

**Designer and Manufacturer of Disposable Plastics for Laboratories and the Worldwide Marketplace
creating Endotoxin Free Pipet Tips and Centrifuge Tubes in an Earth Friendly Manner**



**Jim Happ
President**

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**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Happ, according your site Labcon® North America is building an “Earth Friendly” company. What is the concept?

Mr. Happ: The concept is to use as little non-replaceable resources as we can and to impact the earth as little as possible. We are trying to use the least amount of water, the least amount of materials and the least amount of energy to do what we do. We cut our water, electricity and materials substantially in the last twenty plus years. We have been working on this since 1994.

CEOCFO: How do you know when it makes sense to cut back on something and either not loose quality or cost or time? What goes into the considerations?

Mr. Happ: Certainly, we cannot lose money. You cannot go to the extreme of giving away your time and your products. However, you can make an intelligent decision and realize the payback which traditionally is measured in two years. If you could not pay it in two years companies would not move forward. Our consideration is much longer than that, especially when you get into things like solar energy or energy efficient machinery that is going to last for twenty or thirty years, you do not need to make a two year payback. The solar panels are pretty much cash neutral for seven years. While we start to see profit after seven years on the solar panels, you can market the solution from the beginning and know that you are making the ethically correct choice.

CEOCFO: Would you tell us about the range of products Labcon offers?

Mr. Happ: It is mostly liquid handling and storage for laboratories, drug discovery, hospitals or universities. We make a lot of Pipet Tips and centrifuge tubes. We make them primarily out of medical grade polypropylene resin. We make about six million parts a day and we ship all over the world. The pipet tip market is approximately forty five million pieces a day. We make about seven percent of the pipet tips used worldwide daily. The centrifuge tube market is probably several million tubes a day and we make four hundred thousand a day. These are growing markets as there is a lot of healthcare and a lot of research needed to meet the world’s needs. The products are also used in forensic science and in industrial applications such as petroleum or dairy.

CEOCFO: For those of us that have probably never thought of most of these items, what are the challenges in making a quality product? What goes into it and how have you come up with quality so that so many people are turning towards you?

Mr. Happ: We have been making this range of products since 1975. We have been in business since 1959. We have a lot of experience doing this. We partnered with a firm to build a sterilization facility next door to us in Petaluma. We have been sterilizing products since the 1970’s. The quality has to do with accuracy and cleanliness. With our focus on

accuracy and cleanliness our products are world class. The Swiss, German and other European competitors are very good at making these products. I think we are equal to those companies in those countries as far as quality goes. We have a lot of experience on our staff. The quality manager has been here twenty eight years. The operations manager has been here twenty five years. I have been here twenty five years. The marketing director has been here twenty seven years. We have a lot of experience that translates across the organization. We have certainly gotten better at it over the years. When I came here in 1992 our effective rate of scrap was 10%. Now, 99.5% of what we make ends up on a customer's shelf, customers desk or customers lab bench. We have cut our loss by 9.5% points by tightening up the whole operation. Obviously, there are a lot more robots involved. We have forty robots now and we have no less people. There used to be two hundred and forty people doing a lot of manual work. Now it is two hundred and forty people doing a higher level job, knowing the quality of the product. We took the whole quality department and moved them into production. There are still two to three quality managers, but for the most part all of the quality has been moved out into the manufacturing operation. We are not making questionable product and trying to catch it later, but producing good product all the time. That was a big culture change for the company.

CEOCFO: *Would you tell us about products coded with expiration dates and why that is important?*

Mr. Happ: Our business in Europe dictated expiration dates in the 1990's. Everything needed to have an expiration date to meet CE marking compliance. With sterilization, if you sterilize medical devices or medical components, the process increases the degradation of plastic. Sterile products therefore have a shorter shelf life than non-sterile products. We have a shelf life of four years if it was not sterilized. If you sterilize it the shelf life goes down to three years, because the radiation accelerates the degradation of the plastic. Expiration dates are not arbitrary. Accelerated aging studies are used to predict performance and months of testing are necessary to demonstrate functional viability over time. Lot traceability and process validation are included in the coding for CE marking as well as for expiration dates.

"We are adding forty thousand square feet and that will allow us to add about thirty five percent to our factory floor as far as manufacturing goes. Therefore, we should have the space to grow the company by 35 to 40%."- Jim Happ

CEOCFO: *Would you tell us about inventory; how do you maintain it, what are the facilities like, what you produce to order?*

Mr. Happ: We are pretty much a just in time operation. We used to have a massive amount of inventory. 70% of our space was devoted to inventory, 30% to manufacturing. We have reversed those numbers. Our inventory turns now once a month, twelve times a year. We pretty much only manufacture to customer order, but we can turn any order in less than thirty days, no matter the size. It is cheaper to have capacity than to have inventory. We have very little uncommitted inventory. We do have large customers that place blanket orders so we know within reason what they are going to order next month or the month after. That allows us some efficiency in runs. The base component for a product is the same across many orders. We have four hundred injection molds and 65 injection molding machines but we make sixteen hundred products. Therefore, many of those products are combinations of different injection molds and parts. We will gang up a bunch of customer orders and run a base product, for the sake of argument, that is going to be packaged differently and labeled differently. Some will go sterile and some will go non-sterile. Some will be value added for the different things they are used for. We have the minimum of amount inventory to meet customer needs and expectations.

CEOCFO: *Are there challenges shipping the products or if they are packed well can they be thrown on a UPS truck?*

Mr. Happ: That is the test right there! When we have a new product we package it the best we know how; the best we have experience with and then we give it to UPS or Fed X and ship it across the country. We have someone at the other end receive it and ship it back to us. Then we take it apart and measure the product and see how they held up. I think that the personnel at the freight companies care about their jobs, but they are often throwing packages three or five feet in to the back of the truck and our boxes are getting squished amongst other packages. Our stuff is really light. I would say that ninety percent of what we ship is truck loads domestically or containers going overseas and the whole container or the whole truck is our product; a truck load shipment or a container shipment. We can package it with the heavy boxes on the bottom and the lighter boxes on the top. We have been doing it for a long time. We have very few damage claims. We ship 450,000 cases a year with very few complaints.

CEOCFO: *Would you tell us about the recent update to the SuperClear® line of centrifuge tubes?*

Mr. Happ: Some of what we have done is to just put more information on SuperClear tubes to inform the customer of the specifications. To let people know for example that if you fill up past a certain line you can pop a cap off because you

have too much liquid in the tubes. We have maximum freeze lines, we have got maximum spin rates; all this is printed on the tubes, so there is no question for the consumer of what the product can do. They do not have to go back and look at the label or read something on the internet. It is actually part of the product. We have added a line of caps with O-Rings that are molded into the product. We are adding more products with O-Rings that are engineered for different applications. We have also added packaging solutions to maintain sterility longer. We incorporate smaller, easier to use packages to minimize exposure and provide solutions to the researcher.

CEOCFO: *Do customers turn to you because they know the name and they know the quality? Does your earth friendly approach fit in there or does it come down to cost at the end of the day?*

Mr. Happ: It depends on where you are talking about. There are certain places in the world that value the earth friendly message. In the U.S. the message resonates on both coasts but even in the middle of the country there are certain laboratories or customers that recognize the value proposition, Washington University as an example. They had several rooms full of Styrofoam. We have gotten rid of Styrofoam in the 1990s in any of our packaging. They performed an audit and found out that we were generating thirty percent of our power onsite through solar. They switched over all of their labs to our products. Our products are priced competitively. You can bring in Asian products or maybe products made in Mexico that are of slightly less quality and certainly are not made with solar energy and the customer might save two to three percent. However, it is not like it is a twenty percent difference between our products and the competitor's products coming from cheaper countries. That is one issue. The other reason people turn to us is logistics, made in America, made locally in Petaluma. You can buy a practical, reasonable quantity and have it on your bench or desk quickly. It is very difficult for anyone small, such as a small university that says, "I am going to save five cents and go to China". Whereas, they could buy a whole lot less and have almost just in time or a weekly delivery and get it made here in the U.S. We have a lot of business in the Bay Area as well as the rest of California because of that, because our time to market is incredibly short.

CEOCFO: *Would you tell us about the new facility?*

Mr. Happ: We are out of space. Having a just in time operation, if we do not have inventory it means lining up shipments for hundreds of different customers and it is hard to stage those shipments and to be efficient. We purchased the Stero dishwasher facility about three years ago, in 2014. We put the sterilizer system in the existing building on site. We are building a new distribution center next door to the sterilization facility and the products will come from manufacturing a quarter of a mile down the road to be sterilized then come through the wall to our distribution facility and never come back to the manufacturing facility. There is a lot of efficiency as far as not handling products two or three times. It also allows us to have inventory space. We are adding forty thousand square feet and that will allow us to add about thirty five percent to our factory floor as far as manufacturing goes. Therefore, we should have the space to grow the company by 35 to 40%. We have also purchased a block of land right behind the sterilization facility at 3200 Lakeville and we now have twelve extra acres of land for future growth. I think we are poised to become a fifty to one hundred million dollar company in Petaluma. That is what this company is being engineered for.

CEOCFO: *What else is next for Labcon? It seems like you keep moving ahead?*

Mr. Happ: We need new products. Many of these products will last decades, but the price erodes over time because of competition. It is easy for someone to copy something that is going to be around or has been around and has got a lot of history. There is very little risk. Therefore, we need new products that are patented or that have such a technological advantage that it is hard for other companies to jump into it quickly. That is why we are looking at different products that will take a leap as far as technology goes, whether it is smart products which store information or adding reagents to a tube so it is doing a step for the lab person, which saves them time. We are trying to go to a higher level of products and I think that we are on that road. We have a new director of R&D and he has been with us for six or eight months, so we are just getting going with some new product lines now being conceptualized.

CEOCFO: *You sound as if you are really enjoying this and it has been a long time. How do you maintain the enthusiasm? Why is it still so exciting for you?*

Mr. Happ: I think manufacturing is interesting, because you are making something from nothing! I think that is exciting! I think working with people is exciting, we have a great team. We have a lot of great people. We have almost no turn over - people tend to stay a long time. Our average employee has been here 18 years. I used to work in semiconductors and it felt like you were changing the world back in the 1980s. Now I think we are participating in changing the world with medical technology. I see where people are going to live longer lives and healthier lives. As I age I realize it is not just about getting older but having a healthy, quality end of life, having quality as well as longevity. I think Labcon is participating in that, whether it be helping find cures for disease or helping with new drug discovery. It is just so exciting to be part of. It is also a tremendous opportunity! I think the only three things that people really need are food, housing and

medical care. You need food to live, but you also need medical care. Therefore, I do not think we are in a risky business for sake of argument. We have a lot of security for our employees with the ownership of the company. It is also wonderful working for a privately held company. I have to tell you that it so much nicer than working for a publicly traded company or a VC run company. We constantly reinvest in the company and the family is supportive. They have owned us since 1982. I did not understand the freedom that it offered until I joined the company in 1992.

