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Papé family business chugs along

Geographic diversification helps the company through a difficult housing downturn

By Joe Mosley

It started in the late 1930s as the Farm Implement Supply Company, and was located at the present-day site of the Eugene Electric Station.

Randy Papé's grandfather, Edward, founded the company, and died just a few years later. Randy's grandmother took the reins until her sons - Papé's father and uncle - returned from World War II.

"They continued the business, which evolved into what was to become Papé Bros. Inc.," Randy Papé, 58, says. "In the 1950s, they acquired the sales and service agreement for Caterpillar heavy equipment and continued in that line of equipment for a number of years.

"My uncle sold out to my father in the mid-1960s, and my uncle became the Volkswagen (dealer) over on Coburg Road for quite a while, and my father continued on with the business."

The company expanded to include Caterpillar dealership rights in southwestern Oregon and northern California by the time Randy Papé graduated from the University of Oregon and came aboard in the early 1970s.

He became the company's president in 1980 and its CEO in 1985.

"My father retired, although he was never the retiring type," Papé says. "So he called himself 'Tom, the Old Man.'?"

"He would constantly travel around (to the company's offices) and gave himself the title of 'Chief Observer.' He was a great help in many respects, as I was going through the business and growing into the leadership ranks."

Tom Papé died in 1996, but his family's holdings have continued to expand.

The parent company, Papé Group, now oversees eight separate businesses: Papé Machinery, the heavy equipment dealership that features John Deere and Hitachi products but has parted ways with Caterpillar; Papé Material Handling, which carries Hyster and other forklift lines; Papé Kenworth, a commercial truck dealership that was acquired last year; Papé Rents, a construction equipment and forklift rental operation

with outlets in Phoenix, Ariz., and Las Vegas; Bobcat West, a "compact construction equipment" dealership; Engineered Products, a dealership for warehouse storage and material handling equipment; Ditch Witch Northwest, a dealership for trenching and plowing equipment; and Flightcraft, a Cessna Citation service center with locations in Eugene and Portland.

Randy Papé is the majority shareholder of the Papé Group, while his mother and three sons have minority shares.

Papé - along with his sister, two brothers and college buddy Bob Fenstermacher - also owns LibertyBank, which is now the largest privately held bank based in Oregon. With 15 branches in Eugene, Springfield, Bend, Redmond, Grants Pass, Medford and Portland, LibertyBank has assets of almost \$1 billion.

Last but not least, Papé and his siblings also own Sanipac, a Eugene-based garbage-hauling and recycling firm.

His three sons - Ryan, 32, Christian, 30, and Jordan, 29 - all are working for the Papé Group companies.

Question: As a third-generation company owner with children already involved in the family business, what kind of succession plan do you have in place?

Answer: Succession planning is important, especially in this business because you must have the respect of the manufacturers you represent. So we are working with my three boys. All of them have been involved in various aspects of the business. They are learning the business, and I'm very pleased with the progress they're all making.

My father would say, "I can provide you many things, and I'm very fortunate to be able to do that. But one of the things I can't give you is respect - that's something you'll have to earn on your own. I can give you guidance, coaching and so forth, but you will need to earn (respect) from the manufacturers who you would like to represent in the future, (and) banking and financial institutions that you'll need the support of if you are to carry forward. And, certainly, you'll need it from the customer base and all the employees."

I'm giving (my sons) opportunities to learn the business and at the same time opportunities to gain the respect of those folks who they need to work with if they're going to be continuing the business.

Question: Your family business has been through many economic ups and downs. What has been the toughest time, and how did you deal with it?

Answer: In the refuse hauling business, we like to say that business is always picking up. We're fortunate to be involved in it.

I would say in financial services, the toughest years were the early '80s. The spike in

interest rates (created) very challenging times.

Today is particularly difficult in the financial services area. It's been a good market for the last five or six years, but this housing decline has affected us here. It cuts through all of the sectors. It has been a very challenging time, because so much of our business depends on the housing market. And as you know, the housing market is off dramatically.

We are fortunate today, in that we're geographically dispersed - today being close to 70 locations over seven Western states. So that geographical dispersion has given us better position. However, it's interesting to me that if you started in the western Washington-Seattle area, that area has been the least affected in our business. But as you go south through Portland and Eugene and down ... it gets incrementally more difficult. And the California market is the worst that I think we've ever seen it.

If people are not buying houses, then you're not building street infrastructure and those things that obviously affect our business. You're not laying cable for telephone, (or) television cable. You're not building regional shopping centers or supermarkets. And it just all starts to back up. I think we're seeing that particular point in the cycle.

Question: There's a lot of talk about recession, and you've talked about how the weak economy is affecting your businesses. Are high fuel prices also contributing to the problem?

Answer: Certainly. Just in the last couple years, we've gotten more deeply involved in the highway truck business. The price of diesel you use in trucks is up (and) many of the independent, small operators are just not able to pass that cost along. Consequently, either they have gone out of business or their equipment is parked. They're having a very difficult time.

When you figure in the slowdown in the retail area, many of those larger fleets are scrambling to pick up business. So they've moved into the areas where single owner-operators operated.

Question: And if people aren't spending money, your clients aren't buying the equipment necessary to move that merchandise?

Answer: Right. Exactly. Until the supply of homes - which in some markets (the inventory) is up well over a year - until that moves back into a lower historical base of say, four to six months, it's not likely that we're going to see a pickup in housing (construction).

Of course, we've got LibertyBank, and we do a lot of business, historically, with acquisition and development loans. That would be where you start with a piece of bare ground and you have a developer come in and buy the property, develop it initially with the streets and subdivide the lots, and then turn around in many cases and sell those lots then to builders who come in and build a home. That's stopped. There are just a lot of lots

on the market. We're seeing homes move, albeit at a slower pace. But we're seeing very sluggish lot sales activity throughout Oregon - particularly in Bend-Redmond and in Southern Oregon.

I think Medford probably went down the fastest. And Central Oregon was just booming, and the bubble burst almost overnight over there. So we've seen that market just go flat, in terms of housing sales.

We were hopeful it would be in 2008, that we would see change in those marketplaces. I'm somewhat concerned that it's going to be '09 before we really begin to see that, because I think it's going to take an improved selling season in 2008 to soak up so much of the available (real estate) product that's out there on the market.

So you just do what you can to batten down the business segments and reduce spending where we can. We're fortunate to be diverse in terms of product lines, as well as geographical diversification, so that helps us a great deal. We have some ability to move people around and certainly move equipment inventory around and take advantage of market spikes as they develop.

So I think we're in a far better place today than we were, in the equipment world, when we were just (serving) southwestern Oregon and northern California, and we were really very heavily dependent on the forest products industry. We just rode the coattails of the forest products industry up and down. The forest products industry is still important today, but our market diversification moved that down from being maybe 65 to 70 percent of our business to probably more like 20 to 25 percent of our business.

Question: In that respect, you're somewhat of a microcosm of the Lane County economy, which was so dependent on wood products in the '80s.

Answer: Exactly right. Fortunately, we've changed our business model and that's helping us through times like this.

Question: What key economic trends are you watching right now?

Answer: I'd say there are three - housing starts, housing starts and housing starts.

Because of the credit crunch in the banking world in particular, we've seen a real pullback in money availability and that affects a multitude of businesses. So I keep an eye on that, and I'm pleased with the moves the Fed has made. (There was) a little wait, but once they did decide to move, they have moved pretty dramatically. Their move with Bear Stearns, I think, was pretty incredible. But we would have seen much worse ripple through the economy had they not taken that step.

Question: How are the more restrictive credit standards affecting your business clients - whether heavy equipment or bank customers?

Answer: It's affecting the heavy equipment folks from the standpoint that if they are looking at equipment replacement, they need to have the sources of financing available to them to get that job accomplished. We're fortunate there, that they can rely on credit sources through the major manufacturers. For example, Deere Credit, Hyster Credit or Kenworth Credit. So they are not necessarily having to work solely in the traditional banking worlds to obtain financing.

From a banking perspective, it's a double-edged sword (as property values decline, equity evaporates and debt mounts). At some point, either they need to move those properties at prices that are not as favorable to them as they anticipated, or ultimately the bank has to step in and take over those properties. Which is generally the last position a bank really wants to be in. People a lot of times misunderstand - they think well, gee, it's great that your bank can get this (foreclosed) property. But the bank - at least our bank - we're not into real estate sales. You hope you never really see the collateral.

There are more foreclosures throughout the entire system. The banking world is having to deal with that (with loan write-downs and increased loss reserves).

I think there are very few banks that aren't feeling the pinch. Ninety percent of banks are to some degree involved in local, community-based lending and real estate-based lending. At Liberty, we have tried to stay ahead of the game by of course increasing our reserves. It's sort of like jumping off a skyscraper, you know - so far so good, but we haven't landed yet. But we think we are handling it appropriately.

Question: Should we read anything into LibertyBank's plans to move its headquarters from Eugene to Springfield?

Answer: Is there anything politically to be read into that? No. It was more location driven, and by the place that fit our needs. But are we on one side of the freeway versus the other side of the freeway for any particular reason? No, not from a political sense.

I do think Eugene has a challenge more broadly, in terms of the land availability for all kinds of businesses, from light industrial to commercial businesses that (require) access to transportation systems. That's going to be something that's going to need to be addressed.

Question: Liberty is the largest privately held bank based in Oregon. What is in the bank's future?

Answer: We certainly intend to grow. The times that we've run into (are like) charting an airplane on takeoff and climbing to altitude. We were doing very well until the current time, but we've had to level our wings off. The pilot hears from the tower, "hold 19,000 feet until further (notice)." So we're leveling our asset growth off, doing the best we can to service our many customers - and that becomes a balancing act - but we're poised to move forward.

We are opening another branch over in the south end of Bend; we have opened a branch in Redmond; we have plans to start breaking ground in southeast Medford. So we intend to continue opening stores in the marketplaces that we currently serve, and growing our asset base.

We're just a hair under a billion dollars in assets in the bank. (The previous growth curve) would have put us over that billion-dollar mark by this time. But we had to change our flight plan due to the business climate, if you will. But we expect that we'll get back on that (growth curve).

Question: As a past member of the Oregon Transportation Commission, you have been an advocate of investing in transportation infrastructure. Can that happen in the current economy?

Answer: I learned a great deal (in seven years on the commission), one of which was the need for financing in the transportation infrastructure throughout the state.

I do think there's a lack of investment being placed in the transportation system and consequently we're seeing a problem in the ability to move freight and goods throughout the system, and I don't mean just Oregon.

More and more of the funding that the state and cities receive, has to be committed to maintaining the current asset. Consequently, the modernization aspect is suffering. (Oregon has been successful in leveraging money for highway improvements, under Gov. Ted Kulongoski and his predecessor, former Gov. John Kitzhaber.)

The problem with those is that they were bonding programs, and that just mortgages the future. So much of the (available highway funding) is committed to paying those mortgages over the next 20 years. And most of that funding comes through federal gas taxes, as well as the state gas tax, neither of which has been increased for many years.

We need additional funding sources. There may be some fees that can be adjusted. In Oregon, we're well behind other states in terms of our (vehicle) registration fees. So there are some things that have room to move. But ultimately ... we have to come up with a new (funding) system that might be something like the vehicle miles tax, or some other way, like tolling - in some cases that works well, and in other cases it doesn't.

The best studies I saw all pointed to freight doubling in the next 10 to 15 years, in terms of tonnage. There are going to be a lot more trucks, hauling a lot more freight, over the next 15 years and beyond. You drive the freeway between here and Portland and think, "Man, there are a lot of trucks out here. You know, it didn't seem to be there when I was 20 or 30 years younger." I think you project 10 to 15 years from now, and this is going to seem like (trucks are) pretty sparse, compared to what we will see.

Question: What are some of the most positive attributes of the local business community? What is going well for Eugene-Springfield?

Answer: Livability I think would be (important). I would include educational systems that are very favorable, both public and private. I think we enjoy a higher level of public education systems, K through 12, as well as beyond, in the post-secondary opportunities. I think in that sense, we have a well-educated work force and the opportunity to continue to educate the work force.

But the livability of the area, I think, comes to the top of the list.

We have issues in Eugene, downtown, for whatever reasons. (The city has not been able to duplicate successful downtown development efforts of other Oregon cities, such as Portland and Bend.) In Eugene, I just don't know why we can't seem to find an answer to that. I think it's going to take a lot of public funding and support to get investment downtown.

I think Eugene's suffering from that. I think Eugene probably suffers from its political polarization. I recall Brian (Obie), the time when he took on the challenge of being the mayor, and he set out an agenda - here are three or four things: improve our airport, improve Sixth and Seventh street. ... He was able to take it to the council that was probably as divided then (and say), "these are the things we've got to focus on and we've got to accomplish those items," and they did. I think that's impressive.

Question: Is there anything Eugene or Springfield should be doing that they're not, to make the business climate better?

Answer: Well, I think the rancor of the public sector - that, probably as much as anything, gets kicked around on the cocktail circuits and certainly in the newspaper.

Is Eugene where I'd want to be? Compare and contrast (the local business climate) with some other areas, like Central Oregon or Portland. It's got good livability, it's got a good education foundation. I like that for my family standpoint, but is this really where I'd want to bring a business and start a business?

I'm not seeing the private sector with a lot of great leadership stepping up and pulling things together. I think there's a void there. I think this polarization is really deep-rooted.

I hope we do see some of the young people (move into leadership roles). I have great hope for that - you'll see my kids, hopefully they'll be in Eugene and (will) participate. There's capability in that younger generation, if they coalesce and pull together.

Question: Where do you see yourself and your companies being in 10 years?

Answer: I see myself still engaged. I just enjoy business activities and certainly community activities. I try to be involved there. So I think I'll be engaged. I'd like to see the younger generation, my sons and others in this company, taking on more of the roles of responsibility in the business.

And I look at my father's role of being the Chief Observer (as an opportunity to) travel around, give my ... ideas that will move this company and others forward.

I have five grandsons and a granddaughter now. So I'd just like to enjoy watching them grow. I coached soccer for my kids when they were young ... so I'd like to cheer (the grandchildren) on. We have our desire to continue to grow our (business) organization and I think there's no way that we can't double our size in the next five-plus (years) time frame.

I've been doing some ranching in Central Oregon, and that's great therapy to me, to go out to our ranch, east of Prineville. We have 300 cows, and I spent Mother's Day with my wife (and the cows) and their calves, and we were all as happy as can be. Not one of them was looking for a political contribution. As for a retirement date, I think that depends on how kids grow and develop, and that issue of respect - where that is with them.

Our family has a tradition of developing this business and wanting to carry it on generationally. That's going to be a big challenge, both in terms of the leadership side of it and the financial side of it, (which) is not easy to negotiate, but we'll get there. We'll figure it out.