

The Sherwin-Williams Company: Where Should the Next Store Go?

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Information cutoff: August 29, 2024, following the Financial Community Presentation

Management perspective: Heidi Petz, President and CEO; John G. Morikis, Chairman at the cutoff

Case convention: This is a hypothetical planning assignment, not a reconstruction of a private meeting or a disclosed board vote. [P1; P3]

The decision

Sherwin-Williams built its Paint Stores Group (PSG) around company-operated specialty paint stores, sales representatives, knowledgeable employees, controlled distribution and digital tools. At the end of 2023 it operated 4,694 PSG stores. Management's stated objective was to expand the store base by an approximate average of 2% annually, primarily through organic growth. [P1]

The objective looked attainable. Sherwin-Williams opened 76 PSG stores and closed six in 2023, for a net increase of 70. It added 26 net stores in the first half of 2024, bringing the group to 4,720. Yet the public figures did not show what an individual opening earned after start-up and occupancy costs, how much sales shifted from nearby Sherwin-Williams stores, or whether a denser network improved delivery and service enough to offset that overlap. [P1; P2]

Decision assignment: In a hypothetical next-cycle planning role, advise Morikis and the board whether to preserve the approximate 2% PSG expansion objective, direct openings toward selected clusters and stage them against evidence, or slow openings while investing more in service, representatives and digital capabilities at existing stores. Specify the site-selection rule, the evidence gates for releasing capital, and the conditions that would change your recommendation. Do not assume that management disclosed a fixed budget for these uses.

A specialty-store system

PSG served architectural and industrial contractors as well as do-it-yourself (DIY) homeowners. Of the 4,694 stores at year-end 2023, 205 were owned. The five reported divisions-Midwest, Eastern, Canada, Southeast and Southwest-ranged from 256 stores in Canada to 1,189 in the Midwest. These broad counts describe the operating footprint, not local market density, site-level sales or distance to a distribution point. [P1]

Management described the specialty-store proposition as a coordinated system: focused sales representatives, employees with product knowledge, controlled distribution, customer convenience and digital tools. Executives said they expected PSG to grow 1.5 to 2 times the market. Those are management's explanations and expectations; the public record does not

isolate the causal contribution or return of each capability. [P3]

The company also reached customers through Consumer Brands products sold via home centers, dealers and other retail partners. Management described its Lowe's relationship as an exclusive home-center relationship with aligned goals and said the channels served different customer preferences. Consumer Brands partner reach is not the same operating model as PSG: PSG stores are company-operated specialty outlets, while partner channels provide customer access through third parties. Sherwin-Williams reported more than 10,000 Consumer Brands distribution points in its 2023 sustainability report. [P3; P5]

Lowe's reported 1,746 U.S. home-improvement stores and outlets at February 2, 2024, and described in-store, online, on-site, contact-center and Pro services. It sells paint and offers broad home-improvement access at scale. Those stores are not one-for-one substitutes for Sherwin-Williams specialty locations. The partner relationship may extend reach; at the same time, the company's public disclosures do not quantify customer overlap, substitution between formats or partner-channel economics. [P4]

Growth with unresolved unit economics

PSG generated \$12.84 billion in 2023 net sales, up 7.3%. Comparable-store sales rose 6.8%; management attributed the increase to mid-single-digit volume growth and low-single-digit pricing. The comparable-sales measure covers locations open more than 12 months. It does not distinguish new-store ramp, transfers between nearby locations, price effects, local market growth or customer gains. [P1]

In the second quarter of 2024, PSG sales were \$3.62 billion, up 3.5%; comparable sales increased 2.4%. Segment profit increased 6.8% to \$907 million, and reported segment margin rose to 25.1% from 24.3%. Management cited moderating raw-material costs as one contributor to margin performance. A segment margin is not the incremental margin on a new site, and a quarterly margin change is not an opening return. [P2]

The approximate 2% objective was a long-run management objective, not a binding annual quota. In 2023, 76 openings less six closures produced net growth of 70 stores. Subtracting those net additions from the year-end total gives a derived beginning count of 4,624; net growth was therefore about 1.5% of that derived base. Gross openings, net additions and the objective's approximate average are different measures. [P1]

Costs were rising alongside growth. PSG SG&A increased \$401.4 million in 2023. The filing cited employee-related costs, new-store opening spending, higher costs to serve customers, technology investments, and support for higher sales, including additional representatives. It did not quantify each driver or assign the whole increase to expansion. The disclosure presents a resource-allocation question, but cannot determine whether any individual investment was earning an adequate return. [P1]

Demand and timing

At the August 29 meeting, Consumer Brands management said North American DIY consumers were under pressure and that the channel could remain choppy through 2024 and into 2025. The global architectural leader said paint had held up better than broader home-improvement demand and linked DIY upside to a possible recovery in existing-home turnover. These were forward-looking, attributed management views focused on DIY and home-center conditions. They were not an established forecast for all PSG customers, including professional, commercial and industrial demand. [P3]

This distinction matters for a store decision. A slowdown in home turnover could affect DIY paint demand and home-center traffic without establishing that professional contractors would reduce purchases by the same amount. Conversely, a broad segment sales increase does not establish that an individual location in a specific market has attractive incremental demand.

What does a denser network create?

Retail research offers competing mechanisms. Holmes' study of Wal-Mart's U.S. network found that proximity to distribution centers could support replenishment and responsiveness as well as reduce direct transport expense. It also documented that the standalone sales of an average new Wal-Mart store exceeded its incremental value to the existing chain by about 10%. These results show why network value and transferred sales should be considered together. The estimates describe Wal-Mart's historical operations and must not be applied as Sherwin-Williams store economics. [A1]

Research on a fast-food chain likewise finds that cannibalization and customer travel vary with distance, while a dynamic spatial-competition framework treats own-store overlap, density economies, rival locations and customer travel as separate forces. Those studies inform what management might measure; their estimates do not provide a paint-store cannibalization rate or site hurdle. [A2; A3]

For Sherwin-Williams, an infill store could move some purchases from another company location yet improve access for contractors, delivery responsiveness or service coverage. A new location could also add fixed operating and occupancy costs without bringing many new customers. A site in an under-served market might add reach but be farther from existing routes and stores. The public data do not resolve which effect dominates in any proposed market.

Planning choices

Morikis and the board could consider three broad approaches:

1. **Maintain the approximate expansion objective.** Continue developing stores across the footprint, using the specialty-store network to build customer access and support service. This preserves momentum, but risks treating an average objective as a site-level return test when opening economics and local overlap are not public.
2. **Concentrate and stage openings.** Preserve the objective as a long-run ambition, while prioritizing locations where customer access, professional demand and service or route benefits are strongest. Release later tranches only after new-store and neighboring-store evidence meets explicit gates. This may improve learning and network economics but could defer access in less-dense markets.
3. **Slow openings and deepen the existing network.** Direct more incremental effort toward existing-store service, sales representatives and digital capabilities until local market and cohort economics are better understood. This limits near-term fixed commitments but could leave attractive markets underserved and forgo network benefits.

These choices need not imply that every resource moves to one category. Students should state a primary priority and the logic for exceptions. The company disclosed no fixed pool of growth dollars or cost and return schedule for these alternatives. Any budget, opening cost, store-level sales, contribution, cannibalization rate, route saving or ramp curve used in an analysis must be labeled as a teaching assumption.

Exhibit 1: PSG footprint and growth

Measure	FY2023 / year-end	First half 2024 / Q2 2024
PSG company-operated stores	4,694 at Dec. 31, 2023	4,720 at June 30, 2024
Store additions	76 opened; 6 closed; net +70 in FY2023	26 net new stores in H1
PSG net sales	\$12,839.5 million; +7.3%	Q2: \$3,619.9 million; +3.5%
Comparable-store sales	+6.8% in FY2023	Q2: +2.4%
Segment profit / margin	-	Q2: \$907.1 million / 25.1%; prior-year margin 24.3%

Sources: Sherwin-Williams FY2023 Form 10-K and Q2 2024 results release. PSG comparable sales are reported for stores open more than 12 months. Full-period and quarterly measures should not be combined as though they had the same basis. Segment-level results are not opening-cohort returns. [P1; P2]

Exhibit 2: PSG geography at December 31, 2023

Division	Stores
Midwest	1,189
Eastern	911
Canada	256
Southeast	1,188
Southwest	1,150
Total	4,694

Source: FY2023 Form 10-K. Divisions are broad operating regions; counts do not disclose city-level density, customer catchments, local competition or distribution-route economics. [P1]

Exhibit 3: Investment context

Evidence available at cutoff	What it establishes	What it does not establish
Approximate average 2% annual PSG base-expansion objective	Management's stated long-run direction	A fixed annual quota or a return hurdle for a particular site
\$401.4 million increase in PSG SG&A in 2023	Multiple cost and investment drivers grew	Opening cost, marginal cost or ROI for stores, reps, service or technology
26 net PSG additions in H1 2024	Network expansion continued	Exact site timing, pipeline quality, ramp, closure risk or local overlap
North American DIY demand pressure discussed in August 2024	Management's view of a challenged consumer channel	A forecast for all PSG demand or professional customers
Lowe's 1,746 U.S. stores and broad Pro/omnichannel capability	Scale of an important partner and customer-access channel	Like-for-like specialty store economics or quantified channel substitution

Questions for discussion

1. Which of the three approaches would you recommend now? What would you preserve, defer or stage?
2. How should site selection value incremental customers, sales shifted from nearby Sherwin-Williams stores, service and distribution effects, and new operating costs?
3. Which leading indicators and cohort comparisons would distinguish a productive cluster from one that mostly relocates demand?
4. How should the company account for differences among PSG professional customers, PSG DIY customers and Consumer Brands partner channels?
5. What evidence would change your recommendation after the first openings or service investments?

Sources

- **P1:** Sherwin-Williams FY2023 Form 10-K, filed February 20, 2024, especially PSG segment description and Item 7, printed pp. 3-4, 24-26.
- **P2:** Sherwin-Williams Q2 2024 results, released July 23, 2024, “Second Quarter Segment Results” and store-count table.
- **P3:** Sherwin-Williams Financial Community Presentation corrected transcript, August 29, 2024, PDF pp. 10-12, 21-22, 26-27, 33-34.
- **P4:** Lowe’s FY2023 Form 10-K, filed March 25, 2024, Item 1, pp. 1-3, and Item 2, p. 17.
- **P5:** Sherwin-Williams 2023 Sustainability Report, p. 5.
- **A1:** Holmes, “The Diffusion of Wal-Mart and Economies of Density,” *Econometrica* 79(1), 2011. Used as a mechanism only.
- **A2:** Pancras, Sriram and Kumar, “Empirical Investigation of Retail Expansion and Cannibalization in a Dynamic Environment,” *Management Science* 58(11), 2012. Access and transfer limitations apply.
- **A3:** Aguirregabiria and Vicentini, “Dynamic Spatial Competition Between Multi-Store Retailers,” *Journal of Industrial Economics* 64(4), 2016. Abstract only; conceptual use.

Complete URLs, locators, versions and actual reading depth are recorded in the accepted source register. The evidence extraction records the supporting facts, rival explanations and missing inputs.