



PHOTO: LOEB EQUIPMENT

DONE

By
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Surplus and used equipment – from both dealers and auctioneers – offer benefits to both buyers and sellers in a tight market.

EAL

On Aug. 26 in Kingsport, Tenn., Dean Foods will sell one of its dairy processing plants. Silos, tanks, fillers and all manner of processing systems – the whole plant – will go on the market. By the end of the day, another dairy will own it, lock, stock and milk barrel. Done deal.

An auction will be used to transact the sale. The buyer could be a dairy just entering that market; a processor seeking to reduce long distribution hauls; a company that wants a plant but doesn't want to wait to build. It could also be a firm looking for key pieces of equipment that will sell off the rest in a subsequent auction.

Auctions are one option a company has at its disposal for buying and selling assets. For sellers, they provide quick finality (and quick cash) for a no longer needed asset. Speed also can be an asset for the buyer, for he's looking at equipment that's already built; and he's probably getting it for pennies on the dollar.

For processors seeking to add equipment to a plant, auctions are a good place to start looking. When an auction won't fit the bill, negotiated dealer sales, even rental/leasing companies, can meet the need. These and other used-equipment channels play a role in extending the

usefulness of assets and helping food processors operate under ever-tightening margins.

Dealer and/or auctioneer?

The typical auction company has two primary missions: to appraise a seller's assets and to hold auctions that turn those assets into cash. Appraisals also are done by dealer, too, but they also take possession and warehouse the used equipment, sometimes whole processing lines.

Because credit is tight in this recession, food companies have had to find alternatives, which can range from a dealer offering lending or leasing arrangements to large processors helping finance smaller suppliers or copackers – and then turning to auctions to reduce their own capital expenditures.

Having a relationship with a surplus equipment company of any type helps processors source equipment on a large or small scale. For example, a food company might call a dealer or an auctioneer to locate a single piece of equipment. The auctioneer who has one seller's lot of 100 or more pieces of equipment might or might not have it; a dealer might or might not in inventory, either. However, either party can contact potential sellers in their database (even each other) and find the asset.



Loeb Equipment is both a dealer and an auctioneer. If it takes used equipment into its warehouse, its in-house technical staff will inspect and repair all machinery.

Acting as a middleman, the auctioneer or dealer can then facilitate a negotiated sale. Sometimes it's easier when the buyer and seller aren't in direct contact. Dealers and auctioneers can work in competition to con-

nect buyers with assets, or can even use each other as resources. Dealers can buy at auction, and auctioneers can consult dealers in helping buyers.

Chicago-based Loeb Equipment (www.loebequipment.com), which is both dealer and auctioneer, has its in-house technical staff inspect and repair all machinery it takes into its warehouse. After a sale, buyers are entitled to a 10-day right-of-return policy to allow for on-site final evaluations and "to prevent buyer's remorse."

In an auction sale, "It's all as-is, there's no warranty or return policy, and we don't test the machinery out," says Charles Winternitz, president of the auction side of the business, Loeb Winternitz Industrial Auctioneers.

It's not bad, it's just a different business model. In exchange for getting what may be a bargain, buyers who use auctions should perform their own inspections before the auction and know what they'll need to do to bring the equipment up to snuff. And in a recession, bargains have become an increasingly relevant means of budgetary survival.

Buyer and seller both can win in the used equipment market. Equipment in the food industry tends to retain its value better than that in other industries. Even a 10-year-old machine that is well maintained may still bring the seller up to 50 cents on the dollar if the processor conducted good preventive maintenance. And it can bring the buyer savings of 50 percent or more.

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'Co-opetition'

"A typical situation for us might be that a company with 10 or 20 or more plants is buying another company that has a couple of plants," says Marty Davis, president &

CEO of M. Davis Group (www.mdavisgrp.com), Pittsburgh. "What they really want is the smaller company's volume and maybe the label and brand. They will move that production to another plant."



Equipment's Roger Gallo: "Used" doesn't mean worn out.

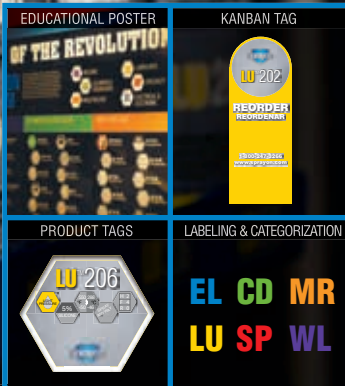
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Such sellers may call the auctioneer to consult, appraise and prepare reports in helping that new plant owner decide which assets to keep and which to sell. In some cases, no equipment avoids the auction block. This was the case at earlier this year in New York, where Davis sold "every last piece of equipment that was in that plant. In other situations, we may sell the 70 or 80 percent of the plant that is not transferred as part of a reallocation of production."

It's not always easy to find good, used equipment. For help, food processors can turn to specialists. Surplus equipment houses of all types keep their ears to the ground by building relationships, maintaining databases that track customers' plants, tracking public bankruptcy records and being aware of all leads in the used equipment grapevine.

"Typically a dealer doesn't want all that equipment," says Keith Rottman, chief appraiser for Rabin Worldwide (www.rabin.com), San Francisco. "When we go in and auction a plant, we sell everything including the kitchen sink, whereas a dealer is more likely to want a handful of key pieces of equipment."

Full-service auctioneers offer services from start to finish. For buyers, they can help with sourcing and procurement, crating and shipping, inspecting machinery and providing assurances of condition. In some cases, they even offer maintenance/engineering services. For the seller, auctioneers' services span inventories, appraisals and valuations; cleanup, repairs and reconditioning; listing/marketing and overall management of the transaction; and even demolition after the sale.

Early on, consulting might include advice to the processor to know what work should be done to increase the condition, usability and therefore value of assets. As for the sale itself, the auctioneer brings "a timeliness and certainty to the process," says Davis. "If we

say an auction is going to occur on Aug. 26, everybody knows that equipment will be sold on Aug. 26. There's none of the 'Maybe we're interested or maybe were not,' about it on the part of buyers. The ones who have an interest pay attention to the market, do their homework and make arrangements to participate in the sale."

The same timeliness, the same refurbishing efforts, provide value to the buyer. First, the cost-savings can be significant. Davis cites a very basic piece of equipment, a stainless steel tank: "Let's say it would cost you \$100,000 to buy that tank new from the manufacturer. If it has been properly cleaned and maintained, it can be five, 10 even 20 years old, and still be good as new, because stainless steel holds up well."

This isn't always true of more complex machinery with aging sub-assemblies or electromechanical components. But when equipment is in top condition, buyers are better able to size-up the asset and determine when it's cost-efficient – or cost-prohibitive – to adapt to their production environments.

Getting a piece of equipment into the plant in a timely fashion can be worth many thousands of dollars if the plant has a critical need. So a tank that costs you \$100,000 new from an original equipment manufacturer (OEM) might also carry with it a waiting period of three to six months. "If you can find the same type of tank being sold at an auction," Davis says, "you may be able to not only buy it for half that price, you might have it in your plant in a matter of weeks."

Beyond the purchase price

Especially at auction, the purchase price of a machine is just the start of its cost. Transportation, part changes, engineering costs and other considerations all figure into cost justification and total cost of ownership. Cost and time – delivery time as well as time to market – are valuable commodities to weigh into any purchase decision.

Shipping is probably the first add-on to encounter. Typically, personnel are on hand at any sizable auction to give shipping prices and offer rigging services. According to Davis, a typical price to remove a tank that might sell for \$50,000 might be \$5,000 or \$7,000 ... or maybe just \$2,000. "It's not so much that it throws out of whack your [purchase] price point [especially] when you con-

sider you're shortening your delivery time in some instances by months.

"We've done some very big auctions where individual companies have spent millions of dollars," Davis continues. One such buyer, he

says, "sent out a group of engineers going over everything at the site and making themselves fully familiar with the equipment, and then went back and checked what else was available. By the time we got to the auction, I

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Kicking the tires is nice, says Keith Rottman of Rabin Worldwide, but sometimes a remote event, with pictures of the equipment and even data on its use, is more practical.


think they knew the equipment at least as well as the people who were selling it. They spent millions in the sale, but what they bought would have cost them two or three times that if they had bought it new.”

“The term ‘used’ is a misnomer; it implies worn-out,” says Roger Gallo, president and CEO of Equipnet (www.equipnet.com), Canton, Mass. “In the consumer goods business, people are changing lines all the time. They start up a line to produce a particular product, and when that product doesn’t sell they discontinue it. Or they decide to consolidate two facilities, or they get acquired or a variety of other things can happen. So ‘used’ doesn’t mean worn-out, it simply means previously owned. A lot of the equipment, especially from the multinationals, are pristine, top-of-the-line assets that are quite modern.”


And lately, the big multinationals have been among the buyers. “When budgets were slashed, some of the biggest food companies, the ones that used to only buy new, started looking more closely at used equipment,” says Rabin’s Rottman.

General Mills, Anheuser-Busch, Labatt Breweries and others have partnered with Schneider Industries (www.schneiderind.com), St. Louis, an auctioneer and more. Schneider manages ongoing investment recovery programs for those companies, which go beyond traditional buying and selling to include tracking and transferring internal assets from plant to plant.

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"One of the things we've found over the years is that one plant may be looking to start a new project and spend significant dollars on equipment, when those same pieces of equipment – kettles, processors, downstream packaging metal – may be sitting idle at another plant, but they don't know it," says Dan Rosenthal, chief operations officer for Schneider. "We can track all of this, and when the need arises, we can move it from one plant to another and save money in the process."

The electronic age

There are various kinds of auctions, starting with the traditional on-site plant auction, where the auctioneer walks a crowd of buyers from one piece of equipment to the next.

"That's a good method for people who want to 'kick the tires,' but we've seen more benefits in not doing that," says Rottman. "We want the buyer to be comfortable, not tired." Walking a plant – assuming this is possible because the plant is not operating – can be tiring, and can lead to buyers missing details if they cannot see and hear well or become distracted.


Instead, Rabin uses a "theater"-style auction from a comfortable room at the plant or a nearby hotel, with some coffee and lunch, and lots of data. Large-screen displays provide information on the item being sold as well as a running tally of bidders, bid amounts and perhaps simultaneous Internet bids.

Internet auctions have become commonplace. These can be held simultaneous to the physical event, so the buyer does not have to physically attend the auction to compete with bidders in the "theater." Of course, sales also can be conducted in a 24/7 web environment. This is typically done using an industry-specific system similar to eBay. Even at eBay, it is possible to find food plant equipment, however this is typically for well-known pieces of equipment that require little or none of the kind of consulting an industry-specific seller can provide.

Many and perhaps most auctions by major industry auctioneers are conducted simultaneously on-site and online. Either way, it's not the mode of selling, but the matching of asset to need that matters. Accountability and assurances are based on the reputations and relationships of established industry specialists. And in this data-heavy age, extensive information about the condition and working order of a machine often is available.

Loeb operates two types of auctions: on-site sales with a simultaneous webcast, and an online eBay-type sale. In contrast to on-site participants, very few online participants make the effort to do a physical inspection before the auction. So how do they know the assets they're after are worth their interest? Loeb offers photos and videos from every possible angle – showing any damage – and good online descriptions of the equipment for sale. The company does not guarantee the online content because it prefers buyers to visit and do a physical inspection.

Still, most online-only participants do enough homework on big-ticket assets to prevent ill-advised – and career-threatening – expenditures. "There are ways to mitigate the risk, or at least being able to explain to your boss why you've just bought a piece of equipment sight unseen," says Winternitz. "It's not uncommon for a customer to contact the OEM with the serial number and get a complete service history, or even hire the OEM or a third party to go in and inspect the equipment."

"People are getting more and more comfortable with the Internet," concedes Tom Larson, sales manager for the dealer side of Loeb. Even on the dealer side of the business, the digital age has brought significant changes to the marketplace. "To give you an example, in the last decade, we've gone from mailing-out a quarterly newsletter to updating our inventory twice a day on the web. There are times when an e-mail blast of incoming shipments results in sales before the truck even gets to the warehouse." 



MORE ON THE WEB

There's a lot more in the web version of this story. Plus there's a web-only feature "Surplus equipment foretells the recovery," all at www.FoodProcessing.com.



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