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THE SHERWIN-WILLIAMS CO.
LLEWELYN ...
COMPTROLLER

EXECUTIVE OFFICES
101 PROSPECT AVE. N.W.
CLEVELAND, OHIO

August 27, 1942

Mr. H. F. Taggart,
Director Accounting Division,
Office of Price Administration,
Washington, D. C.

Dear Sir:

On July 15th you granted us permission to withhold filing of "Industry Questionnaire for Paint and Paint Products," but at the urgent request of Mr. E. T. Trigg, President of the National Paint, Varnish and Lacquer Association, we are filing herewith, the schedules as requested for The Sherwin-Williams Company,
Acme White Lead & Color Works,
The Lowe Brothers Company,
John Lucas & Company,
The Martin-Senour Company.

In submitting these schedules, we feel that we are in position to offer an analysis of present costs and profits which should be helpful to you in considering the position of the Paint and Varnish Industry in regard to the gross profit margin.

From data contained in the attached schedules, you will observe that during the years ending August 31, 1939, 1940 and 1941, our gross profit was as follows:

| | 1941 | 1940 | 1939 |
|---|---|---|---|
| The Sherwin-Williams Co. | 34.3% | 35.1% | 38.8% |
| Acme White Lead & Color Works | 35.2 | 35.1 | 35.5 |
| The Lowe Brothers Co. | 37.4 | 39.3 | 41.5 |
| John Lucas & Co. | 33.0 | 34.1 | 33.5 |
| The Martin-Senour Co. | 34.4 | 34.6 | 38.2 |

We are not yet in possession of facts relating to 1942, as our year ends August 31. However, estimates which we are able to make from an extensive record and review of cost of raw materials, packages, labor and expenses, indicate a serious decline in margin of gross profit.

Raw Materials

From our records reflecting the rise and fall in costs and markets of raw materials used in the production of paint and paint products, we observe:

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1. The weighted average <u>actual cost</u> of raw materials, September 1941 through March 31, 1942, has increased over the weighted average cost of our fiscal year ended August 31, 1941 - - - - - - 15.37%

2. The weighted average <u>current market</u> of raw materials at March 31, 1942, compared to the average actual cost during the year ended August 31, 1941, had increased - - - - - - - 29.56%

3. As a result of the foregoing facts, our weighted average cost of raw materials used in the production of Paint and Paint Products during 1942 will be approximately 20.5% higher than in 1941.

<u>Manufacturing Labor & Expense</u>

Due to increases in hourly rates, the cost of labor and expense per gallon of output has increased 5%. Over the past year our hourly rates have increased 20 to 21% and the increased output has not offset the advancing cost of labor.

Market prices of raw materials advanced sharply during this fiscal year. As indicated above, the weighted average March market costs of raw materials were 29.5% higher than the average cost of materials put into production last year. Because of forward buying, cost of raw materials used in production lags 60 to 90 days back of markets and we are now <u>definitely in a cost period when the current market costs are determining our cost of production</u>. Consequently, our margin of gross profit from this time forward is reduced to approximately 22.5%. We have had but one increase in selling price this year, which averaged 6.4%. This increase in selling price does not offset the increased cost of raw materials, as witnessed by the following calculations:

| | | |
|---|---|---|
| 1. | Raw materials represent 74% of cost of Paint and Varnish filled output - 74% x 29.5% = | 21.75% |
| 2. | Labor and Expense represents 18% of cost of Paint and Varnish filled output - 16% x 5% = | .90% |
| | Increased cost of Paint and Varnish Production | 2[illegible].65% |

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3. 1941 Fiscal Year Gross Profit was 34.3%; therefore cost was 65.7%, or $65.70 in relation to $100. Increasing cost of $65.70 by 22.65% = present cost of $80.50.

4. Selling Price was increased 8.4%; therefore, present Selling Price compared to 1941 is $108.40; $108.40 - $80.50 = $27.90, or 25.5% Gross Profit

Thus we have a sharp decline in gross profit on Paint and Paint Products as follows:

| | | |
|---|---|---|
| Year ended August 31, 1941 | - | 34.3% |
| Current Actual Cost | - - | 25.5% |

We believe this condition to be representative of the Paint and Varnish Industry as a whole. Sales during the past three months have fallen off sharply and we are now in a position where consideration must be given to an increase in selling prices.

Yours very truly,

THE SHERWIN-WILLIAMS CO.,

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Comptroller.

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