



CLIENT:
Welch Equipment Company

BANKER:
Eric Long

- CHALLENGES:
- ▶ A radically shifting market
 - ▶ Executing on a new plan
 - ▶ Putting financing in place

From left to right:
Steve Rice, Eric Long

Shifting Gears

How a strategic change in direction—and some much needed help—transformed Welch Equipment Company

Eric Long's brother buckles his boots, steps into his skis and slides onto the trail. One of his sons and his nephew glide along beside him, their skis whispering on the new snow. It is December 30, 2003 and Eric Long and his family have driven to Telluride for some back-country skiing. But Long won't touch his skis for another 30 minutes. Instead, he's sitting in the car talking to his bank's attorney, on the tail end of the mountain's wireless signal. He's tying up the last excruciating details of a loan agreement for Steve Rice, CEO of a Denver materials handling company and one of Long's customers. If Long doesn't get this loan closed now, before 2004 dawns, the deal will be off. "I was going nuts," Long says later. "It was pretty close."

But not too close. Long pulled it off—a coup not just for him but also for Rice. Rice, who'd bought Welch Equipment Company in 1995, had been through some challenging years. The company, which sells forklifts and storage products mainly to

distribution centers that store and move inventory, was hit hard in the years following 9/11.

"The lift truck market fell by more than 25% in Colorado, New Mexico and Utah," Rice says. Eager to keep market share, material handling distributors lowered prices for lift trucks and services which obviously reduced profit margins. By 2002, three of Rice's locally-owned competitors had been purchased by larger companies based outside of Colorado and Rice realized he needed to change his business strategy or lose his strong market position. "We weren't competing against companies our own size. Our major competitors had more resources and the ability to aggressively price their products and services," he says. "It had become very apparent that we needed to change our approach if we were going to meet our growth plans."

BETTING ON A NEW DIRECTION

What to do? Rice literally had a middle-of-the-night epiphany, where he realized that there was

plenty of opportunity with Welch Equipment's current customer and potential customer base to meet a growing need. Companies were seeking material handling integrators that could design and install efficient material handling systems along with supplying quality products. Welch Equipment already represented industry-leading products, such as Toyota and Raymond forklifts, Interlake storage products, Hytrol conveyors and Remstar carousels, but more products and expertise were needed to take the next step.

But shifting business strategy wouldn't be easy—organizationally or financially. At that time, Welch Equipment had 91 employees with one engineer who understood computer-aided design (CAD) and could lay out a warehouse per the customer's specifications. The new strategy included the addition of product lines, several engineers, sales associates and new CAD and computer-aided manufacturing (CAM) capability. It would also mean growing the workforce by 20%, all in advance of any new revenue. He needed a bigger credit line to put his plan into place.

IMPLEMENTING A NEW MODEL

In June 2003, Rice turned to Eric Long. They'd worked together at two previous banks before Long joined Compass in 2001. Long, Rice felt, understood the nuances of the material handling industry. Long knew, for instance, that installing a distribution system could take several months, but that Welch's suppliers of conveyors, storage racks and so forth, would still require 30-day terms. And he understood that Welch's national customers were setting their own payment terms and that Welch had no choice but to accept these terms for these important customers or lose them. This new business direction definitely was going to affect cash flow.

With his understanding of Welch Equipment's new business model, Long made the case to move and increase Rice's line of credit. Because of this deep understanding of Welch's business, the line was approved and closed during the ski trip.

Naturally, it takes time to create a new organization, and the 2003 Rocky Mountain economy still had not returned to its 2001 levels. Increasing the line to meet this new business strategy was very difficult for Compass to do without putting a guaranty in place. If Welch Equipment met its business plan objectives, Compass would drop the guaranty.

Within a few quarters, Rice's plan proved to be very successful. The company's revenues and profits were growing and the integrated systems part of their business was exceeding all expectations. The company also increased its service, parts and rental business as well as its lift truck market share as a result of Compass's strong support. By year's end, the company was so successful that the guaranty was dropped. "I personally bought into Rice's business plan and we had agreed if he performed, we would do what we said," Long adds.

Today, Welch Equipment Company has more than \$40 million in revenues and 150 associates and exceeds national market share with all of its key vendors. The plan worked, but only because of the strong relationship between Long and Rice. "Eric took the extra time to understand our business and saw the benefits of this partnership," says Rice. "And all this success is probably due to a late start on a ski trip!" ☐