

# Operational strategies of the sherwin-williams essay



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The Sherwin-Williams Supply Chain Abstract The purpose of this paper is to describe and critique the supply chain management of the Sherwin-Williams Company. We will focus on areas such as supply chain risks, productivity measurements, the flow of information between suppliers and customers, supply chain alignment with company strategy etc. We will analyze and critique the existing supply chain and make suggestions for future improvements. Finally, we will relate the topics discussed in Lee's "The Triple-A Supply Chain" back to the Sherwin-Williams Company and its Team 150 goals.

Introduction The Sherwin-Williams Company is a paint and coatings manufacturer headquartered in Cleveland, Ohio. Henry Sherwin and Edward Williams founded the company in 1866. Sherwin-Williams produces some of the most popular paint brands including Dutch Boy, Krylon, Minwax and Thompson's WaterSeal. The company is currently the world's fourth largest paint and coatings manufacturer with \$7.78 billion in sales (Wright, 2009). Sherwin-Williams is organized in three divisions: the Paint Stores Group, the Consumer Group and the Global Finishes Group.

The Paint Stores group serves both professional painting contractors and do-it-yourself homeowners and is the largest operator of specialty paint stores in North America (The Sherwin-Williams Company [SWC], 2011c). The Consumer Group supplies branded and private label products to retailers and supports the Paint Stores Group with new product research and development. The Global Finishes Group manufactures and sells industrial coatings, automotive finishes, protective and marine coatings and architectural coatings to customers around the world.

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The Global Finishes Group is currently leading Sherwin-Williams' international growth with three acquisitions completed in 2010 alone (SWC, 2011c). Sherwin-Williams manufactures almost every kind of paint and coating, including home paint, architectural paint, automotive paint, original equipment manufacturer coatings (such as coatings for iPads and electronic equipment), and aerospace finishes. Not only does Sherwin-Williams supply its paint and coatings to other companies for their own use, but it also operates 3,390 specialty paint stores in North America.

There are also 564 branches in North and South America that service the Global Finishes Group (SWC, 2011c). Company Strategy Sherwin Williams currently conducts business in 109 countries. Domestic sales account for about 87% of the company's revenue, with 13% of the revenue coming from international sales. The company has a goal it has named "Team 150." The goal is to expand internationally and increase its international sales to 33% of total sales. The company plans to do this by doubling total sales to \$15 billion. The target for this goal is Sherwin-Williams' 150th anniversary, or 2016.

Sherwin-Williams' supply chain is currently in transition to accommodate this goal. The company recently acquired Sayerlack and Becker Acroma, two industrial wood finishing businesses to expand its existing global wood finishing market and provide research, development, manufacturing and distribution capabilities for its European and Asian divisions. Pinturas Condor, a coatings supplier in Ecuador was also acquired to expand its South American market (SWC, 2011c). Although Sherwin-Williams plans to focus on international sales, it continues to invest in new domestic stores.

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This is because the company believes the professional painter will be the fastest growing customer segment in the near future, and professional paint contractors prefer to shop at specialty paint stores (SWC, 2011c). Sherwin-Williams considers the professional painter one of its most important customers since this is the customer who is continuously exposed to paint chemicals and the manual labor of painting. The company puts a significant amount of research into technology to reduce risks for professional painters (McConnell, M. personal interview, 2011, April 12).

Sherwin-Williams is an end-to-end supply chain manufacturer, which is unique among other Fortune 500 companies. The company goes all the way from acquiring and in some cases manufacturing its own raw materials to sale in its retail operations, all the way to delivering that product to the end suppliers, such as chains like Lowe's or Home Depot. This means that Sherwin-Williams is in direct competition with its own customers in some cases. The cooperation between the companies and its customers depends on how the customer views the company in terms of competition. This results in different strategies in different areas of the business.

#### Supply Chain

Sherwin-Williams has four established supply chains. The supply chains include North America, South and Central America, European Middle Eastern and Africa (EMEA), and Asia Pacific. The company has been operating in South and Central America since 1929, so it has a formidable presence with an established supply chain in the region. The EMEA and Asia Pacific supply chains are more developing, and that's where the company sees growth opportunity.

Instead of building its EMEA and Asia Pacific supply chains from the bottom up, Sherwin-Williams has made a number of acquisitions of companies already established in the regions with existing supply chains. Supply Chain Risks Sherwin-Williams owns its own transportation fleet that allows it to control its distribution model. This gives the company opportunity to ensure quality in every step of the process, along with leverage to control the assets that allow it to respond to challenges and risks in the supply chain.

The economic recovery that occurred after the Great Recession resulted in the recovery of the housing market, which led to an increase in demand for paint and coatings by both homeowners and contractors alike. There was a significant increase in the “repaint segments,” which resulted in a serious shortage of raw materials, such as latex and methyl methacrylate, two main components in home paint and road paint (SWC, 2011c). Mike McConnell, Vice President of Sherwin-Williams’ North American supply chain, contends that 2010 was the most difficult year he’s seen in his career at the company (personal interview, 2011, April 12).

During the raw materials shortage, the company was able to go directly to its tier two suppliers, pay a premium for the critical raw materials, and transport them right to their own manufacturing facilities. This allowed the company to bypass several steps of our manufacturers’ distribution model. This put Sherwin-Williams in a unique position and many customers didn’t even notice the critical shortage (McConnell, M. , personal interview, 2011, April 12). The recent tsunami in Japan also has impacted Sherwin-Williams supply chain, in particular some exotic automotive coatings. The 3-D effect that’s seen in many automotive aints requires mica and other minerals that are <https://assignbuster.com/operational-strategies-of-the-sherwin-williams-essay/>

sourced only in Japan. The company has had to change its production schedule to account for the current crisis. It recognizes that customers have a greater demand for unique coatings that must now be sourced globally and the company is constantly searching for new products and raw materials throughout other parts of the world

**Inputs and Outputs**

Sherwin-Williams used to have a separate purchasing group for each of its divisions. Resources were spread globally but there was overlap between the raw materials that were purchased by each division.

About three years ago the company created a global purchasing group, making the acquisition of raw materials a corporate function. This allows the company to use its leverage to negotiate better prices and reduce acquisition costs. Most coatings consist of about 40% resins/latex, 30% pigments, 10% solvents, and 10% additives. The remaining ingredients are metals or plastics for the containers (de Guzman, 2010). Sherwin-Williams manufactures the majority of its products to stock for its most popular customer, the professional paint contractor.

The company was an early leader in the paint and coatings industry, inventing in-store mixing in 1959. This method of postponement allows a large amount of made-to-stock inventory to be held in retail stores for customization to the specific requests of the customer without being prohibitively expensive. Although most of the company's products are made-to-stock, Sherwin-Williams also uses the just-in-time philosophy as a supplier for many of its retail customers. This option is popular for its customers in the Global Finishes Group, in particular its automotive customers.

The company also has a trademarked Lean Stock Inventory System that allows automotive technicians to use a reusable order sheet (the Kanban trigger) to alert inventory managers when additional products need to be ordered. This system is linked to Sherwin-Williams via its website, and the product is automatically restocked (SWC, 2011b).

**Quality Metrics** There is not much agreement or uniformity in quality metrics throughout the paint and coatings industry. Traditionally Sherwin-Williams used some of the same metrics used by other companies including gallon availability (percentage of ordered gallons available), line availability (percentage of ordered product lines available), and order completeness (yes or no). What they hadn't accurately tracked is on time delivery. There is a challenge measuring timely delivery of third party shipping companies because these vendors are self-reporting. The company did its best to validate the results periodically but there still remained a challenge. In order to account for its growth goals, Sherwin-Williams recently began utilizing a measure titled "The Perfect Order." 2011 will be the company's first year using the metric (the baseline was established in 2010). The Perfect Order consists of several components:

- \* Product availability
- Line availability
- \* Order completeness
- \* Was there any damage?
- \* Was the product priced right?
- \* On time shipment

The measurements from the various components are multiplied and averaged. The goal is 90% for the perfect order. There are also continuous six sigma and lean improvement projects that increase the baseline for the perfect order.

**Product Life Cycle** The Sherwin-Williams company operates three research and development facilities: The Breen Technology Center in Cleveland, Ohio, the Automotive & Diversified Brands Campus in Warrensville, OH, and the Arthur W. Steudel Technical Center in Chicago, IL.

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These facilities are responsible for new product development and lead the way for the company's international growth. One product the company is currently working on is Pro-Industrial Anti-Graffiti Coating. This coating forms a protective barrier on the surface structures that prevents graffiti from bonding. Sherwin-Williams recognizes graffiti as a problem that costs tens of millions of dollars in damage each year (SWC, 2011c). Green technology is a growing segment of Sherwin-Williams business. One area the company focuses on is lowering the volatile chemical compounds in its various coatings.

The company recognizes that repeated exposure to these chemicals have a significant impact on its most popular customer, the professional paint contractor. It's also important for many institutions to have the ability to use products that won't disrupt daily operations, such as when hospitals or schools are repainted. One product our group had an idea for is a coating that would aid in gathering of solar energy. Currently this energy is gathered using solar panels on roofing, however, if Sherwin-Williams could develop a coating that could be used anywhere it would probably experience substantial growth.

This is due to the fact that most companies have incorporated social and environmental responsibility into their business models. Supply Chain Improvements The aspect of Sherwin-Williams quality metrics that could use the most improvement is the delivery portion. Although the company has its own transportation fleet, it uses many third party shippers. The fact that these companies self-report results creates a significant problem for

Sherwin-Williams. One suggestion for improvement is for Sherwin-Williams to <https://assignbuster.com/operational-strategies-of-the-sherwin-williams-essay/>



implement some type of computerized tracking system that is compatible with third party shippers and its own transportation fleet.

This would allow the company to use objective measures that can be used to measure all deliveries, including those by third party shippers. Another option would be for the company to eliminate the use of third party shippers within North America and use its own transportation fleet for deliveries. This would allow the company to completely control its distribution from beginning to end. One thing Sherwin-Williams is currently doing to account for its international growth is training its employees on international shipping methods and best practices.

It is becoming increasingly important for the distribution and manufacturing centers to know how to properly load shipping containers. This task was previously outsourced since international sales accounted for such a small amount of the revenue. Agility, Adaptability, Alignment Sherwin-Williams market position is proof that it has done an excellent job of incorporating Lee's Triple-A supply chain qualities. One of the main reasons the company was able to deal with the recent raw materials shortage is its ability to be agile in its response.

There were several events that tested the company's agility causing shortages of latex, methyl methacrylate and other raw materials. First there was the economic recovery after the Great Recession, then there were accidents at plants of several tier one suppliers, then there was the Japanese tsunami. Sherwin-Williams relied on business leaders from each division to get it through the shortages. Management held daily meetings and decided

to allocate and ration the raw materials. Management reviewed every safety stock, cycle stock and batch size with employees in every single retail store.

The company's distribution model allowed it to know what products were in the field and what products needed to be produced in greater quantities. The company reviewed inventory at the shelf level literally each day. The company was able to allow its retail stores and wholesale customers to make a choice about the necessary inventory. Business leaders prioritized certain products, going through and categorizing products by priority 1, 2, or 3. Priority 1 products continued to be made at 100%, priority 2 products were produced at 75%, and priority 3 products were produced at 50%.

The fact that the company had the ability to control manufacturing and distribution helped it to buffer the effects of the critical shortage (McConnell, personal interview, 2011, April 12). Sherwin-Williams' recent acquisitions have also required it to adapt to the European market. Although there is a low-level exemption, the European Union requires most imported chemicals be registered and tracked. Significant fees are charged for chemicals over the exempted amount. In some cases it's economical for the company to manufacture products in North America and ship them to Europe, however, this is becoming costly as the European market expands.

The company is now searching for ways to manufacture these products in Europe and use the existing chemical registrations of its raw materials suppliers in the region. The company must find the break-even point for each product and determine if it costs less to manufacture the product in North America and export it to Europe or manufacture the product in Europe using

the existing infrastructure of its recent acquisitions. Sherwin-Williams believes the use of human capital from the recent acquisitions has significantly reduced the learning curve in this area.

Although Lee speaks of alignment among different suppliers, alignment with the whole company is important in the case of Sherwin-Williams. This is because the company's unique end-to-end manufacturing process makes it the supplier, assembler, distributor, and retailer of its own products.

Continuous improvement is one of the core tenets of the company overall and the supply chain in particular. Management knows there is a lot of room for improvement and perfection is never achieved (McConnell, personal interview, 2011, April 12).

Each year managers from each division are required to meet with the CEO and his staff and explain their improvement plan and how they're going to achieve their annual goals. The goals of each division must align with the goals for the entire company. A significant amount of that time is spent on a schedule called OP-16 or operating plan 16. That schedule details what each division is doing to drive out waste and imperfection within the operation. There is also a separate profit and loss statement that is called "The Cost of Poor Quality. Anything that generates non-value added activity, anything the customer isn't willing to pay for, goes into the statement and management identifies those specific costs. These costs are continuously used to target projects for improvement. Conclusion Sherwin-Williams' unique structure has allowed it to learn from its own experiences and become an industry leader.

Although the company has made significant investments in technology to improve its supply chain, it has used other forms of capital to improve  
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throughout its history. Sherwin-Williams' belief in continuous improvement is evident in its past performance.

As long as the company continues on its current path and prioritizes improvement, there is no reason to believe it can't reach its Team 150 goal by 2016. This will take constant planning, managing and adjusting in order for the company to remain competitive. Our ability to interview Mike McConnell showed us that Sherwin-Williams is up to this challenge and is meeting it head on. References de Guzman, D. (2010, July 19). TiO<sub>2</sub> prices on the rise across the globe. ICIS Chemical Business. Krajewski, L. J. , Ritzman, L. P. , & Malhotra, M. K. (2010). Operations management: Processes and supply chains. Upper Saddle River, NJ: Prentice Hall.

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