

## **Consignment auctions: A proposed optional channel for reverse logistics**

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### **ABSTRACT**

This paper addresses the proposed utilization of the C.A.L.M. Method-The Consignment Auction Liquidation Marketing Method of Mass Product Distribution-as an optional secondary market channel for reverse logistics requirements. This nontraditional method of product distribution was initiated over twenty years ago and can provide business organizations a further option for reverse logistic needs. Consignment auctions depend on securing good sources of merchandise sold at their auctions. Many business organizations including retailers, wholesalers, manufacturers and entrepreneurs often have excess and returned merchandise and can benefit from additional secondary market channel options to meet their reverse logistics needs. A review of both reverse logistics and consignment auctions is followed by a discussion of the advantages and disadvantages of utilizing consignment auctions for reverse logistics needs. The broad availability and placements of consignment auctions in the United States is presented. In addition, general guidelines for utilizing consignment auctions as an optional secondary market channel for reverse logistics needs are provided. Also, online auction options are compared to traditional consignment auctions. Finally, the concept of “multi-channel reverse logistics” is introduced and recommended.

Keywords: Consignment Auctions, Reverse Logistics, Multichannel Marketing

## **INTRODUCTION**

Recent improvements in marketing and business operations have reduced the amount of surplus merchandise, returned merchandise, out-of-season merchandise and other merchandise not sold. Retailers and vendors now benefit from electronic data interchange and vendor-managed inventory control systems to meet their supply chain objectives related to reducing investments in inventory and associated costs (Levy, Weitz & Grewal, 2014). However, significant amounts of unsold merchandise and returned merchandise remain and do provide opportunities for recovering as much of the investment in that inventory as possible. There are currently a number of options available. This paper introduces a further optional secondary market channel, consignment auctions, as a possible additional channel to meet reverse logistics needs.

## **REVERSE LOGISTICS**

Reverse logistics refers to the process of capturing value from merchandise which is not sold within a regular or primary channel of distribution. Business organizations provide significant professional support for their traditional supply chain needs, but often do not realize the benefits of such attention to reverse logistics. Merchandise return rates range from 5% to 50% (Rogers & Tibben-Lemke, 1998) and average 8.9% of total of U.S. retail sales. The reported value of overall U.S. returns is an estimated \$217 Billion per year (Bierderman, 2012). A primary focus for reverse logistics relates to the concept of the “recovery” of as much of this reported value as possible. Optional reverse logistic methods for optimizing profitability through income recovery include re-packing/refurbishing; sale to liquidators, return to vendors, return to stock, donation to charity or destruction (Bentz, 2015). The option of selling excess merchandise to liquidators creates what is referred to as the secondary market. Even though some products may not sell well in the primary channel, the secondary market may provide attractive opportunities to recover at least a portion of costs. An estimated value of the secondary market is \$329 Billion and is made up of liquidators (\$127 Billion), on-line auctions (\$99.4 Billion), flea markets (\$33 Billion), Value Retailers (\$30 Billion) and dollar stores (\$17.6 Billion) (Bierderman, 2012). Although products sold through the secondary markets are often sold well below their original costs, each additional dollar recovered contributes to reducing losses (Rogers, Lambke & Benardino, 2013). A proposed additional optional secondary market channel for reverse logistics is the utilization of consignment auctions.

## **CONSIGNMENT AUCTIONS**

The “C.A.L.M. Method” (Consignment Auction Liquidation Marketing Method) uses auction liquidation as its means of distribution and sale of goods. The Uniform Commercial Code defines an auction as “a public sale of property to the highest bidder” (Willner, 1966). Most communities throughout the United States have at least one consignment auction outlet and many communities have multiple consignment auction outlets. These consignment auction outlets provide frequent auctions and accept merchandise from various consignors. The merchandise is then sold to the highest bidder

and the consignment auction outlet withholds a consignment fee. Other names for these consignment auction outlets include “auction house”, “auction gallery”, or “auction barn”.

### **ADVANTAGES/OPPORTUNITIES RELATED TO CONSIGNMENT AUCTIONS FOR REVERSE LOGISTICS**

There are a number of advantages/opportunities related to the utilization of consignment auctions for reverse logistics needs. These advantages/opportunities include flexibility, merchandise types, pricing and availability of consignment auctions nationwide.

Consignment auctions provide for flexibility in a number of ways. First, consignors have control on which items are consigned, quantity consigned and frequency of consignments. Most merchandise types are acceptable to consignment auctions. Exceptions include prohibited items such as parts of “game animals” (Texas Department of Licensing and Regulations, 2010).

Although a wide variety of merchandise is acceptable for consignment auction liquidation, a number of criteria should be considered when selecting merchandise for consignment auction liquidation. For example, items weighing less reduce shipping costs. Lower valued merchandise will reduce risks related to the variability of bids received and to the no-minimum/reserves pricing policies. Nondurable items consigned may become damaged during transit to consignment auction locations. Proper packaging can reduce this risk. In summary, the most appropriate types of products for the typical general merchandise auction are lightweight, relatively inexpensive and durable items.

The competitive nature between bidders at auctions often contributes to higher bid prices, compared to other reverse logistics channel options. Attention to the presentation of merchandise through re-packaging, labeling, etc., can also have a positive influence on bid prices. In addition, consigning the appropriate quantities of merchandise to each individual consignment auction can also have a positive influence on bid prices. Consigning excessive quantities of a single item to a single consignment auction can result in lower bid prices. In addition, a significant degree of variability regarding prices bid at different auctions should be expected.

Merchandise can be consigned through a nearly unlimited number of consignment auction outlets by utilizing one of many optional ground/pallet delivery services. Most communities in the U.S. have one or more consignment auctions. In order to experiment and test the effectiveness of consignment auction liquidation, merchandise was shipped to 825 general merchandise consignment auctions via ground delivery services based on a nation-wide search from January 1, 2005 through December 31, 2015. Sources used for searching included the on-line website, Auction Zip and the National Auctioneers Association membership directory. Table 1 (Appendix) presents the states in which the largest numbers of consignment auctions were identified, contacted and consigned to. Based on the number of consignment auctions shipped to on a regional basis, 70% were located in the Midwestern and Southeastern regions of the U.S. The Northeastern region accounted for 15% of the consignment auctions shipped to. The Southwestern region accounted for 9% and the Western region accounted for 6% of consignment auctions shipped to.

## **DISADVANTAGES/CHALLENGES RELATED TO CONSIGNMENT AUCTIONS FOR REVERSE LOGISTICS**

There are a number of disadvantages/challenges related to the utilization of consignment auctions for reverse logistics needs. These disadvantages/challenges include pricing, transportation, consignment fees and consignment time.

Important terms related to auction law are the terms “absolute auction” or “sales without reserves.” These terms refer to the fact that items consigned are sold to the highest bidder, regardless of the amount of bid. A significant degree of variability regarding prices bid at different consignment auctions should be expected.

Utilizing of ground/pallet transportation modes can provide delivery of merchandise to consignment auction liquidation outlets. However, these modes can be too expensive. Two primary variables, which determine the cost of shipping merchandise to consignment auction liquidation outlets, are weight and distance.

Consignment auctions involve auctioneers selling consigned merchandise to the highest bidder. The consignment auction then subtracts or withholds a percentage of the sale based on the highest bid received. These fees are called consignment fees. Consignment fees can range from 10 percent to 50 percent. The average consignment fee is approximately 26% (Lovett & Jones, 2007).

Consignment auctions accept consigned items then auction them on a later date. The length of time before consignment proceeds are received does vary significantly from two weeks to a number of months. The average consignment term is approximately 53 days (Lovett & Jones, 2007).

## **ONLINE AUCTION OPTIONS FOR REVERSE LOGISTICS**

As mentioned, the estimated value of on-line auctions, within the secondary market, is \$99.4 Billion. eBay is a primary provider of online auctions. eBay is as an “online provider of marketplaces for the sale of goods and services”. eBay is headquartered in San Jose, California and operates throughout the world. Many differences exist when comparing eBay on-line auctions with traditional consignment auctions. For example, legal/status, operations, fraud risks and fixed price sales formats, are all points of significant differences when comparing eBay on-line auctions with traditional consignment auctions (Data Monitor, 2010).

One factor, which differentiates eBay on-line auctions and traditional consignment auctions relates to the absence of a relationship of agency between the on-line site and the seller during the auction process. Therefore, it may be more accurate to refer to eBay as an intermediary instead of a consignment auction channel (Riefa, 2008).

Operational points of differences between eBay on-line auctions and traditional consignment auctions relate to the fees incurred and to the increased competition/duplicate items. The consignment fees, the percentage of the highest bid received withheld by an auction has increased more for eBay on-line auctions. Also, the presence of addition, multiple listings of the same or similar products consigned simultaneously has become more common within eBay on-line auctions. These multiple listings result in lower bid levels. In addition, there is a significantly higher rate of unsold items within the eBay on-line auction site.

A number of forms of Internet fraud continue to provide significant challenges for eBay. The amount of counterfeit products consigned through eBay continues to increase. In addition, two other related concerns include credit card fraud and non-delivery of goods. Non-delivery of goods occurs when items are consigned and sold on-line, but are not delivered (Gregg and Scott, 2008).

eBay has increased their use of their format which is based on fixed-price listings instead of the original bid-based pricing format which is always utilized within the traditional consignment auction format. eBay's avoidance of the bid-based auction format is due to the perceived convenience associated with fixed-price selling. As a result, eBay has evolved into a more traditional selling format (Data Monitor, 2010).

## **MULTICHANNEL REVERSE LOGISTICS**

As mentioned, a common approach regarding the liquidation of returned merchandise and other excess/surplus merchandise includes selling to liquidators. Consignment auctions may provide for an additional channel for reverse logistics needs. The concept of multichannel marketing refers to the utilization of more than one channel for selling and delivering merchandise and services to consumers. This same concept of utilizing multiple channels can also be applied to reverse logistics. Additional channels for reverse logistics needs provide a similar benefit attributed to multichannel marketing related to the ability to utilize different channels for different products and different target markets (Levy, Weitz & Grewal, 2014). Specific findings indicate that certain merchandise categories consigned provide for significantly higher gross margins. Two possible negative aspects of additional multichannel strategies include the possibility comparably less returns/profitability from additional channels utilized and the possibility of channel conflict. Regarding the concern related to lowered returns, as a secondary channel, consignment auction liquidation returns do vary depending on merchandise consigned and on performance differences between consignment auctions consigned to (Sharma & Mehrotra, 2006). However, the objective related to at least reducing losses from unsold merchandise could be met through utilizing consignment auctions. Regarding the concern related to channel conflict, consignment auctions operate in a completely separate marketing space to completely separate secondary channel and conflict is not a major concern.

## **CONCLUDING REMARKS**

In summary, the consignment auction liquidation marketing method demonstrates significant opportunities as a method for effective and profitable reverse logistics. Consignment auctions should be considered as at least an additional channel for reverse logistics needs. This field experience provides significant evidence related to the effectiveness of this optional channel for reverse logistics. However, it is essential that further field-testing provide further evidence.

**APPENDIX**

Indiana	69
Texas	58
Missouri	55
Pennsylvania	51
Florida	46
Ohio	40
South Carolina	39
Illinois	37
North Carolina	35
Virginia	35
Michigan	33
New York	26
Tennessee	23
Arkansas	22
Georgia	20
California	17
Iowa	17
Kentucky	16
Oklahoma	16
Wisconsin	16
West Virginia	13
Maryland	12
Arizona	11
Kansas	10

(States Receiving the Largest Number of Consignment Shipments: 01/01/05 – 12/31/15)

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