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INTERVIEW WITH

CONWAY IVY
SHERWIN-WILLIAMS COMPANY
Cleveland, Ohio

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INTERVIEW CONDUCTED BY

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and

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WG: We're talking with Conway Ivy at Sherwin Williams Company, and today is December 10th, 1990. Conway, start us off, then, with your view of your company's past.

CI: Actually I'll try and do it in a more chronological way. In a sense, I was working at Gould, Inc. in Rolling Meadows, Illinois, as a director of corporate planning, and I had worked in that position from May of 1975 until I came to Sherwin Williams. And while in that position, I never reported to Jack Green, but in a planning position I worked closely with him and the other division presidents and senior executives in the company. I reported to, for a while, several years, to Bill Ylvisaker, the chairman, and then later to William (Musham) the vice chairman. I was also dissatisfied with the way things were going at Gould, more from a sense of personal integrity problems on the part of the senior management. Of course Jack would not be included, that's just more in terms of the chairman. And I had been searching around for a job to leave the company. This was in the fall of 1979. In fact I had turned down an offer from Fairchild Camera and Instrument Company. And Jack Green was aware of this because I had shared a lot of these thoughts with him. And though I had heard of the Sherwin Williams company, it never crossed my mind, and one day, and I didn't really realize what was going on because Jack was I think at that time between Clevite and Gould an 18-year employee of the company. One day, I think it was in late November, probably early December, maybe

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about this time--well a little bit earlier than this time of year--he handed me an annual report of this company, of the Sherwin Williams Company, its 1978 annual report. This was not anything unusual because we talked about stocks and investments because I had been a security analyst and in terms of a personal portfolio he'd asked me, you know, about different companies, whether it was a good investment. So in an offhanded way he handed me the 1978 annual report of the Sherwin Williams Company and he said, "Well, why don't you take a look at this and tell me what you think about it? Is it a good investment?" Well that was really the first time I had ever really looked at the company. So he apparently did this with, I know with several other, a lot of other people. So I went through the annual report, and the first thing that struck me was in the pervious ten years the sales--well, ten years previous to that time the company really had virtually no debt. And I think if my recollection is correct, that this is all a fact that you can check on, but basically the sales had doubled in about, in 10 years. Their debt had gone to $240 million and their profits had gone to a loss. And so the question was to figure out what had actually happened, and the stock was on its low. Charlie Bluhdorn of Gulf + Western had owned I think about 13% of the stock and there was an unfriendly takeover. So I looked at it and questioned whether it would be a good investment. Well, the big question that I couldn't answer at the time was where all the capital had gone in terms of raising the funds. And so I went back, and this didn't all happen within a week. I'm kind of collapsing the time. And I went back and told Jack, you know, my opinion that I couldn't see where all of the money had gone, but there were other companies, listed companies, particularly Standard Brands Paint, in the paint business that were doing quite well. And at that time their margins were quite high. And so you know, there could really be an opportunity here, but it wasn't clear of what was really wrong with the company. Well he shared with me that he was--in a highly confidential basis--that he was considering something in terms of changing. And so that was about all that was said, and then on I think the date was January 15th--I think that's when he started with the company, but he announced his resignation, and Gould, I can't remember the exact day, but it was probably a couple of days before then, in the early part of January. It was a memorable occasion because, you know, Jack had a very wide following in the company and tremendous loyalty.

WG: Was he the heir apparent there?

CI: Well, it was unclear. In terms of the way the structure was, there was Bill Ylvisaker who was chairman, and then the president and operating officer was a gentleman named Dan Carroll. And then reporting in to Dan Carroll were two senior executive vice presidents, Jack and Chuck Strout. And part of the problem with Gould, and it's a tragedy in a sense, if Mr.

Ylvisaker really allowed Jack and Chuck Strout to run the company, it would have flourished. But there were always monies being spent on wrong things and the wrong direction. So but the interesting thing, the morning that, you know, and Jack went in and met with Dan Carroll and announced his resignation, of course word spread, you know, through the corporate offices quite rapidly. But it was very interesting. At the time Chuck Strout was also discouraged and he was in negotiations with I believe Memorex in terms of going there. But his negotiations weren't finalized, and so Dan Carroll caused Chuck Strout, and this was about 9:30 in the morning, and after Jack's tendered--to tell him, he said, "Well, Chuck, you know Jack is leaving to go to Sherwin Williams. He's tendered his resignation. We're going to have to sort out all this." And so Strout, he was always impetuous, he said, "Well, while you're sorting it out, I'm resigning too." So it was really interesting. So as soon as I heard, you know, I went and I said, "Well, Jack, give me a call if you need any help." So we, you know, and of course Mr. Ylvisaker was very sensitive to all of this, and after he came over then in February, he was starting to put his team together and we would talk and I think this is true with a lot of other people. We talked on the phone, you know, in the evenings. He'd say, you know, "You can't believe what's going on over here," etc. You know, I should really let him comment on it, but if you know he was really I think Alan Holmes was very instrumental in terms of the board of bringing him in. He and Jack had a relationship. And the board had tried to sell the company prior to this time, and because of the apparent losses in the Stores Division which could have reached $40 million a year--a lot of it is accounting, the way we were counting--because of those apparent losses, the potential purchasers were basically scared away, and so the company was faced with having to make a management change. And as you will know in terms of the management succession, Mr. Spencer had resigned with his famous statement, you know, "I'm quitting because it's not fun anymore," and then basically Bill Fine was the interim chairman and chief executive officer. So when, you know, one of the things I think when Jack came over here, there was really a milling around of people not knowing what to do. There was not a sense of direction. And as Jack described it to me one night, he was sitting in these meetings and his hand kept on grabbing for the throttle, and going on to where we would talk about these things, and then I resigned from Gould and it was in the early part of March that Tom Commes, who was coming from Saks Fifth Avenue--he had formerly been the director of accounting and controller at Gould. From there he went to, right when I came to Gould he left and went to W. T. Grant which was, you know, going into bankruptcy, but is that. And then when ~~we~~ he was released by the receiver, he went to Saks Fifth Avenue as controller. So in terms of in the first of March, Tom Commes, myself, and Dave Fuente came. Dave Fuente was head of marketing in basically an automotive after-market division that Gould had. I can't

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remember--the name changed several times--the old Foundry Products Division that made brake shoes and drums and that. And he was also very close to Jack. So the three of us came in March. And I guess that was really the first outside people that came to the company. Now going back in historical perspective, and what evolved to it--this wasn't--this has the benefit of perspective and not of the analysis at the time. One interesting fact, if you would go back, I think even in the sixties, the way the company was run is basically the chief executive officer would, and maybe this is just a characterization, that he would decide each year of how many gallons of paint to produce. And he'd call in the manufacturing guy and he said, "Well, I want to make 70 million gallons"--or whatever it would be--"paint this year." And he'd talk to the sales department and said, "You would sell it." And so the company, and it's not surprising from evolving from a very paternalistic organization, was very much managed from the top down. And I think in terms of this period of history we talked since 1955, and though Mr. Spencer, who's been blamed for getting the company off track during his presidency, the root causes really go back further than that. And you know, there'd be a series of things. And one fundamental problem, again, with the benefit of hindsight, is I think in the late fifties the company started to get enamored, as many other companies did, with that you need to diversify. So there were all the questions that the, you know, the paint business is a low growth business. There are other substitutes such as siding coming into the market, so therefore we can't grow, and we need to get into other areas. Well I think as the record will show, the company started to make acquisitions. They bought the ~~(Mah~~ Maumee ~~Mead?)~~ Chemical Company. There might have been several others.

WG: That one was partly a vertical integration of two, wasn't it? No, wait a second. That one made saccharin.

CI: Saccharin.

WG: Which is no connection with paint.

CI: Any of that business, there was no connection to paint at all. And the idea was to diversify.

X: Spray on.

CI: Spray on was another, though that could be tied in a little more because they made aerosol paints. But I think, you know, you can go through the record of acquisitions, and there was, and even what was written in the annual report, there was an attempt to diversify. And I think from the top-down approach, you know, the lines of communication were very informal, because, and we still have a lot of long tenured employees, long-service employees. But it was informal, but they were really basically lightning bolts emanating out of this office. And I think the company lost focus on its core business. Now they were . . .

WG: Was the paint industry kind of a sleepy oligopoly, then? Or was it . . .

CI: No, the paint industry has never been an oligopoly. And in terms of paint manufacturing firms, there are roughly 1000 firms in the industry today, and that's down from about 2600 firms in the early 1960s. So it's a somewhat fragmented industry in that right now you could say the largest nine companies have about 45% of the market share. So relative to other industries it's quite fragmented. The thing that really distinguishes it from some other industries is it's supplied by an oligopoly of suppliers. And so, you know, you have a small number of suppliers for a major raw material ingredient. And this is important in terms of looking at the broad scope of company strategy. When you go back to the turn of the century and even into the twenties and the thirties, it was the philosophy of the company to be fully integrated in terms of its raw material supplies. We had a zinc and lead mine, you know, which the picture is over there on the wall, in Mexico. We had a linseed oil plant, we made pigments, and that. Well then that strategy, because of the--and also very important in this, which will influence later, is we had a container business and division. And the company was the early day innovator in paint cans, you know, and continued that innovation. That's going back to the late 1870s. In fact I met the grandson of the guy. He's a harpsichord builder and he built our harpsichord. He's the grandson of the fellow who, I got that information from you, Russell. You know, that did this. So even in the Cleveland community there are people around. But the policy of the company was to be backward integrated. Then that changed over a period of time, and particularly in terms of the development of our products, we were relying more and more on our suppliers to provide the research and development. Of course you know that would fit in with what they wanted to do.

WG: Basically as I understand it, the suppliers are chemical companies, aren't they?

CI: You know, primarily in terms of ~~lattices~~ latexes and resins and chemical type companies. It is an interesting thing when Jack came to the company. He went to Chicago--this was in early February--I wasn't with the company, but this is one of the stories he told me in one of these phone conversations. He, when he addressed the R&D people in Chicago, he was the first president ~~of~~ or chief executive officer that anyone there could remember that came to talk to them. And so the R&D and technical function was basically off on its own and doing interesting things, but it hadn't very--you know, it wasn't integrated in terms of the strategy to the business. So the other thing in terms of the department, you know, and the functions that I came in on were that there was a market research and development department that I took over, and this department was doing market research for the company and I guess development because of our financial condition that you know there was not a whole lot of development. And they were trying--they also had a kind of a corporate forecasting function. And the way the company was run, there was really only a rudimentary budgetary process. But basically the budget was set at the beginning of the year and there was very little follow-through in terms of looking at how the results would be measured. We had a competent economist that had been brought in by the previous management group, and his job was basically using macroeconomic variables to forecast how the company was going to do, which, you know, it was crazy. And basically--again with perspective--the fundamental problem was that you had all of the different functions in the company were not coordinated. They were all coming up to the top. Now you'll read in it's either in the '76 or '77 annual report the company went through a major restructuring and decentralization. And you know, that's very indicative of at least, you know, the management recognizes this problem of all of these functions coming up. That basically works on paper, but in terms of the way the company was running, the culture didn't change, because they didn't really give the operating people the autonomy to do the decisions and they didn't have the information systems in terms of measuring by, you know, on the objectives and coordinating all of this. And there was basically no planning system, and so that was one of my jobs, was to put in a planning system.

WG: Can I ask--I know you weren't here in the seventies, but that reorganization, were there consultants involved?

CI: Oh, boy. I don't know the consultants, but there were consultants crawling all over the company when we came in, and Jack said there would be no consultants. And in order to control it, because everybody was hiring consultants, for anybody to hire a consultant the approval had to come through my department. And that's the way we basically stopped it. And just as an aside, whenever I see a situation where you have lots of consultants crawling around, that automatically tells me that senior management is not competent. And a lot of times they'll want to use a consultant to give the bad news to somebody. That also shows that they're not managing. All of that being said, though, the thing is when we came in the company we found a lot of very outstanding people all the way through the organization, and the problem was, you know, many of them had been in the company all their lives, they did not have good role models in which to go, or those that wanted to do something were inhibited, you know, by senior management. So even though on paper the company went through the decentralization, the operating autonomy was not decentralized.

WG: The reason I asked that question about consultants was that ordinarily when companies make a big shift like that from a functional to a decentralized market-based structure or something, not only--usually what changes along with the structure are all the systems and the policies. It doesn't sound like that happened here. It looks like just the structure changed, nothing else.

CI: Well, just the structure on paper, but the way the decision making, it was, you know, not changed at all. And so, you know, with putting in the, you know, in my area the planning system was more of less, you know, that was directed toward the longer term. I think in terms of the shorter term and the most challenge, the greatest challenge was that by my estimate after spending a month here, that I estimated we were probably six months away from bankruptcy, and others would disagree with me. They thought it might be nine months or ten. And so you know, even though the planning was a way to establish a structure, a framework for beginning coordination, the more immediate problems were really cash and also Charlie Bluhdorn, who was in the process of taking over the company. And on the finance side and on this is where Tom Commes really made a tremendous contribution. There was virtually no cash management in the company. In the stores there were checks--significant checks remaining uncashed for a period of time. And this whole function was all controlled in the finance area, in the treasury department. Operating people didn't have anything to do with it. So actually the first person

Jack fired was the head of auditing. That was done in February before I came. And I think he put Bob Norton, who was a young man, in auditing. And this was also under Tom Commes. They were all given Polaroid cameras. They went around to take pictures of the stores, and it was phenomenal what you'd find. But in terms--we had also borrowed in December of '78 $45 million on a note offering. And you know, Morgan Stanley was the underwriter and I think the company had indicated--this was in December--and in December they had indicated that they were going to earn--Jack will remember the number, I can't remember what it was--$1.50 a share or $1.75. You know, one of these things: "Trust me. No problem. It's in the bank." And so the year ended out to be I think $.75 a share. Which totally destroyed our credibility in the financial community. Our debt was already, you can look at percentages, but you know, way above 40%. The dividend had been stopped and then also--so there wasn't any future in terms of borrowing in the long-term market. And then in February, again before we came, but when Jack was here, the company lost its commercial paper rating. And in the past the company--our working capital--our inventory cycles are seasonal, and they still do: they would peak around May and then go down. So our working capital requirements really start building from the first of the year to May. And the company in those recent years up trough 1978 had always used commercial paper to finance those short-term borrowing. Well, in early February, going into the peak season, the company lost its commercial paper rating, so you know, you'd have to pay horrendous fees to borrow. Well Jack just made the decision that, you know, we're not going to borrow any money at that time. As an interesting aside, the day that the company lost its commercial paper rating, the stores had a Dun & Bradstreet rating . . .

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. . . and so the same day that the company lost its commercial paper rating, the stores had a Dun & Bradstreet rating of I think either 4 or 5A, whichever it was. And the reason why was we were basically paying our suppliers in 7 or 8 days, where we weren't getting paid for anywhere from 30 to 60 days. So you know, another thing in terms of the cash swing that was done, I think Tom Commes went to all those suppliers and said, "You'll get paid, but it's going to be in 60 days," and with the size of our company being so significant, you know, they went along with it. As another interesting fact, prior to coming in when we were looking at the industry figures, the company doing so poorly skewed all the industry figures downward, and it made it look like a bad industry. And so the key was to determine, you know, this is prior to our coming in, is it a bad industry or not. And the basic analysis that essentially we all made is we visited stores--this is prior to coming--and the company had a great reputation. It had an excellent reputation for product quality. And of course the image of the company was very good. We could also see other companies in the industry were profitable and doing well. So basically I think we all concluded, and I concluded that it was worth the risk because the company had its image and reputation and there were other companies in the industry making money, so therefore the problems must be internal and not due to an industry problem. And if they're internal, then maybe management could change those. So in terms of going back to the financial problems, though, by stretching the payables, and I know Tom Commes will give you more detail, but this might give you a kind of a framework to push him a little bit on it, but collecting the money in the stores, and then the other very significant management policy decision was putting in a corporate charge on assets utilized in the business and working capital.

WG: Had it ever been done before?

CI: No. And you know, we use this at Gould. By the way, the--well I'll come back on the management thing, but that was put into place and basically with Jack's style and that put the authority in terms of the, you know, the division general managers at that time to control their inventories. And then the other very, very significant thing that was done was we started having monthly management meetings with all of the managements, and then there was a what we call a core report of monthly financial statements, and again this was in Tom's area, and so

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there was a monthly review of operations. I think that first one was in March. I might be wrong. It might have been in February preliminary basically. The first one I think was in March. And where the--and this all comes back and gets tied back into the incentive systems that were put in place of (this one plan?). And there's someone, and I meant to mention it to you, that you really should talk to, is Art Maine.

WG: Yes, he's on the list.

CI: Good. And so, because he played a very integral and very close position, you know, with Jack on all the human resource side which was absolutely critical to all this. But by putting in those incentive plans and getting objectives established, the division presidents would see. You know, one way they could reach their results was by reducing their inventory, you know, and that would reduce the corporate charge. So that also generated a lot of cash. When it's all said and done, you know, in that first year in terms of all of the cash management, all of these things, you could say that the company had a cash swing of about--again I can be off on these things--but $180 million. And that's based on the company in the prior year had to borrow over $80 million in the commercial paper market short-term, did not have to borrow this, and we ended up in 1979 with $110 million cash in the bank and also Jack had negotiated with Charlie Bluhdorn and bought back his--the stock that they owned. That was in October. So things were nip and tuck, but with the buying back of the stock, of taking away the takeover threat, and also of ending up with the cash began to add to our financial stability in that. I think the other thing that again Jack did was it was hard to sort through who were a lot of the--some were obvious, but you know, who were the good people and who were the bad people. And so the way I would describe it he basically set up a horse race in the sense, and gave everybody an equal shot and where we had hurdle rates, and so the performance really determined what your future was. And then going through the years, the hurdle rates, you know, were raised. I think a lot has been said--this was more or less complaining, I think, by Bill Ylvisaker that basically all these Gould people came in, and I think part of--you might even total it up--I don't think there were that many. There were some that occurred over a period of a year, maybe a year and a half, but I think the challenge where you had management people and many of them who were good, but in terms of having a role model and learning modern management techniques, there wasn't anybody to learn from, and so that's part of the reason why he was bringing in people and where Jack had spent almost all of his career at Gould and Clevite and you needed to have confidence in people, I think that's why that evolved that way. But Jack has always been extremely fair. There was no bias against Sherwin Williams people in favor of the Gould people. In fact it might have been the other way around. So you didn't--I never really perceived that you didn't get cliques ~~clicks~~ developing. Everybody was properly focused on the objective.

WG: Let me ask a question here about that period of the seventies when things went so wrong here. The way you kind of described it is the company was, you know, kind of adrift. It was that it wasn't being managed well. What had changed to cause--I mean did the environment change, was there more competition, was there more suppliers beating up on the company? What happened?

CI: No, I think it was a function of the internal management and the coordination functions where you'd have sales decisions made in the absence of manufacturing decisions. The whole financial part of the company was operated entirely separately and not related to the business. The R&D function that I described is a good idea how that was all--so these things, you know, a lot of them had reported up into functional position. But they were not coordinated.

WG: But why didn't the crash happen five or ten or fifteen years before that?

CI: The tremendous name and reputation of the company and the tremendous dedication of the people down at our stores who were basically ignoring what Cleveland Headquarters was saying. To keep sales going there were people out in stores selling canoes and so it was really basically a confederation of entrepreneurs out there. And very, very strong loyalty to the company. You know that's my opinion, and in terms of the momentum that the company had, like with anything, you have to make a series of real bad decisions to ultimately pull it down. Now there were other things . . .

WG: Yes, the seventies were a rough decade for U.S. business generally. I was wondering to what extent the environment contributed.

CI: Well, it did--there's a couple of other things that the company did, and in terms of putting in perspective, in I think it was in the mid seventies, probably around 1975, up till that time the company had always sold the Sherwin Williams branded products through not only our own stores but also independent dealers. And we had a brand that was really run separately by I guess it was Mr. Stewart? Was that his name?

X: Martin-Senour.

CI: Martin-Senour. In Chicago that was really run as a separate company. And the decision was made that we would just sell Sherwin Williams brand of goods through Sherwin Williams stores. And I think part of this was driven by the strategic concept, and again this is looking around how to diversify the business is the Sherwin Williams store would become more of a decorating center. And I think it is down in Charlotte, North Carolina, there is even a 30,000-40,000 foot store that was opened up called the Sherwin Williams Decorating World. Now it is interesting. That was really the forerunner of all of our home centers that we have. And so there was an innovative idea. But the problem was, is it couldn't be implemented and we didn't have the structure or the knowledge of the people to implement a program but it was an innovative idea. The stores were also--they put in other decorating items at that time. And so there were losses due to that. The other basic problem I think in terms of the way the management was choosing to look at the business and the way the accounting was done, when we came in, the standard line was that packaging business, that's the best business. That makes all the money. The stores was a bad business. The consumer division was making some money, but that's a decent business. Well in terms of all of the transfer pricing, the way they had it set up was that Container, and part of it might have been due to the political dynamics up here, they were making horrendous money out of all of these cans and that, and it was getting all of the capital because it was making so much money, and the Stores was getting starved because it was losing so much money. And literally, well, it still goes on, but to a less extent, that on those monthly meetings is I think some of the other--I know Pat's husband can give you an interesting perspective--but in these monthly meetings that were started, the knock-down, drag-out fights, and the shouting matches between the consumer and stores and everybody trying to blame everybody else, it was really something. And with chemical coatings, in these meetings, they'd go all day and last a long time. So part of the thing was sorting through where the money was being made. So they were innovative. Another thing that contributed to losses in the seventies, the company went into Europe and also into Indonesia and again I don't know all of the details why that was not successful, but again I think it was the ability to manage and implement, and that contributed to the loss. Then the other major contributor to losses when we came in, and this continued, Sherwin Williams Canada was losing $4 million or $5 million a year, maybe $6 million. We had a $27 million that operated loss carried forward up there.

X: What was going wrong up there?

CI: Well we went through a succession of management changes, and this is kind of another story that I was involved in, but it really moves more into the early eighties. And we had some good people up there but weren't able to turn it around, and finally had some people talk about acquiring it, and I was told if I could just get our debt back, sell it for $1. And so then we started talking to CIL in terms of a potential joint venture with Bill Eldridge; and the basic problem, like everything else, it

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covers a large number of things. But for example it's costing us $900,000 a year just to heat the plant. It's a very old plant. And so you know out of all of that and a very long negotiation we set up a BAPCO partnership, and I was always kind of proud of that because they were maybe about twice our size. They were losing money too, but we were able to negotiate a 50/50 joint venture, and then we--you know, we subsequently sold that, which that's a different story. We can go over that later. But anyway, Sherwin Williams Canada was contributing to those losses.

WG: Was Canada a clone of the United States and had both stores and coatings?

CI: Right. Yes. Plus they took along all of the other poor management techniques as well. And actually several of the management came out of Canada. Mr. Bull, I guess.

X: And Baldwin.

CI: And Baldwin had come out of Canada. And then going back even earlier, you know, Walter Cottingham had come out of Canada. I hope you don't mind if I jump around a little bit.

WG: No, not at all.

CI: But it was also interesting when we came into the company. We went into the boardroom there. They had a painting of every president. You have Sherwin and Williams and Cottingham. You go down the room, and actually when you look at it, Sherwin Williams had four presidents its first hundred years in existence until Jack--I think Jack's the eighth chief executive officer with three in quick succession, and this was after a couple of months of going through all of this and hearing all these problems coming out, and in one of these meetings Jack looked around, he said, "Got to get rid of all these paintings here. It's like a mausoleum." Actually for these meetings the boardroom was never used because they didn't have management meetings. They were always in offices. And it was covered with, you know, a pad, and it was never used. It was like a mausoleum. And when Jack had a meeting in there we had box lunches and coffee, it created a tremendous stir: "You're doing this in the board room?" And literally, yes. That was kind of indicative of the culture. And in these series of meetings he looked around at all these paintings and he said, "Let's get rid of them all." And so I complained. I said, "Well, look, Sherwin Williams, our founders, you know, ought to at least keep them." And he says, "All right. We'll keep Sherwin and Williams. They were the last ones of that group that had a good idea." Now this is maybe part of the confidential part. But you know, they were all given to their families. But that was also to indicate some of the frustration. Another very key problem, though, in the low profitability is in

June we took a tour of the plants, and when you go around the plants you could see our plants were little, bitty plants attached to great, big warehouses. And it's amazing. You go around and you'd see this every time. Well, looking at the management culture, there were really two strong management groups in the company: manufacturing and sales in terms of that. Well, salesman wants a large warehouse, and we had the strategy of being all things to all people. And you know, you want 50 gallons of pea green paint, we'd make it for you. And we didn't really know the cost. Well, right prior to our coming they said, "Well, you know, it doesn't make any sense to make a 50 gallon batch of small color. Let's put in a minimum batch order of 300 gallons." So someone who would want 50 gallons of pea green, we'd make a 300 gallon batch to do that, but in terms of all the inventory cycles there wasn't anything there. So in the manufacturing side, this all worked because what does the manufacturing guy want are large batches and long runs. So you know, there's just a tremendous amount of money tied up in inventories. And then when you get it out of balance and the efficiencies in the plants, you know, there'd be a whole litany of problems. And on one of those plant visits you'll see that old (contometer) here. This--I needn't give you the date. Said "Presented to Conway G. Ivy in recognition of your historic visit to the New York plant on June 19th, 1979." Well again it was a

WG: Was that in use when you were there?

CI: Yes. Again, to give you an idea, there in the accounting office in the New York plant, when we walked in there were three--and it was a reasonably large room--but positioned right in the center of the room ~~in echelon~~ were three steel desks. And these contometers were on each steel desk. It was the accounting department. And there was a nice, gray-haired lady sitting at the first desk. And I'm not a--I think old people can be very productive, so I don't want that to be misinterpreted, but I think she literally looked as if she was 74 years old. But a very nice lady. You wouldn't find any nicer people anywhere in the company. And in the second desk was a silver haired lady who was probably in her late sixties. Obviously the longer tenured person was sitting at the first desk, and then the next tenure was the second desk, and they were running these machines. And in the third desk was a lady who was probably in her late fifties. She looked really young and that. And she had one of these machines on her desk, but then she had plugged into the thing one of these little Texas Instrument electronic calculators that she was using. So I asked her, I said, "Well, where did you get that?" She said, "Well, I brought it from home." And so I gave Wendall Gillon who was the president, all through tour I was kidding him so much on this. You know here--and that shows the dedication of the employees. They were bringing stuff home in terms of doing this, but they were still doing things like this. So I gave him such a hard time, he presented me with that, which I'm very thankful.

WG: It's a real museum piece.

CI: Yes. So you know, so that was part of the process of change. And kind of another, just kind of an interesting story, maybe again to indicate where the company was, in the first management meeting that Jack had to go over monthly results, which was in March, and that meeting I believe I was told by some it was the first time they had all of the division management together in one meeting, you know, in the recent history. And recent history around here would have been 20 years, or that. And also this is establishing where each division general manager would get up in front of his peer group to report on his results, and that was a new experience for everybody. And in that meeting I was sitting next to Dick Forsyth who was the general manager of the Chemical Coatings Division, and the Cleveland plant was in their division--and while we were sitting there in the meeting--it was over in Stouffer's Hotel, I might not have mentioned that, but--and they had--we had some secretarial help outside to handle messages and that. So the young lady brought in, you know, a message all folded over and handed it to Dick Forsyth. A telephone message. He opened it up and he looked at it, and since I was the new guy on the block he showed me the message, and the message was, "Mr. Forsyth, your office in Chicago just called. The 99-year lease on the Cleveland plant just expired. What should we do?" That's true. And so I immediately said, "Well, let 'em keep it." But what it actually was when we got into it, it was a piece of that which was leased from the City of Cleveland. It covered the parking lot part of a corner of a building. But again, you know, this was the first time I had ever been exposed to anywhere where you had 99-year leases expire.

WG: That's a great story.

CI: So they were also, you know, I went back to that change in the seventies from, you know, we were putting Sherwin Williams in all of the stores. Well, in doing that, in terms we tried to force convert all of those dealers to Martin-Senour. And that didn't work. And the company, we lost 10-14 million gallons, the sales, which is very, very significant.

WG: What would overall sales have been in those measures? Is that like 20% or 30?, 10%?

CI: It could have been 10 to 15% of the volume. And I know that had to adversely, you know, the company had come out of that, but if you're looking at that time in the middle seventies, that had to impact the plant efficiency, and then changing the focus away from--again this is all with the benefit of hindsight and changing the focus over more into decorating products and away from paint. And it's paint that drives the company.

WG: Well, yes. I mean also with decorating products here are just essentially a reseller of things that everybody else ?? the margins aren't under your control.

CI: That's right. Now the company did that, and in a sense we are reaping the benefits of that in terms of the strategy we've evolved now where that is in. And that differentiates us . . .

END OF SIDE B, TAPE 1. BEGIN SIDE A, TAPE 2.

CI: . . . that I think the company did that were foresighted and somewhat innovative is we voluntarily started to remove lead from our paint. We I think participated significantly in industry associations, and then in terms of household paint we removed lead by the mid sixties, and then the government banned, you know, restrictions, effectively banned it in the early seventies. I think the other thing in terms of this history, Mr. Spencer will obviously play an important part in it and I think another thing that he did that, where we're reaping the benefits of that, but again it also shows the way decisions were made, too, that he made the decision to effectively remove mercury from our paint in the early seventies. This is before when they started to see these--we didn't know there was any problem with it, but in the sense where there was the question of it might be banned or the question of Japanese fishermen, we still don't know whether it's harmful or not, but he said, "Well, if there's a way to make the product and not use it, we'd be better off." And so you know, there were things that were done that were appropriate, particularly down in the organization, but the problem was the coordination.

WG: OK. Well, we stopped you in your narrative of the turnaround at the end of 1979 with $110 million in the bank. Carry forward.

CI: I'm just doing this off the top of my mind. I haven't reviewed anything. Then I think the key was, you know, the process was started in terms of the, you know, early on in terms of the managerial process, and again I think the critical thing that Jack did in 1979 was in terms of the replacement of the management of I think out of a--again, these would all be factual numbers. I mean I might be off of the numbers, but I think out of the 110 of the top management people, 55 were changed. Almost all the corporate officers were changed. And but out of that 55 that were changed, I think it was probably roughly half came in from the outside. You know, there were a lot of people who were inside who moved around, and I can be off on these numbers, but you know, that was very significant. Then in terms of going into the early eighties, the key was to get all of these gains consolidated and getting people pointed toward the sales. A significant thing, a highlight that happened in 1980, you know, that I was involved in, was we were getting pressure from K-Mart who wanted to use the Sherwin Williams name on their products. And so basically we had to face the strategic issue. By now you know we had strategic plan reviews in the spring and operating plan reviews in on the fall. And so it was a strategic issue of whether to bill back, you know, in a sense, evolve back into what the company strategy had been. And that was obviously the wrong thing to do. And so we made a decision that we would want to find another brand to properly go into the mass merchant market. And so I remember in the meeting, they said, "OK, let's find a brand," and so after the meeting, it might have been--Ted Hawkins was the division--no wait a minute. He might have been the division general manager. I can't remember who was with me, but I went back and we got a market research report on brand awareness, and just went down them, and so you know, Glidden of course was there and we said, "Well, you know, we can't buy Glidden." And sure enough, there was Dutch Boy. So I said, "Well, Dutch Boy. You know, that's an interesting idea for using this." And so I said, you know, "Are they still owned by National Lead?" or that? So I went and we looked it up, and they were owned by Dutch Boy Incorporated over in the Chicago area. And so I looked at all of this and then I got their annual report and you know, it was Dutch Boy all over it, and they weren't doing very well in coatings, but I was intrigued that coatings was only a portion of their sales, and they were a diversified company. They had other things. And I said, "Well, you know, that's really the brand we need because it's an outstanding brand." But, you know, I'm thinking to myself, "How in the world are we going to--this is a New York Stock Exchange company, and they're all running on the promotion of Dutch Boy, even though they had Foley copiers and all this other stuff. I said, "Now how in the world are they going to sell us their coatings business? They'll have to change the name of their company and all of that, and you know, from the annual report, they were obviously very proud they were Dutch Boy. So I said, "Well, you never know unless you ask." So I called up Peter Harvey who was the head of it, and I said, you know, introduced myself. I said, "I'd like to come over and talk to you." "Well what do you want to talk about?" I'd like to talk about buying your coatings business from you, but I don't want to talk about it on the phone." So Ted Hopkins and I, we went over there and called on him and so you know we worked it around where he was willing to consider it. He was up to his neck in debt and he was looking for a way to--the bankers were pounding on his door, and so the timing was right. So we negotiated a deal, which it was a good deal for him and a good deal for us. And we ended up buying Dutch Boy and the Baltimore Traffic Paint business we paid. We also because of the inventory, their inventory was poor. They had a bad plant in Chicago that we didn't want--we ended up buying their inventory on consignment, and we let them keep all of their receivables because they were already pledged. And with all of that, that was about $20 million involved with assets that they would basically keep, and we didn't want to get stuff with bad inventory, so what it ended up with is we bought Dutch Boy and the Baltimore Traffic Paint business in that for $3.8 million.

X: They kept the factory?

CI: Well they kept their old factory in Chicago, and then we also worked out an option to buy the Los Angeles plant, but we didn't want to buy it just yet. And we bought the Baltimore plant, which is in one of our better plants now. We put a lot of investment, but that's really turned out to be a fantastic deal. We had to invest a lot in Dutch Boy, and we had a lot of fits and starts, and it didn't really start to perform well, you know, until recently. But that was where the strategy started to evolve of having--well that's not really fair. The company did have that strategy, you know, in retrospect, looking at the automotive division, we had several brands. But that's--and we've had Kem-Tone in that, but that's where the strategies have started to evolve in that consumer markets that have dedicated brands.

WG: Just a kind of footnote question on that, is paint as a physical product pretty much undifferentiated? I mean is the paint in the Sherwin Williams can pretty much the same as the paint in the Dutch Boy can?

CI: Overall and off the record, yes, but you will get quite a bit of differentiation between a retail brand and a contractor brand. You know, they have different attributes. They'll be difference. But there is some element of similarity and we're trying to differentiate it more by looking at the product attributes. Now within a price point, you know, the paint that you'd pay $6.00 for in a discount store is very different from the paint, you know, in terms of quality levels. There are all aspects cutting across that. And also color is very different. So it's kind of a tough question. You know, there are differences. But perception is important.

WG: I guess one of the questions behind the question was when you acquired Dutch Boy you didn't have to acquire a technology to make Dutch Boy paints.

CI: No, we acquired all their formulas, but we basically wanted to cycle a lot of them out. They had some good formulas that we kept. We picked the best.

WG: OK. So you're now back into the mass merchandisers.

CI: Well we'd always been in K-Mart and we had the leased departments in K-Mart. I guess that's the way we've been doing business with K-Mart for 40 or 50--40 years or that. So but that Dutch Boy program languished until about '87, '86-'87. And you know where were parts of consolidating all the sales forces, you know, which was a mistake, and separating them out. But finally, you know, the group that's been in there, they got it organized. I think another important decision that was made in 1980, we had commercial branches and these branches were serving, you know, large contractors. And with Sherwin-Williams branded paint. And those branches were opened and operated by the Consumer Division, who was supplying paint to the Stores Division. So there was also a problem of conflict in the market where the Sherwin-Williams stores were selling contractors on the paint side, but also the consumer division was going after the larger volume paint. So a decision then was also made to move commercial branches over into the stores at that point, to get more of a coordinated approach to the marketplace. I think, you know, when you look at the numbers, too, our sales volume and gallon volume started to grow in '80/81. You know, there was a recession in '82. Then I'd have to go back and review the annual report. I might be leaving some things out but you could come back and ask me, but you know, all of this time was basically bouncing singles in terms of focusing on the operations coordination process of execution and in terms, in my own position I was basically working on the planning side. That involved a lot of the critiques and analysis and also in acquisitions. Then in 1981 we made the acquisition of Gray Drugfair. So the reasons why that was done was--by the way, I'll come back to kind of also set the stage--is when we came in in 1979 there was the Chemicals Division which was making para-cresol and that, and actually they were doing pretty well in 1979. They were making money. So we started looking at ways to grow that business. And their management, and maybe it had come out of the Maumee ~~Mahmoe~~ culture, but they would pretty much stand alone because it was a different business. And so they were encouraged and they started proposing acquisition candidates. And I think it might have been 1980 that we aquired ~~acquired~~ the BHT/BHA business from National Chemical in (Forge), New Jersey, and that's butylated hydroxytoluene. And that uses, is a major feedstock, para-cresol, which was produced in Chicago. So you know, the strategy there was that in terms of the worldwide--I'm trying to remember this now--the, well, it was basically an integration forward for that process, and to gain, you know, try and gain better control on the market. That, you know, in retrospect, ended up to be a mistake because of a lot of environmental liabilities we got involved in. But because of that, you know, and I think that occurred in 1980, and then as this evolved in the early '80s, I think we became, and I did particularly, but others as well, very ~~in~~sensitive to the environmental aspects that you could acquire. And so I think we were early in terms of analyzing acquisitions, in terms of looking at that. Coming back to Gray in 1981, so there was, you know, talk on Wall Street and that of looking, speculation on the part of Wall Street of what was going to be the third leg of the stool.

WG: Meaning Chemicals and . . .

CI: Say, Chemicals, Coatings, and that. And out of that, you know, and again I'm speaking collectively here, because everything's been very much a team approach, but and you know led by Jack. But out of that came the nature, and I think Tom Commes started driving on this point, that we would really want to be in working capital intensive businesses. You know, the coatings business was working capital intensive. And we have for ten years felt the economy was really going to be bad, even back then. Thought we could go into a depression. Those things are starting to come forth now, but we started getting ready then, and the idea was that if we had a working capital intensive business and if there was a downturn, you know, you cycle out of your inventory, you don't have the high fixed cost to carry, where you would have to really maintain volume. Well when Harold Simmons down in Dallas took a run at Gray Drugfair, at Gray it was called, then I think it was Allen Holmes had called to see if we'd be interested in being the white knight, and I think Tom Commes looked around at various drug and retailing chains. So when we looked at it, the basic concept was, you know, it's a working capital intensive business, it is defensive in nature in terms of you look at drugstores, you know, they're going to continue to sell product in bad economy. And at that time, Carl Bellini had been brought into the Stores, and those changes from the management side and stores were doing a lot better, changing the accounting system. So there was thought, there was expertise in terms of operating stores and part of the problem with Gray might be the way things were being operated. And then when you would look at Gray's working capital cycle, their inventories had peaked the end of November. So in terms of effectively utilizing our working capital, coatings had about peaked in May, and you know, we could get more effective use. We also, if you look at the company's earnings, the company always made its money, still does primarily, in the second or third calendar quarters. And we've lost money in the fourth quarter and the in the first quarter. You know, particularly back in these years. That's not true anymore, but it was in those years. That was also a perceived fact that you could do nothing about that, and that that was the nature of the coatings business: we were going to lose money in the first and fourth quarter. So this was also a way the drugstore--seasonality of the drugstore business was they'd make a lot of money in the fourth quarter because of Christmas--Thanksgiving and Christmas. And so this could begin to balance us out financially. We had the expertise of our operating stores would go in and turn the company around. And so we were a white knight. Went in and basically bought it at book value. Again, in perspective, in retrospect, is we didn't really know what we were buying, and we literally bought two drugstore chains. Because six months prior to acquisition, they had bought Drugfair, a chain down in the Washington, D.C. area. And in terms of store operations and that, they were operating from very large stores, they had a soft goods business, and Gray had the more traditional drugstore. And unfortunately what had happened was when Gray acquired Drugfair, they had an us versus them mentality and they eliminated almost all of the Drugfair people that had knowledge about operating that chain, so Drugfair went into losses, and dragging that down. Then we went through a period--that acquisition also attracted a lot of retail analysts who were interested in our company. But in terms of operating income, we were certainly I think covering the interest cost--(foregone?) interest in on our investment. But there's a lot of management time and money put into that, and basically after several management changes, it was starting to turn the corner. Just to keep it in continuity, I'll walk along through the whole thing. So it was starting to do better--getting probably into '84 and I think it was '86 that we sold it, so it was starting to do better in '84, and we started to look for acquisitions. And Gray covered really this Ohio area, and then it was strong in the Mid Atlantic states, and then Gray had stores down in Florida, and through this period we expanded the stores in Florida. So we thought geographically in terms of looking at Pennsylvania and that area we could fill out the geographic nature of the stores, and that's important for distribution and advertising. So we started looking at acquisitions, and Adams Drug, for example. And we hired a consultant to help us who was knowledgeable in the drugstore field and look at some of these trends. And during this time we could also see ~~Bach's~~ box drugstores coming in, you know, the discount drugstores coming in. And they were operating on a lot lower margins. You know the traditional drugstore was

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operating on gross margin of about 28 to 30%. These stores were operating between 20-22%, or 18% even, some of them. And so we were concerned about that, but we even set up a discount store down in Canton to just see how they did it, and that was done, that was Price King, and that was as an experiment. Well in the process of doing this acquisition analysis, we could see the nature of the drugstore industry was changing, not only by these discount stores, but also in terms of the combination food and drugstores. But they had not entered our areas of where we were operating. So in going through that, we hired Howard Green, who had knowledge about all the supermarket chains, and he helped us on this analysis that we said, "Well, with this competitive change going on in the industry, what is it that we're going to need to do to win in this business?" You know, operationally, we started to turn around with all of those fixes. And he made a long story short, what the conclusion of that study was is obviously to be able to fend off the onslaught of this competitive threat we'd have to be, you know, number one or number two in a local market. And we did make drugstore acquisitions in the early eighties--Cunningham Drugstores, some of those, and you'll see those in the list. So we were building that volume in this area. Well to go through and we went through by each local market and like in Richmond through an acquisition of Cavalier Drug, that's the way we got Jim Mastrian in that, you know, we had a good share position there. But we found we were basically number two and number three in a lot of our markets in terms of outlets. So we went through the basic analysis of, "OK, how much would we have to invest to be number one or number two?" And the figure came up to $150 to $200 million. And in terms of the projections we ran out, after investing that and continuing the turnaround, we would have average returns. Now in conjunction with this going back with the BAPCO joint venture that we worked out in Canada, you know, with CIL, which was partly owned by ICI, you know, ICI I guess in '84 or '85--I'd have to go back on my notes. If this stuff becomes important, I can get you the dates, because with all this I keep records--they came in and they were indicating interest in terms of expanding through acquisition in the U.S. They were talking to us about joint ventures. The primary interest, though, seemed to be in the automotive area. To less extent in industrial. And we could see just from inquiries and what was going on, starting about '84 and '85, a lot of the European companies wanted to come into this marketplace by acquisition. And they'd want to look at the market as a global market and paint maybe in terms of technology could be global, but in terms of architectural coatings, it's really not, but it would be in terms of finance, and automotive is a global market, and to some extent chemical coatings is, depending on your customer base. But we could see when we looked at the competition, particularly in architectural coatings, . . .

END OF SIDE A, TAPE 2. BEGIN SIDE B, TAPE 2.

. . . they had a money-losing typewriter business in that, and Glidden was the cash cow. So they were not financially, you know, that strong, although a very strong paint competitor. You had Inmont, which was in automotive OE business, which we do not, at that time we did not participate in. They had a, you know, part of Inmont was RM--Renshed Mason company--which was one of the big four in the automotive after market. But they were all part of United Technologies, so they were part of the conglomerate and they weren't getting the attention. You'd have Reliance Universal, which was a separate company, a lot smaller. Well, with the--and again we could see the European companies were going to be very interested in coming into the U.S. market and our competitive nature of our market was going to change. The nature of the competitors were going to change, and we didn't know how it was going to sort out, but with the benefit of hindsight, you know, we knew there was going to be a change. We didn't know exactly how it was going to change, but maybe to highlight how it has changed, for example, where ICI ended up buying Glidden, so Glidden went from a financially weak U.S. conglomerate to a financially strong company committed to coatings business worldwide. So they can support them financially. Inmont was sold to BASF. Again, financially strong worldwide competitor committed to the coatings business. Reliance Universal bought by accident. You know, a Dutch firm, strong, committed to the worldwide market. Porter Paint, industrial maintenance, bought by Quartall. But going back, you know, in '84/85, just from the inquiries and what we were seeing in the interest on the part of this, you know, that they were going to be coming. So when we would look overall at our market share position relative to our competition in the U.S. market, we were the market share leader, but we had a low absolute market share. And so the key to our growth would be to increase market share. And that was going to take money and investment. We could also see, you know, even going back '82/'83, when we looked at our store, Sherwin Williams store network, we found that we were really underrepresented in the major metropolitan areas where the major part of the painting and the population is. And so we set as an objective to open 100 new stores a year, and indeed over that period, '83-'85, we did open about 500 stores, or through acquisition and that. And a lot of these were to increase our strength and presence in the major metropolitan areas, which took an investment. So when we could see--here we had Gray to really stave off the competitive onslaught was going to require $150 to $200 million of investment and an average return, and we could see potentially the competitive nature of the players changing in the coatings market. This almost kind of made the decision very clear in what we should do in terms of Gray, was to sell it and put our assets in the coatings area. And there's a whole story on the Gray divestiture. I don't know if you want to go into that now. We might just stick to the broad stuff, then you can come back. So you know, Gray was sold. Now you'll notice again in terms of strategy we started making divestitures in 1983. Now this goes back to saying, "OK, we want to really focus on coatings. We want to be in working capital intensive businesses. And with Container--the Container Division, the returns on investment were average.

WG: This is after you straightened the transfer prices.

CI: Right. They weren't finally straightened out till we sold it, but (never knew). But see that started to put the--when we straightened that out, that put the pressure back on them to prove efficiency and then all sorts of issues started to come out. Container is a leader in aerosol cans, really unrelated to Sprayon. They weren't competitive for Sprayon to really buy that much, if I recall. And about 20-25% of the Container Division's business was paint cans. So '82/'83 with, as we become more aggressive in terms of gaining market share, the stores and that, we were reliant on selling our cans to not only our own internal use, but also to outside competitors. Glidden was a major purchase. And so we made a decision to divest Container, which that's a story in and of itself. All of these have a story, but I don't want to get bogged down in that.

WG: Just a quick question on that one: To what extent was--paint cans are changing, actually, from cans to pails, aren't they? Or there was a thought that they would from metal to plastic?

CI: Well the Container Division did have a plastic program. In fact that polypail over there is one of the remnants of it. And there was a question of how rapidly plastic gallons, the majority of the potential is in gallons. Of course the five-gallon pails and two-gallon pails were going to plastic, so there's a big controversy there. But basically, even if we were in the plastic can business, we'd still have to be selling to competitors and return was low. And we wanted to get out of these basic businesses where we thought we could use our purchasing leverage to buy cheaper. This reminds me--I'll mention it before I forget it: going back, the company, based on a license from DuPont, was a producer of titanium dioxide until 1974. Again the company was looking for cash and I think also part of the philosophy of moving more toward retail, the decorating worlds, and that, you know, where as big, fully integrated supplier of the company was moving away from that to rely on suppliers. And we had, you know, some--not DuPont's best technology but their second-best technology in TiO_2. So again this is just the story. I don't know whether this is fact, but I think it is. It would have to be confirmed by somebody who was there, but the story was we wanted to sell the titanium dioxide plant at Ashtabula, and Glidden said they would be interested, and so it had at that time about a book value of $15 million, and so Glidden came in, and they said, "How much do you want for the business?" in the initial meeting, and so anyway they priced it, they said, "Well we'll just ask for 2 times book." So they said, "$30 million."

And Glidden said, "Fine, we'll buy it." Now that was probably on the one hand a good decision of the company because I'm sure the TiO2 producers languished until about 1986 or '85 with this pricing. And then they made up for 20 years of losses in about three years. But that's, you know, when we divest out of that. So then we divested Container basically on a, well, in the sense there were two people from American Can that were looking to do a leveraged buy-out, and this was a little bit unique in the sense of you know, normally the management buy-outs you sell to your own management, but we sold to different managers. You know, they came in as a team and there were a lot of reasons for that. But those are all separate stories. We won't get bogged down in that now. Then the next thing in terms of looking at the Chemicals business, that was basically unrelated to the Coatings business. And the problem there was even within the Chemicals business is there were about four unrelated businesses. We were making alkali blue pigment, para-cresol, saccharine, triazoles trisols, and BHT and BHA, you know the para-cresol and BHA business fit together. Saccharine was really separate, ~~trisols~~ triazoles. And you know, all those businesses. And then we made zinc oxide. We'd shut that down, down in Coffeyville. And come back to--reminded me to come back to that, but we sold because it wasn't really related to the business, we sold the Chemicals business. We retained a lot of the management that we had. So actually the management had proposed that we sell it, you know, the division management; because it didn't fit. We retained Coffeyville, but a lot of that business had been shut down. In terms of looking how to build Coffeyville in the early eighties, and again that was part of the mistake. We were looking at how to build a site, rather than looking at the business. But we were buying zinc fume from the Bunker Hill Company out in Idaho, out of an old zinc plant they had. That was our basic raw material feedstock. We were paying a tremendous amount of money and we were losing about maybe a--Frank Butler can give you all of these details, but maybe $1.5 million a year out of that operation. And then he made the decision, you know, we shouldn't be continuing to buy this, so we went back down to ratchet down the price on the buying this zinc fume from Bunker Hill, and I'm not sure whether this is before or after, but then we also acquired a zinc scrap processing business from Eagle Picher ~~Pitcher~~. You'll notice that sometime in the early eighties. We were right on the price of zinc, but wrong on the business. But when we brought the price down for the zinc fumes we were buying from Bunker Hill, they said no, they wouldn't be able to supply it so we cut them off and used this other source, and it was always interesting: as soon as we did that--now they blamed it on the price of silver going down--but Bunker Hill went bankrupt, because all the money they were making off was (us)--that was ~~??~~ keeping them going. So being interested in buying the business, I always thought that was interesting. But so again that was looking at building a business, but you know, the core strategy had not fully evolved, so those were mistakes. We also, we had a--because Coffeyville historically had always used barium, they had barium hydrate in that, we had (~~Bayright~~ Bayrite) there in terms of buying it, you know, grinding facilities. And of course when the oil and gas industry took off, there was demand for (~~Bayright~~ ~~Bayrigt~~ Bayrite). I was part of this, so we set up an energy field chemicals venture--small venture--used ~~Bayright~~ and that; and then ultimately when the oil business went down, that went down and we closed it out. So historically again looking back and we've tried to start up various small ventures, and I think we've been unsuccessful in taking them to the larger entity, and the things that work best are things that we add on to our core business. Now you know, we will eventually disprove that, among some other things. But the key with the company has been execution in terms of going in. But anyway, when with the sale of the Chemicals, with again off the record with the potential environmental problems at Coffeyville, we made a decision to keep the site, to keep control of that. We had a small moly-white business there. That's a pigment made out of molybdenum, and also fire retardant, is a nice business, a small business but generating good profit. So we've kept that going and it's kind of a small appendage but it's growing at a very slow rate. That basically has helped pay for a lot of the clean-up costs that we've done. So you could see if I were to look at kind of blocks of segments . . .

WG: You anticipated my question.

CI: . . . is you'd have a, and all of these, you know, the lines of demarcation will blur, but you'd start with the basic turnaround in 1979. That would be running for two or three years. Then you could say, now others might disagree with this, but then I think you could say in the early eighties until about '83 we were looking at expanding the business based on coatings in conjunction with Chemicals, Drugstores, and that. And then in '83 this strategy started to evolve where we'd come back and really just focus on coatings, and I think this was finally, and you know, while this was running in parallel we were opening the stores to build that distribution. That's why it was languishing, and so you know it wasn't clear whether that strategy would work. And then I think the basic strategy started to crystallize. In '85 it was really culminated when we sold Gray, and in terms of focusing on that. And then I think as you would see the acquisition since that time have been really to fit into our basic business. And in the meantime through marketing efforts and that, the ~~??~~ Dutch Boy started to pick up. Chemical coatings has basically languished in this period. It's been kind of an orphan, as they would say. You know, this year their sales are starting to pick up. That's all part of the--you know, there's still elements, I think studying history, as I told you before, is very key to understand what it is in the company, and going back to where the company had all the functions reporting up, the chemical coatings and even automotive coatings, they were all made in the same manufacturing organization and sold by the same sales force. And so part of the change that started in I guess about '75 or '76 was, and you'd have to talk to Len Ward, he'd know more of the history in automotive, but I think maybe he was in the Stores area. I don't know whether it was he or other people that argued vehemently that automotive should be a separate operation, a separate division. Then they got their Richmond plant in I think that was about 1976, and so they started to evolve as a separate division. Well you know, chemical coatings never really had their separate plant. We're still even cycling out from that now. They were shared, all shared facilities. They did have--they got the oldest plant, Cleveland, and so there's been a struggle there. And that reminds me, another thing that I should indicate that, and you'd have to do more research because I haven't looked at it that much, but if you would look, I think--this is only a thought, you need to verify--but going in through the sixties, and this will also partly contradict my statement made earlier in terms of you know where the company was going in more for retail. I think the company had a lot of very, very old paint plants going into the sixties. And you look up here, we had paint plants in Detroit and all this. I haven't studied this because it was really kind of a moot point, but then you look I think in Garland and in Morrow, those plants were put in in the early sixties. Those were good, strong, manufacturing based in the southeast and south central. And then Newark was, like when I made my visit, was the way it always had been, but a lot of other plants were closed and the decision was made to build a Chicago emulsion plant in Chicago. And yet we've not found anybody would claim credit for that. It's now a very good plant, but right down in the heart of that site . . .

WG: It's the site right next to Pullman, isn't it?

CI: Right. Now going--all right, I'll do another tangent, and Art Maine could give you a lot of background on this, but we acquired that Chicago site, or the major part of it when we acquired the Calumet Paint Company back in the eighties. It was right across the street . . .

X: 1888.

CI: Yes, 1888. Supplying varnishes. You know, the (Pullman) works. And going through that site is, you can almost watch the evolution of that site. It will give you a window of how we evolved, where we wanted to manufacture everything. So they had pigments, and later it was known as the world's largest paint factory, and that's what we billed it at, and all of the integrated nature of that: of pigments, lacquers, cans, whatever. It was the epitome of a nineteenth century feudal industrial state. Just like Pullman was. And so also part of the problems when you've been producing internally, you always have to be careful, your costs can get out of line. Well after

Maumee
~~Mahmee~~ Chemical--I don't know how it--para-cresol really came from something else. I don't know how that business evolved, but there was a new plant there, there is an alkali blue plant. These were investments I think the company made in the sixties as part of their diversification out of the coatings business, but keeping all of the other stuff. The site itself was a very complex thing. This is still a very sensitive issue in the sense that it was run by a major domo in terms of all of these--Art Maine was a site manager, as opposed to the, you know, having the operational autonomy. Again this all came like the manufacturing organization, showing how. . . on the functional nature. So we've been--now this gets super sensitive, particularly for our employees out there, but we've been breaking that site, getting it compartmentalized so we can get a hold of the costs, so that process started on paper in '77 when they decentralized some of the--the consumer already had the Chicago (emulsion?) plant and then Chemical Coatings had a lot of it, and them Chemicals. So we've been in the process. Of course when we sold Chemicals, we peeled off a part of that, but now there was a whole site infrastructure there sitting on top of all these things. So now that's been all put into divisions, and that's where efficiencies have come. CEP is one of our largest paint plants. It was built in '77 I think. That was one of the investments. Based on anticipated gallonage, we were still, it was losing money when we came in because of the lack of gallons. Again, you know, you tell me how much you're going to sell and we built the paint

plants and part of the consolidation. Another thing, we had a business--this is prior to my coming--we were a leader in powder coatings, which is a major coatings technology, and we built or converted a plant in I think it was Pontiac, Michigan. Then the company got out of this business in '76/77, other than Canada. And because we couldn't make any money at it, and the basic problem was, if we still had the plant we would--and this powder coatings has grown quite dramatically in use in the last ten years. If we still had the plant, we could still supply the whole industry. And so again, coming back to coordination in terms of looking at the market and sizing of the plant, the manufacturing guys were here and that's not really criticizing any particular functional head. None of this is meant as criticism, but . . .

WG: That's the way things worked.

CI: . . . the way it evolved.

WG: Well we've gone over the time allotted, and I'd like to keep going, maybe another time, if this is inconvenient.

CI: That's fine.

WG: But I've found this extremely helpful. I mean it's a tour de force on Sherwin Williams and the paint industry. Maybe as a kind of closing question, I'd ask about your periodization of the company's history in the 1980s,

CI: Oh, I'm sorry. I got off on the track. In terms, again, with the benefit of looking at a retrospect, you know, you could see maybe '79 to '80 to--or you know, and starting in '81 we were looking at building the businesses that we had. Then from you might say '83 to '86 was really where we were, you know, evolving into the strategy that we have right now. You'll notice our gallons were growing very, very well then. And then the--starting really in '87--now you know with these core businesses where we were adding selected acquisitions, and I can come back and talk about those. Duplicolor fit in, initially automotive, and that's a separate story. And also Western Automotive Finishes. But then after we divested that and we started to grow, then in '87 and '88 we were going through the cycle of tremendous raw material cost increases. Now if we had the benefit, you could say, from the recession in '82, going through '86, you know, the oil prices were stable, declining slightly. TiO_2 was basically flat. And then in '87 the price of titanium dioxide started to escalate. There were several fires in ethylene plants, and ethylene is used as a basic feedstock in some chemical intermediates that we buy. And so the pricing on that went up very dramatically, so we were faced with a market . . .

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END OF SIDE B, TAPE 2. BEGIN SIDE A, TAPE 3.

. . . to drop off in '88. And so a decision where we had been expanding Stores at 100--you know, our objective was 100 per year. That decision in '88 was changed, I believe it was '88, to doing about 50 a year. And the reasons for this were to (1) we wanted to try and more closely manage the new store improvement, to get them more profitable quicker. The second was by expanding at a rapid rate, we were adding a lot and selling general administrative expense. And if our margins were under pressure, we kept growing and selling general administrative, that would of course hurt our overall profitability. So we thought we would scale back because we didn't think this situation would last that long. You know, it would last for a while, but we could manage through it. Since that time TiO2 capacity's coming on stream, and plus the main thing is with the decline in economic activity that that's caused the pricing to break there. So that caused part of our--the timing of the execution of the strategy to change. And during this period of time, Dutch Boy started to make some marketing gains in terms of, well, Kem-Tone by Dutch Boy, going into a third of the Walmart stores, the Sears, you know, even before our DeSoto acquisition, taking on Dutch Boy as a national brand. It occurred--you know, that roll-out was in early '89, and also with Walmart. So the Dutch Boy group started to make significant inroads with the large national retailers. And I think over this period of time the Stores Division has gravitated more toward the wholesale painter and I think also significantly over the past five years and where Jack has really pushed this very hard as the rest of the organization was that we really had to improve the quality of our product. So there's been a big focus and push on quality. I think there's, sometimes it's like two steps forward, one step back, but overall our quality is greatly improved, and I think that's helped us maintain our gallon growth in this period to gain share. And I think now in our focus is also increasingly, you know, now there's still work we have to do in quality, but I think they're probably the best it's been. But now we're focusing on customer service, and that again on the basic fundamentals in the business.

WG: Early on you said that when you got here the company had an economist, and the economist was using macroeconomic indicators to predict demand. Is there any set of indicators that the company's fortunes follow particularly closely?

CI: Oh, you can get a decent model but we want to go contrary to the economic basis, and that's--everything is bottoms up, and the whole key in terms of the integration is you want the division president to be motivating the salesforce, and that was the whole thing. All of this thought process was pushed down to the lowest levels, and getting objectives of district managers, and even of store managers, and the way--I think between Art Maine and Tom

Kroeger you can get more of an insight. I think the developments in our whole compensation system, and because it could be 65% of our employees are on some form of incentive or other. Getting that coordinated in with actually obtaining specific results, you know, that's kind of a whole story in itself, and I'm not talking about the potential published history, but the unwritten history, and it's very key, and that was another thing that Jack did, you know, again going back to 1979, the company had this savings and stock purchase plan, and you can get the details on that. That's where the company has a match in that, but everybody who'd put money in there was under water, and actually you know even after a match, you know, was losing money. And the morale and everything of the whole company was down. Again this would have to be confirmed, but I think we spent over $10 million trying to destroy one of the fifth best known logos in the world. I mean our block logo was fine, but there were people concerned about the environmental aspects of this and all this crazy stuff. So it did away with the logo and people out in the stores, they attributed the company's decline to going to this logo. Well, it is an element in the sense where you've had really a family and you know a lot of long service personnel. This would be like us as a country to say, "Well shoot, the Stars and Stripes are no good. I'm going to throw that away. We're going to come up with a different flag." And that really had a debilitating effect out in the stores in the organization. So the logo, we brought that back in 1979. But then everybody was under water in the savings

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and stock purchase plan. So then the match was I think the company match at that time was--Tom Kroeger will know all this--but I think it was 25 or 30%, but then we put in the match to make it escalate based on how we would do on after tax return on equity, you know, for the shareholders, and so if we got up to I guess 18%, the match would be 100%, and so the people also who stuck it out and who were in the plant or even who participated in the plan have done extremely well. Ten times or more--twelve times on their investment. But the morale was so low, and again that's the other tremendous aspect of Jack in terms of his openness, in terms of going down the organization, you know, and really understanding people. That comes up to a different thing, too. In the management there was I sensed, and again you could talk to some of the--Bill Eldridge or others--but I think there was a sense of aloofness and arrogance on the part of the twelfth floor here. You know, the mausoleum of the boardroom with the paintings, and I think there was also a sense that people worked in the organization hard all their lives to gain the vice presidency and an office here on this twelfth floor, and they basically retired. Maybe that's a harsh statement. But that was part of that mentality. And there was an arrogance that I could see, because when I came in we were asking about the competition. "Well we don't have any competition." "Well how about Glidden?" "Well, you know, they're no good." And there was a true arrogance about the competition, and that was also part of our problem. I mean you know, that tone was set at the top and that permeated. So when Jack comes in and we have coffee in the board room and boxed lunches and that, and the informal nature and the good communication and I think, you know, with his tremendous style and that's the way he is it's not anything put on, but that helped open up the lines of communication with a lot of outstanding people in the organization. (Interruption)

As you know, I'm very interested in history, but in terms of a book, there's not that many people interested in history. And where we talk about the different audiences that a book will go to, but one fundamental audience is obviously the employees. And when Tom goes over these details with you, you'll see we've got maybe 15,000 out of the 25,000 run that we're anticipating are going to go to employees. So the question, and as we both know, in terms of any historian, we keep on finding a lot of different books over the same period in history because people are looking at it differently, so in terms of the book and its objective is not only to tell the history but in terms of the sort process of what it is that you're going to choose to highlight, because you're going to have all of this. And I think the important thing that the book can do and where it could be a tremendous contribution is if it can help convey the aspects of the company culture that we want to enhance. So some new employee or even existing employees can read that and understand what the company culture is. Now you know these are changing, and what the basic value systems, you know, that we have. And as an idea we can talk some more, but I wanted to get you thinking about that is obviously from personal characteristics, a great deal of emphasis is put on honesty and integrity of dealing. This runs from Sherwin's Christian principles.

WG: Yes, I was going to say, that would be reproduced.

CI: This kind of starts from here, but this is really ongoing. It's hard work, dedication. You know, like I was telling you, the people in the Stores Division during these bad times, there's always been an element of innovation in the company. You can trace the Decorating World, for example, and then we've not always been able to implement them, but there's been innovation.

WG: You've been trying things. Yes.

CI: There's also a financial conservatism.

WG: Except in the seventies.

CI: When we got off track a while. But you see in a sense you can almost take a thing where when we went away from these principles, we got into trouble.

WG: That's right. Exception proves the rule.

CI: Right. In that. Quality.

WG: Yes. Sherwin's time.

CI: That's always been the case. In fact, you know, it's almost a nonsequitor. You don't reach 125 years of age unless you have something of quality, customer service. You know, if you haven't seen it there's an August 1935 article in Fortune.

WG: Yes. I have seen that. It's dynamite.

CI: What are they talking about? They're talking about the same problems we're dealing with, in terms of execution. So there's a whole aspect which we can talk more about, but in the sense it could be a history but the way in a subtle way where someone reading that through would get an idea of what this company's about. The other aspects of the culture: informality, an openness, the box lunches. It's not a parental approach because there's the professionalism there, but it's not a cold organizational approach either. You know, there'd be other elements to add. We've stayed away from a lot of the sophisticated schemes of Wall Street. That's another story I could tell you. But there could be a whole underlying themes that could be drawn out, and then I think where we're conveying that to particularly our employees, and maybe there's some aspects of our culture we wouldn't want to emphasize, but in terms of going forward, of something having an impact--and maybe you'd do that anyway.

WG: Yes. We're square on, on this, because I think what we would want to talk about is the big themes in any company's history are continuity and change, and it feels like a lot of change, but there are some continuities which are underlying all of that.

CI: Right. And if those can be emphasized in terms that an employee can . . .

WG: Yes. You know, I see--I have no problem with that. The audience for this book is primarily employees.

CI: Well, we've talked some more about--it's primarily, but the other audience as well. Well, I don't want to cut you . . .

END OF INTERVIEW.