November 4, 1921

IRENEE DU PONT, PRESIDENT

In accordance with your request of October 26th, I have asked Mr. MacGregor to review his several reports on the paint industry made in the last five years and present herewith that information.

In 1915 it was apparent that the duPont Company would be left with large excess plants on its hands should the war end in 1917, as was considered a possibility at that time. In order to utilize to most advantage these excess plants as well as such employees as it would be desirable to continue after the war was over, the Development Department was authorized to make a general study of possible new industries, in which the duPont Company could advantageously and profitably engage. Consideration was given to many varied lines but it was felt that a policy of becoming interested only in lines which were allied to the activities of the duPont Company would be the best. Accordingly the chemical industry was given first consideration, as the Company already was a large manufacturer of chemicals and particularly of acids.

The paint and varnish industry was also given careful consideration at the same time for two reasons. It was a consumer of pigments and colors which were in turn consumers of acids and lakes. The lakes would be received from a possible entry into the dye business. Linseed oil, a chief ingredient of paint and varnish, would be received from a possible vegetable oil industry. The other reason for considering the paint and varnish business is the fact that in 1916 the condition of the

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paint and varnish business was very similar to the dynamite business previous to 1903. It was made up of many small manufacturers and some large but all on a very keen competitive basis, using a multiplicity of brands, labels, shades and containers. The average earnings of the industry over a period of years while not large had at least been consistent and most of the large paint concerns had built up large assets from earnings. It was apparent then there was opportunity for consolidation and economy in such an industry, as there were no particular secret processes, patents or other causes which would interfere with a new concern engaging in that business, but that the advantages of careful business management on a large scale would be fully realized.

There was only one large paint concern; namely, Sherwin-Williams which worked from the raw material clear through to the finished product and they were the most successful of all the companies. They combined also a chemical and color business and one of the policies of the duPont Company has always been a satisfactory control of its raw materials and an effort to market its products direct to the consumers.

Consideration was given to the embarking on our new lines by the formation of new departments and the acquiring of the necessary talent versus the purchase of going concerns. It was decided that the purchase of going concerns on a reasonable asset basis gave us the best foundation for future development as well as an immediate position in the business, which could not be obtained under several years' intensive development from a new start.

Examination of various possible companies indicated that the best opportunity seemed to be in Philadelphia through the purchase of Harrison Bros. & Co., Inc.

That concern formerly had a very large and successful paint business but had neglected it since 1914 for the more profitable war chemical business. It had, however, the nucleus for us to start in three lines; namely, heavy chemicals, lithopone and paints & varnish, and plants in Philadelphia, Pa., Newark, N. J., Paulsboro, N. J., Camden, N. J. and Chicago, Illinois. It was not contemplated that we would immediately take hold of a dry color business but owing to the stock ownership of the Beckton Chemical Co., manufacturers of lithopone, being equally divided with Cawley-Clark & Co., Newark, N.J., it was felt advisable to immediately purchase the other half of the Beckton Chemical Company's stock. This resulted in the acquisition of the whole of the Cawley-Clark Company.

It was expected that further development of these companies would take place at one or more of our war plants and that we would gradually transfer the business, but the entry of the United States into the war and its further continuance prevented any utilization of our war plants in the manner above described. It was necessary to make our development on the properties purchased.

Further development of the chemical end was deferred, as immediately the acid capacity of the Harrison Company was placed at the disposal of our military requirements, and we therefore did not attempt to develop an outside business. The development of the dry color end was logical along the lines of lakes, as this country did not have much of an industry for the manufacture of lakes, and it was expected that our dye plants would include a line of dyes suitable for lake manufacture. However, as the development of the dye business proceeded, other dyes were developed and further expansion of the color business was not possible.

The remaining line of development was the paint and varnish business and steps were taken to increase this business.

It happened that the entry of the duPont Company into the paint business through the acquisition of Harrison Bros. created some furor in the paint trade and we had the opportunity to examine some twenty or thirty paint companies, which offered themselves for sale. The Bridgeport Wood-Finishing Co. was one of the early ones and was favorably recommended, because it did not involve the purchase of additional plant facilities but gave us additional agencies and distributors, which at that time Harrison Bros. & Co., Inc. needed. It also offered a new plan of merchandising, which in view of the disadvantages of the methods in force by all the paint companies indicated an opportunity for considerable improvement.

About the end of 1917 and the early part of 1918, our own figures on our conduct of the paint business began to show such losses that we were hesitant to taking on additional companies, particularly as the business of many of these companies was entirely a trade sales proposition, which was exactly the class of business which Harrison had. Examination of many of the concerns offered to us showed that some of the concerns which had a large amount of industrial business were very much more profitable and in the purchase of the Flint Varnish & Color Works, Flint, Mich., we obtained a company which was 100% industrial sales and a very satisfactory earner. Based on this class of business we purchased the plant and business of the New England Oil Paint & Varnish Co. of Everett, Mass., which had both classes of trade, but the majority was industrial sales. This industrial business was immediately allowed to slip from our hands and our sales efforts concentrated on trade sales.

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Our losses in the paint and varnish business continued to be large in 1918 and with the acquisition of this last company we were practically forced to discontinue any efforts towards further expansion of our paint and varnish business by the purchase of going concerns. At the beginning of and during 1918 a very large expensive advertising campaign was launched but we did not reap the benefits because our distributing facilities were not in keeping with the size of this campaign.

The plan of expansion which we were forced to abandon contemplated the acquisition of various plants throughout the country at strategic points as the question of freight rates and service is an important factor in the paint and varnish business.

It was evident by the end of 1918 that there was nothing further to be done about our plan of consolidation of many of the paint and varnish companies and that we should turn our attention to making the large paint business which we then possessed a satisfactory contributor to earnings, as mere addition of new business did not help matters. The showing for 1919 was not such as to cause much optimism for our paint business and while our volume in 1920 was the largest in our history, it also was the year of largest losses which would seem to indicate that the more paint and varnish we sold the more money we lost. In the beginning of 1920, it was felt that the multiplicity of brands which we were using; that is, keeping alive purchased brands from the companies which we absorbed, was interfering with our business and it was decided to put everything under a duPont label. At the end of 1920 a steering committee was appointed, which had the following for two of its main policies:

1. To abandon our efforts to become one of the largest paint manufacturers in the country until we could make our own business pay its way, and to work on a volume of business that could be reasonably obtained.

2. The budgeting of our expenditures so that if this volume of business was obtained there was a sure profit.

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The year to date, 1931, does not see the paint business show a profit but this has been due to the fact that the steering committee was not permitted to reach its budget and therefore the expenses were greater than our receipts.

The above description has applied only to the duPont paint and varnish sales. During 1918 and 1919 when our trade sales business was showing such a loss, our subsidiary; namely, the Flint Varnish & Color Works, was showing continued good earnings. It had been for some years a considerable question with the duPont Company whether trade sales were profitable or not, as apparently our industrial business was very profitable and our trade sales were not. At the same time, however, we were faced with the facts that there were many large trade sales concerns that made a satisfactory profit. Early in 1930 the business of the Flint Varnish & Color Works was so large that it was turning away business for lack of manufacturing facilities and at their request the duPont Company undertook to obtain additional facilities.

Examination of a limited number of firms which would furnish these additional requirements resulted in the purchase of the Chicago Varnish Works. This purchase was not particularly approved by the duPont Company on analysis of business conditions but on the guarantee of the Flint Company that they could make this investment show a satisfactory return, the business and plant were purchased for the account of the Flint Company. Shortly after, the automobile business, which was the main source of revenue to the Flint Company, entered a period of depression and the Flint Company was faced immediately with excess facilities at its own plant in Flint as well as the facilities of its newly acquired plant in Chicago. The trade sales which the Chicago Varnish Company had were discarded by both Flint and duPont. From 1930 to date we also find that the other portion of our paint business; namely, that handled by Flint was also in bad shape, due to shrinkage of

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sales. At the time of purchase of the Chicago Varnish Works our Chicago paint plant acquired with Harrisons was dismantled and our Chicago district trade handled by a warehouse.

Turning now to our chemical business, we find it has been more or less sacrificed to the demands of our other plants; particularly, the Dye Works, after our military needs had disappeared and no effort had been made to enlarge our chemical business through adding other plants, as the years 1919 and 1920 were the period of great prosperity to other chemical manufacturers, and there was no opportunity to purchase any concern at a reasonable price.

The pigment end, which includes our lithopone and dry colors, had ridden along without any particular effort to develop new lines. There was an opportunity in 1919 to obtain a western lithopone plant but our entire chemical and pigment business was not even then showing earnings in keeping with the prosperous times and it was not felt advisable to make any addition to our lithopone facilities.

Our lead business was very unprofitable and by the middle of 1921 we were practically out of the business. A careful study of the lead industry by the Development Department indicated that if properly handled with respect to purchase of pig lead we had a satisfactory margin between that price and the average selling price of white lead. Accordingly, this industry has been revived and a plant at Philadelphia started up on the Carter process only. This is the short process and does not tie up our capital as long as is the case of the Dutch process.

The following table shows the figures available for the last few years. It will be noted that the total of the gross sales of the four divisions in 1920 and 1921 is greater than the totals shown in the first table. The difference of $638,494 in the case of 1920 is due to transfer of products between the four divisions of the Paint Department and while they are properly shown as included in gross sales with respect to each division it is not proper to show as gross total of the Paint Department as a whole. The figures for 1921 are an annual basis based on the actual to September 30, 1921.

	Total Investment	Gross Sales	Net Receipts
1917	$11,504,757	$8,867,820	$143,680
1918	13,781,714	10,939,345	531,332
1919	15,794,192	9,981,745	1,215,744
1920	18,147,145	14,721,435	1,030,709
1921	13,171,803	5,823,143	1,526,492

PAINT & VARNISH

	Working Capital	Plants	Total Investment	Gross Sales	Net Receipts
1917	-	-	-	$1,265,328	$108,720
1918	-	-	-	2,958,999	321,492
1919	$4,156,754	$4,901,382	$6,058,136	4,015,769	489,337
1920	4,509,714	1,495,044	6,004,758	5,098,705	959,363
1921	2,393,546	1,462,849	3,856,395	2,698,793	457,616

PIGMENTS & COLORS

	Working Capital	Plants	Total Investment	Gross Sales	Net Receipts
1917	-	-	-	1,977,420	350,884
1918	-	-	-	2,526,935	280,761
1919	1,824,605	1,842,935	3,667,540	2,340,189	182,871
1920	2,250,285	2,073,121	4,323,406	4,754,301	197,384
1921	1,292,232	2,235,133	3,527,365	1,561,271	326,955

LEAD PRODUCTS

	Working Capital	Plants	Total Investment	Gross Sales	Net Receipts
1917	-	-	-	1,022,664	539,352
1918	-	-	-	1,282,674	70,792
1919	1,250,444	550,462	1,800,906	1,566,933	159,586
1920	1,299,920	636,882	1,936,802	1,855,113	136,649
1921	492,700	580,854	1,073,554	555,554	272,094

CHEMICALS

	Working Capital	Plants	Total Investment	Gross Sales	Net Receipts
1917	-	-	-	4,602,408	710,868
1918	-	-	-	4,170,537	495,271
1919	1,423,494	2,912,332	4,335,826	2,058,854	383,954
1920	1,939,598	3,953,582	5,892,180	3,651,810	142,080
1921	1,138,119	3,576,368	4,714,487	1,161,444	469,837

A casual inspection would seem to indicate a rather hopeless situation but the past events have been reviewed in order that our apparent inability to show a satisfactory return on our investment in the paint & varnish, pigment, lead and chemical busines has not been due to any inherent defect in the industries themselves.

With the exception of chemicals, the other lines have shown moderate earnings in the peace years preceding our ownership. The chemical business of Harrison Bros. & Co. had just about broken even and the war business made the profit in 1917 and 1918.

Taking the situation as of October 5, 1921, which is the turning point, we find that our investment (excluding Flint) is approximately:

Working Capital	Permanent Investment	Total
$4,273,758	$7,807,769	$12,081,527

If Flint is included as is proper for the purposes of this report since we have sold to them our western business formerly handled by a Chicago Branch Office and Warehouse and consider in the future the earnings of the Paint Department to be the sum of Flint plus duPont we have these figures:

	Working Capital	Permanent Investment	Total
Paint & Varnish	$3,573,973	$3,405,142	$6,979,115
Lead	333,694	600,302	933,996
Pigments & Colors	1,233,128	2,207,236	3,440,364
Chemicals	780,601	3,543,528	4,324,129
Total duPont & Flint	$5,921,396	$9,756,208	$15,677,604

Taking the paint & varnish business - at the present time we have four plants strategically located; Chicago, Ill., Flint, Mich., Philadelphia, Pa. and Boston (Everett), Mass. The grief of consolidating our lines is over and the trade satisfied with our goods and container from a merchandising point of view. Our eastern industrial goods have not a very strong following as yet but conditions are improving. Our western industrial goods under the Flint name are well known and favorably received and with the addition of the duPont trade sales line to Flint to support the Chicago plant, they are in excellent position to reach for all kinds of business. Philadelphia & Boston each have good surrounding markets.

Irrespective of the devious manner in which such a position is reached we feel that our paint and varnish facilities are ready as fast as business can be obtained. We are one of the leading paint companies and while in no position to dominate the industry we are not outclassed on either source of raw material or condition of plants by any competitor.

Taking the lead business - at the present time we find ourselves only a small factor as compared with the National Lead Company but our plant and process is as good or better than any other. We are not well established as a white lead manufacturer as no attempt has been made to feature the fact. With our excess stocks, both finished and raw, now gone, our lead business has a good chance.

Taking our pigment business - at present we find that our former leadership in lithopone manufacture has been lost but we are still one of the strong factors. With the development and marketing of our new light stable lithopone, we are now in position to re-establish ourselves. Our two plants, Philadelphia, Pa. and Newark, N.J., are well located for eastern territory and the necessity for a western location will be decided by barytes supply.

Our dry colors are well and favorably known and our one plant at Newark is in good shape and well located. The addition of a line of lake colors now in process of development will materially strengthen our position.

Taking our chemical business - we are not in a very satisfactory position in some respects. The Philadelphia plant is not in good physical shape which handicaps us on costs and production. The Paulsboro plant is a war plant as far as markets go and we are very small producers of acid as compared with some of our competitors. Freight limits our market range and it will take a little time to find the best solution of the problem of this division of the Paint Department.

In all our divisions it is obvious that our turnover per year is too small and this is one of the most important factors affecting our profits. We would like to see a turnover of at least once a year, thereby giving us a 10% return on our investment, as at this writing we do not see where our investment can be lowered under $14,000,000 and therefore our present rate of annual sales of $7,400,000 must be doubled as one cannot expect to average more than 10% on our sales as profit.

Some of our more important policies have been determined at this time. The fundamental and most important is a control of expense before the fact coupled with a strict adherence to our budget. Our budgets are in process of preparation and will be reflected in the No. 1 Forecast for 1923.

Certain economies are possible; for example, in our sales end, the consolidation of our western business with Flint Varnish Works enables us to use an excellent office building at our Chicago Varnish Works and puts our western sales effort directly in touch with that plant. Separate offices and warehouses have been eliminated. This removes some business from our eastern plants but our policy of concentrated effort in a concentrated territory will bring in the necessary additional business.

Our Chicago Branch Office and Warehouse for pigments and colors have also moved to the Chicago Varnish Works where inexpensive space has been rented.

A small office in New York City has been obtained for chemical and pigments sales only and paint and varnish are sold from the Philadelphia plant office and a warehouse only maintained at Jersey City.

As a guide to what we expect to do in 1923, the following table is given, which includes duPont plus total Flint. The figures for 1920 are given for comparison, but these figures are quite approx

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imate and are used to illustrate the relative position of the 1920 business with respect to our new basis.

	Paint & Varnish	Lead Products	Pigments & Colors	Chemicals
Gross Receipts	$7,000,000	$750,000	$3,500,000	$3,000,000
Freight & Delivery	350,000	22,500	75,000	120,000
Selling Expense	1,077,300	37,500	125,000	120,000
Mill Cost	4,661,700	600,000	2,000,000	2,520,000
Administrative	246,000	15,000	75,000	90,000
Net Receipts	665,000	75,000	225,000	150,000

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	1920 (Approx.)	New Basis
Gross Receipts	$18,788,000	$13,350,000
Freight & Delivery	819,000	567,500
Selling Expense	1,862,000	1,359,800
Mill Cost	16,184,000	9,781,700
Administrative	546,600	426,000
Net Receipts	623,600	1,115,000
Total Investment	$20,147,145	$14,000,000
% on Investment	3%	8%

If business conditions continue as they are, however, we will feel that we have accomplished a satisfactory position if we break even but thereafter with any sort of normal business conditions, we should increase our per cent on investment to 8%.

Coupled with our budget idea, which of itself indicates what many of our policies will be, we are not losing sight of the future and our plans for sales expansion, plant development and improvement of products and processes are being worked out on not only a basis of giving the most immediate return on our investment but assuring us of a definite sequence of moves that will ultimately make our position in our several industries within the Paint Department 100% correct; namely, giving 10% return on our investment plus a reasonable addition to surplus for investment in the business itself.

H. Greek[illegible]

GENERAL MANAGER

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