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Benjamin Moore & Co.: A Story of Corporate Renewal and Our Family's Exit

By Jack Moore

For over 100 years, Benjamin Moore & Co. had operated successfully in a single niche business: making paint in the United States and Canada. We carefully expanded beyond our New York City roots—using our own money—to buy or build one factory at a time in order to supply a new metropolitan area. The company enjoyed the loyalty of family, dealers, customers, and employees. Except for the 1940s, we only had four leaders in our 117-year history. We were financially conservative and placed great emphasis on integrity in business and on product quality.

But then our growth began to accelerate in the late 1970s, as baby boomers became homeowners and the housing market heated up. From 1975 to 1990, our stock split 24:1, the company's net worth tripled, and earnings increased almost eight-fold. The more successful we were, the less anyone felt the need for change.

The case for change. But despite 15 years of great results, earnings flattened out beginning in 1988, margins eroded 17 percent by 1993, and we had become less efficient and a high-cost producer. The company was still operating with a 100-year-old organizational structure. While the industry had consolidated from many local and regional paint makers into just a few national companies, Benjamin Moore & Co. consisted primarily of a collection of 17 locally focused operations. We often operated our plants with just one shift a day and had production runs as small as 50 gallons. We never learned how to sell and service national corporate accounts, such as were offered by the *Fortune* 1000 companies.

In the late 1980s, "big box" retailers, led by Wal-Mart and Home Depot, had become a significant, competing distribution channel. Many of our independent dealers were simply not keeping up. They continued to operate in downtown locations, relying on the loyalty of their own longstanding customer relationships. We sold paint to our local dealers using local phone, fax, and order pads. All our dealers received superior, personalized attention regardless of their business volume.

Making the change. We simply had to find ways to become a lower-cost producer, to revitalize our aging dealer channel, and to energize our business-as-usual ranks of management and workers. Just as importantly, we needed to somehow break out of our mold. We considered going international; becoming a retail organization; growing by acquisition; or perhaps creating whole new product lines. All of this required cash to modernize our factories and to invest in the change initiatives. However, we were already straining under buy-back demands from family and employees needing cash for their stock.

From roughly 1994 through 2000, with the help of several advisors and newly hired outside executives, management undertook a broad transformation of the company. The first move was to empower the employees to define and lead our change initiatives. It was through their efforts that we restructured into a centralized company. We closed more than half of the plants, reducing the workforce by over 25 percent and cutting our product line by 30 percent. Then we sought to acquire companies, entered Asian and Pacific markets, built a retailing division, and finally, developed a strategic plan for top-line growth through our re-energized independent dealer channel.

Director Summary: A former family board member of the Benjamin Moore paint company describes his family's transition from a small, localized manufacturer, through a national family-owned company, to its eventual $1 billion sale to Warren Buffett. As the company changed, the number of independent directors increased; inside directors decreased; and director compensation was raised to reflect increased workload.

As a result, our annual net income more than doubled, rising rapidly from a recent history of $36 million to $78 million in 1999. Payback on our restructuring charge of $33 million was thus achieved in less than two years.

Board Leadership

The company was founded in 1883 by two brothers. Benjamin, 27, was a plant superintendent for another company and Robert, 43, provided $2,000 from his wool import business to start up the company. With equity equally divided, both family lines were always represented on the board of directors. By 1993, the family was collectively still the dominant shareholder.

Historically, the board had served in the perfunctory role of meeting by-law requirements and passing the appropriate resolutions and approvals. In 1994, we had 17 directors and several nonvoting attendees at each meeting. The CFO read the text of our operating results for the quarter, and each division president made similar reports. Presentations were followed by Q&A sessions.

Evolution in the boardroom. Just as most aspects of company operations were subject to change, the board entered into a period of transition. As shown in the table, the size and composition of the board changed significantly from 1995 to 2000. In addition to dropping from 17 to 11 directors, the board increased the number of independent directors and reduced the overall count of inside directors. The board delegated more work to committees, eliminated consulting fees, and increased director compensation to reflect the increased director time commitments.

Board Evolution at Benjamin Moore & Co.

	1995	2000
Board Size	17	11
Composition		
Executives	9	3
[family]	[2]	[0]
[non-family]	[7]	[3]
Other family	4	5
Independent	1	3
Retired execs, non-family	2	0
Supplier	1	0
Committees	• Exec. & Finance • Audit • Comp. & Stock Options	• Exec. & Finance • Audit • Compensation • Stock Options • Governance • Pension Oversight
Compensation	• $30K retainer • $5K Exec. & Finance	• $24K retainer • $1–2K meeting fee • $3K committee retainer • $ 5K committee chair
Consulting Fees	• 3 directors @ $20K	• none

Furthermore, the amount of meeting time allocated to discussions increased and we began meeting in executive session, conducting board and director evaluations, and holding annual strategy retreats—the very practices NACD endorses for high-performing boards, but certainly new territory for an old-line family company.

Role of the board. Most importantly, the board began serving in several ways as a strategic asset to the company's leadership:

- First, we were used as the stimulus for management to develop and present its many strategies for overhauling company operations.
- Second, our outside directors were able to refer management to new and specialized advisors who proved most helpful in our efforts to transform the company.
- Third, the outside directors brought in the perspective and experience of what it meant to be a publicly traded company.
- Fourth, the family's interests were represented on the board, as we explored options for change of control, for becoming publicly traded, or taking on debt to fund major acquisitions.
- And fifth, one of our directors introduced management to Warren Buffett.

The Family Exit

In late August 2000, after one four-hour meeting, management reached a handshake agreement to sell the company to Berkshire Hathaway for $1 billion in an all-cash transaction. The proposal was presented to the board two weeks later; due diligence and a fairness evaluation were completed within several weeks; and the board approved the sale on November 8th. Surely, our board was able to move with such speed and effectiveness only because of its engaged participation as overseer and strategic partner with management for almost five years.

Thus, in a single stroke, management, with the support of the family, achieved the best possible future for our company. Benjamin Moore & Co. "went dark" as our competitors no longer could see into the company through our Securities and Exchange Commission disclosures. And with Buffett's long-haul, hands-off management style, our employees could continue operating as a leading producer of top-quality architectural coatings. ■

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