



AUCTION TIPS FOR SELLERS

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1. Five (5) most important tips sellers must know about auctions

The tips contained herein are meant to advise sellers about the dos and don'ts of using the auction method to dispose their assets, with a view to make their auction experience an interesting, hassle-free and rewarding one.

1.1. Auctions offer sellers many benefits

Contrary to the stigma traditionally associating auctions with the disposal of distressed estates (liquidations, sequestrations, deceased estates and bank repossessions) and the baseless perception that auctions offer bargains, the auction method represents the true fundamentals of the economic principles of supply and demand with many benefits to sellers including those listed in the table below, compared to conventional/private treaty methods:

	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.

	CONVENTIONAL METHODS/PRIVATE TREATY	AUCTION METHODS
3	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.
4	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.
5	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.
6	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.

1.2. The auction method requires sole mandate

The auction method is not speculative and requires motivation, commitment and investment on the side of the seller. For this reason, selling property on auction can only be done through a sole mandate mainly because of the time, effort and money the auctioneer has to commit on personalized marketing and promotion. Multiple mandates do not work with the auction method as they discourage the commitment of resources into the active marketing and promotion of assets. Who can be motivated to commit time, effort and money when other agents can present a buyer and close the deal with the seller at any time?

1.3. Good auction values are achieved through professional service

High auction values do not come automatically, but are a result of concerted professional service. Sellers should select auction professionals carefully in order to achieve good auction values. Among other factors, the attributes sellers must look for in the appointment of ***'fit and proper'*** auction professionals include the following:

1.3.1. **Professionalism:** Rendering professional auctioneering services involves far more than just bid calling. Much as auctioneering is not regulated in South Africa, and no minimum training standards are prescribed, sellers would be best advised to appoint professional auctioneers. The professionalism of an auctioneer is determined by training, knowledge and skill. One of SAPAA's objectives is to ***"professionalize the auction industry and auctioneering profession by; among other things, establishing minimum entry requirements into the auction profession, including educational qualifications, experiential requirements, occupational designations and continuous professional development"***.

1.3.2. **Expertise and track-record:** Whether it is for vehicles, real estate or livestock, sellers should appoint auction professionals who are specialists and have track-record in the asset categories for which their services are required.

1.3.3. **Capacity and capability:** Sellers should appoint auction professionals who have capacity, including in-house key personnel, buyer database and critical infrastructure such as offices, storage and logistical capability.

1.4. “Goed koop is deur koop”

The procurement of auctioneering services on the basis of the lowest commission rate is flawed due to the fact that it does not guarantee the maximum benefit to the client. It is costly to render a comprehensive value add auction service and this cannot be covered by the low commission rates that are traditionally used to procure auctioneering services. First and foremost, low commissions do not incentivize/encourage the auctioneer to work for higher auction prices. Irrespective of the input and industriousness of the auctioneer regarding the attainment of high prices, the commission rate is generally so low that the auctioneer does not obtain any real benefit from higher prices. For example, whether a 1998 Toyota Hilux 2400 with a market value of R40,000-00 is sold for R20,000-00 or R40,000-00 at the ruling commission rate of 1%, the auctioneer will only benefit by an additional R200-00 ($R20,000-00 \times 1\%$) if the higher price is attained. On the other hand, the client loses a potential income of R20,000-00. Invariably, the traditional/conventional method/criteria of procuring auctioneering services on the basis of the lowest commission rate has the unfortunate consequence that it may encourage the auctioneer to supplement or augment his income through various unscrupulous means and tricks that are impossible for the client to control. To name a few, the auctioneer may:

- Form part of the cartel (“*ring*”) that purchases items at low prices and then resell them at a subsequent auction where only members of the cartel (“*ring*”) are present. The profit thus attained is divided among the members of the cartel (“*ring*”). The auctioneer then benefits from profits that should have accrued to the client. Although clients usually warn against “rings” in tender documents or written contracts, it is difficult to control the practice on the ground.

- Purchase items at the auction by giving himself a **“quick knock”**. Buyers participating at the auction usually do not object to this practice for fear that the auctioneer will victimize them by making sure that they do not obtain any bargains.

Sellers should ask themselves why a professional service provider with overheads happily works for discounted commission rates as low as 1%. The unscrupulous methods mentioned above all have two things in common; namely:

- They suppress prices, and
- They reduce the net benefit to the seller.

1.5. Sellers should appoint compliant auctioneers

Much as auctioneering is not regulated in South Africa, sellers should insist on certain minimum compliance requirements, including adherence to Section 45 (1-6) of the Consumer Protection Act, No. 68 of 2008, the possession of trust accounts wherein sellers’ monies are held, and compliance with the BBBEE Codes of practice. One of SAPAA’s objectives is to **“transform the auction industry by; among other things, creating conditions conducive to the entry and participation of PDIs, and promoting the equitable distribution of auction work operate under a strict code of ethics”**.