Who is On Your Side?

A Lucid Equipment White Paper

A hospital selling used medical equipment has a choice of at least five different vendor types with whom to partner. In another white paper, "What's Best For You," we recommend an objective methodology for selecting a vendor type, offering pros and cons for each type of vendor. However, there is one aspect to this choice that warrants a more in-depth look: which vendor types are genuinely looking out for a hospital's best interests, not just for their own. We call this question, "Who's On Your Side?" This white paper suggests some answers.

Different business models evolve in any sizeable business market. In the market for selling used automobiles, at least four different models are now operating:

- Trade-in your used car to new car dealer at the time of new car purchase
- Sell your used car to a used car dealer; the "We buy used cars" method
- Offer your used car for sale on a consignment lot
- Private sale of the used car to another individual

Similarly, there are at least five common sales channels, each representing a different business model:

- OEM trade-in: The OEM offers to buy the used equipment and credit the purchase price against the cost of the new equipment being sold to the hospital
- Dealer: A dealer is a company or person that buys equipment from you on their own behalf, "refurbishes" it, and sells it 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.
- Broker: A broker is a company or person that manages the sale of your equipment. When they find a buyer, they then buy the machine and resell it to the third party they have found. They send you a check for what they say was the price at which they sold your used equipment to the third party, less their commission.
- Auction house: An auction house picks up your gear and auctions it off to the highest bidder in big group events. The hospital and the auction house divide the proceeds.
- 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.

These are very different business models. While the companies using these models may all purport to be working in your best interests, a closer look reveals a more complex picture. To understand which vendor types are truly on your side, we apply an increasingly popular investigative technique, popularly called “follow the money.” We examine each model to see how profits are distributed for that type of sale.

- OEM Trade-in: The size of the spread between what the OEM pays for the used equipment being traded-in and what they charge for the new equipment directly affects their bottom line. The bigger the spread, the higher their profit. It is in their best interest to offer a low price for the used equipment. They are not at all aligned with a hospital’s best interests. There are also deeper, more insidious problems. OEMs use a hospital’s need to remove old equipment against them. Trades signal a weakened bargaining position to the OEM, which drives the prices of new equipment and service up, while driving the value of old equipment down.
- Dealers: A dealer tries to buy used equipment at the lowest possible price and sell it for as much as they can. They are not aligned with a hospital either, and not on the hospital’s side.
- Brokers: This is a subtler case. In principle, they try to get the highest possible price for the hospital, which ensures them the highest commission. Seemingly they are aligned with the hospital’s interests and thus on the hospital’s side. However, there is often a lack of transparency in broker transactions, and the true sales price is hidden from the hospital so the broker can capture a larger percentage of the selling price. When this happens, the broker is also not on the hospital’s side. There are other problems here, too, like the creation of long chains of sale. The more links the chain of sale has, the more likely the broker is to default.
- Auction houses serve a useful purpose, collecting and selling large lots of typically low-value equipment. The higher the selling price, the more both the auction house and the hospital realize from the sale. Unfortunately, the nature of the sale depresses the net proceeds, so while the alignment is good, the yield is low.
- Transparent agencies: This is the only selling modality fully working in the hospital’s interest. Their commission is usually in direct proportion to the selling price of the used equipment and the hospital’s net proceeds. Further, they are the most likely entity to get the best price for the hospital.

All of these vendor types have a place in the market. At one time or another, a hospital may use all of them, with varying levels of efficiency and yield. However, examining their business models through the lens of the “follow the money” dictum reveals that only auction houses and transparent agencies can be counted on to always work in the hospital’s interest, and a transparent agency is the most likely type of entity to get the best deal for the hospital when the hospital is selling used equipment.