INTERVIEW WITH

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PRESIDENT AND CHIEF OPERATING OFFICER
SHERWIN-WILLIAMS
CLEVELAND, OHIO

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INTERVIEW CONDUCTED BY

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WG: We're talking with Tom Commes, who is the President and Chief Operating Officer of Sherwin-Williams, and today is January 25th, 1991. I'd like to start off with you telling us your personal story of how you come to Sherwin-Williams.

TC: At a point in my past career I worked at Gould. I worked at Gould from 1968 to 1974, and ~~during that time I worked at Gould,~~ most of the time I worked in troubled divisions, and in fact most of my working career has been with troubled companies. My belief was early on that you could learn a lot more working for a troubled company than you could for a good company, and you could get into a position of management more easily because they had very little to lose. They were already screwed up. It wasn't as risky as letting a young guy get into a responsible position ~~like~~ at General Motors, something like that. And so in any event, while I worked at Gould I had the opportunity to meet and get to know Jack Breen. I never worked for him, but I worked with him several times and I got to know him, and I left Gould in 1974 and went to W. T. Grant. a~~nd that's a whole other story~~, a~~nd very~~-- ~~and in~~ In 1979 Jack left Gould and went to Sherwin-Williams, and clearly at that time Sherwin-Williams was a troubled company. About to be taken over by Gulf + Western, ~~and~~ lost its credit rating and ~~??~~ Cut its dividend ~~??~~ of fifty or sixty years to zero. ~~And he~~ He needed a chief financial officer that was not uncomfortable in a fairly difficult, troubled situation. ~~And he~~ He called me, and after a lot of dancing around we finally got together and that's how I got here.

WG: At Gould and at W. T. Grant, had you been in financial positions?

TC: At Gould I was in manufacturing and in financial positions and in marketing positions. I ran a battery plant, I was a division controller, I was assistant corporate controller, and I also had sales responsibility. ~~for selling to Volkswagen and Caterpillar and J. C. Penney, K Mart.~~

WG: And at Grant?

TC: At Grant I was chief financial officer. My background, ~~you know~~, before I went into manufacturing, ~~it~~ was in finance. I was a CPA for a ~~corporate~~ large public accounting firm, and my desire, the reason I went to Gould to begin with, ~~and~~ was that it was a ~~screwed up~~ troubled company, and it would allow me ~~was to try~~ to get ~~general management~~ manufacturing experience, and ~~that was~~ the ~~guy~~ person that hired me at Gould was a former banker who I met working in a bankruptcy situation when I was in public accounting. I was working in troubled companies then, too. So he left the bank and went to Gould. He hired me at Gould as a troubleshooter.

WG: You had known Jack Breen at Gould.

TC: Yes.

WG: Had you stayed in touch during the time that you were away?

TC: Not really, no. But he and I had all kinds of mutual friends, and I stayed in touch with a lot of people that he knew. In fact several of my good friends worked for him. So I mean I stayed in touch with him because I knew what he was doing. I'd say, "How's Jack doing?" and all that stuff.

WG: Tell me about your coming here, from the company's point of view; ?? your point of view. From the company's point of view the attraction had been you had known Jack Breen, also you had dealt with troubled companies and had CFO experience which this company I guess sorely needed ?? . Was the retail background at all helpful to you? Was that an aspect of it?

TC: Yes. I don't know if it was an aspect of it with Jack, but I mean it was clearly something that ~~I mean~~ I brought to the company that very few in the company had. And I think, ~~you know,~~ some of the things that we did early on in terms of cost containment and cost reduction were a result of things that I had learned in Grant's and at Saks Fifth Avenue. ~~I worked at Saks Fifth Avenue also after I left Grant's.~~ Particularly part-time employees and how you use part-time employees~~, and that kind of stuff. ?? to the company at the time~~. I think we saved probably $30 million or more in a couple of years by just instituting part-timers. ~~and you know, the attendant benefits and all that stuff that you save.~~

WG: Before you came, did you have a chance to ~~do ?~~ look into Sherwin Williams.

TC: Yes.

WG: What did that look like?

TC: It was a disaster. ~~And~~ It was losing money. It lost its credit rating. It was about to be taken over. It appeared not to have a particularly bright future because the paint industry, ~~you know, the conventional wisdom was that the paint industry~~ is low growth and low tech and not particularly attractive, ~~and~~ you had big people in it that could hold down your ability to make profits like Sears Roebuck and K-Mart, and it was really not a terribly attractive business. ~~you know,~~ ~~from the conventional side of it,~~ ~~but to me~~ I thought it was very attractive because it was ~~all screwed up~~ troubled and it ~~was~~ had a terrific name, ~~and~~ When you think of paint you think of Sherwin-Williams. I think if you look around industry, I don't care what kind of business you get into and how lousy it is, there's always one ~~guy~~ company who does well. In the steel business that's true, in the auto business that's true, you can pick the worst industries imaginable, there will always besomebody that does well. So I figured that if you could get

Sherwin-Williams to go back to ~~the point, the~~ the good old days, when it was really a terrific company, ~~go back to that point,~~ then you could do quite well.

WG: It was nonetheless quite a risk for you, as CFO of ~~the~~ Saks Fifth Avenue

TC: I was a young guy, and that's the time you take risks. In that period I was only 35, 36 years old, so it wasn't a particularly big risk.

WG: Once you decided to come, what happened on your first day or your first few days? How did you prioritize the problems that (the ~~industry~~ company was having)?

TC: Well, the first thing I tried to get a handle on was how much cash is coming in every day and where it's going. And I think one of the first things that we noticed was the company was quite proud of its bill paying capability. ~~If~~ I can remember one of the fellows coming in and showing me the Dun & Bradstreet report on Sherwin-Williams. Now this is a company that lost its credit rating, its long-term ability to borrow money completely, and we were a 5A1 or something like that in Dun & Bradstreet, which is the highest rating. We were about ready to go out of business, and we were paying our suppliers in 25 days or less, and our customers were paying us in 60 days or more. So one of the first things we did was said, "You know, there's something inequitable about this arrangement, and we're the largest purchaser of most commodities that go into paint, so if our suppliers want to enjoy selling into the paint industry by having Sherwin-Williams as a customer, they're going to bear the brunt of the kinds of terms that we have to sell under." So we got all the purchasing people ~~boys~~ together and explained to them that the new system at Sherwin-Williams is we'll pay people in 60 days instead of 25 days. And I think that Alone ~~along~~ probably generated $70 or $80 million of cash the first year. The other thing that we were told was that, ~~you know~~, we faced a crisis immediately in the summer because it's a very high working capital period, and the company had always borrowed money to finance the high working capital over the summer. They'd normally borrow anywhere from $75 to $100 million, and this is a big problem because we lost our credit rating and nobody's going to lend us any money. So we just started talking, both Jack and I, to everybody in the company about being a cash ~~drug~~ addict: we're an addict for cash and we've got to dry out and go on the wagon and get away from being dependent on the banks and generate our own cash and go through a year without borrowing any money. The people in the company said, "You're nuts. You can't do it. This company has borrowed every year for the past 15 years during the summer." Well the long and short of it is they <u>did</u> do it. They did it by working harder on collecting receivables. We had a fairly substantial reduction in inventories because we started charging people in the company for using inventories. You know, in the old days they could have as much inventory as they want, there was no penalty associated with it. And clearly if you're a sales company, you want to have all the inventory that you can get away with, because you never want to miss a sale, right? Well, if we charge you 12% for that inventory, then you're going to in your mind say, "Is it worth it to carry some of these fringe items, or as many of them? Because unless I sell them fairly quickly, if I hold them for five or six months, you know, I'm losing money." And that had a tremendous impact on our ability to generate cash. So we went through the first year without any borrowing. And then, well, that's kind of been the battle cry ever since. That worked so well we just figured we'd adopt that as a normal routine, and we have never borrowed a dime to finance the day-to-day operations of the company since 1979. And now it's taken for granted. It's not an issue anymore. We will borrow money, and have borrowed money to buy things--buy other companies, things like that. But we don't even like to do that. So we got control of the cash immediately and tried to figure out how much was coming in and how much was going out and it's really a fairly simple--I read this in a book and it stuck with me. It was a book by Harold ~~Jeneen~~ Geneen, and he was quoted in the book saying, "Really all you ~~got~~ have to know about accounting and finance is that cash in has to exceed cash out or you have a problem." And that quote stuck with me. I read that twenty years ago, and it seems kind of simple, but ~~you know,~~ it really gets down to the heart of what we're all about. And we watch it. We still watch it every day. I get a report every day: how much cash comes in, how much is going out, for every division. Every day.

WG: Describe how the company was managed and some events of the crisis. Did Mr. Breen assemble a team of people that met every day or every couple of days to talk about what was going on?

TC: Well we started a planning process, and we started putting together--having people put together plans from the bottom up. Well ~~So if we have a division general manager~~ say to the general manager of a division, "How'd you do last year? What do you think you can do next year? And are you willing to commit to doing it?" ~~And~~ The old way the company used to do it was they'd sit up here and say, "Well we want to make $3 a share next year and Mr. General Manager A, here's what you have ~~got~~ to do to see that we hit this, and here's what you've got to do. ~~And you'd be sitting down there and you'd be told, you know, what you got to do~~. As opposed to the other way around: assessing the business climate and all of that. ~~And~~ Clearly the people that are running these businesses know 100 times more about them than we do, because we can't be that close to them. And they come to us and say, "Here's what we did and here's what we think we can do." And then it's up to us to kick the tires. And we've said for years here that in the corporate office we have a lot more questions than answers. And that's really our function ~~is~~ to, ~~you know~~, be a provacateur: "Why are your sales only going up 8%? Why can't they go up 15%?"

Or "How do you expect to get a 15% sales increase? Don't you really believe that it's going to be more like 6%?" ~~You know~~? And all the implications of that. So the process is a give and take process, but it starts with the managers that are on the firing line, ~~you know,~~ coming up with what they're going to do, and then once we agree on it, that's their commitment. And if they don't hit these commitments for, ~~you know~~, an unreasonable period of time, we'll have to part company with them. And that's something that the company didn't do much of in the past. There was no penalty, if you would, for not delivering what you said you were going to do. ~~And you know,~~ As we got into this process, in the early part of '79 and '80, we would get all the key managers in the whole company together quarterly, and this was 75 or 80 of them, and go through all the numbers in excruciating detail and, ~~you know,~~ spend all day kicking the tires. And once a month we'd get together with not that quite as big a group but all the general managers and go through the numbers; and want explanations: "Why is this? Why is this? What are you doing about this?" I think in the old days the best I could tell, they didn't get together that often, and most of the stuff was done with memos and all that kind of stuff. And if you look around the company today, there's very little memo writing going on. This is not a memo writing company. People pick up the phone and call and say, "What are you doing here?"

WG: Back in that '79/80 timeframe, then, did Mr. Breen have like an inner group of people that met frequently?

TC: Well, myself, Conway Ivy, Miklich, Pitorak. There were about five or six of us that would meet all the time.

WG: Discovering new things about how this company had been run and what needed to be done.

TC: Yes. That didn't take that long to sort out. I think we had that figured out in about two or three months. And this is, ~~you know, it's~~ not that complicated. I'm not telling you we know how to formulate paint or anything like that, but it didn't take long to figure out that you had to do a couple simple things: you had to get the cash flowing, you had to start cutting costs, and you had to start getting commitments from people on sales and margins and stuff like that. I think probably one of the most important things, though, is that we started was ~~this~~ what we call even today ~~is~~ bottom-up budgeting ~~process~~ where people set their own goals and we exercise the right of questioning the goals to make sure that they're either not pie in the sky or they're not sandbagging, and then get out of their way and let them do their job. And you know, one of the great strengths--several of the great strengths of the company, and I know Jack and I talked about this all the time, ~~you know,~~ ~~we've said~~ the greatest asset that the company has is not on its balance sheet. It's its name and a tremendous number of really good people that were still left inside the company despite all the problems that it had. And those are really the people, once you gave them a couple of clues on what ought to be done, that grabbed the ball and ran with it.

WG: Was there a time that you knew the company was coming out of the woods and was going to make it?

TC: Yes. I think we figured, ~~you know~~, within three or four months that if we could see that it wasn't going to be an overnight sensation but we were clearly going to keep it from going under. But the thing that was most concerning to us is that we were going to work our tails off and get the thing going, and we were going to end up being taken over. That was the bigger concern, and that somebody else would, rather than the employees, reap the benefits of fixing the company up. And ~~that's, you know~~, we were clearly positioned to have that happen.

WG: Yes. Well tell me about that, how the company escaped that.

TC: Well, when Jack came on board, one of the first things he did was go and meet with Charlie (Bluhdorn), who was the chairman of Gulf + Western and a fairly well known corporate raider, and he's one of the guys that started the whole conglomerate era. And the former management of the company, for whatever the reason, didn't meet with him. They would send lawyers to talk to him and investment bankers, but they wouldn't just walk in and say, "Hi. I represent Sherwin-Williams. What's on your mind?" So Jack started doing that and he started explaining to Charlie that with him sitting there with all this stock as a threat ~~to a~~ of a takeover, that it was like a sword of Damocles over our head. We were having trouble hiring good people into the company, because most people wouldn't want to go into a company that looked like it was going to be taken over by a guy that most people didn't want to work for. ~~And we would go back, once I got here,~~ We started going back every month to six weeks and sat down with him, took him through our numbers, told him what we were doing, treated him like he was a stockholder, because he was our largest stockholder, and just kept explaining to him that we was, ~~you know~~, making it harder for us to fix the thing up. And over a period a time ~~I think of probably--I have to go back and check the time, how long this took--we convinced him~~ he was convinced that it would be in his best interest to sell us back the stock. And eventually he agreed to do that at a fairly hefty premium at the time . . .

WG: Was it a kind of a green mail transaction?

TC: Oh, clearly. Well actually it wasn't, in a sense. He didn't buy the company in to green mail it, I don't believe. He bought it--he wanted to take it over. He liked the name, Sherwin-Williams. He knew, ~~you know~~, if you go back and look at his investment strategy, I mean he told us time and time again the story about Paramount Pictures, and how he took that over and how it was near bankrupt, nobody wanted it and what he paid for it, which was next to nothing. Now Paramount Pictures is, ~~you know,~~ the most valuable thing in the old Gulf + Western Industries. In fact ~~we~~ they got ~~rid of~~ sold all the auto parts and junk and that's the company now. Paramount Pictures. So I mean he liked old names that were in trouble. He loved the idea of buying them at bargain prices, and eventually he figured that everything would get fixed up. So he really liked the company. It was a classic kind of a situation for him to get involved with. ~~And~~ . . .

X: You don't think ~~he~~ was going ~~to~~ buy the company and ~~put it~~ all . . .

TC: ~~We had no idea. He had no idea~~. He was not an operating person. He was an investor. He'd sit there with a little Standard & Poors book and flip through it. ~~You know~~, His management tools were the value line book and a Standard & Poors book. And he didn't have the vaguest idea about managing costs and selling and all that stuff. That was all, he had all kinds of operating guys to worry about that. He was worrying about buying and selling, that's all.

WG: But to get him out, you had to pay a premium.

TC: We paid him about a 25% premium to the market, which was the first time, I think, in Ohio history that that had ever been done. And you know in retrospect it was a great bargain because the stock that we bought back from him, we bought back at an equivalent price I believe of about $2.50 a share. That stock today of course is touching $40. ~~At the time, you know, it was-- you know, this was--I think we bought it back in 1980.~~ So it was not that far into the point where we were feeling comfortable that we had enough cash to give them and still run the company, because we still didn't have our credit rating back. And so we had a lot of, you know, anxious moments in there, "Do we really want to spend this kind of money buying all this stock when we really worried about buying enough material to make it through the summer on making paint?" And I'd have to say clearly, and that's what Jack said when we were talking publicly about why we did it, it was a vote of confidence in the ability of the company to continue to operate and to make it, that we would put out that kind of money when we were really strapped for cash, to buy that stock back.

WG: Were you also negotiating a bank to restructure, refinance?

TC: No, we didn't have any bank--this was all insurance company debt and publicly held debt. During this time, if you go back and look at the way the balance sheet was, we were buying in debt every chance we could because our debt was selling way below its face value. Where, ~~you know,~~ we would be able to buy a dollar's worth of debt in for 70 cents, 60 cents. So every time we got a chance, we bought in millions and millions of dollars of debt at (bargain?) prices, because everybody was saying, "Aw, Sherwin-Williams is lousy, ~~you know~~, you don't want that." And they'd mark it way down. It was like a junk bond. ~~And our debt~~--these were in the years before junk bonds were called junk bonds. They were just, ~~you know~~, not investment grade corporate bonds. But we bought in I'd say well into the hundreds of millions of dollars in debt at bargain prices. And now of course whatever's left out there is selling at a premium because we're clearly not a junk bond company anymore.

WG: My impression of the eighties is that there's a kind of--this whole period--there's a phasing to it. There's getting out of this, entering, discovering the true dimensions of the crisis and recovering from it, devising a strategy for recovery. Once--that may have taken a year or two.

TC: Yes.

WG: And then after that there's, OK, now we've saved the company. What are we going to do now?

TC: Right.

WG: Can you tell me about that from your point of view?

TC: Well ~~there~~ it's one thing to take a company that's losing money and make it profitable. It's another thing to take a company that's profitable and make it a good performer. And you read in a lot of the things that we talk about, in our annual report and then some of the things we say to the security analysts, we talk about return on equity. And return on equity is really probably the one--if you had to pick one criteria on how we measure ourselves and how we're doing, is return on equity. ~~And~~ We set early on, I would say within the first two or three months, a goal for the company to get the 15% return on equity in five years. And I think we made that goal in four years. So then we changed the goal and we set the goal at 20% return on equity. Now there's probably less than 3% of companies in the United States or the world that make 20% return on equity. There you're getting up into, you know, the Mercks and the IBMs and those kind of folks. ~~And you know~~, we feel that with the kind of a market position that we're going to ultimately end up with, that a 20% return on equity is quite consistent with that. I mean a company that we talk about a lot internally here, not because we're big beer drinkers, is Annheuser Busch. And Annheuser Busch is a company that, if you go back into the early sixties, had about a 6% return on equity and about a 6 or 7% market share. Today they've got a 40% market share, and about a 24-25% return on equity. ~~That's been an extremely successful company.~~ And it's been a successful company, ~~you know, we're talking again about~~ in a terrible industry, ~~and there's always a good company~~. ~~Well I mean~~ just yesterday G. Heidelman Brewing, the old style beer, ~~they just~~ filed bankruptcy. And I talk about this with our marketing people all the time. You go out and try to buy a Schlitz. In 1960 when Annheuser Busch had 6% market share, Schlitz had 15% market share, and they're gone. They disappeared. The reason they disappeared was kind of interesting. The manufacturing guys got control of the company and wanted to increase tank turns in beer, so they put some ingredients in their beer that make it ferment quicker, and they changed the taste of the beer. And the sales immediately rocketed downward, and they were never able to recover from it. And they even brought in a master brewer to become chairman of the company to save it. They couldn't save it. And it's an incredible story about how if you fool around the product--~~you know~~, Coca-Cola almost did the same thing--~~you know~~, you can ruin or destroy your company. ~~what can happen to it. So I mean there's, you know~~, in our mind the beer industry is a great indicator of what can happen because back in those days there were thousands of brewers. Now there's seven or eight that have 80% of the industry, and the top guy makes really big money. And that's how we see the paint industry evolving.

WG: Has Annheuser-Busch been a model since the early eighties?

TC: I think we started talking about Annheuser-Busch back in

1986. That's the first time I started talking about them. But I've been watching them for a long time.

WG: Yes. But before that the company was, in the early eighties, was diversified--Gray Drug.

TC: We were trying to figure out what to do. ~~And Gray Drug was the--go back to our problem~~. We had a strategic problem. The paint business is like running an amusement park. You do great in the summer and you die in the winter, OK? So we were saying, "Gee, wouldn't it be great if we could acquire a company that made money in the late fall and the early spring." ~~And we were looking at, you know, just throwing around ideas.~~ We looked at a company like H&R Block that makes all of its money in the first quarter of the year because they do income tax, and the rest of the year they die. ~~And you know,~~ Stuff like that. So we looked at different forms of retailing. And while we were going through this, and this was kind of an ongoing deal, Gray Drug, which was a local company, got attacked by one of these takeover guys from Texas. So they called Jack up and said, ~~you know~~, "Would you consider being our white knight?" Well, we never thought about getting into the drug store business, so we took a look at the industry and interestingly enough the industry's big profit quarters are the first quarter, which is the cold and flu season, and all that. They have tremendous prescription sales. And of course it's the fourth quarter because of Christmas. And they buy Christmas cards and candy and all that junk. And you go into a drug store, you can darn near buy anything you want in there. So we said, "You know, this is not bad. Gray Drug is a loser. Because it was losing money. It had what we thought to be not terrific management, but we thought we could bring something to the party there. And if we could fix it up, it would alleviate our big seasonal problem. ~~So~~ on paper it looked brilliant, ~~you know?~~ In fact, the drug store industry was undergoing some real radical structural changes. ~~These~~ box stores, ~~you know~~, the big 25,000 foot deep discounters that were operating at 18% gross margins instead of the traditional 33% gross margins were sweeping the country. And ~~you know~~, we got caught up in that right away. ~~And~~ we ~~got~~ took the drug store business from losing money to making money and it's what we would call a moral victory as opposed to a real economic victory, ~~you know?~~ We did turn it around, but what we had when we got it turned around wasn't really worth having. ~~And~~ we did a study, ~~and this study I think we spent--we actually spent money on the study.~~ We ~~got~~ hired a consultant ~~in~~ and looked at what we had to do to make Gray into a Walgreen's, which is still to this day a premier company in the drug store business. And the long and short of it is that you've got to have market share in the drug store business for low cost in distribution and advertising and management ~~and all that stuff.~~ And to do that in the markets that we were in would have cost about $300 million. And we just said to ourselves, ~~"You know,~~ if we've got $300 million, we should be putting it into the paint business and not the drug store business." So it was at that point we decided that somebody else would be better off owning Gray Drug than us. ~~So after piddling around for a year we finally sold the whole thing~~. We ~~And~~ came out of it, interestingly enough, with a profit. And if you look at the return on the money that we invested in it, we did better than just leaving the money in the bank. The thing that was wrong with it, is that we wasted a tremendous amount of management time on something that really wasn't important for the long-term future of the company. We should have been spending more time on the paint business. So if we were to be criticized, and it's a fair criticism, it would be for wasting the company's focus on the drug store business and taking it a little bit away from the paint business. We vowed never to do that again.

WG: Are you still living with the problem of operating an amusement park now?

TC: Yes, but as we expand our store network and get stronger in the southern and the western states, we'll smooth out some of that seasonal problem. And as a matter of fact, in a normal year, ~~whatever a normal year is--we haven't had one for so long, I've forgotten what they look like--you know~~, we'll make money every month of the year. And clearly even in an abnormal year we'll make money in the first quarter and the fourth quarter. It used to be we lost money in both of those quarters. So it is

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kind of smoothing out. The other thing that we've done is ~~we've really done~~ a good job in improving our interior products. It used to be that our exterior products were the real strength of the company, and we still think they are, but the interior market is a lot bigger than the exterior market, and that was our weakest product sales category, and we've done a lot of work on our interior products and our interior sales efforts, both in Sherwin-Williams and in our other brands. ~~I mean~~ we've really begun now to sell the products other than Sherwin-Williams: Dutch Boy and now we've just bought the Sears business. A lot of the sales for these channels are heavily skewed to interior products, which have a lesser seasonal variation. They have a seasonal variation, but it's lesser. People still are a little bit reluctant in the real cold northern climates to paint inside ~~interior~~ in the winter because of the fumes; ~~you'll gas yourself, you know~~, Yyou've got to have a window open. But it ~~you know, you~~ extends the time that you paint beyond the exterior painting season. So Adam Smith's invisible hand is somewhat smoothing out our year--but it's still, seasonal; ~~if~~ you look at our year ~~even today~~, we make almost six times more in the second quarter than we do in the first quarter, and that's true of the third quarter.

WG: Originally when I look at materials talking about the company's strategic plan, it sounds like the company put, or at least the new management put a lot of emphasis on areas like the Chemical Division, and that changed. And I'm curious, and at the

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time it said, "Well, we're interested in chemicals (anyway) because paint is a slow growth area." What's changed in the company's line now that they've divested chemicals? I mean growth in the interior . . .

TC: Well, I tell you. It's a funny phenomenon. When you have something that's working well, you tend to look at it and say, "Well, that's a great direction for us to go and build on because it's doing well." And the first year ~~we've~~ we worked in the company ~~is~~ was 1979, the Chemical Division was one of the stellar performers in 1979. And if you look at the specialty chemical industry, you'll see some companies in there that do extremely well. They have high returns on equity and they do very well. So we said, "Well, this is clearly one of the keys that we can count on," and so ~~especially~~ the specialty chemical business (we're going to) expand ~~off~~. ~~And~~ We were running around looking for acquisitions, and fortunately we made only one, or we would have been in a lot bigger trouble. But in the next two years, I think it was '81 or '82 when we went in a recession and the dollar got extremely strong, we saw the realities of the specialty chemical business. It was very cyclical and it required huge amounts of R&D to continually come up with new products. ~~And~~ It needed a critical mass that we didn't have. We never had more than $125 million in our chemical business. And a lot of it was just niche products. Like saccharine was a real big product that we had. We had at one time 80% of the world market share for saccharine. And of course

NutraSweet came out and we had the saccharine ban in Canada and ~~you know~~, all ~~that~~ those kinds of ~~stuff~~ problems. ~~And~~ saccharine was extremely ~~popular~~ profitable for us. And that started going down. ~~And~~ That was another reality of the business, that if we were going to be in the sweetener business, we had to have a big R&D effort to look for alternative sweeteners to saccharine and then NutraSweet, and we didn't have the kind of resources to begin to do the kind of research that a Monsanto would do or a ~~GE~~ GD (Searle) would do. So we took the more realistic look at just what we had and what the prospects were for it and decided that this was not a business that we could win in, because it was a specialty business that would require a fairly big mass to afford R&D, and we didn't have any of those. We had a couple of nifty products that happened to be particularly profitable at the time that couldn't really sustain the kinds of growth that we needed to keep investing in R&D. ~~So we--you know~~, y~~ou either~~, in our view you got to really be enthusiastic in investing and growing something, or you really ought to get rid of it. But to try to just tread water is a death sentence for most businesses. So we decided to get out of it.

WG: There were some other divestitures, like the Container Division.

TC: The Container Division was divested because to be successful in the container business we had to sell 75% of our output to our competitors, and in the good old days when Sherwin-Williams was dying, nobody minded buying from us. But when we started stepping out and taking customers away from Glidden and PPG and these folks, they had to sit back and say, "Do we want to buy it from a person who's trying to take our customers?" And the answer clearly is no. So--any more than we would readily want to buy from any of our competitors. ~~So~~ We decided that that business would be better owned by a neutral person who could readily sell to other paint companies. ~~And you know,~~ If we wanted to improve the can business, that would require capital and research dollars and 75% of the benefits, ~~those~~ would go to our competitors. So it just was a business that, because of the economies of scale and the size of lines and the speed of the lines you had to have, you really had to sell to other people to make the business viable.

WG: So it was losing money.

TC: Oh, no. It was making money.

WG: It was making money.

TC: Oh, yes. It was making money. But that was another division when we first started that was a very profitable division, along with the Chemical Division. What we found out, though, is that some of the money they made was money that they shouldn't be making because they were charging Sherwin-Williams and the internal purchasers ~~guys~~, more for cans than we could buy them for on the outside. So we started rumbling around on the outside and figuring out what we could buy cans for. ~~You know,~~ we could see clearly that a lot of the profit that they reported was really illusory profit.

WG: Yes. Taking out of one pocket . . .

TC: Yes, right. So that, of course we dealt with that right away and made them lower their prices, and that changed their profit picture and it just is, it's not a, very profitable business. ~~it~~'s a very capital intensive business. You'll see in lot of the things that we write about, what we want to be is a working capital-intensive company as opposed to a fixed capital-intensive company. That was another drawback in the chemical business. It was very fixed capital intensive. The paint business is not very fixed capital intensive. It's working capital intensive. A lot of inventory receivables, not a lot of fixed assets. Now if you look at a paint plant, this will be the paint plant and this will be the distribution center. And the size of the storage area is at least four times the size of the plant. And because paint is really like making a cake: you take a bunch of ingredients, mix them up real quick, put them in a can, and store them, and wait for an order. And the actual amount of fixed assets to make paint is relatively small compared to a lot of other businesses.

And the beauty of that is when you get economic downturns you can always cut your inventory quite easily. You can't shut plants down. I mean you can, but it's very expensive to do it and you lose a lot of good workforce that you have, and it's not the kind of thing that you want to have to do to stay alive in a recession. Cutting inventory is, ~~you know~~, ~~rather~~ relatively painless to closing a plant.

WG: Again, thinking about the eighties as a period with divisions in it, or phases in it, in other words, the crisis phase, the search for new growth opportunities . . .

TC: You have to realize that this is--as a historian now you're going to go back and create theories that never happened while we were going through them.

WG: That's right.

TC: We didn't sit there and say, "OK, now the eighties for Sherwin-Williams is going to be three phases."

WG: No. You're thinking about the nineties.

TC: We're thinking about, digging away, no we were thinking about tomorrow and the next day and the next day, ~~you know~~.

WG: Yes. But kind of reflecting on it now, it looks as those there are three phases.

TC: Yes, there are.

WG: And the one after this search for growth opportunities is the sense maybe . . .

TC: It was search for diversification and the growth. The company has always really valued return on equity and profitability over growth for the sake of growth. And we've done a lot of things. You know really we've divested over $1 billion in sales in that timeframe. So we are really, number one, interested in profits and profitability; and ~~growth, you know,~~ profitable growth secondarily. And the other thing that we're very interested in now more than ever is market share because we clearly believe that market share and high profitability go hand in hand. We have a ~~zillion~~ lot of studies on that. It's something that we believe in.

WG: The paint industry is highly fragmented.

TC: Less so than it was.

WG: Less so than it was. Now is it really consolidating to an extent?

TC: Yes. Used to be in the sixties there were 2000 paint companies. Now there's less than 1000.

WG: Is it something that, you know, a real oligopoly could form in the paint industry?

TC: I think it has. Now you take Sherwin-Williams, PPG, Glidden, Valspar. I would guess those four probably now account for 70% of the paint sales.

WG: So it is concentrating.

TC: Conway, if you're going to talk to him, he'll give you all the exact details of that phenomenon ~~stuff~~. Yes, it's becoming ~~just~~ very concentrated.

WG: I'd be interested in partly in the forces that ?? . Why is this happening?

WG: Why now?

WG: After 150 years of . . .

TC: Well I think there's a couple of factors: One is the emergence of large, strong retailers. Sears-Roebuck started the ball rolling in the early sixties when they developed the Weather

Beater and Easy Living. They came from not a terribly successful seller of paint to an extremely successful seller of paint. And they got at the height: 30% of the do-it-yourself market. We've got the emergence of all these discounters, ~~you know~~? K-Marts and Walmarts and ~~you know~~, E. J. Korvettes and all of those. Some of them are still here, a lot of them aren't still here, but those that are here are pretty strong. And they sell a lot of paint, and that was a channel that wasn't there.

WG: They used national brands.

TC: Yes. They used national brands. And they use private label, both. I mean they use their brand paints, too. So if you go back into the fifties, you had a lot of the paint being sold, ~~you know~~, just through hardware stores and paint stores and ~~stuff~~ places like that. Now you've got--~~this is the little spiel we have on why we have to sell paint in this company on a broader sense than just Sherwin-Williams stores, because today there~~'s about 100,000 places you can walk into and buy paint. So if you take Sherwin-Williams stores, today we've got about 2,000 stores, let's say I can wave a magic wand, the number that I'd end up with if I could do it would be around 3,000-3,500 stores. Well 3,500 stores out of 100,000, ~~you know~~, we're not going to get the kind of market share in the do-it-yourself market out of that few number of stores. I mean ~~it's~~ just ~~you know~~ the law of randomness will tell you that you're not going to get people stumbling into ~~another~~ one place and buy it by mistake.

END OF SIDE A, BEGIN SIDE B.

TC: (We're at) two percent of the market in number of stores. We have substantially higher than that in Sales. It means our stores do quite well. ~~But you know,~~ There's a huge chunk of the market that we want to get at, and that's why we sell to K-Mart and Walmart and Sears and Home Depot and these people. And those people didn't exist in the fifties. They had lumber yards, but you didn't have any of these huge home centers that sell all this building material, most of it's aimed at the do-it-yourselfer. The do-it-yourself concept is new. The concept has really only been bandied about for what, the last 20-25 years. It's not that old of a concept. So those kinds of outlets have tended to take business away primarily from the small local grinder, paint company. And these guys want national brands, they want national distribution, they want to deal with one or two major suppliers and not 300 little suppliers, and I think that in great part has caused the consolidation of the industry.

WG: I guess they would also want quality.

TC: Oh, yes. Absolutely. They want quality, they want national delivery appeal.

WG: Tell me about--the company reorganized somewhat and you changed jobs in 1986. Tell me about the--prior to that Mr. Breen was Chairman, President and CEO. Tell me about the division of the responsibilities and how that works and why it came about.

TC: Well you're probably better off really asking him that, but ~~I think that~~ we used to have an organization that had the group vice presidents. So you know in reality all we've really done is eliminate the group vice president level and replace that with a president. ~~And I think the board of directors~~ wanted ~~the feeling that this wasn't a one man band~~, ~~you know~~? ~~And I don't think it ever~~ was because Jack involved everybody in ~~the management of the~~ company~~, it wasn't, you know~~, ~~that's just not his style. His style is get a lot of people to get involved~~ and commit to common ~~goals~~. So I ~~don't think~~, ~~you know~~, although it may look like it was a big change when he named a president, in fact it really was not that big a change. Because the kinds of things that I do today are not that much different than I was doing before. The big difference is I'm not involved at all in all the financial operations, but this company is, no matter who you talk to ~~in the company~~, ~~this is~~ a very financially oriented company. People throughout the company understand the numbers because we really all live and die by the numbers. That's the way we tell how we're doing. We're doing better or worse, you know, or whatever. ~~So you know~~, I've always been involved in operations and had a close working relationship with all the ~~regional~~ Divisional presidents. So all I do now is work more on that side of it than the other side of it. It wasn't a big--I wouldn't even accord it the term of a reorganization at all. All we really did was change the structure from a group vice president structure to a president structure. It really wasn't that big of a change, ~~I don't think.~~

WG: Did it change any of the systems?

TC: No. What we did shortly thereafter, which was something that really was unrelated to changing the group vice president to this president structure was we decentralized the Stores Division. That used to be one big division. We made five divisions out of it. The reason we did that is to get the authority and responsibility down closer to the customer because the thing was getting too big and unwieldy.

WG: How did you decentralize the finance part of all that? My understanding of the company before you came in, Mr. Breen came in, was that it was pretty centrally controlled in the finance area, but I think the term was ultra-conservative. So how did that change when you came in?

TC: Well I think again the basic philosophy of the company is one of decentralization and working against agreed-on goals and giving authority and responsibility to people as far down in the organization as you possibly can. And you know, as long as we have a reporting system that tells us when somebody's really going off the cliff, we're not uncomfortable at all, ~~you know~~, allowing a decentralized financial operation because we feel quite comfortable we know what they're doing. ~~And~~ . . .

WG: So each division now has a finance operation . . .

TC: Right.

WG: . . . it didn't have before.

TC: No, it didn't. It was all done centrally. ~~And the theory behind that is to really~~, ~~I mean~~ We want sales people to be aggressive and we want them to go out and make deals and get new customers, but when they do these things, we want them to understand before they go into them, the financial ramifications of what they want to do. You've got some ~~guy~~ person sitting up here in corporate, it's unlikely that a sales manager in the field is going to fly in here, call him up and say, "Hey, ~~you know~~? Here's the kind of deal I got. What do you think about it?" If you've got a ~~guy~~ person that's part of your team out there in the field and you're sitting around talking, there's a good possibility that the financial guy will at least get some input into what they're doing. And that's the whole idea behind this. It's to give a financial point of view to what's going on out there in the field, so that these people--not that ~~they're~~ it's going to ~~step~~ stop them from doing anything, it's just that everybody goes into transactions with their eyes open and knows what they're getting into.

WG: In the changes that happened in the eighties, were the management incentives changed as well?

TC: Yes.

WG: You were going to emphasize ROE more than, say, other . . . I mean what was emphasized in the incentives?

TC: I think it was changing all the time. Yes, one of the first things that was done in conjunction with a planning system we put in was a management incentive system. And once the divisions set their goals and got them approved, those goals became the basis for a management incentive system. So, and the goals were fairly cut and dried. I mean you had to have a sales growth goal, you had to have a working capital goal, you had to have a profit goal, you had to have a return on sales goal, you had to have a cash flow goal, and you had to have a return on assets employed goal, which is the internal number that corresponds to the external return on equity number. So all of the incentive systems were entirely consistent with what these folks committed to do. So if they hit their goals, they got paid an attractive bonus. If they didn't, they didn't get paid an attractive bonus.

And if they did much better than their goals, they got even a bigger bonus. It was a fairly simple system. And it's still going on today. And it's designed to pay on improvement. You can't say, "Well, we're going to do just as well as last year." The system is designed to incent getting better, because we're basically all paid to make the thing better, not just to be caretakers.

WG: And your strategy of, say, ROE of 15 to 20 would be tied to this.

TC: Yes ~~Well, it's tied to that and it's tied to, I mean~~ it all fits together. Our corporate objective of a 30% market share and a 20% return on equity, all of that ~~stuff is, and I don't want to take you through all the arithmetic of it, but it's not~~ is ~~in~~consistent. ~~Any of the goals that we have are not inconsistent.~~ The only thing today that makes our 20% goal a little bit difficult is our low level of debt. The higher the debt is relative to your equity, the easier it is to hit that kind of a goal. And fortunately for us, ~~I mean~~ there's a good news and bad news to the story. The good news is that we generated enough cash so that we haven't had to borrow money to make acquisitions and or grow or grow plants. ~~or do any of that stuff.~~ The bad news is that if we had more opportunities for high returns, we could go out and borrow money and increase our return on equity and ~~or~~ get there ~~like~~ 20% quicker than what we're doing now.

WG: But in general now you're expanding in the coatings industry and the opportunities to buy high returns are not that great.

TC: Well that's not true now. I think the one we just bought, ~~that~~ Desoto, ~~I think~~ in two or three years ~~it~~ will be an extremely high return. Krylon bought last year will be a very, ~~very~~ high return. If you buy them right, ~~though~~ the return will be very good. You can't be--how do I want to put it?--you can't let the fact that it's the coatings industry automatically lead you to the conclusion that it's low return. That's not true. Fortunately it's true for a lot of other companies, but it's not true for us. The coatings business is a wonderful business. It's a high return business for us. ~~We have, you know,~~ Our return on equity this year I think is 18.4%. At 18.4% if you look at the year-end numbers that come through in Business Week or Fortune magazine you'll see that we're right up there in the top 5% of all companies. Very few companies have that high return on equity.

WG: Yes. I wanted to ask a couple of questions before the kind of the concluding question I have here. Before I get there, I wanted to ask about the stores. Sherwin-Williams is different from other paint companies in the emphasis that it puts on stores. I mean no other paint companies have stores.

TC: Right.

WG: But why and how are the stores an asset to Sherwin-Williams?

TC: Well just a simple example: ~~If we sell paint or try to sell paint,~~ The objective of selling paint is to sell it to a user. ~~and if you don't, if you take the stores away, and look at Dutch Boy,~~ For instance, ~~Dutch Boy~~, for us to sell Dutch Boy paint, you've got to sell Dutch Boy paint to K-Mart who in turn sells it to a user. Now if we want to step out and do more with Dutch Boy paint, we've got to either hope that K-Mart is good at selling paint or that K-Mart expands the number of stores that they have, or does something extraordinary relative to other people that carry paint--that carry Benjamin Moore paint or carry Pratt & Lambert paint or whatever. So a lot of the ingredients for success with Dutch Boy are out of our control. With Sherwin-Williams, if ~~I~~ we put a store in and ~~I put~~ a store manager in there, he's going to sell paint. Because if he doesn't, he won't eat. Now he may not sell enough paint to make a profit, and we may have to find another guy who knows how to sell enough paint to make a profit, but even the worst guy will sell paint. And the number of stores that we add per year and the number of sales reps we add per year selling our paint is totally in our control; and our people, Sherwin-Williams employees, are talking directly to the customer, and they're talking directly to the contractors. We're not relying on an intermediary to make our business successful. And that's why, in our mind, ~~that~~ it's such a valuable part of the company. You go back and look at what people have written about the company up until maybe '81 or '82, it was always looked upon as a big weakness of the company. They've got all these stores, they lose all this money. And that was true but it was really kind of the way they accounted for the profit, ~~and kind of the way, you know~~, the stores at one point were looked at as just a kind of ~~a~~ necessary evil and not a competitive advantage. We changed the way they were looked at. I mean they were really the heart and soul of the company. That's where we had the chance to, ~~you know~~, meet face to face with the real customer, the user of paint. And all you had to do was look around, you'd see nobody else could do it. We were doing it. We weren't doing it real well, but we were doing it. And it was a terrific opportunity to continue to, ~~you know,~~ expand, and really once we got going, nobody else could begin to catch us. ~~I mean~~ The next closest guy has 380 stores.

WG: But you know just thinking about the Budweiser, the Annheuser-Busch analogy, this is something where you're not like that.

TC: We're not like that in the sense that Budweiser has, like a lot of consumer goods marketers, created such a preference for their product that the retailer has to carry it whether they want to or not, because people want it. Well you know some of that has gone on in the paint business. Like Olympic Stain at one point was like that. They had to carry it whether they wanted to or not because people wanted Olympic Stain. That's less true today than it once was, but that can be done. Glidden has done that to a certain degree through the home centers. We intend to do that to a certain degree with Dutch Boy. But you know the other side of Sherwin-Williams is, although it does a tremendous amount of do-it-yourself business relative to any measure, it's only 25% of the business. 75% of the business is painting contractors. And the painting contractor is a customer that most of these retailers like Sears or Home Depot ~~they~~ can't deal with ~~them~~. They don't open up early enough in the morning. They don't have the right delivery equipment. They don't have enough 5-gallon buckets of paint in stock. They don't have salesmen out calling on these guys, working with them on the job, helping them with technical problems. So there's an area of the business ~~that, you know,~~ ~~it's something~~ that as a national company we've got a tremendous advantage over the ~~little guys in those~~ home centers.

WG: Yes, but does keep--keeping the brands distinct. The decision was made in the seventies sell Sherwin Williams through the stores?.

TC: Yes. That decision was made, that was a good decision, it was a decision that was probably not implemented well from the other side of it. From the Sherwin-Williams side it was implemented fine. But what they did was they took Sherwin-Williams out of the dealer market and in the process lost 10 million gallons of business.

WG: Didn't have Dutch Boy to deliver.

TC: They had Martin-Senour to deliver. And Martin-Senour would have been fine if they'd have come back and made Martin-Senour a good name. Most people think Martin-Senour was ~~like~~ the 34th President of the United States. They don't realize that it's a paint, ~~you know?~~ Because we've never really put the kind of money behind it to make it a name like a Benjamin Moore. And ~~that's you know~~, Benjamin Moore is the target company ~~enemy~~ of Martin-Senour. Only you and I know that. Customers don't know that.

WG: That's interesting to the extent that Martin-Senour has a reputation as a very high quality, pure color . . .

TC: Very high quality, upscale, absolutely. But not enough people know it.

WG: Yes. So that's part of the plan.

TC: Absolutely. That's a major, major undertaking for us in the next couple of years is to get that thing rolling, because there is great opportunity with that ??   . We believe in a multibrand strategy. And we've struggled with it for years and it's been guess somewhat of an act of faith to continue with it because the financial results have been less than spectacular. But now we're starting to see some improvement in the profitability of the non-Sherwin-Williams brands. And again while there's 100,000 places you can buy paint, to limit ourselves only to Sherwin-Williams is, ~~you know,~~ like giving up a large piece of the market that's not a bad piece of business, and the last thing we want to do is let somebody get rich and strong in that market so they can come after us in our painter market. So it's not only the fact that it's an attractive market, it's also a fact of not wanting to let another ~~guy~~ company run rampant in there, make a lot of money, and then start coming back after our market, which is also a huge market.

WG: Was the premium image that Martin-Senour had the reason why you didn't do a Dutch Boy movement, I mean try to push it through K-Mart?

TC: Yes. Absolutely. Right.

WG: You didn't want to ??   .

TC: Well, you could see in companies that have done that--Glidden is a good example--that had taken the same name and brand that was a good dealer brand into the home centers and the discounters. I mean A dealer will try to sell the same Spread Satin for $15.99 that Home Depot is selling for $7.99. And he can't, ~~you know~~, nobody's going to pay him more ~~--~~so you've got to have a brand that only dealers like him have. And Benjamin Moore has done that with tremendous results. ~~I mean~~ they have a spectacular record. And Martin-Senour has the potential to do that, and we just haven't been all that aggressive at doing it. ~~You got~~--In our view you've got to keep brands in certain channels. When you jump channels, you create problems, and that was the problem with Sherwin-Williams. Because we had Sherwin-Williams at one time in the hardware stores and in discount stores and in our own stores. And you find the paint ~~junk~~ on sale in a hardware store or a discount store, and the customer would come into the Sherwin-Williams store and say, "~~Well, you know~~, I can go down the street here and buy this same paint for $3.00 a gallon less." ~~I mean~~ It was a marketing control nightmare. So it was absolutely the right move to take it out. And today we're stronger from a marketing standpoint because that was done vis-a-vis a Glidden or a PPG or these other folks that try to take one brand and go through all the channels. It just is too messy from the retailer side.

X: Tom, did we go looking for Dutch Boy, or did . . .

TC: Oh, yes ~~yeah~~. Very early on. ~~I mean~~ we were besieged with requests from management of the consumer division at the time to take Sherwin-Williams back into the home center market and back into the discount market because they said ~~you know~~, "We have nothing to go in there and sell except Sherwin-Williams, and the market is clamoring for it." And it was. ~~I mean~~ People would come in and visit us, and K-Mart came in and demanded that we give them Sherwin-Williams.

WG: Again, you wouldn't have wanted to give them Martin-Senour.

TC: No. They wouldn't have wanted Martin-Senour.

WG: Martin-Senour had already collapsed all the other brands involved with Lowe Brothers and WW. Lawrence already.

TC: No. They wouldn't have wanted it because that's a non name for them. They wanted a national brand. Martin-Senour is not a national brand. ~~So you know, here's~~ We were sitting around in the strategy meeting, ~~we~~ and said, "Look. We have two alternatives: One is to let them do it, which would be a disaster because you would be right back to where we were, and after we lost all the money of doing it once, we certainly didn't want to go back and undo that, That was a good decision. So we can either spend the money and create a brand from scratch, and that's been done--Olympic did it, and they spent $30-40 million and created the Olympic Stain from scratch. Or we can buy one. So we called up DuPont. Said, "DuPont, we'd like to buy Lucite." "Sorry, it's not for sale." Next call was the Harvey Brothers in Chicago who bought Dutch Boy from (NL) Industries. "We'd like to buy Dutch Boy." The guy says, "Great! Can you come down on the next plane?" So Conway, ~~you know~~, zips on down there, and we come to find out that Dutch Boy was dying and was losing $3 million a year, and this guy was slowly going out of business with it, and that's what allowed us to buy it. ~~And that's exactly~~, ~~you know~~, the idea behind buying Dutch Boy was to go head to head with Glidden Spread in the home centers. Unfortunately when we bought Dutch Boy we also bought a dealer organization with it and it was basically a well known dealer brand. Dutch Boy even today is second or third best known brand in the country. Way out of proportion to its sales. ~~I mean entirely~~ ~~You know~~, we laugh around here: it's got high share of mind and low share of market. That's what makes it such a--another golden opportunity. And the dealer organization for years fought taking Dutch Boy into the home centers because they didn't want to ~~tick off~~ irritate the dealers that they had ~~that they'd~~ sold for years, ~~you know~~, and create the same problem: The home center's selling it for $7 and I'm a little hardware store and I'm trying to sell it for $10. So we finally just forced it. Just said, "Look. This is going into this channel, and if we lose the dealers, so be it."

WG: (Selling) Sherwin-Williams.

TC: Well, no. Not Sherwin-Williams. Martin-Senour. Because the opportunity for this brand in the home center is so overwhelming compared with the opportunity to sell Dutch Boy in the dealer market against Benjamin Moore. So we had a couple of good successes. We got it in the Home Depot. We got it into Sears Roebuck. And it's now starting to roll. The story isn't over yet, though. I mean we've still got a lot of work to do to make Dutch Boy a big contributor like Sherwin-Williams. That's a long way away from there, but it's one of the things that's going to continue to allow us to increase our earnings in the nineties. A lot of people ask, ~~you know,~~ "You guys have done all right. Now what are you going to do?" ~~We just got~~--it's hard to explain to an outsider, but we've got so many opportunities in this company in the lousy old paint business that it's incredible.

WG: An aspect of that is automotive finishes. Could you tell me about that, I mean what's the story that end?

TC: Well automotive was kind of a stepchild in the company, and in the period from Day 1 up until I think about 1975 they were just kind of like a little sales department, and they begged, borrowed, and stealed production capability or capacity out of the chemical coatings plants to get their products. Then the company decided that if we're going to be serious, we needed a plant, our own automotive dedicated plant. So we built the Richmond plant and dedicated it only to automotive products, which are probably the highest tech products that we make in the company. The color requirements of automotive are very, very stringent. ~~You know~~, you're matching original equipment colors, and we're not an original equipment manufacturer so that makes it a little more difficult for us to get the color information and to match it. And it's a product that sells for three or four times more per gallon than chemical coatings, industrial maintenance, or architectural paint. So it's a very expensive product. And that plant ~~kind of~~ allowed the automotive operation to gain in stature in the company, and that business in the last sixteen years has gone from, ~~you know~~, ~~a kind of like just~~ an interesting little product line to a major part of the company. Sales have grown to--you've got to be careful now when you're writing this. We don't tell anybody about the size of our automotive division or how profitable it is because we don't want anybody to know it. So when we--when I talk to security analysts about it, we're very evasive and very vague on purpose. We really don't want people to know much about it, for competitive reasons ~~of the sale.~~ So I'm even a little leery about telling you about it, to tell you the truth, because I don't know what you're going to write.

~~WG: Well I mean the company controls whatever he writes.~~

TC: The automotive business is a major sales and profit contributor to the company, and it has a multi-brand strategy. It sells Sherwin-Williams branded products directly to body shops

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and we're the only company in the industry that does that. All the rest sell through jobbers to body shops. Again, this is, carries through the theme that we like to be in charge of our own destiny and assure that our products are used so we have our sales people calling on body shops and we, ~~you know~~, send the paint ~~stuff~~ with our trucks to the body shops, and that's the biggest part of the business. That's the part of the business that we've been working on for the last eight, ten years and we've added a tremendous number of branches to expand that business. We've now got ~~I think~~ about 150 or 160 automotive branches. Our potential there is at least 400 branches. And that's a unique business because we're the only guys again that go calling directly on the body shops and don't go through distributors. We have other brands that we, again trying to be all things to all people, we have a brand we call Acme, which was . . .

WG: The original one.

TC: The original one. That's how we got into part of the automotive business, and Acme is sold through warehouse distributors who in turn sell to jobbers. So that's our way into that kind of a market. Then we have another brand, Martin-Senour Automotive, that's sold exclusively to Genuine Parts, NAPA. And they're a huge warehouse distribution and jobber network.

WG: Is there any possibility of cracking the OEM?

TC: Well the one attempt we made to crack the automotive OEM was we tried to buy Inmont when United Technologies sold Inmont, which was a large OE supplier and after-market supplier. We bid $750 million for it, which at that time was three times our net worth. It was a fairly aggressive bid on our part. We got outbid by BASF, a German chemical company. They paid $1 billion for it. And I would have to say that that was a fairly serious attempt to get into the business. To do it from scratch would be too expensive, and the fact is that the industry doesn't really need another supplier. It's got enough of them now.

WG: I was just wondering whether the Japanese coming over here and setting up production facilities would be an opportunity.

TC: It's an opportunity but not really for us, because we're not considered to be a serious player in the automotive market now. The little bit of participation that we have is in a specialty area that's basically priming plastic parts. For instance, the Saturn is all primed with Sherwin-Williams chemical coatings, and the top coat is a BASF (~~glasurith?~~) coating. So we have been able, working with General Electric Plastic, which is the plastic substrate supplier, been able to get our way in there, much to the consternation of PPG and these other guys, and demonstrate that our primer technology and product is far superior to any of these other companies, and that no matter whose top coats you use, our primer works the best with any of them. ~~Now you know,~~

You could make tremendously rosy assumptions that if all the cars turn to plastic in the next ten years, that could be a home run. We're not saying that, but it is--our participation in the OE business is in a niche market right now, and it's--most likely it's going to stay that way for quite a while. I don't think that they're going to move away from metal. They've got too much vested interest in metal. We have developed in our automotive after market division a substantial amount of business with OE truck manufacturers: Peterbilt, Volvo White (~~Dwight?~~), ~~[illegible] White~~, Freightliner, PACCAR ~~Pack Car~~, those kind of folks. And that was a kind of new marketing thrust for us. We've been doing it now for about four years, and that's been fairly successful. Right now it's not doing so hot because, ~~you know~~, the big truck sales are a disaster. But we've made some very good inroads into that area. ~~and that's, see, a large truck is built one at a time, so it's not a real assembly line.~~ And our products work quite well there and we've been very successful getting into that market.

WG: A couple kind of summary questions: Asking you to reflect back on the eighties to see what--you know, if you had to pick out like four or five things that were done, highlights of the period since you've been here, things that we absolutely have to write about in the second document that's focused on the ?? history.

TC: I would say that the focus on working capital and charging people to use working capital, the strategic planning and budgeting system and the incentive plan that went along with it. I would say the bottoms-up budgeting process, making responsibility and accountability, the results, moving it down into the organization. And I would guess probably the sales of all these businesses and the focus of the company primarily onto the paint business is, and that's kind of evolved to today we're a company that's not worried about diversification. I ~~mean you know~~ when we talked to security analysts, they say, "Well, you're not diversified." But the facts are we're extremely diversified if you look at where we sell our products. ~~I mean~~ What can you buy literally that doesn't have paint on it? And so from a market end-user standpoint, we're in every part of the economy you can imagine. ~~You know~~, From tank paint over in the Middle East. ~~I mean~~ there's very few things that you can imagine that don't have paint on them. So in that sense we're an extremely diverse company. And in our view that's good enough. We don't have all of our eggs in one basket. We don't only sell to new home builders. We don't only sell to people doing apartment building maintenance. We sell to a huge cross section of the country, and we're geographically diverse. ~~I mean~~ We have operations in 49 of the 50 states--actually 50 of 50 states in many businesses. So I think our dedication and focus on paint, primarily in North America--~~I mean we have no, sometimes to the consternation of Pat's husband, most of the time not, though,~~ we have no desire at the moment to go rushing over into the East

Block and try to establish a position. And we have so much that we can do right here in our own back yard that that would be an unnecessary diversification and a tremendous diluting of our profits to do something like that. We're not unhappy being primarily a U.S. Company. ~~You know~~, Some companies like to talk about globalization and all their international business ~~stuff,~~ but once we get a huge share of the U.S. market, we may have no other way to go but to do something like that. But we've got so much opportunity right here under our nose that it's not something that's a burning thrust of the company, to get outside North America. We want to go back into Canada, and we are going back into Canada. And of course we've got a great company down in Mexico. We've got good operations all throughout Central America. And we're in South America, for better or for worse. But you know, we're basically an America's company as opposed to one that's got a lot of business ~~stuff~~ in Europe and Asia.

WG: Two absolute final questions. One is we talked about the past today, but what are the challenges ahead, what are the five things that Sherwin-Williams has to do to be successful in the nineties and the twenty-first century?

TC: 1) Well continue to gain market share. Not become complacent about our progress. Keep moving the bar up so that we continue to do better. 2) I think we have to get better at customer service. ~~I think that's~~, ~~you know~~, whereas quality was the battle cry in the eighties, Americans rediscovered that quality pays, along with Japanese--although we taught the Japanese about quality, they taught us that it was important. I think customer service, because there are so many people competing for the same dollar of disposable income, we've got to figure out a way to be easier to deal with, all that that entails. So we've got major ~~??~~ programs inside the company trying to make it easier to do business with us. And that's easy to talk about and it's very, very hard to get that down to a part-timer working in a paint store. And that's where we're really having problems. ~~You know,~~ Somebody walking in wanting to buy a gallon of paint and the person is busy and he gives him a wise answer or something. It's just difficult to implement--but I think it's not impossible and I think our people are very good at pulling these kinds of themes up and making them work with us. And we're clearly, if we can do that, we're going to be so much differentiated from a home center or most of the companies that we compete with because they have tremendous personnel problems and you're training people to handle a product that's not your product, it's somebody else's. And again the strength of the company is really our huge interface with most of our sales with the customers directly as opposed to an intermediary. Did I give you five things?

WG: Yes, I think yes. About the book that's going to be published. Are there messages that you really would like to see put across but also messages that you'd like to see de-emphasized? If you want the reader of this thing to be left with one or two thoughts about Sherwin-Williams, what are they?

TC: That the company has survived 125 years. ~~This is — you can roll through the speech that I've been giving here.~~ It's seen wars and depressions and bank failures and crop failures and all the bad news ~~just~~ that you read about in the newspapers and hear on TV every night, airline failures, S&L crises and all that. All these events have ~~that stuff has~~ gone on many times in the last 125 years. And the only time the company really lost any money was when it started taking its eye off paint and the painting contractor and things that were near and dear to it, and changed its logo and tried to be a specialty chemical and decorating center type company. ~~And you know~~, what I've said is these last 25 years have been particularly interesting because they contain both the worst ten years in the 125 year history and the best ten years in the 125 year history. And we just have to reemphasize to ourselves that we're in the paint business and it's not bad. It's a really good business. And if we really continue to work at being the best in the paint business, and picking up on the theme we've ~~??~~ started using around here, really becoming America's paint company, there's a tremendous amount of opportunity available to everybody that's working here because we really have a chance to become a truly dominant player in an industry that was extremely fragmented for a lot of years. And we can do well no matter what's going on if we really believe in the kind of power that we have to sell things. ~~I mean our people~~, ~~you know~~, the history of the company has been one of really being good at selling things. They lost their ability for a while, but I clearly think we've got it back. And if you go back and read about what former presidents and chairmen have said, ~~I mean~~ there's a constant theme about quality, about being ethical, and about selling and working hard. ~~And I think that~~, ~~you know~~, those things are almost timeless, and those are the things that we're doing now and they're working. Stick to our knitting. ~~You know~~. It's corny, but it's true.

WG: This has been great. I mean really very helpful.

TC: Thanks.

WG: Very interesting.

~~TC: Hopefully it's accurate.~~