

Electronic auction maximizes earnings



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Under a classical auction, we image a place where buyers are gathered and the organizer who invites the auction participants to increase their bids - so that in the end he knocks down the gavel and grants the ownership to the participant who offers the highest price. It is a very transparent method of sale, it still has several weaknesses. From the technical, as well as subjective point of view.

Traditional weaknesses

Among the technical difficulties of a classical auction, there are a limited number of participants resulting from the capacity of the hall where the auction is organized. A certain limiting factor is the fact that the place where the auction is organized may be too distant for some interested persons which limits the circuit of potential buyers. In addition, in the premises where auctions are organized it is impossible to have a strategic consultancy with partners at the moment when the put-up price reaches the predefined limit. Such factors certainly are not fundamental to discourage participants from an auction but there are also more serious objections. Although it is not a rule still it is possible to manipulate this traditional "market" method for sale. "Someone" may not be interested in too many people to be present at an auction (the more interested participants, the higher probability that the final price will be higher and after all the auctioned object could be bought by an "unplanned" person). It is possible to manipulate an auction in a very elegant manner. It may be held at nine in the morning at a mountain chalet and the cable-railway "as luck would have it" does not operate. Even from this a bit exaggerating example it is obvious that an auction requiring the physical presence of the bidder is a very fragile matter and the way to manipulate it obviously exist.

Hi-tech sale

The solution includes electronic auctions which are so far offered in our market by two auction houses. What are the advantages of an electronic auction compared to the classical one? "An electronic auction cannot be manipulated," says Přemysl Jiráček, the director of the auction company Clanroy Sales which operates this business in this country as almost the only one (in addition to it perhaps only one more company). "Participation of interested people is not limited either by the hall capacity either by the geographic distance. Its participants can put their bids in the comfort of their offices where also a team of advisors can gather and change the strategy and tactics during the auction, they can respond after a discussion bids from other participants of the auction," adds Mr. Jiráček. Besides, all of this can be on the opposite side of the globe which means not only a significant saving for the bidder but also for the organizer of the auction itself - for example the need to hire the auction hall is excluded. An electronic

auction, which is its advantage, is not limited by the time of the auction hall lease. It can last several days which gives large space for competing interested persons and results in an extraordinary increase in the put-up price.

Over-standard earnings

“An electronic auction can be theoretically visited by an unlimited number of interested persons which means an increase in the sale earnings. It results in really over-standard earnings,” says the director of Clanroy Sales. The statistics prove that. In the past year, the average earnings from electronic auctions organized by that company were 21% (it means comparison of the put-up price and the achieved price). Savings of the auction organizer and therefore also of sellers include lower costs of the auction organizing and larger scope of information for a potential buyer.

In the past year when the company Clanroy Sales started to deal intensively with this form of sale of real estates and when first electronic auctions were organized for the state administration the amount of sales reached almost 400 million CZK and the increase over the put-up price was 80 million crowns, this means exactly the mentioned 21%. While the average earnings from a traditional auction last year was 4.26% (according to data published at the Central address - www.centralniadresa.cz).

During the past year, assets in an amount of 2.855 billion crowns were sold in together 2511 auctions therefore electronic auctions represented approximately 18% of the total amount. Electronic auctions, however, are not included in the overall statistics maintained at the Central address because they are not yet provided by the law.

How to get into the law?

The representative of the company which organizes them in the Czech market has a rather clear idea in this respect and does not see any problem here. “Communication on this topic must be started,” mentioned Jiráček. The Czech Republic published the White Book about electronization of the state administration and there are three regulations of the European Union on this matter. Practical examples are, according to him, available. Electronic auctions are organized in Austria, Germany and in the USA where even the state reserves are sold in this manner. We have an example also in Japan and servers with electronic auctions have spread their nets in the whole world. Electronic auctions are supported in the EU countries and their legislation is being completed in individual countries. “In the Czech Republic, the legislation process has not yet started but the Commercial Code can be applied here without problems, a special law perhaps is not needed,” thinks Jiráček.

Ideal for the state

Advantages of electronic auctions, it means particularly the over-standard earnings, should be taken into account in particular by the state administration. It “gets rid” of assets every year with the value of approximately 30 billion crowns. In addition to the significant and over-standard earnings, the state institutions will overcome possible suspicion that the auction could have been manipulated, suspicion of corruption and other problems which regularly occur in sale of the state assets. “If for example receivables of the Czech Consolidation Agency were sold in this manner, through an electronic auction, it would be much more transparent. Electronic auctions are an important tool against corruption,” mentioned Přemysl Jiráček. Even a larger task for organizers of electronic auctions is the private sector. There, the yearly amount of offered assets is estimated to 150 billion crowns and with the average earnings achieved in electronic auctions (21%) it is easy to calculate the earnings reached by the client of the auction company, the state, towns, municipalities, as well as private persons reach compared to the classical auction, not to speak at all about the envelope method or a tender.

Not only real estates

The state institutions do not, however, sell only real estates to reduce property and to earn some money. Also used company cars, office furniture, PCs and other items which are regularly recovered are sold. "For example it is much profitable to sell a released car through the Internet auction than to put it into used car shop," points out Jiráček. Another example of institutions which could use the advantages of electronic auctions are banks and leasing companies. Banks can offer in this manner sale of bad receivables, mortgage banks the used securities and leasing companies unpaid items funded by them, not only cars but also for example machinery. Also for the army electronic auctions would be advantageous. They could give a good solution also for development companies suffering from decrease sale of built apartments due to the economic crisis.

Auction TOP-TEN

| Name of auction organizer | Amount of auctions (in CZK) | Market share (in%)

Prokonzula	481 105 400	16,85
Gavlas	424 560 000	14,87
Clanroy Sales	342 486 300 (x)	11,37
Gaute	213 300 000	7,47
Dražební společnost Morava	199 515 000	6,99
Naxos	157 207 000	5,51
Bussmark	104 310 982	3,65
Larynex	100 500 000	3,52
Breas	94 230 000	3,30
Ostravská aukční síň	81 321 146	2,85

1. without electronic auctions

Source: Central address

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