



## Internet Auctions

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## Introduction

In the last few years, Internet auctions have become a very popular way to get rid of unwanted goods. For small business owners, Internet auctions can be a cost-effective way to test-market products in an online sales environment and to liquidate dated or overstocked merchandise.

In fact, the online auction business model has helped change the way micro-enterprises do business. For the first time, home-based sellers are able to quickly connect to a global market at a price they can afford.

eBay, the Internet auction market leader, currently has over 56 million active users. Among these users are thousands of budget-conscious, home-based merchants around the world who now make their living by selling products on eBay.

This Info-Guide is designed for beginners. It will explain how Internet auctions work and will outline the distinct advantages small business owners can gain from using online auctions to sell their products or services. It will address key issues to consider before getting started, and will provide additional online resources to help you learn more about selling through Internet auctions.

## Internet Auctions Explained

### How Do They Work?

Internet auctions are often called online marketplaces. They bring buyers and sellers together on the Internet for the purpose of trading goods and services.

Most auction sites do not actually sell any products or services that they own themselves. They simply act as “hosts” or “facilitators” and provide the necessary structure for listing, displaying, bidding, and paying for goods and services online. The auction site functions like a local farmer’s market – it’s essentially a meeting place to buy and sell goods that vendors have brought with them from elsewhere.

Buying and selling processes differ, depending on the model of the online marketplace and the type of goods and services being sold. For example, some

auctions are by bid only, some allow sellers to set fixed prices for their goods, and some offer a combination of both. Some sites ask buyers to name their price and see if sellers will match it, and others ask buyers to request goods or services they wish to buy.

Buyers may find items or services on an auction site by browsing through different categories, by searching using keywords, or in some cases, by visiting an auction member's affiliated store. Then, they either bid on an item against other users seeking to purchase the same item, or they can choose to pay a fixed price that the seller has set in advance.

The auction site makes a profit by charging fees to list a product or service, and/or by taking a commission on each completed sale.

### **The eBay Factor**

If you're reading this guide and considering using an online auction yourself, you've probably heard about eBay. The company is certainly a pioneer and leader in the online auction market. As one of the fastest growing companies in history, eBay's market share is reportedly at about 85%. An article of clothing is sold on eBay every 3 seconds. A car is sold every 90 seconds. And 30,000 pieces of jewelry are sold daily. eBay does 23 billion dollars in annual transactions, and an estimated 400,000 people make their living through eBay.

eBay considers itself a peer-managed online "community" that encourages open and honest communication among all its members. It is this community structure that drives eBay's buying and selling processes.

### **Other Auction Sites**

Although eBay dominates the market, there are other online auction sites vying for market share – such as Amazon and Yahoo auctions, Bidville, Ubid, and Liquidation.com. There are also variations on the theme, such as Priceline.com's "reverse auction" and Nextag.com's "comparison shopping" site. Some auction-type models are industry specific, while others offer services for sale such as Elance Online outsourcing.

## Advantages of the Internet Auction Model

The online auction model has distinct advantages over other forms of Internet sales. Understanding the pros and cons of Internet auctions can help you decide whether they are right for your small business.

Below, we've outlined some key advantages to online auctions:

- **The online auction is “open” to the world 24 hours a day.** Bids can be placed by anyone with Internet access at any time of the day or night. This makes the auction format highly accessible to users in rural areas, for example, and incredibly convenient for buyers and sellers in different time zones.
- **Excitement is generated around the bidding process which encourages people to buy and sell.** The online auction has been likened to gambling. For example, a bidder may get so caught up in the excitement of the process that a “winning bid” may not be a means to an end of obtaining a product, but may also, much like gambling, be an end in itself. And, as “playing the game” can be as exciting as obtaining the product one is bidding on, online auctions generate a loyal following of customers who thrive on the bidding excitement.
- **Auction sites provide a cost-effective way to market your product or service online.** Because of the convenience, accessibility, and potential for getting a good deal, online auctions can readily attract large numbers of users making them a cost-effective way to market your product and sell online. Because of the built-in, high traffic volume, online auctions are probably the cheapest form of Internet marketing available.
- **There is a sense of community created through informal exchanges and feedback.** The auction is usually a more informal sales vehicle than traditional online sales. You'll notice “personalized” messages beside items for sale, and buyers and sellers leaving “feedback” for each other to strengthen or erode reputations within the auction network. This tendency towards peer management and social interaction helps to build an online community that promotes a sense of “belonging” by connecting otherwise disassociated users from around the globe.

## Who Should Use Internet Auctions?

Online auctions can be a viable sales channel for small businesses who want to:

- Gain quick and easy access to new markets online
- Test-market a product or some aspect of their online business operations or sales process
- Liquidate excess products
- Build a basic, cost-effective website
- Market your product or service online economically

## Getting Started

### Take a Tutorial

Since the buying and selling processes on auction sites can differ significantly, it's important to note that some of the best "how-to" information can come from an auction site itself. Most sites offer comprehensive tutorials that outline how to buy, sell, collect payment, calculate fees and, in the case of product-based sales, provide tips for packing and shipping. For eBay, it is common to find workshops and seminars on "How to sell on eBay" in major cities.

### Key Issues

Before you begin selling, here are some key issues to consider:

#### 1. **Observe how others buy and sell**

The first step in selling a product on an auction site is to buy something. Why? Because buying allows you to observe how other sellers position and sell their products. You'll learn what kinds of taxes they charge, how they pack and ship, and even whether they follow up with you after the sale. Think of it as competitive intelligence.

By participating in your first online auction, you'll also learn how auctions work and how buyers buy online. For example, did you know most bidder activity on

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eBay happens in the last few hours and even minutes of an auction? As a seller, you'll need to be patient and understand that most activity happens towards the end of an auction.

2. **Determine what to sell**

When you're ready to sell, you'll need to be aware of user agreements – what you can and can't sell, the rules around listing and selling items, age restrictions, and so on. For example, drugs, firearms, stolen goods, and some adult material are no-no's on eBay.

Then, you'll need to find a niche. This is getting harder to do, especially on eBay as more and more sellers have begun using the marketplace. Yet, it can still be done through research, research and more research. Watch for completed items listings and hot items. Can you source a similar product at a low price point? Look for trends you see in your own community. Can a local trend be leveraged successfully online?

Also think about what you are good at and what you enjoy. For example, do you have a knack for finding vintage clothing at bargain prices? Consider turning a hobby into an online business.

If you are already operating a business, could a site like eBay be a viable new sales channel for a local market that has been saturated? Could it be a channel to liquidate overstocked or out-of-date products?

3. **Selling to the US or overseas**

As a Canadian selling products online, at some point you will have the opportunity to sell to buyers outside the country. This is often the case in Internet auctions. For example, though eBay allows its users to choose which regional sites they'd like to list their products on and where they are willing to ship to, Canadians that choose to sell only to other Canadians risk losing out on a majority market based in the US. Further, many other auction sites you'll find will be US based, also with a majority US market.

For this reason, you'll want to be aware of special regulations related to international sales and, in particular, those for sales to the US. This way, you can determine whether the foreign market will be viable for you, or whether it will

be simply too expensive or time consuming to be worth your while.

Most sellers that are new to Internet sales don't realize that when they sell to US or overseas buyers, they are actually exporting. To learn more about exporting, visit the Government of Canada's export website, Exportsource ([www.exportsource.ca](http://www.exportsource.ca)). This site offers comprehensive information for small businesses that want to sell outside Canada.

Tip: Bad feedback can cost you money. Many eBay buyers will only purchase items from sellers who have a positive feedback rating of 98% or higher. The lower your rating, the less active bidding you should expect on your item. Further, a strong seller rating may have a 5% or more increase on price.

#### 4. **Positioning, fulfillment and logistics**

We can't overstate the importance of comprehensive product or service descriptions, good photos, and strategic category placements. The online channel is akin to mail-order catalogue sales. As a salesperson, you can't rely on sensory persuasion (other than sight) to get the sale, nor can you rely on the desire for instant gratification that often comes with in-person shopping. Therefore, you need to provide your potential customers with as much information as possible. A thoroughly explained, well-placed product with clear photos of the top, sides and bottom of the item, will go a long way towards making a sale.

Also, be practical. Consider the logistics of shipping the products you choose to put up for auction. Can you ship effectively at a reasonable cost? If so, before pricing your items for sale, factor in sourcing, packaging, storage, and shipping costs.

#### 5. **Feedback and the importance of good customer service**

Positive feedback is probably the number one factor in developing a successful business on auction sites like eBay and ensuring repeat customers. On many online auction sites, customers leave comments, or "feedback," on seller performance. Every member on the site will have a feedback profile. This profile is publicly available so that other site users can view comments left by previous buyers about a seller's customer service skills. Feedback is a form of peer management and site policing and allows the community to vet undesirables and remain healthy. Thus, negative comments are taken very seriously and will directly affect your sales.

Regardless of whether the auction site you choose uses a feedback model, providing good customer service is a must. A strong service policy that puts customers first will ensure your customers' satisfaction and lead to high ratings.

*Tips for good customer service*

- Respond to customer enquiries promptly (within 24 hours) and use auto-responders to keep in touch until you can respond personally
- Remember the golden rule: the customer is always right – even when they are wrong
- Keep in mind that negative feedback can negatively affect your sales, so avoid it at all costs. If you need to mediate using a third party, do so

## More Resources

Now that you've learned how online auctions work and the advantages they present for small businesses, you'll want more resources to help you get going. Below you'll find some online resources that can help you learn more about specific aspects of online auctions:

- Take an eBay tutorial at *eBay Explained*  
[www.pages.ebay.ca/education](http://www.pages.ebay.ca/education)
- Get free news and resources for online auction users at Auction Bytes  
[www.auctionbytes.com](http://www.auctionbytes.com)
- Learn about the most popular form of taking payment online at Pay Pal  
[www.paypal.com](http://www.paypal.com)
- Consider using dispute resolutions services such as Square Trade  
[www.squaretrade.com](http://www.squaretrade.com)

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