INTERVIEW WITH

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TM: I started at the company in 1969 as a sales tax accountant right out of school, so I worked in the tax department and I went to law school at night. And through my career, I guess I worked my way through the tax department to eventually be the corporate director of taxes and assistant secretary to the company. Then from there I moved to corporate secretary and assistant comptroller and when Jack came in, that's the position that I was in. Then I was made treasurer in 1979 and then my current position, chief financial officer in 1986.

WG: What year did you start?

TM: '69.

WG: So you were here about a decade before under the Spencer regime. From your point of view, what was the big story of the 70's? What happened?

TM: Well, let me just digress for a minute and I'll tell you how I felt coming to Sherwin-Williams. When I came to work here in 1969, Pat, I know you know this as well as anyone, it seemed like a company that once you went to work for it, you were always going to work there. It was, I guess, the example of how may be American industry used to be or a lot of the companies used to be, where once you went to work there, you ended up, even myself who came in 1969, I never really thought I was going to work anywhere else. I was going to be here and that was it, and it was a company that had always been very successful and a premier name in its industry in 1969.

WG: Are you a native Clevelander?

TM: Yes, native Clevelander. Everyone remembers the Cover, the Earth /unclear/ and was on the shoreway, so especially for here it was noted as that. And I think just throughout the company, all the people or most of the people you've met had been here years and years and years. Then you just felt that that's how it was going to be. And then I think what started to happen in the 70's is the big story, what really happened is that prices, raw material prices, started to rise and without a corresponding increase in paint prices and we, I was here, we continued to operate the company as we had in the past, not skimming down the costs of running the company plus trying to continue under the old policy that the Sherwin-Williams name alone would sell the paint. So that we could open stores and increase prices and still be successful. So I think we kind of missed the fact that the market was going to become much more competitive and things had to change. And during that time, the thing that we started to do as our profits started to go down, the cash flow started to turn negative, yet we continued to make fairly significant, and may be somewhat now looking back, misdirected investments and changing the logo, probably one of the most logos around if I recall the numbers it was between $5 or $10 million or may be even more that we spent to do that at a time when ...

WG: Just to get the new logo and the new stationery and everything.

TM: So the company fell into the classic trap that its earnings were not performing up to expectations so in order to maintain its stock price, it had to continue paying dividends. It didn't go into a cost-cutting mode because it still had the paternalistic attitude and it didn't really take a hard look at its costs and then it really didn't take a hard look at managing its working capital. So in essence, we were borrowing money to pay dividends and increasing the leverage rapidly in a time when the market was becoming more competitive. That led to the significant problems of the late 70's that, in essence, probably almost led to the sale of the company.

WG: Let's go back to the beginning. You said that kind of the first thing that went wrong was that raw material prices started to rise. Why was that?

TM: It was at the time when we started getting the first oil crisis. That was part of it. There was tendency when I think the chemical industry had started going into some bit of consolidation and there wasn't as much investment, so when business started to get business, there was probably some lack of capacity for some of the materials we needed, but a lot of it was the first scent of the oil crisis coming in.

WG: So your paint raw materials are dependent somewhat on ...

TM: They are dependent somewhat, not as much any more. But that was a factor. And there were a lot of other factors that were happening at that time. You know, there was just the general inflationary spiral itself.

WG: But you couldn't recover it in your prices?

TM: We could not recover it in our prices.

WG: That's just because competition wouldn't allow you to do it?

TM: Because of the competition, exactly. But if you look at the trend line in the 70's of raw material prices to the final price of prepared paint, you'll see that they all diverge quite a bit.

WG: And you said that the company didn't face up to this, that it was kind of slow to see this. Was it slow to see it happening and didn't want to see it happening? Was it incapable of doing something about it even if it saw it?

TM: I think part of the reason is the way I view the way the management was structured, sometimes people just have a different view of how things go, and I think that the way that the company really ran then was more top-down rather than bottoms-up. And I think over a long period of time, while there was a lot of good people, which is obvious because there are still a lot of those people still with us now that we're successful, they were really not, their input was not solicited or wasn't really taken, I don't think, and it was more that a lot of people got into a mindset that they just really sat around and waited for the next directive to come down as to what we were going to do, because there was a lack of incentive to have initiative with the way the company was managed. People were more implementers rather than the people who were really drive the business, which is really what you have to have and which I think was really one of the big changes that started to be made in 1979.

WG: To what extent were the management systems and policies a problem in the 70's? I mean, was top management getting information that it could have acted on or was it ...

TM: They were getting it, but it was not timely enough. I think that the things we did, an example that I can remember is one of the things that the way the end of the year closing used to go is the company would not even close its books for January. It would close January and February together because everyone was busy closing the end of the year. So that's the type of things that went on and people didn't focus on that. They didn't think about getting in and speeding up the systems, it was kind of like "Well, this is January, and we're slow anyway" and so they usually closed January and February together. So that's the type of thing that went on. And then the flow of information was just slower. It was a lot longer after the end of a month that you ever got into detail and then you really didn't have as much detail as we have now. And one of the things that I think that Tom Commes put in and got as a goal right away for people coming in was a pretty standardized management information system, where we have in one book all the information and key variables that we need and then each year move back the dates of closing so that the information is very timely. So right now, the sixth workday of every month, the information is there and available to everybody. And the end of year we closed, even the banks are usually the closest people to close, and we're done before they are. We used to have wait until, I'd say, the end of February by the time everything was finalized for the end of the previous year in the early 70's and of course the late 70's. Now by January 24th the auditors are done and we're done and everything's ready to go. Actually, it's by the 15th of January we have our information and the auditors just need time to complete their stuff.

WG: But was management tracking the right information in those days? You said it took a while for them to get it, but if they had gotten it in a more timely manner, would that have made a difference?

TM: May be not. That's a good question. I think part of the other thing is that they were not really focused on the right things. One of the big things I can remember specifically, because being the corporate secretary and sitting in some of the board meetings is the last time we borrowed a lot of money in the mid-70's, the investment banker sat there and said, they didn't want to say it too firmly because of the relationship, but in essence they told the board that there was like $50 million in cash to be taken out of this company. What they were talking about is managing the inventories and the receivables and the payoffs. And you sit there and kind of nod your head and say, well you don't really believe it, because these guys should know what they're doing. But the first thing that happened in 1979 was we generated $100 million dollars in cash out of the company and that was not by doing any rocket science stuff. It was just pretty basic management.

WG: Was the board at all actively involved in management in the 70's?

TM: Not until the later 70's, when the problems really started to manifest themselves into serious problems, you know, the fact that we had come up to over 50% debt to equity so you didn't have the borrowing capacity. Our debt ratings were getting downgraded. Then it was almost into somewhat of a crisis mode and that's when the friction started on the board between the new chairman and the board, Walter Spencer.

WG: Were there particular board members that were his antagonists?

TM: I don't think anybody was an antagonist. They just started asking hard questions, and while I think that Walt Spencer was really a smart guy, he didn't really like to be, in my perception, he didn't like to be questioned by the board. So it wasn't a question and an answer, it was a question and a lecture about why the question was no good. And everybody on the board always says that if you're on the board you have an ego because you're fairly successful, so that ends up causing more and more friction.

WG: Was the composition of the board in those days, was it not somewhat controlled by management?

TM: It was, but I think that one of the reasons that you did have some fairly strong board members, and one of the ones who was kind of a leader was Allen Holmes. And to a certain extent, yes, you controlled the board, but they have their fiduciary obligations and once things start going the wrong way, the roles change even though the management picks it eventually, the board has to do something. But I think that as time went on and things got worse that answers to questions weren't given and the other major thing that I think really caused the bigger problems were surprises because of the lack of the flow of information. You'd go to a board meeting and say something and the next board meeting you'd have to go back and say "Well, we missed it by a lot". It's not so much that I think we all can deal with stuff if you say today "We're going to have this big loss and here's why" and then when you come back in three months and say "Well, we had that big loss plus a lot more that we didn't know about", that just starts raising all kinds of questions.

WG: Was that your impression, that management simply did not know that these surprises were coming, or was it a kind of hope that they could control it before ...?

TM: I think a lot of it was that at the time they didn't have the information flow, and again, I think part of it because it was top-down. They also didn't get probably the input from the right people.

WG: One of the observations about businesses and corporations in the 80's is that they got much more conscious about managing for shareholder value. I gather Sherwin-Williams was not that way in the 70's, or was it?

TM: I guess it wasn't a hot topic and I think everyone realized that we had to make additional profits in order to keep the stock price at that level, but there wasn't a conscious ... I guess by saying paternalistic, there was probably, there was stockholder interest, but there was also probably an equal weight put on employee loyalty and that type of thing which is nice, but when things change, you can't afford it because you really owe almost all of the duty to the stockholders.

WG: So the company was not managed particularly for profit or for ...

TM: I mean, it was but, I guess it's hard to say, but as an example, where somebody wasn't doing a good job but had been around for a while, the right thing to do, even though it's hard is to say "Well, you no longer have a job". But what the company really would say is "Well, you no longer have that job, but you can do this", and while may be there was something to do, it was a job that was just out of a sense of duty or loyalty to the person and the Sherwin-Williams family, he was still there, but then again, somebody else was put in to do the job he was doing, so the cost structure was too high.

WG: Did the company have profitably measure that were different then than they are now? Do you worry more about return on equity now?

TM: We worry much more about return on equity and cash flow than we did then. That's one of the things that would have led them to cut the dividend much sooner than they did.

WG: What did management worry about more then? Did it look at other indicators?

TM: Basically they wanted earnings per share and they didn't look at the cash flow. And like I said, the balance sheet got way over leveraged.

WG: How did that happen? I guess historically this company had an aversion to debt. It was not ...

TM: I think the first money that it borrowed was in the 60's. They never borrowed any money through the Depression.

WG: What caused the change?

TM: Because of the way we were running the business, in essence, with too much inventory and then the profitability level was coming down and making investments that were not paying off in terms of capital expenditures. I mean, if you could continue to raise prices to cover those mistakes, then you didn't have to worry about your balance.

WG: That was the real problem then. That loss control and pricing, you can't talk about the control of pricing in a legal sense, but in an economic sense ...

TM: In an economic sense, when it lost its ability to just in essence raise prices based on the brand name, then your mistakes catch up with you very quickly on the cash flow side.

WG: Well tell me about how that began to change with new management.

TM: When Jack came in, I think one of the first things that he made perfectly clear that he didn't expect to run the company from the top. It was a bottoms-up approach. And he expected if you were in the job, you had accountability and responsibility for what you were doing. I think that's the first thing he made sure everybody knew. But on the other side, what they did from the financial side to stem the cash flow is they implemented what we call our corporate charge. Because the division used to run with inventory. If they had too much inventory, it didn't hurt their profit or profit goals. Now they're charged so much every month by the corporation for their inventory, receivables, and fixed assets. So that focuses them on carrying that inventory. That was a plus. It was a lot of basic management philosophy. But what he really said was that "This is your job and your responsibility" and he did that through implementing the strategic planning process that I think helped everybody focus on what they were to do, what the business was about, what the competitors were about. And that was an important part of the early, I would say early learning curve, for the people who had been with Sherwin-Williams as the strategic planning process.

WG: Before that, the company, it must have taken ...

TM: Yes, but we had budgets. But that was really just putting together numbers. This was really a process that focused on where you had to sit down and explain in writing, what is your business? What do you do? Who are your competitors? Where are you going to take this business? And how are you going to get there? And what are you going to do if some of the things you're planning on don't happen? So, I mean, it was very focused.

WG: So it was much more rigorous than ...

TM: At the beginning it was, because we went through two cycles of these. We went through a 5-year plan in the spring and then in the fall came back again and changed that 5-year plan to a 1-year operating budget. And those meetings took a long, long time because people were new at it and there was a lot of, what Jack was and Tom was and others, was the devil's advocate to these plans. And we as the corporate staff were the ones that said "OK, everyone you put together your plans" and there was a sense of resource allocation and that's the function of the corporate staff.

WG: How would you characterize them in the early days of those plans, the corporate leadership? You said it was devil's advocate. Was it Socratic and encouraging or was it tough and "It had be better next time"?

TM: It was both. It was one that when you went in there, he wanted you to know that this was serious business. He was tough but yet you could always see by the end of the meetings that he took somebody down because they weren't where he wanted them to be or weren't prepared or weren't what he thought was on the right direction or was questioning by the end of the meeting, he had brought him back up. So I don't think anybody ever left a meeting feeling that they were tried, I mean they went through a lot, but it was all in good sense. I think in the end everybody recognized what was happening. It was just a sense of they were trying to get to the conviction and what was really behind it and making sure that people who are responsible for running the business were thinking of all the things that could happen and had really planned up.

WG: Was it also kind of an assessment device to take a look at the existing management?

TM: Yes, that was another way. Because in essence, there were a lot of people in the room at that time. I mean we just had standing room only, and one of the things that he did that I thought was interesting is just to make sure that everybody participated. Everybody in the room had to read the plans. Of course you had to read the plans before you went in there, but he wanted to submit 3 questions that you had on each of the plans prior to the meeting. So it was a way for him to see what other people saw in the plans. It was both, it was assessment of the business, it was assessment of the people, of the plans. That's how I believe that he ended up doing all of this.

WG: This was pretty much a radical departure?

TM: Absolutely.

WG: Before it had just been annual meetings to talk about annual budgets?

TM: Annual budgets, that was it. And then the other thing that was implemented after that was the monthly meetings to go over what happened. In other words, before we'd have a budget and if we didn't meet budget, people wouldn't question it as much as I think they should. What he then created after this was a forum in this monthly meeting to bring out what was happening, what the problems are, and what's going to happen for the rest of the year. And the thing being, that we don't want any surprises which was a big problem for the company. So let's get the problems out on the table as they come up so that collectively, people can work and not wait until the end of the year to say "Well, this is a problem or that's a problem". He addressed the issues. And as we went along in that process, at first it started focusing pretty much on what happened in the month and only a little bit on the future, and then as it got better and we progressed, now we spent very little time on what happened in the month and much more time on what the trends are and what's going to happen so that we can keep our eye on what's going and implement some of these contingency plans if we're not going the way we think.

WG: Do you have a sense that the systems that were installed here were kind of, had they been operating at Gould? I mean, was he trying a familiar formula or was he doing something that was new for him too?

TM: I believe it was based on what had been done at Gould, but it wasn't just put this in because he was familiar with it. He took the best of what he knew there but then implemented into the company with other ideas and bringing Tom Commes in, who had been at Saks Fifth Avenue, which is a retailer and he had been at Grant's and then through troubled times at Grant's, he put a lot of his own touches on how the system ultimately developed.

WG: You and Bill were among the few prior Sherwin-Williams people that are still here. Was there a sense among people that the company was being taken over from the outside?

TM: Oh yes. I can tell you honestly, in the early days, it was not very comfortable. And if you think back, it's hard to take a step back. But based on how the company was performing, he probably could have come in and just said "Well, I don't even want to bother with any of you guys, I'll get rid of everybody". But what he really did, after a while you could see what he was doing, he took a rifle approach instead of a shotgun. And in essence, while Bill and I are probably the ones that you see, there are a very good mix of people throughout the company, people that were here and people that were brought in.

WG: It appears that the management team is a lot younger than the old management team. That's one of the things that he did too, was to bring in not only outsiders but younger people.

TM: He took away I think one of the things that was kind of based on an older managed company, is that one of the requirements for a job was age and that the younger you were, you weren't ready for a job no matter what. Now it doesn't really matter. I mean, if you perform and you're there, your age is not really all that significant.

WG: The management systems, the changes in management personnel, the focusing on working capital as a variable to manage, obviously are key changes that he made. Are there others in kind of that league that account for what's happened since?

TM: I think that that's an example. It's more like, all through this planning process and the monthly meetings and focusing on all the key operating ratios in each division. Those are just some of them. The other goal being a look at return on equity, return on sales, the cash flow. There are 5 or 6 key items that we look at now every month that were something that just happened in the past before he came. Like I said, this is not anything that was new or different in the sense of business. It just brought some business discipline to a company that may, because of its past success, may have lost some of its focus.

WG: I forget the year that you became chief financial officer.

TM: '86.

WG: '86. Prior to that ...

TM: I was the treasurer.

WG: You were the treasurer. How did your functions change? Obviously you were tracking new data and also probably coordinating with the planners?

TM: Well, that's the other factor that we had for the cash flow, was working on one of the major things that I was had to do then was to make sure that all the cash that we had out in these stores, etc. was marshalled in a timely fashion. One of the big changes that we made to generate all this cash in the first year was how we got cash out of the stores. A lot of the times, the cash would really be laying in local bank accounts in the stores and we sped that up to where we draft now electronically every day from those stores to get the utilization of that cash. I think that was one of the key focuses that I had, was all of the different various cash management techniques, taking the checks out of stores. We used to have checks in stores. And that type of thing, just getting control over the whole cash flow of the company was one of the key things that I had to do at that point in time. And then at the same time, start the slow process of reducing our deadlines.

WG: Were you spending a lot of time talking to lenders and ...

TM: Talking to lenders and talking to banks and that was the biggest ... Plus, even in '79 we had to talk the banks and the lenders because we were under suspicion because of the surprises that had happened in '78 and '79, so we wanted to have available sources of capital, so we had to keep that dialogue going although the way it worked out because of how successful it was in getting the cash out of the company. We never really needed it, but we spent a lot of time trying to make sure that we had that financial flexibility if we needed it.

WG: The lenders were initially suspicious because of the ...

TM: They were suspicious well into the early 80's, because when you surprise them a lot and don't deliver what you say, it takes a long time to get over that. We spend a lot of time with working with the ratings agencies to try to get our debt ratings back up to where they should be, and that was a slow, painful process. And all because of the fact that we had gone in there before and not delivered and did what we said we would do.

WG: When you think back to that time, was there a moment that you recognize that you thought the company had turned the corner and was going to make it?

TM: I would say that it was probably when we got through 1979 and what we did with the cash. Then you knew you were going to make it. The only issue, I forget the date, we finally got it out, but the other major thing that Jack did is that the time, I don't remember when he announced it, it was before Jack came, but Gulf and Western blew 13-1/2% of their stock. And even as we were getting better, that was a concern. But one of the major, major things that Jack was able to do was buy that stock back.

WG: I'm going to ask him how that happened.

TM: My view as an outsider and just hearing what happened is that basically, Jack's a very personable guy, and he took the bull by the horns and instead of ignoring him, went in and talked with him, and I think they just liked each other. And Jack continually, when he went to see him made his points about how he could not run this company with that stock hanging over his head. And I really think it's just the way that he, I don't know if you want to say handled or treated or however it ended up, how he got to have a relationship with the guy that allowed him to buy back that stock. Because he was strictly, Bluhdorn was a hard guy and most people ignored him and fought him and I think Jack fought him, but fought him with respect. He respected the guy. And they ended up liking each other.

WG: And I assume Bluhdorn came out of it a winner.

TM: Oh yes. You still hear about the fact that every time that Jack saw him, that after that he'd complain about how Jack took advantage of him. And that he made a lot of money and all that.

WG: Well that's quite a feather in Jack's hat.

TM: Oh yes, absolutely. And that's one I hadn't really thought about, but that's really another major factor in keeping the company moving. Because it was going to be hard to attract people with that block of stock sitting there, especially with a guy of his reputation taking over. But, he was following one of his classic maneuvers, a company in trouble, older management, almost like caretaker management, Bill Fine having been around but being in his 60's, was the classic company for him to come in and take advantage of it.

WG: When did he acquire this position, do you know?

TM: I think he started in probably late '77 and kept going up into '78. And I think he already had the 13-1/2% by the time Jack got here.

WG: He didn't put pressure to get on board and get a seat on the board?

TM: No, he never went that far. And I think that, in my own view, what he saw was a company that there was a lot of opportunity for and he was going to let it go so much further and then take the whole thing. In essence, what he paid for that stock in 1978 while the company went through this thing, you could have bought the whole company for $100 million dollars. Its market cap today is $1.5 billion dollars.

PAT: 1978?

TM: Yes, we had 5 million shares outstanding and we were selling down under $20.

WG: The real threat to sell the company would have been either through Bluhdorn or to Bluhdorn.

TM: No, that was actually when the trouble started with Spencer and Fine taking over. There was an active effort on the part of the board to sell the company. And there were local Cleveland companies that came in and actually made bids.

PAT: What year was this?

TM: 1978.

PAT: Oh yeah, Diamond Shamrock.

TM: Yes, and White Consolidated. And I can honestly, being secretary and sitting in these meetings, I was fairly young at this time and hearing all this stuff going on, I just kind of wanted to keep my head down and not get hit by all of the arrows. I didn't want to get taken out at an early age. But we actually went through, we had people come in, they scrubbed down the company and in hindsight, when you look back, is they all missed the true strength of the company, and that's the stores. And everyone came in felt that the stores were a big liability. And I think that was probably one of the big things that Jack recognized early and I think he'll tell you when you talk to him, a lot of people when he came in, the first thing you've got to do is get rid of these stores. And after looking at it, he finally ended up understanding and knowing that that was the biggest strength the company had.

WG: That would have actually taken quite a bit of insight because the story we heard is that the stores were losing like $40 million dollars a year or something like that.

TM: Right, and it took time and took the understanding of why they were losing $40 million dollars a year, because you had a paint manufacturing division that was making 40% return on assets. So it was just in the wrong place. That's still an issue today that we go through. That was really a major issue, that all this paint was going out, so yes, you could close the stores, but what happens to all these factories that are pulling in money because they're selling to this captive customer. That was what he ended up figuring out.

WG: The sales that are potential sales to White Consolidated and Diamond Shamrock didn't go through because the bid was too low, or ...?

TM: The way I take it, sitting here, and it's been a long time now, is that it would have been sold to Diamond Shamrock but they offered a preferred stock and they would not make it a convertible. The board wanted the ability for our shareholders to share in any success that they would have by having this preferred stock convertible into their common, and Diamond Shamrock didn't want to do that.

WG: But essentially the price was right?

TM: They would have accepted the price.

WG: And with White Consolidated it never got that far?

TM: It never got that far, because their price never got up to what we had as valuation, it never got up there.

WG: Do you know where Bluhdorn stood on the question of selling to Diamond Shamrock? Whether he would have been happy with that deal or was he weighing in?

TM: I think that was before we even knew that he had the stock, but he never said anything.

WG: And the outside shareholders putting pressure on the board to do one thing or another.

TM: The only thing that was putting pressure on the board was the fact that the stockholders were starting to panic and what the directors saw was an opportunity to sell the company in a controlled manner. What they were concerned about was when you cut the dividend enough to keep going, one was just the survival. Because if we had borrowed all the money, we had borrowed over $100 million dollars short-term in 1978. If you remember, 1979 was when we had hyperinflation and the prime rate went to 20. If we had borrowed that kind of money, had to borrow that kind of money in 1979, we probably would have been, I mean, Bluhdorn was there, so he probably would have taken it and taken all the money out, but otherwise we knew that /unclear/ to handle that cost. I mean, if you look back on it, and I guess when you're close to it, you don't think about it. But we were very close to being acquired or going bankrupt. I guess the company had such a good name that would have never happened, but if we had kept on going, we would be a part of another company.

WG: As I understand it, Spencer left the company sometime before a new successor was named. So you just read the tea leaves?

TM: Well, in essence, I think if you go back, a lot of this gets cloudy and you don't know all the inner workings, you just hear some of the discussions, but he made a suggestion that didn't make any sense to anyone. He was the chairman and chief executive officer and Bill Fine was the president and chief operating officer and he made a suggestion that Fine become the chairman and he'd be the president again. I think that was such a confusing suggestion that everybody said "This is out of control". And then they made the change.

WG: Would Allen Holmes have been the key board figure?

TM: Yes. He was the key guy to get at Jack because he knew Jack.

WG: Yes, I've heard that.

PAT: He knew Jack before?

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TM: Yes. He knew Jack at Cleveland. In fact, before Jack left for, you know, when Gould took over Clevite, before he left to take the job with Gould in Chicago, Allen tried to connect him with a couple of companies here in Cleveland. So Allen Holmes knew Jack from the Clevite situation.

WG: Were there other board members who were strongly identifiable, either pro or con this action?

TM: I'd say most of the outside, other than Pat Parker, I think Pat Parker was the one that was probably the most "con." Because he thought that it was the wrong time and the company was, I think he saw some of the benefits that could have come out of the company. But most of the other directors lined up behind Allen Holmes. There was no other, I don't think. He was the major personality that was behind that.

WG: Allen Holmes knew Jack Breen from a prior relationship. Was there a search also for alternatives?

TM: Yes. I wasn't involved in that, but there was a search for one that was routine. And so I'm sure that there were others that were considered, but I have no knowledge whatever.

WG: It comes back to you, it must have been a really traumatic time to be here.

TM: Yes, it was hard. Basically it was hard for a couple of reasons. It was hard because we weren't doing well. Then it was hard because you had a new guy come in and you knew what could happen and then it started to happen and people started being let go and replaced and having come through the environment and started at a company where you thought you were always going to work for and you never really thought, that unless you really did something terrible, that you were going to be fired. You'd be sitting there from one day to the next wondering if you were next. It was hard. But I think most people didn't let that paralyze them totally which could happen. I think we all had our jobs and we all commiserated about it after hours. You know, there's a lot of time spent on it, talking about it and worrying about it.

WG: One of the pictures I have of the company in the 70's was that it was under-invested. The plant was fairly antiquated. Part of that impression was reinforced when Conway Ivy showed me a mechanical computing machine that was used in one of the paint factories to, I don't know, count the product as it was being manufactured. But, was that also a problem in the 70's? Was there under-investment or antiquated investments?

TM: I think some of the plants were inefficient and we probably had too many plants, but I mean basically other than a few, all the plants we have now we had in the 70's.

WG: I guess the point of my question is that I see the initial actions really directed at the stores side of the business, and of course that's where the bleeding taking place, so that's where you want to stop it. Was there also systematic attention to the manufacturing side?

TM: Right, because the other thing that we never did in the past was, I guess because we were doing poorly, but we never did until we were forced and took major write-offs, we never looked every year at our asset base and looked at closing plants, which is not, sometimes you don't close, I mean, if you go back, some of the decisions we made not to close a plant were probably due to the fact that we didn't want to take the cost when the plants really should be closed. So one of the things that we were able to do as we started to improve our products was to go through and consolidate capacity, get rid of the out-dated plants and shut them down and transfer that production somewhere else. Those were all the things that added efficiency. But it was both done at the same time.

WG: We talked this morning with Conway Ivy, who was telling us about the ... he kind of periodized the Breen administration so far into a kind of early period '79-'81, where it was really a turn-around story. Then a period when the company was looking at diversification as a potential strategy. And then not very far down the road, there was a retreat back to focusing on the coatings business. Do you agree with that, and can you describe, if you do, how that looks from a management perspective?

TM: I would agree with that. I cut off the years, but I would say in the early years, it was a turn-around just to try to get focused and understand the businesses that we were doing and get control of what was going on. I think from that standpoint, then we started to look at "OK, now we've got it stabilized, how do we get it growing and what do we add to it?" I think we probably thought at that time that in addition to the, you know, there was a time when we thought about the paints and the specialty chemicals and a third leg to diversify the operation and I guess the one that came across the transom so to speak was Gray Drug. That seemed like a perfect fit and added another dimension and that was one that we thought we could be corporate doctors at. It wasn't as easy as we thought to try to do it. But the other thing that happened then was the decision was "Well, it doesn't work, get rid of it". And we got rid of it and said "What we really know is the paint business". And we're now focused back in paint. I'd say the only difference in that, we always wanted to continue to grow the paint business, but probably in the early years there were things that we probably could have bought to grow and wanted to, but we were concerned because it was early in the turn-around and the financial resources weren't as great and the risks were high. Now we look at almost everything that comes in. That's not saying that we're willing to pay any price but we have the ability to handle anything we really want to do if it looks right for the company.

WG: From a financial perspective, was the drug business or the drugstore business totally different from paints and coatings?

TM: There was a whole different set of problems and a different set of competitors and a different set of competitive ...

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... I'd say for us it was a profitable investment. We did better than we would have had we not and just kept the cash invested like we'd invest our corporate cash. But the big problem was that it diverted a lot of management time that you can't really put a price on.

WG: So was it the sense that that was a more complicated problem to manage that business. Was that kind of what led you back to focusing on coatings or was it more the opportunities seemed to be looking better than they had a couple of years earlier.

TM: No, I think it was always there. I think that helped us to understand that we still had a lot of opportunities. And we had no where the market share we wanted to have and I think it helped us to recognize that we didn't need diversification and in fact diversification could hurt and what we really needed to do was focus. And I think that's the right decision. I think you'll see a lot of people doing this.

WG: There were really 3 legs to the stool in the diversification days -- you have the traditional business, the specialty chemicals and the drug. We talked a little bit about the drug earlier. Tell me about the specialty chemicals.

TM: That was a business where we had a lot of small specialty chemical type businesses like saccharine. We made saccharine, we made, I don't even remember a lot of them, barium, but in each one were like a major manufacturer. And what it was thought of at that time is that would have been a good business for us to grow.

WG: One of the old manuals that I was looking at said Sherwin-Williams was the only manufacturer of saccharine.

TM: Yes, we were the only domestic producer of saccharine.

WG: Your key adjective. Just speaking as a consumer, that would have been a good business until Nutra-Sweet came along.

TM: It was a good business until the scare came along about it causing cancer in rats and then people started looking for substitutes and then Nutra-Sweet came out. It was a very good business, very profitable.

WG: But there was some international competition with imports?

TM: There was but it wasn't a major problem. Because it was coming at that point I think from Korea or something and ours was much ... Theirs had problems with purity at times. That was just an area of business that we thought we could do well in and in fact, probably if you go back, we made acquisitions in the specialty chemical areas that in hindsight have been a disaster.

PAT: Like what?

TM: When we bought the Forbes, New Jersey plant. And the problem with it being a disaster is the environmental costs that went with it. And we were just lucky that it was small enough that our improvement, no one ever saw the fact that it was not a very good acquisition. But it did help us at the time. If you never make a mistake, that means you're not doing anything. We've made a few, and it's helped us now because we're very concerned about what we buy and the environmental side of it.

WG: But essentially you had a bunch of three of four small businesses where you had a big position in a small market.

TM: We had flavors and fragrances, we were the largest producer of grape flavoring.

PAT: Grape flavoring?

TM: Right, that kind of thing. At one point in time, I remember there was a flavors and fragrances division, there was a textile chemicals part of it. They were all very small.

WG: And just as a portfolio, it took too much ...

TM: In essence, we looked at it and at the time we were looking at it as a place to grow. It was a very good business. And then the cycle changed, and we saw the drops that come with it and the capital that would have been needed to really get into some of these other businesses, because it wasn't a cohesive business that you could just say "OK, I want to add this and this and this to it". It was more like a collection of little businesses, so you never, you wouldn't get the focus like you did in the paint business. So in the end, we recognized that.

WG: Was it sold off piece meal?

TM: Yes, piece meal.

PAT: Who invented the blue, the [thyrosimyne] blue and the alkali blue and that stuff?

TM: Those are the ones I don't even remember what we did with that stuff.

WG: Your secretary said we only had an hour with you, so for the remaining five minutes ask you to think back on, you've been with this company 21 years now, if you were to pick out 4 or 5 key events of that time that we really have to notice in any kind of narrative we write up, what would they be? Three of four of the most important things that happened in those 20 years to the company.

TM: Well, I would say that if you want to start the progression, there's Walt Spencer leaving. The hiring of Jack. The repurchase of the shares from Gulf and Western, and then just the whole turn-around that Jack brought with him. The people he brought blended with the people here to create a management team that has been successful. I mean, there's a lot of the things that we talked about underneath that, but those are like, I mean if Walt hadn't left and the problems hadn't started, we probably would never have ever seen Jack and the progression would never have started.

WG: What would you say are the key challenges facing the company right now? It's not a completed story. The turn-around is a completed story, perhaps, but what are the things that most concern the company right now?

TM: Well, I think the thing that we have to do, or really want to do, is we want to become the dominant paint company in the U.S. Dominant in the sense of an Anheuser-Busch type model. The thing that we have to do is continue to grow a market share. And that's either through internal growth or through acquisition. The key challenge to us is because of the fact that were a public company and have shareholders, is to do that profitably within the constraints of the market. And what I mean by that is that while we are always looking to the long-term in the things we do to benefit to the long-term, we also recognize that the market and analysts who follow our company are short-term oriented. So within the constraints of continuing to build towards that, we have to just continue to produce on a quarter-to-quarter basis, consistent returns in a market that's very competitive.

WG: For a long time, my impression was that acquisitions were, even though it's a fragmented industry, acquisitions were frowned upon by anti-trust considerations.

TM: That goes with the administration. Being our size, there's probably acquisitions that we made in the recent environment that was somewhat easier that let us do it. And I think that may be the circle is coming around. So one of the things that may be a problem for us in the future is to make a significant acquisition to some other markets we're all ready a major player. Not that we want to be, but by the standards of the government if they tighten down. They'd be too big of a player.

WG: You said that Anheuser-Busch was a model. It did it through internal growth rather than position.

TM: Right, which we think could be what we'll have to do. Really, we've had it made until recently with significant acquisitions. And what we've done has been primarily through internal growth.

WG: But internal growth is an expensive strategy. Well, everything's expense strategy. But it's heavy on advertising and brand differentiation.

TM: Brand differentiation. Quality of service, and it's slower.

WG: Market by market?

TM: Market by market. In one fell swoop you're buying Desoto, you buy $175 million dollar in sales. It takes a while to increase your sales by $175 million dollars.

WG: Is global competition a factor in coatings?

TM: Global competition is a factor to the extent that there are major world players that have a presence in this market. But we don't think we're at any disadvantage because we're not global. We think it's more of a local market-driven type of business. But I mean, one of the things that we do face is that a lot of the companies that were bought up here have been bought by very large European chemical companies who are much bigger than we are in total.

WG: The trick will be to take advantage of your focus.

TM: Right, exactly. And that's one of the reasons you don't see us doing too much in markets outside of the country, because we feel we still have a lot of opportunity here and we don't feel it would do our shareholders any good to try a frontal assault on well-entrenched, well-established, well-financed companies in Europe.

WG: I have a guess that the combination of environmental laws and building codes would make national markets pretty distinct anyway. You know, a formula that would work in one country wouldn't necessarily work in another.

TM: Yes, that's true. Different areas. That's why we don't see globalization as being the only factor ... The only factor you can see in globalization is the extent that as you get bigger you can spread some of your costs. But if you can't ship it, then you have to keep your manufacturing separately. I think you lose some of that synergy. But you can focus your R&D over a bigger base if you were global. There are some benefits to it, but we don't think it's anything that would outweigh what we would have to do to get into those other markets.

WG: OK, I think we've used up our hour. Last question, which is is there anything we didn't talk about that we should have talked about?

TM: I think we've touched on almost everything that I would have thought that you would have asked. Only it's Bill's fault. He was the reason why were losing money. He was going to blame me, so I get in the first shot.

WG: I said that was that the last question. I actually have another one. Can you think of key documents, I mean we'd like to supplement the record with documents and records if we can. Can you think of key documents that you've run across that might tell the story of what happened in the 70's and what the changes in the 80's were? Or may be for history's sake should be saved.

TM: I can't think of anything that I would have seen recently that aren't all ready under your control or that somebody else has ...

PAT: I don't have anything on modern times.

TM: No, I can't recall anything.

PAT: Well, all of you, do you have hard copy on all those ... What about all the strategic planning? ...

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