PERQUE FLOORING

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Background
At about the same time Harvey paid off the note to Kirby (1978), Craig Perque, Harvey's oldest son, became ready to take over the management of the store in Houma. Craig started as a carpet installer at age 14 and worked his way into sales because of a natural outgoing personality. With Craig managing the Houma store, Harvey branched out to the New Orleans market and started Perque's of Gretna and Perque's of Kenner with a partner, Ralph Michel. Within a few years, Harvey added additional stores in New Orleans East and Slidell on the north shore of Lake Pontchartrain. Stuart Perque, Harvey's third son, joined the New Orleans operations and proved to be a very capable manager at the Gretna location. The stores in New Orleans were operated as separate companies from the store in Houma, but Harvey remained the principal shareholder in all of the companies.

The stores sold primarily sheet vinyl and carpet and business remained good. Harvey stayed in the business another six years before retiring from day-to-day management. Harvey stepped down in favor of Stuart, realizing his third son’s managerial talent and readiness and placed Stuart in charge of the New Orleans operations.

Introduction
The casino hummed with excitement as patrons murmured quietly to each other in small groups huddled around roulette wheels and gaming tables. Others stared with rapt attention as the one-armed bandits whirled and flashed familiar symbols amid a kaleidoscope of lights and a constant stream of dings and clangs. In the background, Brian could hear the tinkling of drink glasses and beer bottles. In spite of himself, he studied the rich jewel tones of the long aisles of carpeting and noted minor flaws in the workmanship of the installers. Yes, it was Saturday night in Biloxi and the young man began to feel some relief after many weeks of work without a decent holiday. Then, he felt the gentle vibration of his cell phone in his shirt pocket.

Brian pulled out the phone and glancing at the number, recognized that it was his brother, Josh. He answered the phone.

"Brian, what are you doing?" questioned Josh.

"You do know that it's after 2 o'clock in the morning, right? We are here at the casino in Biloxi having a wonderful time. I just won $20 at the roulette table," replied Brian. "We had a great dinner and lost a few bucks on the slot machines, but nothing to worry about."

Josh cut Brian short and asked, “Who is around you?”

Brian said, “Stephanie and Jenny are here.”

“I have something to tell you," said Josh firmly but in a low quiet voice that reverberated through the cell phone. "I want you to know that this is serious and I love you. I got a call from Mom about 2:00 tonight. She said that our father has been in an accident. I asked if there was drinking involved and she said yes, but father was not driving. I asked if he was still alive. She said, 'No, Josh. He is dead.' Dad has passed away in a car accident.”

Brian groaned, “There is just no way. I just talked to him.”

"He went to a cook-off in Thibodaux and afterwards, he got into a car with someone who had been drinking. They got into an accident and he was killed. This happened on SR308 around Raceland going towards New Orleans. It was a really bad curve and they took it too fast. They hit a telephone pole and a huge oak tree – it was just a bad accident," Josh reported.

"What should we do?" asked Brian.

“I am heading back to Thibodaux to Grandmother's house,” said Josh.

Mechanically and in a daze, Brian replied, “I will meet you there.”

Several days later after their father's funeral, the brothers sat in the family room of their grandparents' home and discussed the family business. The brothers leaned back into opposite ends of a giant overstuffed brown leather sofa. Brian opened the conversation, “They are going to call me to run the Houma store and I don’t want to do it.”

Josh replied, “You have to do it.”

Brian said, “We have something going there in Slidell. When I left Houma and went to manage the store on the north shore, I left all those family issues behind.”

“Forget the thing about family loyalty, the Houma store is a gold mine and you have to take it. Let’s take what we did in Slidell and bring it over to Houma," asserted Josh.

“I don’t want to do that because I am happy with the way things are now,” Brian stated.
At this point, the brothers' grandfather, Harvey Perque, walked into the room and sat in a huge beige recliner, facing the two young men. "I heard what you just said, Brian, but let me tell you, the store in Houma is in rough shape. I am going over there to see what I can do, but I have been out of store management for a while now. We need someone we can trust, someone who is young and hard-working and eager to face a challenge. We need you there." Within a few minutes, the great salesman worked his magic once again and young Brian agreed to return to Houma.

Perque Flooring

In the early 1950s, Harvey Perque, a bright and industrious young man, was working in a factory in south Louisiana. To earn extra money, Harvey learned to install carpet and began working this side job in the evenings and weekends. Not only was Harvey a very good carpet installer, but he also had a gift for sales and understanding what his customers wanted. He developed a steady stream of income as an installer. By 1955, Harvey was able to leave the factory job and open a modest store on Barrow Street in downtown Houma, which was all there was of Houma in those days. Houma is located in south central Louisiana 57 miles driving distance west and slightly south of New Orleans. Harvey persuaded Kirby Perque, his brother, and Richard Portier, his brother-in-law, to join him in the business and to bring in carpet for resale. In the 1950s, there was very little competition in carpet in Houma. Carpet was a high margin good and the Perques established a reputation for high quality. Aided by the large amount of oil exploration in the Gulf of Mexico and the resultant economic growth in the Gulf States region, the business grew substantially over the next twenty years.

Joshua Perque described his grandfather's role in the business, "My grandfather could best be described as an old-school retailer. It was drive people in with deals. They had a deal for 20 years which was if you have your carpet installed and you didn't like the color; they would replace it for free. In those 20 years, they might have had to replace two or three jobs, but it was a guarantee. They would lay these big rolls of carpet out on the floor and stack them five rolls high. People would come in and pick the carpet that they wanted. My grandfather would cut the carpet and then go install it in their home the next day. It was an impulse item almost like furniture."

Growth and Success

Under Harvey's leadership, the business continued to grow from the 1950s through the 1970s. Richard Portier left the firm and then Kirby Perque decided to retire for health reasons. Harvey bought Kirby out with a five-year note payable beginning in 1973. Additionally, Harvey moved the store from its original location to a 25,000 square foot showroom several miles north of downtown on West Park Avenue near the new mall in Houma. Harvey and Kirby still owned the property and leased it back to the company. See Figure 1 for a genogram of the Harvey Perque family.

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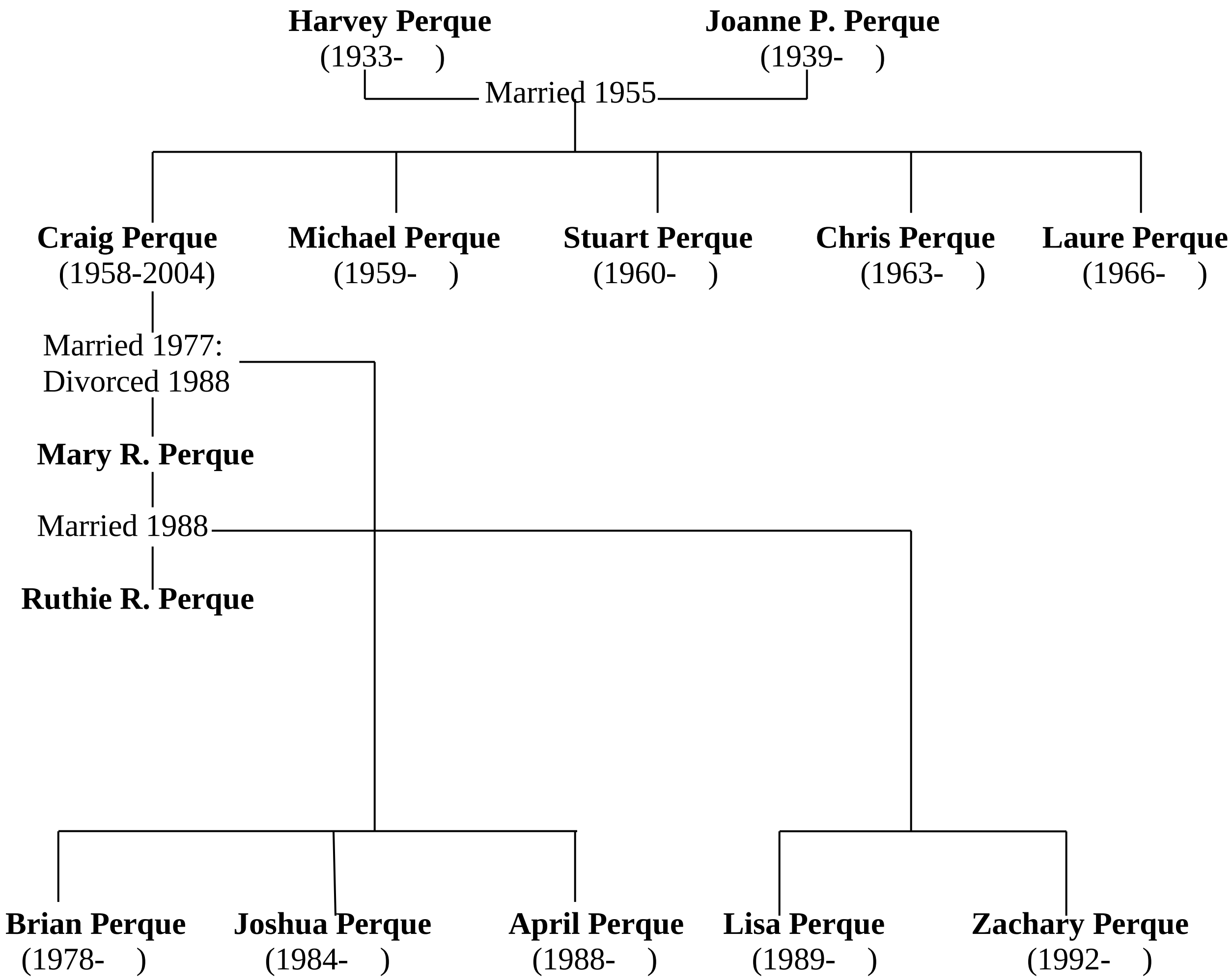
Figure 1: Harvey Perque Family Genogram



Operational Problems

The 1980s was a turbulent decade economically for Louisiana because of trouble in the oil industry. The boom times of the 60s and 70s finally ended in an industry-wide recession in 1980. The demand for oil temporarily slackened and there was a glut on the world market from 1980 to 1986. With the overall economy of the state in trouble, Perque Flooring also encountered some internal problems. The first issue involved an employee in one of the New Orleans stores who managed to incur a large amount of debt using the store's name. The fraud eventually amounted to nearly a million dollars and forced Harvey Perque to borrow against his real estate ownership in the Kenner store for a note payable to his bank.

The second issue occurred in 1988 when Perque Floor Covering developed the first computer software for floor covering companies. This venture wound up costing the company close to $600,000 and ultimately failed. Later, a pre-packaged software system was purchased for about $10,000. The company used this system for the next fifteen years with good results. According to Joshua Perque, "These events put a large amount of stress on the business, both on the managers and the owner. Harvey mortgaged his house twice and paid it off both times. These things happened on Harvey Perque's sons' watch. Harvey did not blame his sons, but this was wearing on their relationships."

Additionally, there was some confusion concerning bonuses to Craig and Stuart Perque. Stuart, the manager of the New Orleans stores, took his bonuses in stock ownership rather than cash because of the difficult business situation. This aided the cash flow of the companies and also gave Stuart a 33 percent share of the ownership of the New Orleans stores (Harvey still retained 67 percent of the stock and control of all of the companies). Meanwhile, Craig Perque took his bonuses in cash. "This was due to the error of the company's accountant, who did not explain properly to Craig that he could have taken his bonus in shares of stock. My grandfather thought that Craig was aware of the ownership situation and that Craig was by-passing the ownership to take the cash. The most important thing to Craig was his father's approval. He viewed the lack of ownership offer as a slight when his younger brother did get some ownership," explained Joshua Perque. Ultimately, poor communication between Craig and Harvey resulted in a decline in Craig's performance in managing the Houma store.

Industry Changes

In the floor covering industry, consumer demand and tastes began to change in the late 1980s and early 1990s. The market share of carpet declined and hard surfaces, such as tile, wood, laminate, and vinyl, began to grow in market share. These items are not as trade-oriented as carpet and can be installed by consumers (not professionals). The "do-it-yourself" trend in home improvement gained tremendous popularity with television shows such as "This Old House," which still airs on PBS and "Home Improvement," a situation comedy starring Tim Allen which aired from 1991 to 1999. Entire television networks (HGTV and DIY) have been dedicated to home decorating and remodeling.

Capitalizing on the "do-it-yourself" trend, Bernie Marcus and Arthur Blank launched Home Depot in Atlanta, GA in 1979 and then spread across the United States in the 1980s and 90s. Home Depot ranked as the world's largest home improvement retailer, the fourth largest retailer in the U.S., and the fifth largest retailer in the world in 2011 (Home Depot, 2011). From its inception in 1946, Lowe's has grown from a small hardware store to the second largest home improvement retailer worldwide operating more than 1,750 stores in the United States, Canada and Mexico in 2011 (Lowe's, 2011).

The entrance of the large box stores - Home Depot and Lowe's - forced small retailers like Perque's to change their method of operation. "We had business managers who were not educated in forecasting the market. They had come up in a culture that was egocentric to carpet. As a result, we struggled even more. When I say struggled, I mean that we were making money, but we were paying debts rather than acquiring assets. We had $600,000 in debt from the computer software and $1,000,000 from the fraud. It would be fair to say that all those managers burned out. The stress level was high, the industry was changing, margins began to drop, and they did not have the funds to deal with the changes," stated Joshua Perque.

Gifts and Buy-outs

Harvey Perque gave Perque, LLC, the real estate holdings of the businesses, (except for the Houma store), to his five children. Essentially, Harvey gave them the Gretna store, which is a valuable piece of property. The children leveraged the property and built a Perque's store in Luling, LA (25 miles west of downtown New Orleans on Highway 90 on the west bank of the Mississippi River). The Luling store has done very well, proving to be a valuable asset for Harvey's children.

Although Craig Perque strained valiantly to restore profitability to the Houma store, the business continued to founder financially. Operating under the previously described misunderstood circumstances, in 2002, Craig offered to buy the Houma store from Harvey. Craig put up his shares of the Perque, LLC as his collateral. "My grandfather agreed to let Craig acquire the Houma business. The problem was that Craig had little money left after selling the LLC shares and paying off his debts. So, he entered into a note payable with Harvey. The business fell on such hard times that the note payable could not be met. Harvey kept the agreement intact, telling Craig not to pay on the note until the business got back on track," explained Joshua Perque. At the time of the accident (November 12, 2004), Craig had begun to turn the business around and there was plenty of hope for the Houma store.

Third Generation Management

In 2004, Craig's sons, Brian (aged 26) and Joshua Perque (aged 20) were managing the Slidell store. With little expectation or pressure on them, the brothers came into a store that was not doing well and were able to turn the Slidell operation around. "I was still at Loyola (University) going to school full time and working full time, but we had a good time revitalizing that store with very little pressure. The store had always been a dead weight, so if we did anything with it, we would be considered successful. We had freedom being away from the other stores. We could try things that they were not trying," recalled Josh.

Reluctantly, Brian heeded the call from his grandfather and returned to the Houma store, leaving Slidell behind. Brian experienced the full force of grief, sitting in his father's chair, looking at his father's hunting and fishing trophies on the wall, and feeling the pressure of trying to sort out a messy situation. Harvey returned to the Houma store and helped with some "house-cleaning" - fixing problems left behind by his son, Craig. Six months later, Joshua joined his brother in Houma because Brian needed further help. This was in August 2005, one week before Hurricane Katrina hit New Orleans, perhaps the worst natural disaster ever to strike the Gulf Coast.

The storm hit New Orleans and then turned east toward Biloxi and the Mississippi coast, so that damage in Houma, 57 miles west of New Orleans, was minimal. After the flood waters receded and order was restored to the city, the New Orleans Perque stores were poised to garner a fortune in floor covering sales. "The New Orleans stores opened back up and they did $20 million for two and a half years at a very good profit margin. It was a wind fall. Brian said that he would not fault me for heading back to New Orleans," recalled Josh Perque. However, Josh preferred to stay in Houma and to turn that store around as the brothers had done in Slidell.

"So, we sat down to write a mission statement, which was a little different from most successful companies that have passion and love for what they do. Our mission statement was built on anger. We felt that the only way we were going to get through the next couple of years was to pull together and build an ‘us versus the world’ mentality.” We basically told our employees not to lose one job, no matter how low they had to go. If someone sends us a job, we send them a check for $100. Make sure that people know that we want the business," explained Josh. For the next three years, Brian and Josh experienced great success in Houma with large sales increases and healthy profits.

Third Generation Ownership

In 2007, Harvey Perque decided to offer the ownership of the Houma store to his five grandchildren, the sons and daughters of his son, Craig, in exchange for a six percent note payable. The oldest three children were from Craig's first marriage – Brian, April, and Joshua - and the youngest two - Lisa and Zachary - were from the second marriage. Lisa, who was only 18 years old at the time recalled, "Brian called me and said, 'Meet at papa's next Wednesday. He is signing the store over and we are having our first stockholders' meeting.' I thought that meant that I was going to start making some money then. I remember sitting there and not understanding anything they were talking about. We had a long talk with our grandfather and grandmother and their lawyer. They were telling us that sink or swim the store was ours."

Harvey wanted to honor the agreement he originally had with Craig for the sale of the Houma store. "My grandfather believed that my father would have wanted to pass the business on to all five children. Grandfather said that each of us would get 20 percent. We bought the business from him and are paying him for it now. He sold the business to all five of us in equal shares in order to be fair. He did not want any favoritism. When we sat down at the table, I don’t think that the younger siblings realized what Harvey was saying. For the next five years, they would have to pay a note. They viewed it as Harvey was giving them the business. Now, Harvey was very fair. It was a business agreement," recounted Josh.

At the writing of this case, Stuart Perque managed the four Perque stores in New Orleans and the Houma Store was owned and managed by Craig Perque's five children. The oldest brother, Brian, was the president, Joshua was the vice president and was in charge of sales, Lisa was the controller and handled the financial aspects of the company such as payroll and payables and insurance, and the youngest brother, Zachary, was an installer. April, the second oldest and a 20 percent owner, worked for the Gretna location of Perque's, but had agreed to join her siblings in the Houma operation. The five siblings received different salaries commensurate with their different positions within the Houma operation. The Houma operation does between $2.5 and $3 million in business (sales) per year, while the New Orleans stores do between $4 and $6 million among four outlets.

READY FOR EXPANSION?

It was after 5:30PM and everyone else had gone home. The phone finally stopped ringing and all the customers had been satisfied for the day. Brian stared out the window overlooking the showroom from the second floor office loft inside Perque's Flooring in Houma and wondered what his brother, Josh, was up to this time. He turned to face Josh as he entered the office from the door on the backside of the platform.

"Hey, Brian, I hope you are ready because I have some ideas for our business," Josh started to explain. "We are going to change the way we do business, but not how we treat customers. I want to move our company from being owner-centric (having us wait on every customer and close every sale) to having our employees transact the daily business, so that we can plan for the future. We need to develop some standard operating procedures in writing to show how to make a sale, so that we could train our employees properly. Then, we can grow the company and have it mean something to five owners."

"Josh, I think everything is fine. We don't need to change anything," replied Brian.

"Yes, we do. We have started seeing our competitors go out of business – we have lost three competitors in the last 20 months. We are still making money and not out of business, but I am not satisfied. If the business does not grow, we will lose ground to our competitors," Josh stated.

"Do you really want to work so hard for this business with five owners and each of us owning 20 percent?" asked Brian.

"We have five owners and three of us are less than 27 years old. If I sign a personal line of credit, I don't get anything more than the others for that. Equal ownership creates all sorts of issues and sometimes it is unfair," Josh muttered edgily. "Nevertheless, after we train our employees to follow standard operating procedures, the second part of my plan involves opening the two new stores in Thibodaux and Patterson. As you know, we have already done the preliminary work of looking for good sites in those towns."

"In the new stores, why not take 100 percent ownership (50 percent each) for the two of us?" questioned Brian. "After all, you and I will be doing most of the work."

"If we started a new company on our own, we would not have the company history, financial resources, credit rating, supplier network, or established customer base behind us. Also, in our family, we have a history of avoiding such conflict between siblings and taking 100 percent ownership goes against the precedents set by our grandfather ," Josh answered. "On the other hand, the younger siblings do not invest their time and read the financial reports. I am willing to allow them to have management responsibility, but they have to invest their time. They were not involved here in 2005 when we worked 70 hour weeks," mused Josh.

"They weren't out of high school then," replied Brian.

"No, that is not their fault. Now, one is in college and the other puts in 40 hours and that's it. Our sister April is showing more initiative and needs to have more responsibility. I do not expect the younger two siblings to work 50 hour weeks, but I do expect them to go above and beyond the other employees and do high quality work," stated Josh.

"I think that April would make a good store manager. Why not ask Stuart for his permission to speak to her about it?" asked Brian.

"I feel very strongly about changing our daily operation from owner-centric to training the employees to follow standard operating procedures. Also, I want to open the two new stores as soon as possible," reiterated Josh.

"What if the other three siblings do not agree?" asked Brian.

"I value their opinions, but this is not a consulting situation. When we tell them about the new stores, if they say ‘no’ that will not go over very well. If they say “no’ to this, I don’t know how long I can stay here. We need to grow," Joshua said without hesitation. "I do not know if I am interested in operating a business for another decade that has five owners. The siblings are not willing to sell their stock or buy my stock. They have an emotional attachment to the business. I do too because our name is out there and I want to do good work and treat people fairly. At the same time, I view the business as a vehicle to produce income."

"It may be worth starting over on our own. We could leave this family business behind. Why not take our knowledge and expertise a few miles away and open some stores on our own?" mused Brian.

REFERENCES

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