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Consignment auction liquidation in Canada: A field study

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ABSTRACT

This paper addresses an in-field experience utilizing the C.A.L.M. (The Consignment Auction Liquidation Marketing) Method of Mass Product Distribution in Canada. This form of mass product distribution is a nontraditional one, which was originally formally started in 1993 in the United States. This method of distribution targets various audiences distributing products including retailers, wholesalers, manufacturers and entrepreneurs.

The “marketing mix”, the four primary areas of marketing include distribution, which continues to provide opportunities for growth. Utilizing consignment auctions as an additional channel of distribution may provide such opportunities. However, the utilization of consignment auctions as an additional channel of distribution has been largely ignored and very few publications related to consignment auctions exist.

The results of utilizing Canadian consignment auctions for the liquidation of general merchandise consigned from January 1, 2013 to December 31, 2015 are presented. The effectiveness of the utilization of Canadian consignment auctions was based on “consignment auction outlet profitability”, the dependent variable, in relationship to various independent variables including the type of merchandise consigned, consignment terms and shipping costs. Regardless of the variables, the utilization of Canadian consignment auctions for the liquidation and distribution of mass quantities of merchandise may offer an additional distribution opportunity. This field study offers the opportunity to gain further insight regarding the effectiveness of the method of distribution in Canada and adds to the somewhat limited amount of research found.

Keywords: distribution, consignment auctions, liquidation, Canadian distribution

1. INTRODUCTION

Traditionally, within the field of marketing, four vital components, the “marketing mix,” includes Product, Promotion, Price and Place. This in-field study focuses on the place component, often referred to as distribution. When discussing distribution, a “channel of distribution” refers to the various firms and/or individuals who facilitate the movement of products within the channel (Solomon and Stuart, 2003). The traditional channel of distribution focuses on the final consumer who buys from a retailer, who buys from a wholesaler, who buys from a manufacturer. A related concept is “multi-channel marketing” which refers to the use of more than one channel of distribution simultaneously: For example, using a retail store channel, a catalog channel and a website channel at the same time. Examples of nontraditional channels of distribution, such as factory outlets, warehouse clubs, “off-price” retailers, etc., provide further opportunities for effective distribution of products (Lamb, Hair and McDaniel 2003). A more recent term to refer to the strategy of utilizing multiple channels of distribution is “omnichannel strategy” (Grewel and Levy, 2016).

The “C.A.L.M. Method” (Consignment Auction Liquidation Marketing Method) provides a further option for a nontraditional channel of distribution. This method of distribution utilizes consignment auctions, which are located throughout the United States and Canada. These consignment auctions are referred to by a number of different terms including auction “barns,” “houses” or “galleries.” These consignment auctions provide an opportunity for consigning merchandise on a national basis by utilizing ground transportation services. An auction is defined by the Uniform Commercial Code as “a public sale of property to the highest bidder” (Willner, 1966).

Although on-line consignment auctions have grown in popularity, the traditional on-site, in-person consignment auction can still provide advantages compared to online consignment auctions. For example, multiple listings of similar or identical products consigned at the same time are common within the on-line auction format and often result in lower bids. In fact, the rate of unsold items is significantly higher within on-line auctions. Also, on line auctions have significantly increased the use of fixed-price listings and have decreased the use of the original bid-based pricing still commonly utilized by traditional consignment auctions (Data Monitor, 2010).

2. ADVANTAGES/OPPORTUNITIES RELATED TO CONSIGNMENT AUCTION LIQUIDATION MARKETING

The advantages/opportunities related to the mass distribution of products through the utilization of consignment auctions, in general, include the nation-wide availability of consignment auctions, merchandise types, pricing method and overall flexibility for the consignor.

Many communities throughout Canada have one or more consignment auction locations. This allows a consignor to initially experiment with a local consignment auction. Depending on those results, further consignment auctions throughout Canada can be contacted and consigned to.

Consignment auctions sell a wide variety of merchandise. Although some consignment auctions may accept only certain merchandise categories such as antiques or farm equipment, many consignment auctions accept general merchandise of all types. Many of the bidders who

attend consignment auctions purchase a wide variety of items for resale. For merchandise shipped to remote consignment auctions, items weighing more increase shipping costs. More fragile merchandise can increase merchandise shrinkage significantly, although proper packaging reduces this risk.

Although consignment auctions largely sell on a no-minimum/no-reserve basis, there are a number of factors which can contribute to higher prices received at consignment auctions compared to other channels of distribution. For example, although, as mentioned, there are no minimum prices for merchandise sold by consignment auctions, there are also no maximum prices. The bidding, which occurs during a consignment auction, is competitive and often leads to higher bids. In addition, the consignor has the opportunity to increase the probability of receiving higher bids through the utilization of proper packaging, labeling, tagging, etc. Furthermore, the law of supply and demand is in effect within the consignment auction channel. Consigning excessive quantities of any given merchandise item is likely to result in overall lower bids received.

Flexibility is provided by consignment auctions, for the consignor in a number of different ways. Consignors do have control regarding the frequency of consignments, the quantities consigned and which merchandise is consigned. Coordination, however, with each consignment auction location is advised.

3. DISADVANTAGES/CHALLENGES RELATED TO CONSIGNMENT AUCTION LIQUIDATION MARKETING

The disadvantages/challenges related to the mass distribution of products through the utilization of consignment auctions, in general, include consignment time, consignment fees, pricing and transportation.

The consignment term, the length of time it takes for a consignment auction to sell a given consignment, varies greatly among consignment auction locations. In the United States, for example, approximately 53 days is the average consignment term (Lovett & Jones, 2007).

As mentioned previously, there are no minimum prices for merchandise sold by consignment auctions. Terms such as “absolute auction” or “no reserves” refer to a sale in which means regardless of the amount bid, the highest bidder wins. Therefore, significant differences related to bids received among or within a single consignment auction can vary significantly.

Consignment auctions provide a channel of distribution in which the merchandise is sold to the highest bidders. The consignment fee is then withheld by the auction. These fees vary greatly from one consignment auction to another but can begin as low as 10% and as high as 50%. In the United States, for example, 26% is the approximate average consignment fee (Lovett & Jones, 2007).

Consigning to local consignment auctions requires minimal transportation costs; however, consigning to more remotely located consignment auctions utilizing ground or pallet transportation mode options is more costly. The weight of the merchandise consigned and the distance to the consignment auction location are the two primary variables determining the transportation costs.

4. ASSESSMENT/FORMATIVE EVALUATION OF THE CONSIGNMENT AUCTION LIQUIDATION MARKETING METHOD IN CANADA

The assessment and formative evaluation focusing on the C.A.L.M. method in Canada is largely based on various statistical observations regarding the effect of three independent variables. These three independent variables included the types of merchandise consigned to the auction, the consignment fee charged by the auction, and the number of days between initially consigning merchandise and the resulting receipt of proceeds. The dependent variable for this study is profitability. The time span for this evaluation was three years.

Type of Merchandise Consigned

Using profitability as the dependant variable, one independent variable relates to the type of merchandise consigned. For this study, 1,051 pieces of merchandise were consigned to and sold by 14 Canadian consignment auctions from January 1, 2013 to December 31, 2015. The more recent and outstanding consignments were not included. Based on the total procurement cost of \$1,949 and \$8,008 total proceeds received, the gross profit margin was 311%. The following presents six types of merchandise consigned, listed from most to least profitable.

Time Period January 1, 2013 – December 31, 2015

Item	Total Number of Pieces	Total Procurement Cost	Total Revenue	Gross Margin
Magnifying Glasses and Loupes:	159	\$202	\$1,361	574%
Fashion Jewelry:	400	\$749	\$3,603	381%
Cutlery: Pocket Knives, Daggers:	65	\$161	\$596	270%
Miscellaneous:	115	\$162	\$570	252%
Fashion: Scarves, Belts, Purses:	225	\$489	\$1,451	196%
Toys/Children's Items	87	\$186	\$427	130%
Total:	1,051	\$1,949	\$8,008	311%

In summary, the most profitable merchandise items consigned were magnifying glasses and jeweler's loupes while the toys and children's items were the least profitable. These results largely reflect the results found from consigning within the United States. Due to the higher transportation costs, currency devaluation adjustments and other fees incurred consigning to Canadian consignment auctions from the United States, net profits were significantly lower. However, for Canadian manufacturers, wholesalers, retailers or entrepreneurs consigning to Canadian consignment auctions may provide significant opportunities for establishing a further effective and profitable channel of distribution.

Consignment Fee Charged

Using profitability as the dependant variable, another independent variable relates to the consignment fee charged by the consignment auction. This consignment fee is deducted from the consignor's gross sales. For the Canadian consignment auctions consigned to from January 1, 2013 to December 31, 2015, the consignment fee charged did vary significantly from a high of approximately 40% to a low of approximately 25%. The average consignment fee was 32%. The average consignment fee charged in the United States 26% (Lovett & Jones, 2007).

Length of Time Between Consigning and Actual Receipt of Proceeds

Continuing the use of profitability as the dependant variable, a further independent variable investigated was the length of time taken by the consignment auctions to sell the merchandise consigned to them. This length of time, the consignment time, for the Canadian consignment auctions consigned to from January 1, 2013 to December 31, 2015 varied from 38 days to 137 days. The average time required by the consignment auctions was 64 days. In the United States, the average time between initial consignment and the receipt of proceeds was 53 days (Lovett & Jones, 2007).

5. SUMMARY AND DISCUSSION

This paper addresses the in-field experience utilizing the C.A.L.M. (The Consignment Auction Liquidation Marketing) Method of Mass Product Distribution in Canada. This is a nontraditional form of distribution of products on a mass basis was formally and originally started in 1993 in the United States, targets various audiences distributing products such as entrepreneurs, retailers, wholesalers and manufacturers.

Regarding the types of merchandise consigned in Canada, significant profit margin levels were associated with all six merchandise categories included. Certain merchandise categories, including fashion and toys, provided somewhat lower gross margins. Magnifiers, fashion jewelry, cutlery and miscellaneous items provided significantly higher gross margins.

Regarding the consignment fees charged by the Canadian consignment auctions, they varied from 25% to 40%. The overall average was 32%.

Regarding the length of time between initially consigning to Canadian consignment auctions and actual receipt of proceeds, they varied from 38 to 137 days. The overall average was 64 days.

In summary, based on data collected during the in-field experience utilizing the C.A.L.M. (The Consignment Auction Liquidation Marketing) Method of Mass Product Distribution in Canada from January 1, 2013 to December 31, the C.A.L.M. method demonstrates significant potential for providing a profitable and effective method for distribution of products on a national basis in Canada. Further field-testing and other study of this method of distribution will now be required to provide additional further evidence.

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