

by Libby Maurer

These days, the old adage “one man’s trash is another man’s treasure” is playing out before our eyes. It’s become commonplace for consumers to save a buck or two by reusing what someone else doesn’t want, and our industry is no exception. It follows then that the sharp increase of component plant closures since the housing market collapsed has made way for a virtual flea market of used equipment. Used equipment is an attractive option for companies looking to upgrade, reduce labor or automate. But buying used can present a unique set of challenges that companies should be aware of.

The Changing Landscape of Used Equipment

The market for pre-owned component manufacturing equipment ebbs and flows based on market conditions just as new equipment does. There is always someone looking for used equipment, even though the audience may change slightly. Since the 2008/2009 contraction, said Rod Wasserman of Wasserman & Associates, there’s been a shift in the type of client interested in buying used. “When times were really good, we were selling to a lot of start-ups with budget challenges looking for more manual systems. Now we’re seeing a different group...long-term companies looking for 2004 and newer equipment,” he said.

Jay Halteman, President of Wood Truss Systems, said recent consolidation has positively affected the availability of used machinery. “[Before the downturn], you had the occasional plant that would go out of business, but it was rare. Today what’s changed is obviously the tremendous number of plants closing or consolidating,” he said.



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In fact, companies upgrading to new technologies and looking for a means to dispose of their old systems urged brokers like Wood Truss Systems to expand their used equipment business. “The existence of used equipment in the previous decade was primarily a function of buying new,” remembered Halteman. “[Plants] were looking to dispose of their old equipment. That’s really how the used market developed.”

Motivated to Buy Used

The decision to buy used machinery is typically motivated by cost. That’s good news for companies looking to replace or add a piece of equipment, because they now have opportunities to do so for far less. “In 2004, people were paying \$220,000 for an automated component saw; that same 2004 saw can be purchased for \$60,000 today,” said Wasserman. “They’re getting a great opportunity to get a high level of automation for a highly discounted price.”

Though there’s no denying the deals out there, price isn’t always the only motivator. “A lot of times people are looking for used equipment to address a bottleneck situation,” said Greg Pritchett, Sales and Service Manager for MiTek Industries. In these situations, it’s important to analyze more than just cost.

Things to Keep in Mind

Map Out Long-Term Goals. Sometimes the styles of automation and existing, less automated equipment don’t match up. So it’s critical to evaluate whether the new equipment will work with the existing set-up to reduce labor and increase efficiency. “If someone is going to make a decision to buy, in addition to price, it’s important to consider how it fits into the long-term productivity goals of the specific operation,” said Gregg Renner, MiTek’s VP, Marketing. Also consider how an automation upgrade in the shop will affect the design, inventory or “picking” processes.

Touch It. “Some people go out and buy an \$80,000 machine without seeing it. That scares me,” said Wasserman. He encourages buyers to spend some time looking at the piece and talking directly to the person or people who were responsible for its maintenance if at all possible. “Wouldn’t you want to see it? Touch it?” he said.

Get Buy-In. Humans are creatures of habit—no one likes change. If you don’t have buy-in from your production staff, you may experience some resistance. Explain the

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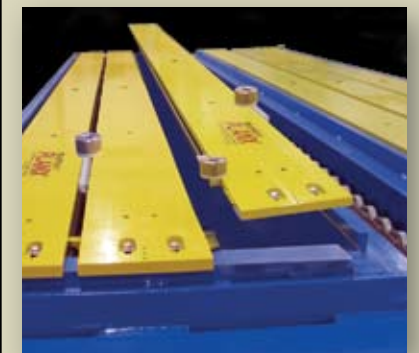
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Used Equipment Auctions: Do They Really Have the Lowest Prices?



1. Know/research what you're buying.
2. Understand the costs, including purchase price, buyer's premium, software agreements, set-up, rigging and transport fees.
3. Contact the OEM for operation, maintenance and safety information.

When going out of business, companies may have financial restrictions, obligations or lease terms that require them to liquidate equipment, and at times quickly. One way to do this is to use an asset valuation service. These companies come in and help the company appraise and sell off equipment in a given timeframe, often by holding an auction.

While auctions are typically viewed as having competitive prices and can be helpful for the liquidating party, buyers considering an equipment purchase at an auction should be mindful of a few added risks.

First, auction companies tend not to have intimate knowledge of component industry technology. "The downside is there are no auction companies dedicated to our industry. While it's not rocket science, component equipment is unique to us as a small niche industry," said Halteman. This means there's a good chance the personnel running the auction may not be able to speak to the condition, history or quality of the merchandise. Further, since the component manufacturer's management is generally gone by the time the auction is held, they can't advise you on the specifications and performance of the piece. "For instance, you don't have the opportunity to speak to the maintenance operator or ask about the history of the machine," he said. You can see that going blindly into a used purchase in this way may have negative consequences.

Wasserman cautions buyers to assess whether they're really getting a better value at an auction. On top of the final selling price, the auctioneer may add a premium to the cost of the machine, often called a buyer's premium. This is essentially the auction company's cut of the sale, which can range anywhere between 13 and 18 percent, he said. The other thing that often catches people off guard is that they're responsible for dismantling and transporting the machine to their operation. "At an auction, you're going to incur what people call a 'rigger expense.' It tends to be substantially higher than you might think," Wasserman warned. Adding these miscellaneous expenses up may surprise you. "I've talked to people who said that the total cost was higher than they expected. So it's very important to understand all the costs," added Halteman.

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goal you're trying to reach with the new machine to the people who will be impacted by it. "People tend to reject what they don't understand," Wasserman said.

Engaging the Original Manufacturer

The original equipment manufacturer (OEM) can be a critical source of information and support as you get to know the new machine. "We think it's a good idea to engage the OEM in a used equipment transaction," said Halteman. For instance, he noted in many cases buyers have to work out software licenses with the original manufacturer. It also gives the buyer the opportunity to ask questions about possible warranties and the availability of parts.

Many OEMs have programs designed to ensure buyers of used equipment know how to use the product safely. "You should always contact the original manufacturer when you purchase [used] equipment. Safety is critical," advised Pritchett. "We have a program where we will come in to inspect the set-up, check that all safety precautions are in place, train the operator and other personnel how to safely operate it, and go over the operator's manual," he said.

Halteman said interaction with the OEM on highly automated machines is important for maximizing its efficiency. "For anything high-tech or computer-related, it's a good idea to work with them to make sure you get the best performance out of it," he said. Jack Van Cleave, Sales Manager of Alpine Equipment (ITW Building Components Group), strongly recommends having the original manufacturer take a look at it in the context of the new operation. "OEMs have experience that will help you avoid common mistakes. We work with you to adjust your overall production systems and get the most value from any added equipment," he said.

He emphasized that it is very important to package automated equipment correctly for shipment—another area in which the OEM can be a valuable resource: "It is critical to package sensitive automated equipment correctly to avoiding costly damage."

Nearly all OEMs have a record of any maintenance on the machine. Van Cleave said most OEMs can trace the maintenance history of a particular machine by serial num-

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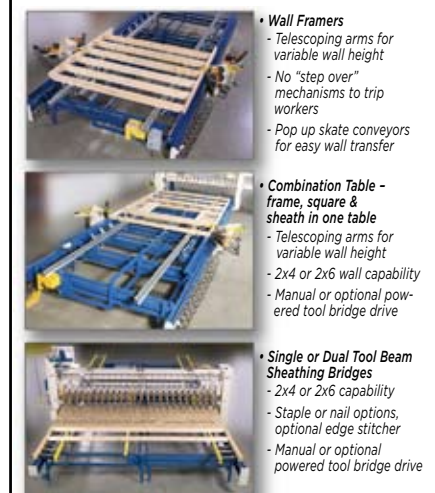
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ber. "We have records of any work our service technicians have done. You should always contact the OEM and ask for a history report," he said.

The Future of Used Machines

Not ready to buy used? Don't expect the used equipment market to dry up any time soon. Wasserman believes that similar to the inventory of new homes on the market, the surplus of used machines will have to be bought up before the demand for new equipment picks up. "There's so much inventory out there that in the next 18 months to 2-year period there will be a tremendous opportunity for used material sales," he said.

Halteman concurs, noting that given the depressed new equipment market, the trend of extreme value in used equipment will continue well into the future. "If you do your homework and understand your needs, now is a great time to buy used," he said. **SBC**

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