



Two Happ facilities show numerable loading docks for the shipping the vast number of parts and equipment that the supplier produces, orders and distributes.



Happenstance

For 20 Years Happ Has Made the Industry Whole Through Parts Supply

The name Happ needs no introduction in our field. Thanks in no small part to the mega part supplier's growth in leaps and bounds, that instant name recognition was celebrated last month as Happ observed its 20th anniversary. Festivities also celebrated the recent acquisitions of two other notable suppliers, Mazzco and ProSource Group. *RePlay* checked in with Frank Happ, vice chairman; son Tom Happ, president; and Jim Norton, managing director of Pflingsten Partners, to discuss the radical restructuring of the Elk Grove Village, Ill.,-based Happ since its purchase by Pflingsten in 2004 and the integration of its newest companies.

So Happy Together

"You wouldn't even recognize Happ from the day we bought it," said Pflingsten's Jim Norton.

A private equity firm in Deerfield, Ill., Pflingsten purchases mid-sized manufacturing, distributing and publishing companies; actively invests in and develops their production efficiency; then sells them at

about a 20% profit to another management firm. The typical duration of private equity ownership is ten years and under, and



Frank Happ is vice chairman of the company to which he gave his name and owns 10% of its shares.

firms have averaged six years in the Pflingsten portfolio since it

formed in 1989, according to Jim.

Two years into myriad renovations of Happ's internal operations and merging it with Suzo International, a Dutch gaming parts supplier,

Suzo-Happ Group is more than twice the size of Happ at the time of purchase and spreads over 80 countries throughout North and South America, Europe and Asia. This growth, however, has been characterized as still "fairly young" and only midway through Pflingsten's plans to make Happ a global leader for amusement and gaming parts and accessories.

How did Pflingsten go about improving an already good thing? The most recognizable changes are evident at the heart of Happ: the factory floor.

"The primary manufacturing facility was set up in a production line format," said Jim, "so what we did on the operating side was to convert the traditional format to the cellular format. The normal production flow is that you do one stage of the process — the old Henry Ford model. In the cellular, you have all the parts you need in a confined space, and one person or team has total ownership over the product. The entire team can do each other's jobs, and they cross-trade goods with one another. So the entire flow and modernization is totally



Tom Happ is president of the parts empire that he watched his father grow since 1986.





Before there was Happ, there was Coin Control, and **Frank Happ** was president.



different, and the employee working conditions are excellent.”

Another difference to the factory floor has been, in some cases, moving it entirely to China. Largely due to consolidation from the merger with Suzo, 70% of Happ’s gaming machine parts are now built at Zuhai-based China Tec, which, interestingly enough, originally manufactured joysticks for Atari.

“We’ll probably devote more money to importation resources,” said Frank Happ, who still retains 10% of Happ’s shares. “Pfungsten has three separate places in China. They turn buying from China into an art form, which I had also been doing for years.”

The flipside of the dramatically lower labor costs and machine tooling in China

is some attrition stateside. “Where we have found some job loss is on the manufacturing floor,” admitted Frank.

“As we bring in more stuff from China, we need less here.”

The *Evolution* hopper, which operates at 40% faster payout than other models, is one of the newest products that come to operators from offshore, according to Tom Happ.

“It answers all the operators’ questions and problems,” he said. “If you need to clean the sensor, you do not have to empty the coins and disassemble the whole unit. In order to gain access to the PC board, you flip down a switch, pull out a door and wipe the sensor. It is very operator friendly on top of being more efficient.”

On the subject of new product for the amusement industry, Happ has also upgraded its 29” pump action shotgun and released its own LED, the *Economy T 1-3/4*.

Other post-Pfungsten changes are less visible and tactile, though they amount to substantial importance for the company’s 400 employees personally and professionally.

“I used to pay 25% of their insurance,” said Frank, “and Pfingsten pays 30% as a rule. Pfingsten has also done a good job of sharing the company shares. They are merit-based and based on position. Employees have the ability to buy in at the same price that Pfingsten bought Happ.”

Continuous improvement training further benefits employees. Everyone goes through various courses taught by advisors who discuss, among other topics, problem-solving tactics for non-executive management. Teams are then formed with members tackling different hot-spot issues, such as lead-time problems or back orders. The new and improved Happ strongly believes that these exercises are a concentrated investment not just in employees but in morale, customer satisfaction and, of course, ongoing growth.

Winner Takes All

In an industry such as ours with rampant consolidation, it helps to be a goliath like Happ, where there is a massive capacity for absorption and a view that stretches far and wide. In a dizzy turn of events, Happ made the news official that it bought ProSource from Jeff Blair in mid-May (though the deal had been made shortly before ASI 2006) and followed it with a June 1 press release saying Mazzco had been purchased from the Lieberman family.

“The industry is quite intermarried,” said Frank. “We were buying from and selling to both companies. Mazzco would sell us billiard supplies. ProSource would sell us Entropy printers. It would make sense for ProSource in particular to combine with a larger entity.”

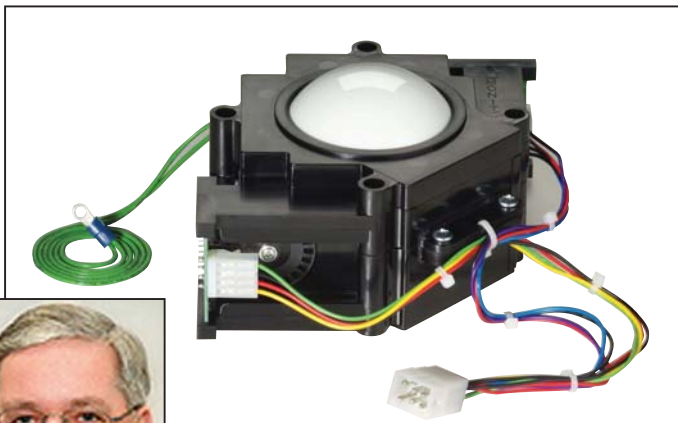
Jeff Blair, former president of ProSource, which is also based in Elk Grove Village, has been retained for a six-month consulting term during the transition process. Carson Johnson, former head of sales, will continue with Happ.

The acquisition of Mazzco, an approximately \$12 million company, has given Happ a stronger foothold in several marketplaces, most notably billiard supply. “To say that Mazzco has exceeded our expectations is an understatement,” said Jim.

“Dan Lieberman has been fairly involved with working through issues related to customers, product, staff and suppliers,” Tom noted about the former Mazzco president. “Once you close the deal, there is a



The **Happ factory floor** was converted from a traditional production model to a cellular one.



Happ's track ball is the sensory brain behind games requiring touch-sensitive operation by players.



Jim Norton, managing director, Pflugstein

Partners, has reportedly helped to more than double the size of Happ since the private equity group purchased it two years ago.

lot of information that someone like Dan possesses that is advantageous for us to soak in. He has been very cooperative in fulfilling the whole goal: to provide better service with no change in supply."

A considerable amount of time has been devoted to understanding Mazzco's multiple facilities in Minnesota, Wisconsin, Indiana, Pennsylvania and their largest in Bensenville, Ill., which is three miles from Happ's main office. As part of the integration process, the Bensenville facility was scheduled to shut down at the end of

July and its employees moved to Happ's offices. The other locations will remain the same, though they were to switch to the Happ computer system at the end of the month.

For Frank, the resulting changes from these acquisitions are part of a broader progression of investment that will ultimately improve the industry at large. From the perspective of Suzo-Happ Group, the uniting of a fragmented market turns out to be better for the whole.

"What is happening here is that a tremendous amount of money has been reinvested in our industry, and that is important," said Frank. "I have put half a million in our premises for a more modern factory and for computer technology that will ultimately lower the cost of games. That does not happen with smaller companies."

On July 21, Happ celebrated its 20th celebration with a three-hour party of

speeches, lunch, dessert, games and a raffle. For those who missed out or want a reprise of the event, Happ will have an open house at its new facility for Happ Las Vegas, which merges its distribution facility with the recently acquired AESI. The date of the open house will be announced soon.

Despite all the expansion, internal fusion and outsourcing, plus the fastened seatbelts and other clues that indicate this development will not slow anytime soon, the portrait of Happ today that emerges from Frank, Tom and Jim is marked by a comprehensive focus on parts supply to every tier.

"Machine game builders are global, and they need global solutions," said Jim. "Small operators, who are super important to our business, also need quality product for their services."

"You won't see us getting into game manufacturing as other parts suppliers have done," Tom stated. "Our focus is purely parts, and we will continue to grow through acquisition and organic growth."

For more information, contact Happ at 106 Garlich Drive, Elk Grove Village, Illinois 60007. Call 847/593-6161; fax 847-956-2091; and see www.happcontrols.com.