

## **Reserves: What Sellers Need To Know**

We get it. Selling via the auction method, without a price guarantee, can be an unnerving experience. It is not uncommon for auction sellers, especially first time sellers, to struggle with the idea of selling their assets “Absolute” (without reserve).

Before decisions can be made about selling with reserves or selling “Absolute”, sellers need to understand the impact reserves have on sales, what motivates bidders and the risks associated with selling with reserves.

	<b>Pros</b>	<b>Cons</b>
Absolute sale	Higher bidder interest	No guaranteed sale price
Reserve sale	Guaranteed sale price	Smaller bidder pool

While consigning assets with reserves reduces seller anxiety in the early stages of an auction, sellers can end up paying the price for this peace of mind when the auction closes – in terms of lower winning bids. Why? The price driver for auctions is competitive bidding. The bigger the interested bidder pool when an auction begins, the higher the chance of competitive bidding in the final hours before the auction closes.

## **Bidder Motivation**

Wise sellers know people bid on auctions because they love the possibility of getting something of value, for almost nothing --- these sellers use this information to their advantage. They understand:

- Low starting bids = higher bidder interest.
- The higher the bidder interest when the auction begins, the higher the final sales price is likely to climb.
- The bidder pool will decline as the high bid rises --- however, some early bidders will develop a sense of ownership of an asset after placing just a few bids. These are the competitive bidders. They drive final sales prices.
- Competitive bidding is often spontaneous and emotion driven; much different from the thoughtful decision making process involved in retail purchases.
- Bidders are savvy and skeptical. They pay close attention when they have interest in a lot. They are quick to question anything that doesn't seem quite right to them.
- Bidders are wary of any attempt to manipulate market price, i.e., high starting bids, reserves, over the top lot descriptions, etc.

## Realities of Reserves

Besides taking away any hope a bidder has of getting an outstanding deal, using reserves presents other problems:

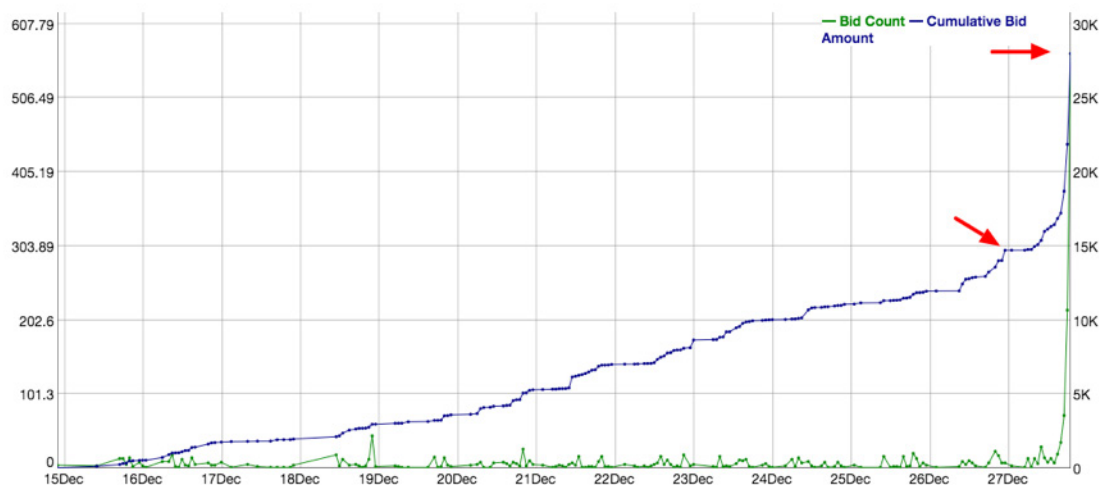
- Reserves shift the risk of selling an asset from the seller to the bidder. A reserve ensures the seller isn't at risk of selling the asset for less than he wants. However, a reserve requires the bidder to take on the risk of wasting valuable time bidding on an asset that may not sell. If the asset isn't unique, there's probably several similar items in other auctions. Bidders much prefer bidding on lots they know will sell.
- The larger the bidder pool, the higher the final bid is likely to be. Reserves cut the bidder pool in half. 50% of recently surveyed bidders said they will not place a bid on lots with reserves.
- There is a fee for every asset consigned with a reserve. Reserves fees must be paid at the time the seller signs the consignment agreement. If an asset with a reserve sells, the reserve fee will be deducted from the commission owed to the affiliate. If the asset with a reserve fails to sell because the reserve was not met, the fee will be retained by the affiliate for the auction services provided.

## Tips for Sellers

- Auction bids/prices can increase by 100% to 500%+ on the last day of the auction. This specific example increased value by nearly 100% and over half of the total bids placed were in the last 24 hours of the auction.

### Bidding by the Hour

Drag over range to zoom in. Double click to zoom out.



- Don't panic. Many bidders will wait until the last day of the auction before they start bidding. They do this as to not "tip their hand" and the belief that other bidders will forget about the auction. The reality is that many other bidders have the same thought process and will participating during the auction close.
- Data is available to determine the progress of an auction. Ask to see how many people are watching a specific item or have placed bids. This will allow you to gauge interest and estimate how many bidders will be there at the end.

↑	Watchers	↓	Distinct Bidders	↑	Bid Count	↑	Current Bid	↓
↑	83	↑	18		37		\$500.09	
	82		14		24		\$1,050.00	
	74		19		23		\$1,580.00	
	72		20		25		\$1,200.00	
	69		13		21		\$1,425.00	