

# What's Best For You

## *A Lucid Equipment White Paper*



There are several different ways to sell used medical equipment, some better than others. Further, what works best for a large city medical center may not be optimal for a regional hospital. In this white paper, we offer a means for deciding the best-selling channel for your organization. We describe five different selling channels—really, five different vendor sales models—and five criteria you can use to evaluate each method or channel. We list the pros and cons of each channel based on our experience and rate the five ways accordingly.

Frankly, we have our favorites. We've learned a lot during our many years in this marketplace. However, our biases are irrelevant because we offer a free tool, a spreadsheet, for you to enter your own evaluations and rate the different channels based on what's important to your hospital. Our goal is to help you do what's best for your organization.

This paper has six sections:

- I. The Selling Channels—what they are and how they function
- II. Criteria—what you should consider when evaluating the selling channels
- III. Evaluations—our opinions of the pros and cons of each method based on the criteria; this is informational only
- IV. The Ratings—a numerical comparison of the different channels in a typical selling situation
- V. The Ratings Calculator—you can download the free spreadsheet tool we use to calculate the ratings and do your own evaluation based on your individual needs and experience
- VI. Recommendations and Conclusions

Let's get started.

### **I. The Five Selling Channels**

Over time, at least five different business models have evolved in this marketplace through which a hospital can sell used medical equipment:

- Auction House—An auction house picks up your equipment and auctions it off to the highest bidder in big group events. The hospital and the auction

house divide the proceeds. Some auction house companies are Centurion and Tekyard.

- OEM Trade-in—OEMs sell new and refurbished equipment. When buying machines, you can often trade in your existing equipment in that process. The vast majority of used equipment sales happen this way. The nominal price at which you sell machines to an OEM appears as a deduction in the selling price of the new equipment. GE and Siemens are examples of OEMs.
- Broker—A broker is a company or person that buys and sells your gear for their own benefit. They send you a check for what they say was the price at which they sold your used equipment to a third party, less their commission. Hospitals often don't know they are working with a broker.
- Dealer—A dealer is a company or person that also buys devices from you on their own behalf, "refurbish" them, and sells them to another end-user. You get paid when the dealer buys your equipment. The price at which the dealer sells your equipment is between the dealer and the buyer, out of your control. GMI and RSTI are examples of dealers.
- Transparent Agency—A transparent agency is a company that represents hospitals and works in the best interest of their client. They create a market for the used equipment and manage its sale. Lucid Equipment is the only transparent agency.

## II. The Five Criteria

Here are the different criteria we suggest using when trying to decide which method to use:

1. Logistical Integrity—measures how likely the transaction will happen without delays or logistic failure; more likely is better, less likely is worse
2. Net Proceeds—measures how much money you will get for your equipment; more is better, less is worse
3. Convenience—measures how easy it is for your organization to make transactions happen; easier is better, harder is worse
4. Market Time—measures how long the equipment is on the market before you get your money; shorter is generally better and longer worse, but there are situations where market time is irrelevant and other cases where sufficient market time is required to allow a market to develop; market time is an essential criterion, but what's suitable for one type of equipment could be bad for another
5. Transparency—measures your ability to determine the market price of your old equipment and the honesty of your deal partner

Not all criteria have the same importance for each selling organization or a particular sale. For an organization with a new CT Scanner arriving in four weeks that suddenly learns the dealer who was to take away the old machine is backing out of their commitment, Market Time becomes a more critical factor in choosing a

sales method. Another organization working within a tight budget might value Net Proceeds over Convenience. Because the primary mission of a hospital is to provide health care, Logistic Integrity is almost always the most important criteria. Equipment must be in place to render required health services, regardless of cost or convenience. Our Ratings Calculation Tool allows you to weight the criteria according to your needs to accommodate these differences.

### III. Evaluations

The next step is to list the pros and cons of each selling channel as objectively as possible. The purpose of this step is not to compare the vendors but rather to identify the advantages and disadvantages of each type of seller so that in the next step, the actual ratings, you have some basis on which to make your decision.

These evaluations are for discussion purposes only. The actual ratings are based on criteria weightings and evaluation ranks that you enter into the Ratings Calculation Tool.

These are the strengths and weaknesses of each method as seen by Lucid Equipment, based on our many years of experience working with all types of channels. Remember that this step does not affect the ratings. We encourage you to do your own criteria evaluations and weightings. With those caveats in mind, here is our thinking:

#### Selling to an Auction House —Pros

- Removes truly obsolete items in one fell swoop from your facility
- Reduces storage costs
- Near zero logistical risk (no warranties or responsibilities for removed equipment)
- Market time is irrelevant
- Moderate transparency; sometimes you know what the buyer pays for your old equipment
- Improves bargaining position for new equipment and services since no need to negotiate a trade-in
- Especially valuable when the intrinsic value of equipment is low

#### Auction House Cons

- Lowest net proceeds. The revenue from a sale is typically split 40/60, with the hospital collecting 40%.

#### Broker Pros

- Less need to supply information about the equipment since brokers will sell whatever they are given
- Short market time, since sales can happen quickly

- Improves bargaining position for new equipment and services since no need to negotiate a trade-in

#### Selling through a Broker —Cons

- Low return. Brokers are more concerned with their own bottom line, not with the hospital's welfare
- Low transparency and glaring opportunity for the broker to misrepresent the actual offer from the buyer, resulting in lower Net Proceeds
- Deals are often flawed and risky

#### Selling through a Dealer —Pros

- Less need to supply information about the equipment since dealers will either do their own inspection or not request information from the hospital for fear of losing the sale
- Short market time, since deals can happen quickly
- Improves bargaining position for new equipment and services since no need to negotiate a trade-in
- Dealers can be excellent transactional partners

#### Selling through a Dealer —Cons

- Low return; dealers are not concerned with the hospital's finances, only their own bottom line.
- Little insight into the true market value of your old equipment

#### Trading in old equipment to an OEM —Pros

- Informational requirements are zero
- Logistical integrity is good, but OEMs often change delivery dates. The deal will always be completed.
- The most convenient method for replacing equipment
- Market time becomes irrelevant because no market is ever created

#### Trading in old equipment to an OEM —Cons

- Inefficient means of selling old machines because there is zero competition for the sale; the OEM sets the price it will pay
- Coupling the purchase of new equipment to a trade-in of old machines reduces a hospital's bargaining position for the purchase of new equipment and results in a higher cost for the new equipment
- No market is created for the old machines, so there is no insight into the true market value of that equipment
- Dealing with OEMs is notoriously difficult

#### Selling through a transparent agency —Pros

- Total transactional transparency - you know what your equipment is worth
- Highest possible return within a given time frame
- The transparent contractual process promotes logistical integrity and agency responsiveness

- Convenient—the majority of work done for you by the Agency
- Nearly instant access to large marketplaces
- Instant access to a market knowledge base - learn who the quality dealers are
- Improves bargaining position for new equipment and services since no trade-in is negotiated

Selling through a transparent agency —Cons

- More extensive informational requirements
- Requires planning; conversely, proper planning leads to the best financial result

## **IV. The Ratings**

Now that you understand the criteria, the different sales channels, and the strengths and weaknesses of each method, it's time to put this information to work and find the best way to sell your used medical equipment. Making good decisions here can result in savings to your organization ranging from tens of thousands to millions of dollars annually.

We advocate using our Ratings Calculator tool to develop a numerical score that ranks each selling channel. You score each method for each criterion based on your needs. You weight the importance of each factor according to your requirements. No bias is introduced into the calculation by Lucid Equipment. We'll do the scoring based on our experience, but we urge you to download the Ratings Calculator Tool and fill it in yourself based on your knowledge and your requirements, so the ratings and ranking reflect your situation and your needs.

Let's start by explaining the 1 to 5 ratings scale:

1. Worst
2. Poor
3. Average
4. Good
5. Excellent, best, highest

We suggest a similar score for the criteria weights:

1. Not important at all
2. Somewhat important
3. Important
4. Extremely important
5. Paramount

## IV. The Ratings Calculator

Use the calculator to determine the best way for your organization to sell used equipment.

Set the weight for each criterion according to its importance to you, and then rate each selling method from 1 to 5.

The method with the highest score total is best for you.

Feel free to assign your own weights. Based on our experience, here's what the rankings look like for the average regional hospital:

Criteria	Weight	Auction House	OEM (trade-in)	Broker	Dealer	Transparent Agency
Net Proceeds	4	1	2	2	2	4
Convenience	3	4	5	4	3	3
Logistical Integrity	5	5	4	2	4	5
Market Time	3	3	0	3	4	3
Transparency	2	4	1	1	1	5
Total Score		<b>58</b>	<b>45</b>	<b>41</b>	<b>51</b>	<b>69</b>

Because Lucid Equipment is the first and only truly transparent agency in the marketplace, it's fair for you to wonder if we have skewed the Ratings Calculator toward that channel. That's not the way we operate. All the criteria weights are exposed and easily modified. You can remove any suspicion of bias by setting the Transparency criteria weight to zero. That setting takes away Transparency as criteria affecting the rankings but increases the relative rankings of selling channels that are susceptible to dishonest practices.

To obtain your own free Ratings Calculator Tool, send an email to [andy@lucideq.com](mailto:andy@lucideq.com). Put Ratings Calculator in the subject line and we will send it right out to you.

Comments:

- This example is calculated for the scenario in which a transparent agency is selling to a wholesale buyer; for a retail buyer, the proceeds would be significantly higher, and a separate category and new scale would need to be created. The average wholesale-level sale through Lucid nets the seller

- 200% of trade-in value, where the average retail-level sale nets the seller 500% of trade-in value. The only difference is planning, which can be done at budget time. A retail-level Net Revenue score pushes the Transparent Agency score to 93.
- Auction houses should be considered a separate category altogether; they are best suited for disposal of low value equipment.
  - Market time is different for wholesale and retail deals; it becomes a non-factor for auction houses and OEM deals.
  - We rated transparency as a 2 to bias the outcome less, but sellers of medical equipment should rank transparency much higher because it is transparency that enables higher Net Revenue scores.
  - We give the OEM a zero for Market Time because no market is ever made. They can't be rewarded for participating in a no-competition transaction.

## **VI. Recommendations and Conclusions**

At least five different sales channels are available to hospitals that want to sell old equipment. Which method is best for your organization depends on the relative value you assign to each of the typical criteria—Net Proceeds, Convenience, Market Time, Logistic Integrity, and Transparency, and to the relative importance, or weight, of each one. A free Ratings Tool Calculator from Lucid Equipment enables you to adjust criteria weighting to match your situation and criteria rating to conform to your judgment of the marketplace. In most cases, using a Transparent Agency will deliver the best results. Of course, as the saying goes, your mileage may vary.