



TYPES, METHODS AND BENEFITS OF AUCTIONS

TABLE OF CONTENTS

1.	Types of auctions	3
1.1.	Absolute auction or auction without reserve	3
1.2.	Auction with reserve or auction with upset price	3
1.3.	Subject to confirmation (STC)	3
2.	Auction methods	4
2.1.	Live on-location or on-site auction	4
2.2.	Online auction	4
2.3.	Live webcast	4
2.4.	Multiple auctions	4
2.5.	Multi-Par auctions	4
2.6.	Buyers Choice	5
3.	Benefits of auctions versus conventional private treaty sales	5
4.	Benefits of online auctions	7

1. Types of auctions

There are two broad types of auctions across the world, and a third variant in the event where reserve is not met as outlined hereunder:

1.1. Absolute auction or auction without reserve

Regulation 18 (1) of the Consumer Protection Act, No. 68 of 2008 (CPA) defines '*absolute auction*' or '*auction without reserve*' as an auction at which:-

- (a) goods/assets are sold to the highest bidder without reserve;
- (b) the auction does not require a minimum bid;
- (c) the auction does not allow competing bids of any type by the seller or an agent of the seller;
- (d) the seller of the goods/assets cannot withdraw the goods/assets from auction after the auction is opened and there is public solicitation or calling for bids; and
- (e) the seller has a bone fide intention to transfer ownership of the goods/assets regardless of the price realised on auction in terms of regulations 20 (18-19) and 22 (3) (i) of the CPA.

1.2. Auction with reserve or auction with upset price

Section 45 (4) and (5) of the CPA defines '*reserve auction*' or '*auction with upset price*' as an auction where:-

- (a) the seller reserves the right to establish a stated minimum bid, the right to reject or accept any or all bids, or the right to withdraw the goods from auction at any time prior to the completion of the auction by the auctioneer;
- (b) goods/assets are sold to the highest bidder subject to the reserve price and acceptance of the highest bid by the seller in terms of regulation 28 (6) of the CPA;
- (c) the owner or auctioneer, or any one person on behalf of the owner or auctioneer, as the case may be, may bid at the auction; provided notice has been given in advance that the sale by auction is subject to a '*reserved*' or '*upset price*'; and
- (d) the auction becomes '*absolute*' or '*without reserve*' once the reserve price determined by the seller is reached, and the auctioneer is authorised to sell the goods/assets to the highest bidder at the fall of the hammer or close of the auction.

1.3. Subject to confirmation (STC)

'*Subject to confirmation (STC)*' refers to an auction where:-

- (a) the sale of the goods is not complete at the fall of the hammer or close of the auction because the reserve price determined by the seller was not met; and
- (b) the auctioneer knocks the hammer or closes the auction provisionally to the highest bidder STC by the seller within a predetermined confirmation period.

2. Auction methods

Auctioneers use many different auction methods to conduct auctions across the world, predominately the once outlined hereunder:

2.1. Live on-location or on-site auction

Live on-location or on-site auction is the competitive marketing and disposal of goods/assets whereby buyers congregate physically at one place and the auctioneer takes bids from the floor.

2.2. Online auction

Online auction is the competitive marketing and disposal of goods/assets conducted on an Internet based platform for a pre-determined period of time with each lot sequentially closing at a given time. Prospective buyers bid online from the comfort of their offices or homes. Online auctions enable buyers to bid against each other with the system acting as an invisible auctioneer and regulating bid increments and the entire bidding process. Bid prices are updated in real time as bidding progresses and the highest bidder wins at the close of the bidding. There is no doubt that online auctions are the future of asset disposal across the world, for the reasons outlined under the section marked '*Benefits of online auctions*' hereunder.

2.3. Live webcast

Live webcast auction is similar to online auction, except that bidders can participate remotely from any location around the world on the Internet via live link to a '**live on-location**' auction site. Both online and live webcast auctions have the advantage and convenience of saving the buyer the cost of travel and loss of productivity.

2.4. Multiple auctions

Multiple auctions allow portfolios of properties belonging to one or more sellers to be marketed and sold to buyers at a single event, essentially providing a mechanism to sell properties in bulk. Multiple auctions can be conducted at hotels or conference venues, and are facilitated by large screens where buyers can experience virtual tours and view pictures and videos of the properties for which they intend to bid. Among others, multiple property auctions have the advantage that they facilitate a high profile event at a reasonable marketing cost and they realize higher prices by attracting a wide buyer network thereby encouraging competition between buyers.

2.5. Multi-Par auctions

Multi-Par is an auction method that uses a sophisticated computer program to sell undeveloped land and apartments per square meter. The computer program is designed to protect individual buyers from big developers as it allows them to place their highest bid on a single plot or single unit.

2.6. Buyer's choice

Buyers choice refers to a situation where the auctioneer offers buyers assets per piece, on a 'per unit/item' basis; with the highest bidder having the choice to take one or more units/items at the bid price multiplied by the number of units/items in the particular lot.

3. Benefits of auctions versus conventional private treaty sales

Auctions are indeed a preferred method of selling assets and property in most parts of the world today; with many benefits to both sellers and buyers, such as the following:

	CONVENTIONAL METHODS/PRIVATE TREATY	AUCTION METHODS
1	LIST AND WAIT (LONG LEAD TIMES AND NOT COST EFFECTIVE): The biggest disadvantage of conventional private treaty disposal methods is that assets are merely listed with no certainty as to when the sale will happen. The long lead times are not cost effective as assets deteriorate meantime; be it through wear and tear, acts of vandalism and illegal occupation which necessitate costly eviction. As a result, sellers often have to incur holding costs such as security and insurance.	QUICK-TURNAROUND AND COST EFFECTIVENESS: Auctions offer sellers quick-turnaround and timeous disposal of assets; thus saving them (sellers) time, holding costs and the deterioration of assets. Auctions are definitive events which can be staged at very short notice, where a pre-determined date, time and venue is set.
2	SECRETIVE AND TEDIOUS: The fact that the conventional private treaty disposal method is facilitated behind closed doors with the agent acting as a middleman is tedious and secretive; hence buyers usually treat attempts to drive prices up using counter offers with suspicion.	OPENNESS AND TRANSPARENCY: Auctions are open and transparent activities which happen in the full glare of the public eye. Live on-site auctions offer buyers the opportunity to congregate in one place and bid for assets. Although online auctions happen behind the scenes, they also offer transparent audit trails.
3	ESTABLISHMENT OF A CEILING PRICE: The problem with conventional private treaty disposal methods is that they establish a ceiling price with the result that buyers tend to negotiate downwards.	TIME VALUE OF MONEY: Considering the principle of 'time value of money', auctions avoid the devaluation of assets, as a rand in hand today is more valuable than a rand received some time in the future.

	CONVENTIONAL METHODS/PRIVATE TREATY	AUCTION METHODS
4	SUSPENSIVE AND SPECULATIVE: The suspensive nature of conventional private treaty disposal methods sometimes attracts speculative buyers. There is no guarantee that a person making an offer is good for the money and will settle his/her purchases.	CONCLUSIVENESS: Auctions are conclusive events where serious buyers congregate to buy assets at the fall of the hammer in a competitive, real time, non-negotiable bidding environment, with non-suspensive and non-speculative conditions. By and large, auctions are treated as cash transactions, with the result that affordability is determined upfront. Although payment for transactions involving immovable assets happens upon transfer, the buyer must have proof of funds on auction day.
5	NOT COMPETITIVE (ONE OFFER AT A GO): A disadvantage of the conventional private treaty disposal method is that it doesn't always yield the best value as it entertains one offer at a go, and accepts the first best offer with little option for the seller to bargain.	COMPETITIVENESS AND TRUE MARKET VALUE: The competitive nature of auctions reveal the true and fair market value of assets. Auctions establish the price floor price and eliminate the price ceiling price. The auction method leverages multiple offers and give buyers the opportunity to determine value independently, in comparison and in competition. Bidding for auction items usually start low, but increases until the highest bidder buys the asset, giving buyers a 2 nd , 3 rd , 4 th and more bites of the apple. With auctions, it is likely for a buyer who initially placed the lowest offer during the first round of bidding to end up being the highest bidder and purchaser of the assets.
6	MULTIPLE MANDATES AND LOCALIZED MARKETING: The fact that the conventional private treaty disposal method usually works on multiple mandates discourages agents from committing most resources (time and money) on the seller's assets. As a result, agents only list assets locally with no focused attention and aggressive marketing effort requiring extensive investment.	SOLE MANDATE AND MARKET EXPOSURE: The fact that auctions preferably work on sole mandates encourage auctioneers to commit resources (time and money) on aggressive and targeted marketing. As a result, auctions reach more buyers because they are marketed and publicized as ' all or nothing events ' with the hype and excitement that build-up to maximum attendance on the day of the auction.

3.1. Benefits of online auctions

Apart from the general advantages of the auction method, online auctions offer both sellers and buyers the following added benefits:

- 3.1.1. **Marketing exposure:** Online auctions allow for greater marketing exposure of assets to larger and even international buyers. Online auctions require detailed cataloguing of assets with detailed descriptions, including the attachment of high resolution pictures and virtual tour videos.
- 3.1.2. **User-friendliness of on-line auctions:** Proceedings at live auctions are fast-paced and can be intimidating and overwhelming to first time bidders, who may be discouraged from participating, and ill-equipped to make split decisions within seconds. On the contrary, on-line auctions are user-friendly and offer bidders sufficient time to consider all the lots up for sale simultaneously over days, not seconds. This takes the intimidation of the live process away from the bidder and thus allows for more and better bidder participation. This relaxed bidding experience also allows the bidder to psychologically connect with the asset that is being purchased.
- 3.1.3. **Cost-effectiveness:** The biggest advantage of online auctions is cost-effectiveness. Online auctions are suited for the disposal of assets that are spread over a vast area, thus reducing auction delivery costs and saving the seller set-up and handling, costs such as transportation, warehousing, venue hire, etc. Assets can be sold where they stand, as there is no need to move them to central locations. This allows the utilization of natural surroundings with the advantage that many items look good in their natural habitat thus resulting in higher prices. This also eliminates the risk of damage and theft of assets in transit. This further allows local buyers a chance to participate and it has been proven that they (local buyers) generally pay slightly more for the assets as they do not have to factor any moving (transport) costs into their bidding.
- 3.1.4. **Convenience:** Online auctions afford buyers unlimited access (24/7) to participation in the auction and bid from the comfort of their homes or offices, thus saving them time, travel expenses and parking hassles. The online auctions also have a feature that allows bidders to place auto-bids by programming maximum bids thus enabling the online auction software to bid on their behalf automatically, even in their absence. Also, buyers do not have to experience inconveniences such as parking hassles on auction day.
- 3.1.5. **Economies of scale and exposure:** The biggest advantage of online auctions is that it offers economies of scale as assets across different locations can be aggregated so that they appear as if they belong to one homogenous auction. An added advantage of economies of scale is that the assets of even the smallest auction base enjoy greater exposure to larger national and even international markets. Also, online auctions are capable of disposing small quantities of assets.

- 3.1.6. **Bidder anonymity and elimination of 'rings/cartels':** Online auctions have the distinct advantage of anonymous bidding where all registered bidders are displayed only by their bidding number. This prevents bidders from knowing the identities of competing bidders, thus protecting them and enabling them to participate in the auction without fear of the intimidation that usually happens at live auctions. It is common knowledge that the biggest disadvantage of live-on location auctions is the fact that buyers sometimes connive and collude by forming rings/cartels to suppress prices. Therefore, an added advantage of '**bidder anonymity**' is that online auctions effectively eliminate 'rings/cartels' as well as intimidation by other bidders which usually happens at live on-site auctions.
- 3.1.7. **Transparency:** Online auctions offers a transparent audit trail. Apart from the functionality for live real time viewing, online auctions track each and every bid made, and provide maximum transparency by enabling sellers the functionality to log onto the system and monitor the auction real time, and also adjust agreed parameters such as reserve prices to facilitate the acceptance of bids that are close to reaching pre-determined reserve prices.
- 3.1.8. **Longer and extended bidding:** Online auctions allow for longer bidding time over extended periods of time (three to five days), which create the opportunity for emotional purchasing, whereby bidders bond with an asset to a point where they psychologically own the asset before they actually buy it. Online auctions eliminate the practice of quick knocks, whereby unscrupulous auctioneers connive with buyers to sell assets at reduced prices, thus disadvantaging sellers. The extended bidding built into online auction systems allow for continuous bidding until all bids have been submitted. This feature also allows last minute bids to extend the bidding on each lot until all bids have been submitted.
- 3.1.9. **Price protection:** Online auctions protect the seller's interests as assets are loaded with reserve prices and the system rejects all bids below the reserve price. However, should reserve not be met, the seller can still negotiate the desired price with the highest bidder after the close of the auction.
- 3.1.10. **Site security:** The entire online auction process is electronic, with the result that there is no requirement to have an onsite team on auction day. Therefore, the seller attracts less liability as opposed to live on-site auctions. Only successful buyers report to the auction site for collections and the seller can implement effective crowd management and dispatch process such the coordination of as pre-arranged asset collection times.
- 3.1.11. **Weather proof:** Attendance and prices for online auctions cannot be affected or influenced by occurrences such as rain and other '**acts of God**'.
- 3.1.12. **Swift settlement:** Swift settlement as the online auction system generates automatic invoicing to successful bidders immediately after bidding closes, unless reserve has not been met.