INTERVIEW WITH

JACK BREEN
CHAIRMAN & CEO

SHERWIN-WILLIAMS COMPANY

also in attendance
Pat Eldredge

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INTERVIEW CONDUCTED BY

DAVIS DYER
&
KATHLEEN MCDERMOTT

THE WINTHROP GROUP, INC.

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DD: In thinking about the last ten years of the company's history, or the period since you came, a couple of things strike us as significant that we hadn't really thought through when we interviewed you before. I suppose the most important thing ~~was the~~ that ~~headline of the year~~ is the company's strategy to refocus primarily on the coatings industry. When we talked to you before we got some data about the diversification effort, and what was going on there, but less specifics than I think we needed about how you came to understand that the coatings industry was full of opportunity. That is, the convention wisdom when you came on board was that it was a mature, slow-growth industry, and that the company had a long-term future, and it had to find another leg to the stool. What has been demonstrated since then is that that wasn't true, and how did you make that discovery?

JB: Two things. As I said in that interview which we're redoing here, one was simply in the accounting or in the reporting scheme, or systems rather, that the company had. We discovered that what was going on, or what had gone on for a long period of time was a pricing system between the supplying divisions and the stores. At the time, you might say that our sales of architectural paint ~~was~~ were almost entirely through the stores because what we sold of (Martin Senour), and that's why it was fairly insignificant, and the store is principally the main sales of the company. So the manufacturing divisions, whether it be the consumer division or Spray-on had a guaranteed formula from the company that they could charge the stores their costs plus a 15% mark-up. When we got into it any type of a cost plus system always ensures inefficiency and lack of competitiveness. Unless you have a craftsman at your home, and you've decided that there is no other person in the entire world that you want to work on your home, and you say, "I'm not interested in estimates -- you just come in here and charge me your cost and time and materials." Well, you're invariably going to pay more. But we're not in that kind of business. We do have competition, and we do have a dynamic economy at work, and we have people who are striving to take market share away from us, and vice versa. So when we got into the cost side of it, it was the, as it always is, the allocation of their costs, and who was picking up the costs, and therein ~~lied~~ lay one of the large problems in that the stores were being charged for things that they shouldn't have been charged for. So they had the cost piece of it, and then the mark-up piece of 15%. We had to try with some difficulty to get what's called an arms-length relationship between the supplying divisions and the stores. In doing that, which took several years, this is what I refer to as ~~introducing~~ internecine warfare between the divisions which became quite personalized. In the early days it was pointed at people, and names of people and managers, rather than getting at issues. So it was necessary to change the people on both sides to get at the issues. We found that the stores were absorbing too much of the costs of the consumer division, and then on top of that paying a 15% mark-up. So we started whacking away at that process, and the problem you get into is in where you want to account for your profit. Do you want the profit accounted for in the consumer division, or do you want it in the stores? Well, if the stores are going to be held responsible for profits -- and at that time they were losing a significant amount of money, if they are being charged artificially for the paint what they were doing in effect is limiting their ability to sell because their transfer costs were too high, and then they mark it up to sell it through the stores to cover their cost of the distribution, the net effect of which was we end up being too high priced in the market place, and then we start to lose share. That was what was happening. So we worked on that. That's all internal. That's all generated by Sherwin-Williams managers who supposedly love the company. That took a long time to fix, and we eventually got at it and created more of an arms length transaction based between the two divisions, and we got the two divisions to start cooperating with each other, coming up with special pricing formulas, the first of which was the so-called Plant City pricing. We just said arbitrarily, wherever we have a factory, we ought to be the king of the hill in Atlanta, or Chicago, and so forth, because there couldn't be anybody cheaper from the manufacturing point of view, and all you have to do is put it in a small truck and take it out to the stores. So I shamed them into what was called a Plant City pricing, and that was the first break in the damn. Then they went to truckload pricing, and then they went to all kinds of specials and incentives, and so forth, and started working together because to the extent that the store sold more, it helped the consumer division from the absorption point of view. So they liked that too. By that time we had got to Frank Butler, and we had Dave Fuyente, and then subsequently Bob Vennick, and they started working more together. Then we had to go after quality because the quality was really being focused on the do-it-yourself retailer and the bulk of our sales was painters, and the needs of the painter ~~was~~ were totally different than the do-it-yourself retailer, and we had to get that fixed up.

We thought that it was going to be a lot easier than it turned out to be, and that's when we made the Gray Drugstore acquisition, which was an attempt to diversify into another retail market. As I said, for many reasons we failed to make that acquisition really work well. Rather than struggle with it for several more years and pour capital into it -- because we were getting to the point where we were going to have to put capital into it -- we had some people who were believers in Gray Drug here, and so in order to remain "objective" we brought in an outside consultant, he did a study, and the issue there was would we have enough capital? Could we generate enough capital to really be strong and dominate both businesses? The answer was no. The risks were too high. We decided to concentrate on coatings, and coatings ~~for leaded~~ related products. Another thing that happened to us back then -- around 1984 -- is one of our marketing people in the consumer division had, without authorization, gone to K-Mart and offered to them the use of the Sherwin-Williams logo on their advertising. This was done without anybody's knowledge except, I think, one or two people in the Consumer Division. The guy's name was Irv Allen, and the guy who eventually approved it was Dave [Forney], as it turned out, who went to the stores. Ted Hopkins, who was the division president came and told me about it. I went up to K-Mart and we told the vice chairman of K-Mart, a man by the name of Norman [Millie], that this offer had been made without authorization, and I was withdrawing it, and we were not going to let K-Mart or anybody else have access to that Sherwin-Williams logo. It was exclusively the property of the company, and the stores, and I apologized, and so forth. He was infuriated, and he threatened to kick us out as a supplier to K-Mart.

DD: At that time you were selling Dutch Boy through K-Mart?

JB: No, we were selling private label, Performer, Fresh Look. Subsequently they put the Dutch Boy logo on with K-Mart. We had no problem with that. He threatened us, took some business away from us, and we literally at that time had a gun to our head. It was coming out of the '82 recession, and the country was just starting to recover from that, and we would have been severely damaged if K-Mart had taken all the business away. As it turned out they punished us, but they didn't kill us; they didn't take it all away. We learned a lesson. I remember coming back from Troy, Michigan that night, and we had a meeting here, and I just said we're never going to get ourselves in that position again where we're going to have a customer literally put a gun to our head and threaten us with his business. That night we decided to expand the stores. We went hell bent for election to open up more stores to get the additional volume that we would have lost had we lost the K-Mart business, and we did that in two years time -- in less than two years time. But it was that K-Mart situation that triggered it.

PE: Was that 1984?

JB: I think it was 1984. I may have been 1983. It took K-Mart a long time to get over it. They really never got over it until Millie retired.

PE: When did we offer them the Dutch Boy?

JB: I think it was about a year or so later. Scott would know the exact time, but it was about a year or so after that. He was out in the Consumer Division, out in the field at that time. It was that threat to our livelihood that made us decide to expand the stores. It was how we were running the business internally, how we were really in effect killing the goose that was laying the golden egg which was the stores. It doesn't matter what the Consumer Division gets from the stores for its paint. What does matter is what the stores get from a customer who pays us. The rest is all internal. So the final sale of the product is what counts, and if we can't sell it because the costs are too high, we inevitably go out of business, and that's what we were doing. We were shrinking down, year after year, closing more stores, and closing plants because we closed the stores. We were just in a self-destruct mode, and all because we were looking at the wrong numbers. In the meantime, when we got into the Consumer Division and analyzed their numbers by product line they were making, I think it was something like 75% return on their profit on their investment after tax. I don't know of any company in the United States that is that profitable.

DD: That's pretty nice.

JB: Oh, it was terrible. And then the other thing it did was because all that fat was there it didn't require the consumer division to be a competitive supplier, which any distribution or retailing company has to have to be successful. So we really had that going. We made a mistake with Gray which reinforced our thinking about coatings, and then we had the K-Mart incident which caused us to grow the stores faster, and get up to a couple of thousand stores as fast as we could, and at the same time build another brand. That's why we started taking the money we were making in the stores and spending it on Dutch Boy, advertising to build the Dutch Boy brand up, which we did for about seven years.

DD: So what you're describing is a period of discovery while you understood how the incentives had worked -- the market performance.

And then once you had stripped all of that away you saw not only that you could make money, but also there were real opportunities if you expanded.

JB: Yes, because what was a non-profitable store that you may have closed became a marginally profitable store when the true costs were applied. If that was the case then you worked on making it more profitable rather than closing it.

DD: Another thing we noticed is that the company made no acquisitions in coatings between the '30s and the '80s. One hypothesis is the anti-trust considerations.

JB: I think that was probably a big consideration, and most of that changed with the Re^a^gan years in the 1980s. I think the other thing that happened was the paint industry was fairly healthy and growing up until the mid-'80s.

DD: So there was going to be a shake-out no matter what, and that always creates opportunities for larger companies to acquire the smaller ones.

JB: Yes, and frankly, the other problem we had too with lack of acquisitions -- we just didn't have any bench strength here with management to run them, and if you are buying a troubled company and you want to fix it, you'd better have some good folks. If you're buying a going concern that's doing well and you inherit the management, well, it's a different story. But quite often the things that are being sold are not endowed with a strong management organization. We did make some acquisitions in the '80s here, and they were not good -- they didn't work.

DD: In coatings?

JB: In the stores. When we made the decision to go hell bent for election to expand the stores we really outran ourselves, and we went out and we made some acquisitions of stores thinking, well, this is going to be easy. We'll just acquire this chain of stores, change the sign on the door, take the Benjamin Moore inventory out, put our inventory in, and keep going. Well, it didn't work that way. The customers went down the street and stayed with Benjamin Moore, which painters do; with retail customers it's a different story. So when we made the acquisition of Peachy Berlin, and we made the acquisition of Pearl Paint, we made the acquisition of Vegas Paint, we made the acquisition of Hughs Paint, we made the acquisition of Color Your World Stores in New York State. And then we really made the colossal mistake of acquiring the Firestone store real estate, and we went into freestanding -- what were Firestone automotive tire stores -- and we put paint stores in there, and that was a terrible mistake.

DD: Because the locations didn't work?

JB: The locations didn't work. You couldn't get visibility, and the stores size-wise were not suitable for painters. They were fine for retail customers, but not for painters. So we made a lot of mistakes in acquisitions in the 1980's trying to grow our stores faster. If we had just stuck to our knitting and expanded with the store that we knew into a market area that we could penetrate, and with our own people who were trained, and kept going that way, we would have been far better off.

KMCD: I have a question about the stores. Certainly in the '70s there was a strong emphasis towards the retail customer and I'm wondering, who are the stores catering to now? I get the sense that it's to two markets.

JB: It is. It always was. But the painting contractor market has grown just as fast as the retail do-it-yourself market in this country since 1981 until now. As a matter of fact, it's grown faster up until 1990. Starting in 1990 the painting contractor business went down across the country as a result of a slow down in commercial industrial real estate. Prior to 1990 the painting contractor business in the country has grown faster than the do-it-yourself. So our store is unique in that sense in that we try to serve both markets. Most people just serve the do-it-yourselfer, and some painters, but our stores serve painting contractors whether they be large or small -- sometimes very large painting contractors -- and also people who require industrial maintenance products, and director users for product applications. And all of that is distributed through stores or commercial branches or blending stations, or things that were referred to more often as stores. I think that we have been unique in that sense as probably the only company that has tried to do that. Most people concentrate on decorators and do-it-yourself retailers, and some local paint companies will concentrate only on painters and will not sell at retail. If you walked in you'd have a hard time buying the paint.

DD: That raises another question that there has been a long standing tension -- since the introduction of the stores -- between the dealers and the branch store managers. Sherwin-Williams has lived with that tension for a long time.

JB: I think it's less tense today. In ~~the mid '70s there was a~~ lot of tension because Sherwin-Williams was going to all those segments. In 1974 the decision was made to take Sherwin-Williams out of the dealer market and stay exclusively in the stores. Well, it was a painful decision in a way. It was a good decision, but it wasn't implemented well because in its place the company offered Martin -Senour [~~Sener~~] which jokingly somebody said was the president of the United States. There was no advertising program, it wasn't a known brand, there was no program or plan behind it. But here is Martin -Senour [~~Sener~~], and they said, "We don't want it." And they didn't take it and went to Benjamin Moore and to Glidden which was a great boom for both of those companies. Today I think we have Sherwin-Williams in our stores and we have other brands through the other channels of distribution. I think that the tension is significantly less, but I'm sure there is still some there.

KMCD: When you were able to analyze the numbers in the Stores Division more closely in the beginning of the '80s, was one of the conclusions that you reached that it was, in fact, cheaper to sell through your own stores -- or distribute through your own stores than through a third party?

JB: No. We didn't conclude that at all. What we had was an argument that was raging entirely between the stores who were saying they were not getting a fair shake, that they were being charged too much, that this was wrong, and so forth and so on, and the consumer division stiff-arming them, and top management not deciding. So there was confusion, and there was a lot of bad feeling. As I mentioned, it got personal. You know, "You're not a good manager, you're not doing a good job. If they had to rely on you the company would go under." That kind of thing, so when we got in we just started to listen. I said, okay, this is what is alleged, let's find out. And we found out. We found that the stores could be profitable.

KMCD: So today the conclusion is most certainly.

JB: The stores can be profitable -- they are profitable for us, but they alone couldn't get the job done because there are 100,000 places to buy paint in the United States, and we've got less than 2,000 stores. So we have 2% of the outlets. You have to get into more outlets. Therefore, you need other brands. Unless we reverse the '74 decision and take Sherwin-Williams back into discount stores, home centers, and proliferate it like Coca-Cola. We decided we didn't want to do that. We wanted to keep Sherwin-Williams exclusive for the stores.

DD: Back on the subject of the tension between the dealers and the branch managers, the tension would be over the retail customer. That is, the branch managers are trying to get retail customers to come into the stores to buy Sherwin-Williams paint, and the dealers are working with K-Mart and other mass merchandisers to get the same customers to get the other brands. How do you deal with that tension for that particular segment of your market?

JB: Do you mean for the retail customer?

DD: Yes, for the retail customer.

JB: The retail customer is going to go to a store because of its location, because of its service, easy to shop at, park, and so on. The retail customer is not going to drive fifteen miles to buy paint. So if he can't find a Sherwin-Williams store, he'll buy paint somewhere else. They are not going to go out of their way to buy from our stores. We can't be everywhere. There are some customers that are just not going to be inclined to buy from us because we are not nearby or we're not handy to them. If we can service the retail customer better than K-Mart can or Sears can they will come because of that reason. I think that has to be a factor in a store because the retail customer has needs and questions about product, and so forth too, and if he or she is talking to a minimum wage, part-time employee in the paint or hardware department of a retail outlet, and can't get service or information, then they may go to our store because they get better information from our employees, better help and assistance, and whatever, such as color matching to a set of drapes or wallpaper, and things of this nature. But dealers also provide that too. If you go to paint and decorating stores, dealers typically focus in on service as well. More often than not you'll pay more for the paint there than you would at a do-it-yourself outlet. A lot of people don't just go in there to buy five gallons of Dover White to do the bedroom or the ceiling. They go in there to a get a color match to a different product, and somebody has to be there to help them.

DD: Well, that helps clarify that. I think this is an unusual company. In fact, I can't think of another one that has both a retail and a wholesale distribution operating simultaneously.

JB: There have been others who have tried it.

DD: It has been tried a lot, and it has usually failed because of channel conflict. It appears to be working here. That is interesting. It does fly in the face of conventional wisdom about marketing.

JB: That's why we have multiple brands. If we try to do it with Sherwin-Williams it is going to result, we think, in conflict and confusion, and that's why the management, I think, made the right decision in the early 1970's -- in 1974 -- to take it out of the dealer market. You could go literally to any one of four street corners, if you will, or within shouting distance, and see the product on sale perhaps at two or three different prices on any given weekend. In those days we got into fair trade laws and pricing and things of this nature which, I'm sure, was of some concern to them in the early 1970's.

DD: The coatings industry appeared more promising once you really understood the economics of it which had been disguised by the old accounting system. When you changed the incentives you changed the behavior and you signalled the plants to become more competitive. Did you do other things to increase operating efficiency besides changing the incentives?

JB: We also put in financial incentives for the key people. If you do this you will be rewarded. So the carrot was there too. We did that for a couple of years very specifically and said if the combination between the stores and the consumer division results in this you will be paid "X".

DD: But you didn't spend a lot of capital investment on upgrading plants?

JB: Oh yes. That was going on all the time. In addition to that we spent a lot of capital moving all the distribution centers from the plants. Every one of our distribution centers has been moved from adjoining the factory to a different location, most of which had been in either right-to-work areas or where we've started up with an all salar~~y~~ied workforce, and have continued with an all salar~~y~~ied workforce. The distribution center was built onto the plants in every case, and today we don't have one left. It has all been changed. Newark is not used as a distribution center. Newark has a warehouse there, but it's not used by us. They're all changed.

DD: And that was done to streamline efficiency? To streamline distribution costs?

JB: Well, streamline distribution, cut costs, and at the same time that would reduce our vulnerability to labor problems because at each plant we had two unions. We had the paint makers in the plant and we had the teamsters in the warehouse. We would settle a

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contract one year and the next year we'd have another one to settle with a different union, either one of whom who could shut us down. It just didn't make any sense. We changed that and we cut our costs dramatically. We also created a transportation services division. We have our own truck fleet and contract transportation business to bill up the empty backhaul to stores on that. Our transportation costs were a huge part of our costs. That helped a lot. I don't think that we could find anybody across the board to supply our stores as cheaply as our transportation services division does. So we went after transportation, we went after manufacturing costs. The last thing that we started after was quality, and now that's just going to be an on-going problem for the rest of our days, focusing in on getting the best quality available.

DD: Not just product quality, but quality. . .

END OF SIDE A

BEGINNING OF SIDE B

DD: Another question we had was when we talked to you earlier, and to several others here, the analogy between Sherwin-Williams and Anheuser-Busch was mentioned. You can dramatically grow market share in a slow growth industry by pursuing a particular strategy. How do you think about that analogy? In other words, is it kind of a goal to do what Anheuser-Busch did, or are you looking more specifically at what Anheuser-Busch did.

JB: Just a goal. If they could do it with beer -- and most American beers are hardly drinkable, so it's not an issue of quality -- then if they could do it, so can we. You just have to focus in on, well, their quality is not as good as other beers, but their manufacturing quality, my guess, is extraordinary. It's consistently fair quality beer, but it is consistent.

DD: It is uniform, yes.

JB: And it is very inexpensive. When you look at what you're paying today for a case of beer or a six-pack of beer and you can buy the stuff in discount stores, in beverage stores -- it's everywhere -- you can buy it in the supermarkets. There, I think, the function was advertising. They were able to generate enough profit to advertise more than the other company, whoever that might be, and they just drove them into the ground.

DD: Sherwin-Williams appears to be much more aggressive in advertising.

JB: Right. We're advertising much more in the retail side of the business. Advertising doesn't hurt, but it doesn't get you a lot in the painting contractor side of the business, other than the fact that they do read newspapers and watch television, but their pricing schedules are totally different than the retail customers. So we have tried to focus as much as we can on advertising because we think it's important for retailing, and we are big retailers.

PE: Do you see an analogy between the different brands that Anheuser-Busch uses and that we use? Is that one of their strategies?

JB: Yes, well they have. I mean, they have Michelob. . . I think it's just a normal, intelligent thing to do. If you're going to become Coca-Cola and go in there and bash away with one brand and then change the products, you know, like Diet Coke, diet with caffeine and diet without caffeine, and everything. . .

DD: And New Coke.

JB: Right, or you're going to go across the manufacturing product line with different brands. We went that way because we had had a history of going the other way, and it clearly had created big problems. I just didn't see any point to rewriting all of that history. I think that the people who made that decision did the right thing. I think the problem was the way it was implemented.

DD: But you're not following other aspects of the Anheuser-Busch strategy -- to segment the market a lot of different ways or to concentrate specifically on sports advertising.

JB: I think all of the above.

KMCD: Oh, really?

JB: Yes, I mean, we do major market. . . The next thing we will do that they do very successfully is concentrate on major market blitzes. Once we have let's say two or three strong brands we will have the ability then to go into a major market and do things that we couldn't do before. We haven't done it yet, but we're going to. And it would be a coordinated attack across several brands.

DD: One of the ways they do it is segmenting. The kind of advertising they run in Los Angeles is different than the kind they run in Chicago or New York. Would you be doing that kind of thing?

JB: We might. We probably will because we'll be buying more non-network advertising in the future as time goes on so we'll be going through cable sports channels and ESPN and so forth.

DD: And the sports advertising is because the typical paint buyer is a male?

JB: You just get a lot of ratings points when you're on those programs because that's what people are watching. You're not going to get it on a golf match relative to a football game, and so forth. And you won't get it on WGIZ watching Henry V.

KMCD: What would Sherwin-Williams compare to say the Budweiser brand? Is there a brand that you're currently trying to position as sort of the driving force?

JB: Sherwin-Williams is the king of paint.

KMCD: SWP.

JB: SWP is a brand -- it's a product. . .

DD: It's the Sherwin-Williams as opposed to the Dutch Boy.

JB: Long-term it could be. I mean, the Dutch Boy should be a bigger retail brand than Sherwin-Williams. It's not yet, but it should be because they have more outlets that they'll be able to sell than Sherwin-Williams.

DD: Kathleen's question really is that Anheuser-Busch really advertises the hell out of Bud; it spends less on Michelob, and here you are advertising more on the premium brands than you are on the mass market brand.

JB: I think in time that should change. The mass market retail brand will be Dutch Boy more so than Sherwin-Williams. If we had all of the paint stores that we could really manage profitably it might be 2,500 right now -- just rough rule of thumb. We're close to 2,000 now. We sell more paint per outlet than anybody else, but there are an awful lot of outlets out there that are not going to carry Sherwin-Williams Paint because we won't sell them. We're not focusing Dutch Boy to the painting contractor. Now, our customers may. We can't stop them from doing that. The Home Depot may decide, "We're going after the painting contractor, and we want a line of Dutch Boy goods to do it." Or, "We want our own private label to do it." We can't say no, you're not allowed to do that. If they do it, they do it. But right now they focus more on the do-it-yourselfer.

DD: Another question that we had pertains to the focus of the company on the American market. The assumption there appears to be that paint isn't a global industry.

JB: Some paints are, but most aren't. I have a ~~/unclear/~~ feeling that automotive OE paint is more. You could argue that. But if you say that a business is global then you say to what benefit, or where is the cost efficiency of the globalization. Is it in manufacturing? No, you need a factory here, and you need a factory there. You have people working in each plant, as in distribution, although you can't use your British trucks to deliver in the United States. So where is it?

DD: Well, the answer might be in one or two places. One is in R&D.

JB: It is in R&D. That's the only place I can find it. Now look at the percent of sales that's spent on R&D and tell me how much you gain by doing that. Not a lot. I just can't understand how one of our competitors -- when he made this big acquisition in an English company -- talked about globalization. I just think it's naive and wishful thinking. But I could understand if a car is manufactured in Japan and in St. Mary's, Ohio, or in Tennessee, and it's a Honda, and it has to be white, then it has to be the same in each of those plants. You can't have seven different whites. Right now, by and large, we do have that. It's a problem because if you have an accident with a car you literally have to know which plant it was assembled in. The paints are slightly different -- even to the eye. The automotive refinish market carries some of the same similarities, but I think architectural house paint does not. Industrial maintenance does not.

DD: Can there be global brands in the paint industry? That's the other place besides R&D where there might be inefficiency.

JB: Well, you can if you're going to spend on the advertising, but you don't get any synergy on the advertising unless we go to worldwide satellite someday. I mean, I can't advertise here and get any benefit for it in Germany, or vice versa. That might change some day with the new world order, but that means then there is one culture through the entire world. I don't think that this is possible.

DD: I do see globalization of brands. You see McDonald's and Coca Cola around the world, and those are more consumer products than paint is, but it may yet come to be.

PE: It's not as heavy as paint.

JB: Well, McDonald's though was a new idea. All of these countries that we are talking about have paint plants and good brands. If you go to Germany you've got BASF and [Berkston]. Huge companies -- England is the same and Japan.

DD: It looks as though the strategy now is very coherent; it makes a lot of sense. Do you have it knocked, or are there things that keep you up at night saying, gee, if we don't do that we're going to be in trouble.

JB: I think the thing that keeps me up at night -- as I mentioned before -- are the environmental issues. It's a period of time in the history of the country that we have to get through without tearing the place to pieces, and tearing each other to pieces. As a sideline, I was in Alaska the last two years fishing, and when you talk to the local Alaskans up there -- the environmentalists, which they have, they laugh about the Exxon Valdez situation. They think it's the best thing that ever happened to Alaska because it provided winter work for people to go down and wash rocks. Well, now they're finding out that what they washed the rocks with has done more damage than the oil spill, and that Prince William Sound has a 17' tide every day, so it's like a toilet emptying out and refilling every day. I don't know if you've ever seen an Alaskan winter storm, but it borders on frightening. You have 40' to 60' swells in some of the seas up there, with big winds behind it. Sixty or seventy mile an hour winds are quite common. Well, that creates such turmoil in those waters, and so forth, that the visible effects of the Exxon Valdez were gone after the first winter. I'm told that the crude, over a long period of time, breaks down back into carbohydrate and becomes part of the food chain. So while nobody is applauding Exxon for the way it was handled and their public relations campaign, you have to wonder how much damage was really done to the environment. This year the glut of salmon is so great -- last year the salmon caught were over 40 million. The previous record was 26 million. This year the glut is even greater to the point that the commercial fishermen went on strike this spring because of the prices. Pink salmon was being sold at the canneries for fifteen cents a pound, and silvers and kings at fifty to sixty cents a pound. There is salmon coming out of their ears, and they don't know what to do with them. I mean, the prices are ridiculous.

PE: Are you saying it has something to do with the oil spill?

JB: I don't know. What I'm saying is it hasn't hurt the salmon.

DD: Yes. The thing that keeps you up is that really in a rationally based environmentalist movement will cause problems for the company, mainly with the disposal of materials?

JB: The disposal of materials, products that were made in the past, lead pigment containing products, and so forth that we just have to defend ourselves legally and spend a lot of time and money to do that. If you have an issue that you can become emotional over -- a child that is allegedly damaged -- you're going to get a lot of publicity, and so forth. I can tell you that I think nobody here in those years -- I wasn't here then -- but I am sure that nobody maliciously intended to hurt anybody. The state-of-the-arts of manufacture were the best pigments in the world, made in Germany, and most of them were lead-based pigments. You got good color. Before it was banned the company moved away from those products because of the possible potential delaterious effects, and then the government banned the use of those products. The product was never built for human consumption. You just have to sit back and say. . . It may be that somebody was hurt, but it wasn't done intentionally. There are laws in the land that have instructed public housing authorities to remove these materials for the last fifteen years, and they haven't done it, and they are getting sued, so they turn around and sue everybody else they can get their hands on.

DD: The problem in all these things is the person who gets sued is

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the person with the money, which is usually the manufacturer. What you described is a political or a social risk. Do you see business risk to the strategy of focusing on coatings or economic risk?

JB: Not yet. At some point, I've said, we will have to diversify.

DD: You can't get up to 100% of the market, so therefore at some point you'll diversify.

JB: Right. We will diversify at some point again, but I think we have plenty of headroom to swim for a while. But, you know, at some point you just say the costs of gaining share now have a diminishing return. We keep going at it by internal growth, acquisitions here or there if we can find them, we're building up cash. What are we going to do with all this cash? We start to worry about it, and we start to look at other areas. We get our courage up, and we go do something different. That will happen.

DD: We could always dividend it.

JB: You could buy your stock back then -- you could do all kinds of things. But if you want to keep growing which is one of the focuses that you have -- you say you want to keep growing stronger -- not get smaller and richer.

DD: But you are talking about the far future for this.

JB: I don't know. I'd say certainly inside the next ten to twenty years.

DD: A moment ago you said that one of the factors that led to the focus on coatings was the industry consolidation -- the structural factors in the industry -- that was your phrasing -- around 1980. What was going on there?

JB: The country stopped growing.

DD: Just as simple as that?

JB: It stopped growing and companies started to leverage themselves with debt. Where you have that combination there were a lot of acquisitions that were made by companies of coatings companies. They found out that when they burdened it with the financial service cost of the debt that it couldn't carry itself -- it couldn't earn the cost of capital so they turned around and started selling it back. Then I think that that will continue for a while because I don't think the economy is going to get up and run and grow rapidly.

DD: But the other factors which are also causing a shake-out among the small independent paint manufacturers.

JB: Environmental problems, quality issues.

DD: How do you compete with Sherwin-Williams advertising.

JB: In a lot of cases we're competing with private companies whose ownership changes hands, and inside of that arena you have all kinds of variables. Fathers and sons, the sons not filling the father's shoes. Sons and daughters not interested in the business. A lot of the companies that we see were started in the '30s and '40s and after the war, and they were started at about that time by 30-year-old people, and now the cycle is turning the other way, and they need successors. There are several companies in that category right now.

DD: Okay, thank you.