stores! ~~And~~ I call them from a logistical point of view 2,000 mini-warehouses. And that's why ~~we got 75%~~ 75% OF OUR ~~[illegible]~~ STORES SALES of that contractor BUSINESS. ~~market through our stores~~. That's one of the big advantages we have that helps us compete with the local grinder and the regional guy. ~~And~~ If we didn't have that STORE network we couldn't do it. Strategically we have distribution centers across the country that are well positioned which can take care of the direct business, and can also make sure that we, on a consistent basis, deliver on a scheduled ARRANGEMENT to our stores. So I think the BIG advantage we have, OVER OUR COMPETITION, from a material/logistics point of view, ~~bar none to any competitor,~~ is our logistical/material management capability today. I think that's recognized by our competition. I know it's recognized by a lot of our customers. When Scott King today goes out and tries to sell a Wal-Mart, tries to sell A Home CLUB ~~Quarters~~, tries to sell A K-Mart or getting all the Sears business because of the acquisition, all of these top retailers

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in the country, ~~they~~ demand service, they demand consistency.
And they look to us to help them solve their ~~distribution~~ TOTAL SUPPLY
YAIN problems. So how we receive material in THESE CUSTOMER ~~those~~ stores, how we get that material put away, how we display that material on the shelves, they're looking to us for value-added service, to be the experts on how to do that. And that's some of the way we're trying to focus on what I call today LOGISTICS — material management, customer service — to try to differentiate ourselves in the marketplace.

INT: When you were doing this back in...

FR: I jumped in. Back in the late seventies...

INT: This is the late seventies when you were doing this materials management...

FR: Right. We formed the first material management/distribution organization back then when we had TO ~~a~~ focus. And I ended up being the distribution operations manager. The analogy today would be Bill ANTOWACE OR DON JAMES ~~(Wanderer)~~, the vice president of operations for ~~ESE~~ TSD - ~~division.~~ That's the job I had in those days.

INT: How did you get that approximately one dollar a gallon materials handling cost down?

FR: Well, the first thing we did is get a separate distribution organization and we brought people in with the skill of material MANAGEMENT ~~handling~~, that had material handling EXPERTISE. ~~capability.~~ So, they could look at alignment, They could look at the "utilization of racks", They could be unique on looking at batch picking systems which are semi-mechanized systems for ~~picking orders and~~ receiving, PICKING ~~orders~~ and shipping orders, ALSO ~~and~~ the type of equipment we use in the warehouse for getting us more productive. So we had a professional CADRE ~~focus~~ of people who understood ~~and~~ the physical handling of products. ~~That was one of the (unclear). So bringing the right people is different.~~ See, historically, stock-keeping in the old days WAS A "DUMPING GROUND" FOR PEOPLE WHO WERE ~~it's called, or distribution today, it was kind of the dumping ground~~. When we had people that we didn't know what to do with, whether THEY WERE FROM ~~they're~~ marketing or came from accounting or they were an alcoholic or whatever, a good place to put them historically was in "stock-keeping." ~~We could find a job for them.~~ ~~And~~ We had to change that "mentality." And that's what we DID ON DISTRIBUTION. ~~tried to do.~~ So bringing in the right people and focusing I think, are the two key issues.

INT: Then after this were you doing that when Jack Breen came in?

FR: Yes. So after that we were divisionalized. And then I think the first division manager we had in consumer -- I worked for him -- was Wendell GilleND.

A TERRIBLE MISTAKE.

INT: So you reported to Wendell.

FR: Yes. ~~Then he changed~~. ~~He~~ WENDELL put another fellow in charge of the operations and he put me in charge of what we called then material management. So I had all the customer service, OPERATING SYSTEMS, order entry, ordering on the plants, ETC., ~~because we were centralized~~. All the material that we would order on plant, a batch size of when to make and how much was under my control. So I did that side of it. ~~And he~~ WENDELL hired another fellow to do the operational side of running the ~~DSE~~ DSC'S. We kind of switched RESPONSIBILITIES. Then ~~we tried to~~ I developED systems in the eighties that would improve our forecasting capability with marketing and improve our production planning capability with the plants. So we did a lot of enhancements of systems, ~~computerization systems~~ and IMPROVED procedures, to make sure we MANAGED OUR WORKING CAPITAL BETTER. ~~do a better job of that~~. And just to give you some idea, in the early eighties we were giving service I would say for the stores division, which is just an example, that were in the low eighties percent. Our product availability were running in the low eighties. Our inventory, velocity for finished goods, or inventory turns, probably ~~weren't~~ WAS NOT any better than THREE TO four ~~and a half~~ turns a year. ~~That means we're turning that inventory, from a finished goods standpoint, four and a half turns~~. What we've done from then to now, if I can just jump ahead, our service levels in 1990 ~~from the low eighties~~ for the stores were running 96%. Our inventory velocity from that ~~4.5 that I gave you were~~ 3.0 TURNS IS now turning at better than six times a year. So we're getting a lot more use and "goodness" out of our inventory with a lot less investment. ~~That's an example~~.

INT: Okay. That is merely by fine tuning the systems?

FR: Getting better input from marketing, doing a better job of forecasting your product needs with marketing, having systems in place that allow us to do that, doing a much better job of... And a lot of it I have to give credit to the plants for. If you go back into the sixties and seventies when we had that manufacturing mentality, "we're going to make what we want to make and they're going to find a way to sell it," since the early eighties we've been desperately trying to change our focus to be a marketing pull company rather than a manufacturing push company. And ~~that's~~ WE HAVE come a long way. ~~So parcel and~~ SO part of this CHANGE is what I call attitudinal in the plants, where no longer is their number one goal, cost per gallon, where bigger is better. Now their number one goal is customer service. ~~And they~~ PLANTS have to make the mix of products, whether it's a little batch of sky-blue pink that might be only 500 gallons, as opposed to a 10,000 gallon batch of ~~[premar]~~ PRO-MAR 700 white, which they love to make. It's as important now that they make on time, that 500 gallon batch of sky-blue pink to service that customer as it is to make the 10,000 gallon batch of that white paint. ~~And~~ That's a tremendous cultural change, ~~that~~ WHICH also had to take place in the plants. ~~to get them to look at their job differently. It's the~~

~~service totality, that product mix to that customer base.~~ So I have to give the plants a lot of credit too from the standpoint of flexibility and capability.

INT: How did that cultural change happen? Do you have any idea?

FR: It didn't come easy. I think it starts -- I'll go back to Wendell Gillen and ~~then we went through~~ Ted Hopkins. ~~I probably have the order wrong. I worked for all of them. Ted Hopkins.~~ ~~Then we had Tom Byrd.~~ Every one of THESE ~~these players and~~ general managers had a philosophy of the customer is king. They all had a different approach to it, but their basic philosophy was that the customer is king. And every one of them -- even though we changed guards and a lot, ALONG WITH ~~of times you got~~ a changing BUSINESS philosophy, ~~but not in that regard 14~~ every one of them made sure that the organization understood strategically their direction and INSISTED ON THE CUSTOMER IS KING PHILOSOPHY. ~~had plans in place operationally or tactically that made that happen.~~ ~~And one of the~~ ANOTHER key element~~s~~ was the measurement system ~~or~~ AND incentive system for THE KEY MANAGEMENT TEAM - CHQ + FIELD ~~the people that are incentive, the key management staff, whether it's (unclear).~~ ~~If you incent them differently, in my opinion, of what the real goals are and whether they're going to get paid in the pocketbook, that's going to slowly change the attitude.~~ COMMON GOALS & ACCOUNTABILITY HELPED ACCELERATE THE TREMENDOUS CHANGE WHICH WAS TAKING PLACE. I'm not saying that's the only thing. We ALSO had a personnel philosophy, a human resource philosophy, that as we looked for different people to go in the plants as plant managers, and the first level underneath, ~~that, which is~~

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~~probably more important than the plant manager.~~ we were looking for people that had a business point of view as opposed to the old technical guy THAT STARTED AS A BENCH CHEMIST ~~the stint from years on the bench because he's~~ YOU got to be a technical guy to be a plant manager~~, cannot necessarily so~~. We experimented. Take Bill Antonase. We got Bill Antonase from the accounting side of the business. He was a controller. And we put him as ~~a client~~ MORROW PLANT manager, ~~Immoral,~~ UNHEARD OF BEFORE 1970. ~~unheard of in the early 1980s.~~ An accountant? He did a heck of a job because he had a business perspective. ~~And we did more in that.~~ TODAY We're looking for the business perspective in people as opposed to the "PURE" technocrat~~, today.~~ ~~And I'm not poo-pooing that still. I'm just saying it's a different approach to how we look at the business.~~ I think that selection of people again was critical ~~that~~ IN caused that change to happen.

INT: Just to finish off your career, has your job right now changed?

FR: Yes. Last year, in 1990, I was put on the acquisition team for Desoto. So about August, Frank Butler said, "Fred, you're going to work for me and you're going to be my facilitator to cause this integration to happen once we sign on the dotted line," which we did in October. So my full-time job just about, since last summer, has been to integrate the operations of Desoto into Sherwin-Williams, ~~systems and procedures and culture and all that. And I'm going to be doing that for the most part~~ this

~~year, too. I'll make sure all that happens and we get our return on investment the way that this has to be. That's what I'm doing now.~~

INT: Could you just elaborate a little bit on that? How does one integrate something that had its own identity?

FR: You have to make some basic decisions up front. During the process of due diligence, which went on I would say since April of last year, we were fortunate with Desoto in that most of their line operating people were very open with us. So we got a jump on ~~it.~~ THE INTEGRATION. ~~And~~ Some of the other ~~potential~~ acquisition teams that I worked on, ~~that~~ THIS was not ALWAYS the case. But in this ~~case,~~ INSTANCE, because ~~they~~ THE LINK ORGANIZATION WAS ~~were~~ very disenchanted ~~being~~ WITH Desoto SR. MGT, ~~people~~ THEY LOOKED ~~with maybe their~~ AT SW AS A "WHITE KNIGHT" — A "SAVIOR". ~~management and what's happened with that fine organization and the loss of Sears business and lack of attention to why that was lost from their viewpoint, they were very open for a savior. And~~ They could see Sherwin-Williams as being just a wonderful "savior" that would get ~~back~~ THEIR company back up to what it used to be. ~~So the first was being~~ WE WERE able to get real good information of how they operated, from a systems point of view, a financial point of view, an operating point of view; ALSO, ~~and~~ we had a very good feel then of their people. I spent a lot of time in their plants. I spent a lot of time in Chicago with their headquarters people. A lot of us did. WE HAD A GOOD FEELING FOR THEIR PEOPLE; ~~And we had a good feeling for their people.~~ We had a good feeling for their systems; We had a good feeling for their operating policies and procedures, and from a marketing viewpoint of what they did not do, that they should have done, to let this business deteriorate as badly as it did. So with ~~that~~ THIS background and knowledge, we could say, "Okay, we're going to have to make some hard decisions." And Butler said, "Okay, this isn't just going to be a one person problem." He focused himself and his staff, ~~about six people on his staff~~, and we set up starting September -- it was my suggestion -- that the staff must meet weekly for one hour. "So at eight o'clock on Monday mornings I don't care what ~~you're going to be~~, YOU MAY WANT TO DO, BUT you're going to be here," Butler said. ~~"And~~ " we're going to review all the issues surrounding the Desoto integration. Fred's going to be the facilitator. Fred's going to bring the issues to light. He's going to develop the plans. But we're all going to GIVE FRED input AND SUPPORT HIM together. And we're all going to have our organizations then do what they have to do to make things happen on schedule." The first major decision we made was systems. We decided that their systems were so antiquated, ~~lacked~~ OFFERED LITTLE OK no control for the ~~goal of the~~ business, that it would be senseless for us to try to bring those systems into S-W. ~~the acquisition.~~ So the first major decision we made, and it's major, was we're going to put all of that two hundred million dollar business on Sherwin-Williams OPERATING & FINANCIAL systems. ~~That means their operation planning systems, the order entry and billing systems, just the whole business. Stand cross systems, MRP systems, just the whole business systems that we use to run a company~~. So WITH THE ~~that~~ decision, then, that I have the INTEGRATION RESPONSIBILITY ~~job,~~ I pulled

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together about eight people, full-time, reporting to me from various disciplines, ~~from~~ financial, ~~from~~ material management, ~~from~~ distribution, ~~from~~ accounting, personnel. ~~Full-time, working on this integration project. And~~ They all had, FUNCTION ~~application~~-wise, specific responsibilities. ~~And then~~ They each developed their own plans. We just developed an overall pert chart of all the activities ALONG WITH KEY RESPONSIBILITIES ~~that had to be done, who had to do them. And when we said we needed support from the organization I~~ I would THEN feed back to the weekly meeting with Butler + STAFF; FRANK ~~would~~ WOULD ~~and~~ look to the functional heads and say, "We're going to have to give Fred the support in this area. We'd better provide three people for the next month to do such-and-such." -- AS AN EXAMPLE.

INT: Those people have moved in here have they not? Desoto is slowly moving in?

FR: Yes. We REALLY didn't bring that many people from Desoto. We brought the marketing and sales people intact, for the ones that would move, and most of them did. We brought all the plant and distribution center field people intact. But most of the DESOTO headquarters are people we did not bring. We didn't bring any of the R&D people, didn't bring any of the accounting and support people. ~~The only thing we did was bring three people into the material management operation side of the business from Desoto.~~ ~~That's all we brought.~~

INT: Now, by not bringing them, the ones who were not brought are gone?

FR: Yes. They were separated. ~~With Desoto and Sherwin-Williams~~ we had a separation package for all those people. But they are gone. They're out of the system. The other thing that I think was important as far as how this integration happened was focus ~~by the~~ by the SR. staff and Butler's ongoing concern weekly that everything was on schedule. It was interesting to note that the organization in total was able to take this on in addition to keeping the regular business running. And do we have people stressed right now? YES! ~~I live in a drum.~~ DID we see a little Emotion once in awhile? Absolutely! But as of January 1 we were off DESOTO ~~their~~ systems, which was OUR ~~their~~ goal. ~~And they're~~ DESOTO BUSINESS IS fully operational in ~~the~~ Sherwin-Williams methodology / procedures. ~~And~~ that's plants, that's headquarters, that's the totality of the business. It's going to take us this year now to look at the "LITTLE" ~~real~~ things that have to be done to make THIS ~~that~~ integration a 100% success. EXAMPLES ~~They~~ are: we have to get formulas compatible to Sherwin-Williams TECHNOLOGY AND RAW MATERIALS ~~formulas -- and we have to be careful who we say a lot of this stuff to -- to our~~ raw materials ~~and to our technology~~. Because that's where we're going to get the "BIG" leverage and the "bang for the buck." And we've got to do this in a way that we WON'T JEOPARDIZE ~~don't hurt the~~ quality. Because Sears is very, very concerned about their quality levels, So IS ~~was~~ Home DEPOT. ~~Depot. It's all the same major customers that we acquired. And we're going~~

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~~to do this~~. We're going to make these changes, ~~and we're going to hopefully,~~ AND they're going to be transparent to the customer. ~~where their performance specifications are still going to be met. But we're still going to get the bang for the buck is getting common with our raw materials and our technology. That's the biggest hurdle.~~ I'm ALSO working on a logistics plan to take advantage of bringing together all of ~~their~~ DESOTO products with ~~our~~ SW products and ~~that we~~ distribute them in a way that optimizes all logistical costs. WE HAVE A LOGISTICAL MODEL USED FOR THIS PURPOSE. ~~So I have a model that I use, a logistical model. And I say what~~ WE DETERMINE WHERE we need are distribution centers, where those customers ~~would~~ WILL be serviced from, ~~what distribution centers,~~ and then what plants are going to make ~~the~~ WHAT products for what distribution centers. ~~And~~ That LOGISTICAL plan is already finished. We were able to close the Berkeley plant. We didn't buy the Berkeley plant of Desoto. We didn't buy the Garland plant. I moved all the DESOTO Garland distribution ~~center~~ from Desoto to Waco. We moved the Berkeley distribution into a new facility in Hayward. We have a Bakersfield center in California that handles Home Depot and PE. ~~So~~ We had that all completed last year. This year we're going to close Chicago Heights, which is another ~~one of their~~ DESOTO plant. And that will be accomplished, including the distribution, by the end of the first quarter, ~~because we do not need that asset base.~~ ~~And that~~ THE CHICAGO HEIGHTS asset base was in turn sold to ~~our~~ Rohm & Haas, one of our major raw materials suppliers, because they needed resin capability in that area. ~~So that will be done by the end of the first quarter.~~ We're ALSO going to change the mission of the

Greensboro plant, which is architectural broad based today, to ~~make~~ that ~~only~~ OF a small package/ COLORANT ~~color~~ manufacturing ~~facility,~~ SPECIALITY PLANT. ~~because again, we do not need all that additional asset base for architectural coatings.~~ WE WANT TO LEARN FROM PAST MISTAKES. ~~And one of the things we don't want~~ to ~~do is the mistakes we made in the seventies~~. We had too much fixed assets sitting out there ~~for the capability that we had from a sales standpoint~~ AND OUR PLANTS WERE GREATLY UNDER UTILIZED. We don't want to ~~do that and~~ make that mistake again.

INT: So that will be tinting or that will be small batch?

FR: It will be small batch, small size, quarts and less. I call it small package. And it will be ~~color~~ COLORANT manufacturing ~~or tinting. That's what the new mission of that will be by the end of the year~~. In addition, we're going to open up a new facility in Orlando. We have a wonderful plant that we bought in Orlando which is strategically located, just perfect for us. And we're going to put a new distribution center down there and begin servicING THE FLORIDA MARKET, ~~in our stores products,~~ which is just going to be tremendous capability for Wilson of the Southeastern Stores DIVISION. ~~region so he can really go after that marketplace.~~ And he's very, very excited about ~~that~~ THE possibility OF EXCELLERATED GROWTH IN THE FLORIDA MARKET.

INT: Orlando was a Desoto plant?

FR: Yes, Orlando was a Desoto plant. And the other Desoto plant that is strategically well placed for us is Columbus. ~~And~~ That's a plant that has BOTH emulsion and PIGMENTED NON-EMULSION ~~pigment emulsion, solvent based~~ capability of manufacture. ~~And~~ We're going to be looking at that whole facility to really help us out with GROWING THE industrial maintenance SIDE OF ~~Because one of the problems, from a capacity standpoint, that we have had in recent years is our ability to respond to a very progressive active marketplace on industrial maintenance business. This is excellent~~.

End of Side A

Beginning of Side B

FR: So with that Columbus facility, that will give us additional capacity for industrial maintenance type products. And we're going to really look forward to having that additional capability. The other thing we're rationalizing is our east coast distribution. We have a distribution CENTER ~~there~~ in Hunt Valley that is getting crowded. And with the acquisition we have a SHORT-TERM lease at Lancaster WHICH WE WILL CLOSE BY END OF 1ST QTR. ~~And they distributed private label business out of there, they being Desoto.~~ We're going to close that facility and we are in the process of taking over a York facility formerly used by the automotive division. THIS WILL GIVE US ADDITIONAL SQUARE FOOTAGE TO ALLEVIATE THE SPACE PROBLEM AT HUNT VALLEY. ~~But they had found they had too much asset base for their distribution. They wanted to get out of the York facility. We needed more room in that area. So with the transportation services division we're going to take over the York facility, close Lancaster. I'm going to~~

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~~take Sears Product that was never distributed in the east. It was always distributed out of Columbus and Greensboro at high transportation costs to get back east. We need distribution of Sears Product in the east. So I'm~~ WE ARE also putting Sears business ~~them~~ into this York facility, which is going to be a great advantage ~~to bring~~ IN BRINGING down our logistical costs. ~~So in that sense, what we're trying to do in 1990, and started, but really finish up in 1991~~ OUR 1991 GOAL is to get our distribution straightened out so we optimize all our ~~total~~ logistical costs. ~~Then once we have the formulas changed, then I can in the end of the year, second and third quarter, I have all the distribution in place right now. Then I can sort products right from a manufacturing standpoint. And the~~ BY YEAR-END ALL S-W products that should be made in Desoto plants will be made in Desoto plants, ALL DESOTO PRODUCTS THAT SHOULD BE MADE IN S-W PLANTS WILL BE MADE IN S-W PLANT. ~~like Orlando, because I'm going to be distributing Stores business in Orlando. And I'm going to make products in Orlando, Sherwin-Williams products. Conversely, in Columbus they're not only going to make Desoto products called Sears, they're going to make industrial maintenance, and they can also make K-Mart products, (unclear) products, where it belongs for distribution back into the midwest. So I~~ WE WILL let their plants, where it makes sense, to make our products and our plants to make their products. ~~And~~ That's ~~my~~ OUR plan for the third and fourth quarter. Because again, ~~we'll save big money in getting~~ WE NEED TO GET these costs down and make this acquisition a real winner for us. ~~And~~ These are the things we have to do to make it a winner. That's going to be AN exciting CHALLENGE for US IN 1991 to accomplish all ~~that~~ THIS.

INT: That's right. You're a busy man.

FR: But we have fun.

INT: Fred, you have gone through Steudel, Baldwin -- you didn't say much about him.

FR: I didn't know him that much.

INT: Okay. Steudel, Baldwin, Spencer and Breen. Do you see any differences -- was your job affected by the different administrations?

FR: I have to get personal a minute so you understand what I'm going to say. I'm a late bloomer. It took me awhile to really get going in this company. I got my education the hard way, at night. I was ~~close to~~ OVER 40 when I got my undergraduate degree. I went back for my MBA when I was 48 and graduated ~~with it~~ when I was 50. Significant jobs and really being able to contribute, in looking back, probably didn't happen to me until the seventies. I started on a "REAL" career in the seventies. I'm 59 years old, so I was in my forties before I could see myself MOVING CAREER-WISE. ~~And Milt Allen~~ I've got a lot to thank MILT ALLEN for, ~~that~~ because he gave me ~~some~~ THE opportunities back in the seventies that allowed me to grow, ~~to and encouraged me~~. So with that as a perspective, yes, I see a big change. ~~I see that~~ To contrast the Breen era, which is the last

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ten years, versus the Spencer era, which I really would be knowledgeable about, I think in the Spencer era -- and I don't mean to be critical -- but it was tough to break through and to see clear paths for people. It was fraught, in my mind, with cronyism. When you had people that grew up over the years, that went through Chicago over the years, you almost had only one channel you could go through. You had to wait for your boss to die and hope that YOU WOULD GET HIS JOB. ~~you're going to get that.~~ There wasn't a lot of cross-fertilization. There wasn't a lot of opportunity. Now, Spencer used to have what he ~~used to call~~ CALLED a junior achievement GROUP, where he tried to take key people and do some cross-fertilization. I suppose if you asked one of them they would say THIS WAS A TERRIFIC IDEA. ~~the direct opposite.~~ But that was a very select few number of people that had ~~that~~ A REAL PLANNED OUT CAREER opportunity. The masses of people didn't know what channels were available to them for promotion. The other problem was that we got too paternal and we got too ingrained. There wasn't a lot of outside people coming into this organization. I don't mean there has to be ~~a lot.~~ MASSIVE UPHEAVAL. But I think you've got to have a balance because you can get stodgy— You can get stale; You don't see the forest for the trees. So I think ~~that~~ MCI got caught up in what was happening INTERNALLY which prevented us from really understanding what was going on in the marketplace, in my opinion. We got caught up in thinking that we're going to "weather any storm" and we ~~can~~ COULD CONTINUE TO just pass those ~~prices~~ COSTS on to the consumer and they're going to keep accepting it. ~~I think that's all parcel and part of what happened to us.~~ Spencer was a brilliant man. He was a visionary in a lot of ways. Strategically, when you talked to him, I think he knew the right things to do. I just don't think he knew maybe how to get them to happen. So when Breen took over, the radical change that everybody saw immediately was accountability. And he broke the pieces up a little differently. He said, ~~"I'm going to break up and~~ " I'm going to really hold these divisions accountable." We had the automotive division, the consumer division, the stores division, SPECIALTY PRODUCTS DIVISION international division. ~~"I'm going to break these up and I'm going to hold these people accountable."~~ And I think the testimonial to that is Tom Byrd. He was very close to Mr. Breen — THEY BOTH ~~And he~~ came from Gould. ~~I think, where Mr. Breen was at. And everybody thought,~~ The troops IN ~~and~~ the ranks, THOUGHT fair-haired boy, Tom Byrd COULD ~~can~~ do no wrong. ~~But Tom Byrd didn't follow strategy apparently and got caught up in his own way of doing things apparently, and Mr. Breen had the ability to make that hard decision.~~ WHEN THE CONSUMER DIVISION DID NOT FOLLOW THEIR STRATEGY AND MAKE PLAN, MR. BREEN HAD THE ABILITY TO MAKE THE "HARD" DECISION — CHANGE GENERAL MANAGERS - Now, that's an example. So I think when people know that they're going to be held accountable, and they ALSO ~~often~~ know that they're going to be rewarded FOR MEETING GOALS, ~~you know,~~ that's the good side. ~~It's not only a bad side. And they're rewarded if they do well.~~ And ~~he does that well. He~~ MR BREEN rewards people well, but he also carries the big stick and makes sure that you know, in doing your function, you're going to be held accountable. And that has permeated down throughout the organization. ~~And~~ I think ~~that~~ THIS SINGLE PHILOSOPHY, COUPLED WITH SELECTING GOOD PEOPLE, ~~culture change that was dramatic for this company that has~~ HAS allowed us to be as successful as we have in the last ten years.

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~~the (unclear) stock plan. He made a lot of wealthy people. He's making a lot of wealthy people~~. Thank God for him. So that's the MAJOR change ~~as far as I've seen~~ FROM MY PERSPECTIVE.

INT: You don't remember Baldwin at all.

FR: In those days we used to say that Schroeder really ran the company. ~~It was (unclear)~~. ~~And~~ Schroeder was really the "power BEHIND THE THRONE" in the company back in the ~~sixties~~ 50'S & 60'S. ~~And then~~ ABOUT Baldwin -- I don't really have any clear vision~~s~~.

INT: Fred, what haven't I asked you? What haven't we covered that we should?

FR: I talked too much about myself.

INT: No, no. We got a whole different perspective from that that's very valuable.

FR: I think one of the key things is that the traumatic ~~change~~ DAYS ~~from~~ OF the seventies, TO A PATH OF PROFITABLE GROWTH IN THE EIGHTIES ~~and trouble to the eighties on a path of growth that~~... had to be attributed to a lot of good people that were ALREADY here. That might be self-serving from my standpoint, but I truly believe that there was a middle management cadre that was OF "good management ~~people~~ CALIBER." And I heard Breen say that one time. He even ~~recognized~~ ACKNOWLEDGED that that's one of the reasons he took the job.

~~He was debating whether to take the job. He ascertained that it wasn't the whole organization screwed up right down to the, you know, it was maybe some issues on top.~~ And I really believe that, because a lot of the people are the same from the seventies~~—~~. They're still here today. There are a lot of new people that have come into the ranks and I think that's healthy; But I think it's that "mesh" (OLD & NEW) and ~~that~~ THE ability to work together with ~~the~~ common goals and objectives ~~and~~, THAT HAS ALLOWED US TO "ACHIEVE" ~~as I said, being held accountable and willing to be held accountable to achieve what we can achieve.~~ We've done tremendous things. It just started. We wanted ~~an~~ TO GROW THE architectural business. With ~~this~~ THE DESOTO acquisition we're about 19% market share. We want to be 30%, 35%. There's no reason we can't be. There is nothing that can stop us from doing that. And that's what's exciting to me. Winning only breeds what? Winning. It makes people feel good. What's the alternative? ~~We~~ I don't like the alternative. ~~We~~ I don't like to lose. ~~I don't like to lose.~~ I like to come to work and be excited, get ~~the people~~ "OTHERS" excited; Let's get on with it. ~~We can solve that problem and do something else.~~ And that's the atmosphere I think you find around here today. So, winning is wonderful. Because there is ~~an~~ REALLY NO alternative. ~~I don't want to be around anymore if we go down again.~~ I've ~~been~~ SEEN too many "DOWN" cycles; ~~down.~~ I want to stay on the track going up. And I think there's no reason why this corporation can't do that. It's all people. It's people and it's trust, AND IT'S BELIEVING IN YOURSELF AND YOUR COMPANY ~~and it's sometimes knowing that if a job isn't done it's not personal~~. If you can't get ~~that~~ THE job done

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then sometimes you've ~~got~~ HAVE to make the hard decisions. I don't like to make those decisions. I don't think anybody likes to make those decisions because you're effecting people's lives and their families, ~~and all the good things.~~ But, for the entity and the perpetuation of the entity and for the good of every~~body~~ONE, sometimes you have to make hard decisions. And I think we're willing to make those hard decisions ~~with people~~ today, where I don't think we were willing to do that in the sixties and seventies.

INT: Do you have any pictures? We've got the book coming out too. Do you have anything? Pictures of meetings? How about the setting up of the management information system? Do you have any candids or something like that that we can show some of these people?

FR: I could look through my scrapbook.

INT: You've got scrapbooks?

FR: I don't know. There may be some work-connected photos I can pull out. I'll take a peek at them.

INT: Good. Then we could copy them and give them back to you.

FR: Let me look. I'll be glad to look.

INT: Great. Fred, this was really helpful.

FR: Was it really helpful?

INT: It really was.