

Starting an Auction?

Be careful of the pitfalls – there are many

pkgPlace has been active as a supplier to the online auction industry for 5 years. We have watched many auctions start up, with so much hope, and too many suffer the heartbreak of shutting down. We hope that by sharing our stories, your auction will be a strong and prosperous business.

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Know your Supplier

The most common unknown or mystery in the Canadian market is the suppliers. Unmanifested pallets, lack of transparency, and other common observations suggest that there is activity happening behind the scenes that does not aid in the auction's success. Your first purchase of multiple pallets is usually great. But don't be fooled.

Here are a few tips.

1. Manifested or Unmanifested

The industry's biggest problem!

As a business owner, why buy product without knowing what you are buying?

Unmanifested pallets and truckloads are incredibly high risk and the biggest reason for auction failure. For starters, you are paying a fabricated price for a pallet with no idea of what is on it. There is zero risk to the seller, and many auctions have confessed of pallets that are completely garbage with no recourse with the reseller. A few questions to ask.

- What is the MSRP of this pallet?
- How is the worth determined?
- What grade is the product (Amazon grades most pallets)?
- What is the percentage of salvage on this pallet?
- What is our recourse if the salvage is higher?
- What is the return policy?

Amazon does not sell anything unmanifested. **If your pallet is unmanifested, there is usually a reason.** With many resellers of pallets, the unmanifested pallets are a result of the pallet being sorted through by the reseller. In other words, if you are new auction, you are buying the reseller's remains. You are the lowest on the pecking order. Your sales rep is telling you what you want to hear and will deny simple logic. Do you think you will negotiate the same deal for your first purchase as another auction that buys multiple truckloads per week for years will have? Do you really think that the Apple iPad will make it to your auction? Many resellers have liquidation

stores, sell on Facebook, and have some very high value customers. You will find the coveted iPad in one of those channels. We see this repeatedly.

Manifested truckloads and pallets are not without their concerns. One of the biggest complaints is the increase in price compared to unmanifested. Resellers charge more for something that should be untouched and therefore a lower cost to transact. It seems many resellers are still sorting through these pallets as well. Often removing items of choice and then either adjusting the manifest or just claiming the item was just not there. A few questions to ask.

- What is the MSRP of this pallet?
- What is the recourse if any items that I paid MSRP for are not on the pallet?
- How is the worth determined?

Note that all pallets are likely to be missing items. Some pallets have bonus items. It is a give and take and you will need to be understanding that this just happens. However, if the iPads or PlayStations continue to be missing, it is something you should address with your supplier.

2. RC or FC

More than just 'medium bulk'!

What condition, what grade? Pallets of the coveted medium bulk come in very different shapes and sizes. Literally and figuratively. For this post, we review the **difference between FC and RC products.**

FC is often built from Amazon shelf pulls, also known as overstock. While the idea of having **product that has never been shipped to an end customer** is very appealing, there is one large flag. A truckload will usually have duplicates. Amazon clears the shelves of the item. They do this to make way for other items that will sell and do not want to ship these items back to the manufacturer.

A more strategic auction will not have issues with this. They will take the overstock and slowly release a few items into each auction. Some will resell the count of items. For example, if there are several area rugs, an auction may sell the rugs

directly to a liquidation store focused on home furnishings. Everybody wins with this model.

Benefits to FC include a huge reduction in cataloging time and better customer experience since the items are usually like new condition. Often the items are in great condition and there is no salvage. However, the pricing of FC is usually higher than RC.

Since there are duplicate items, Lot creation is super fast, seconds and not minutes. Most items will be in the original packaging so you will find more barcodes and will not need to inspect each item. Stock photos are often all that is required.

Since the items are in like new condition, customers will be happier purchasing from your auction instead of the auction around the corner selling non-FC items.

If you can handle the duplicates, FC is a great option.

RC is Amazon returns and usually the biggest gamble in the industry. If the auction was getting pallets directly from Amazon, there is the chance of a great item or two. However, that is not too common.

Occasionally there is duplicates of items and overstock or shelf pulls, but usually these pallets or truckloads are returns. Since some consumers do not care about the return condition, packaging is often not very good leaving items exposed to damages or lost parts during the shipping process. In some cases, we have heard of auctions buying truckloads where half of the items are just garbage. The idea of paying for pallets and then paying for a large garbage bin to be dumped does not make for business longevity.

RC Benefits are limited to price. Cataloging costs, are higher, accuracy of description is down, and product quality is also down. Both impact the chances of the customer buying from you again.

If you are willing to take a big risk to save a few dollars RC may be your option.

3. Know your profits

Understand where you can make more money!

It is impossible to know if you don't have the data. Auctions continue to buy product without having any idea of what they have purchased. Mystery truckloads lead to very high levels of stress and often short-lived auction existence.

There are **many key numbers** you will want to understand to manage the success of your auction.

- How many items are you buying?
- What is the MSRP of your purchase?
- What is the cost of your purchase (with and without salvaged items)?
- What additional costs to land it at your warehouse?
- What percentage is salvage (garbage)?
- How much profit did you make on your item?
- How much profit on your overall purchase (truckload or pallet)?

All of this should be available to you in real time. On a software that provides a dashboard for real time analytics. Filter by auction, week, month, etc. You need to make the right decisions to survive, and you need the data to make the right decisions.

4. Manage your Operational Expenses

What actions have the greatest impact on reducing your costs?

The two biggest costs that auctions have, but usually avoid admitting, are **cataloging and operations management**. Both rely heavily on hiring people and motivating them to be productive while you are not looking. This is not as easy as it seems. Add in the mistakes of the monotonous work and the costs quickly add up

"What is operations management?" many ask. How do you track items when they enter your warehouse until the items are delivered to the customer. What is the process to find items when picking an invoice? How do you mark items when they

are pre-picked or relocated? What is the process of collecting the customer signature at the time of delivery? How do you track missing items or customer concerns regarding an item? At \$.10 per invoice, how many invoices are your reprinting, just to store in a pile on your desk?

If you are printing invoices, handwriting anything, using Excel or cobbling a solution using multiple software providers, you are wasting money. For a company that has weekly auctions, this cost quickly reaches the thousands of dollars per month.

Cataloging is never ending. Auctions have been using WhatsApp groups, cutting and pasting descriptions, and more recently, apps to help speed up the process. pkgPlace is one of the two larger app providers for cataloging items for your auction.

Managing the data is only one part of the process. Does your auction want to inspect each item or list it 'as is'? How about a warranty for the customer? For example, if it does not meet description, there is a credit or refund offered. The trade off is speed vs lack of proper descriptions. They both cost your auction dollars, but you should know what your value statement is – cost based or customer service based.

When making the decisions on cataloging, look at the whole process of the product. Think about costs of complaints and returns which impact your reputation compared to the costs of processing and providing a more detailed description.

Beyond these two significant costs, warehouse space/layout is the next largest cost. Most auctions usually have the previous auction, the current auction, and the upcoming auction sharing space. Also required is the space for cataloging and for customer pick up. Some may also have a shipping area. Every extra footstep is a cost or expense that the auction pays for. What is the flow of the truckload when it arrives, the pallets during cataloging, the shelving of the items and the space for pick up? How are you shelving items? Are you pre-picking for customer pick ups?

Building efficiencies in these three areas will put you on the right track for a profitable auction. All of them are important to keep head count and other costs to a minimum if done correctly.

5. Costing FC vs RC

This can get very costly!

Here is a simple exercise when comparing FC to RC to help you with your decision.

FC is faster to catalog and has less customer complaints than RC. RC is often less expensive than FC. Duplicates in FC are common, in RC less predictable.

Cataloging

We estimate that it takes approximately 3 to 5 minutes to catalog an RC item. This includes the effort to find the item's accurate description and to inspect it, then close the box up properly to ensure nothing further is lost or falls out. With FC being like new and often in the original box, the barcodes are more accurate, and the item condition is a given. The time to process an FC item is approximately 1 minute.

A typical medium-bulk truckload is approx. 1,000 to 1,500 items, we will use 1,200 items in this example.

The cataloging savings for an FC truckload compared to an RC truckload.

5 minutes – 1 minute = 4 minutes x 1,200 items = 4,800 minutes or 80 hours.

Average cost of an employee is \$18.00 (with source deductions, training etc.)

80 hours X \$18.00 = \$1,440

Salvage

Approx 7% of a truckload is considered as waste with RC. An unmanifested truckload is \$1,100 per pallet or \$26,400.

7% X \$26,400 = \$1,848

Savings with FC truckloads \$1,440 + \$1,848 = \$3,288

Plus your Reputation

What is your reputation worth? Would rather have 5-star rating with Google or a 2-star rating? With FC, descriptions are more accurate. Less returns and less upset customers.

Before you rush out and purchase overpriced manifested FC loads, reach out to pkgPlace. We should be able to assist you.

6. International Truckloads

This can get very costly!

Buying from the US sounds like a great idea. Before you do, there is several things you should be aware of. Recourse with your supplier, US address requirements, US resellers certificate, clearing thousands of items with the requirement of HS codes, country of origin, and weight, transport company, and US dollar exchange.

Buying from the US is one of the ways to purchase pallets with manifests. And there does seem to be a very different reseller model in the US. One which benefits the auctions willing to navigate the challenges. With the cost of logistics, it is necessary to purchase full truckloads. For many start up auctions, the marginal cost savings and increased risk factors of bringing the truckload to Canada can be very stressful and costly.