

VEHICLE AUCTIONS: WHAT YOU NEED TO KNOW

(12/4/2012)

THERE'S AN OLD SAYING that if it sounds too good to be true, it probably isn't. Nowhere is that more important than when treading unfamiliar ground in business. National Powersport Auction (NPA) COO Jim Woodruff offers some tips on what to expect from a vehicle auction, and identifies the warning signs that an auction firm might be overpromising its sales projection. Before signing on the dotted line with an auction house, read this first.

1. Visit one of the company's auction events before sending any of your vehicles. Does the auction reflect the level of professionalism you expect?

What to look for: Are these people established? Do they have a regimented process? If something about the facility feels or appears temporary or is in disrepair, that's not a good sign, says Woodruff. Also watch for staff "overcontrolling things, like they are trying to keep a secret."

2. Resist pressure to send multiple vehicles rather than starting with one or two test units, and similar high-pressure sales tactics.

What to look for: Incentives are OK. Volume discounts are OK. Transport discounts make sense for multiple units. But watch out for discounts that trigger changes in other parts of the contract, such as negating a reserve. Also resist pressure to make a fast decision. Reputable companies will be around for the long term, and will allow time for dealers to use NADA Guides or other valuation tools before making a commitment.

3. Do they sell bikes for any major banks/credit unions?

What it means: "Those folks don't make casual decisions. In today's environment, with changes in consumer protection laws, lenders are getting more strict about compliance. They are very, very selective about who handles their repossessed vehicles," says Woodruff. The absence of bank sector sellers doesn't mean an auction is shaky, but it may reflect the auction's longevity and certain standards followed.

4. Watch for contractual wording that negates or waives your rights -- like free transportation or things that trigger "no reserve" authority or negate price guarantees

Why it's a red flag: There's no such thing as a free lunch, or a free auction. "Free" is to get you to do something. If there is no clear reason or it's in the fine print, there may be a caveat. "It happens, so the fact that it exists isn't necessarily wrong, but it's an incentive to get you to do something. It's an incentive to get you to come to an auction you would not normally go to," Woodruff said.

5. Carefully review any guarantee on selling prices or free transportation.

Why it's a red flag: The market sets auction prices, especially at absolute auctions. If prices at an auction are continually lower than the broader market, it may be a sign that there are too few bidders to sustain market prices. It also might indicate that someone is gaming the market -- that the playing field isn't level. Beware of selling price guarantees that are far out of line with market references like NADA Guides, Woodruff said.

6. Make sure there's an opportunity to represent your own units alongside the auctioneer during the auction.

Why it's important: With no reserve, dealers may want the comfort of sending a representative to make sure units aren't sold too cheaply. "That is an alternative to a reserve. They can give the auctioneer a yea or nay that they are allowed to sell at that price. Most auctions will do that," Woodruff said. Banks often self-represent their products.

7. Watch for vague or overly-glowing references from dealers that have used their service.

Why it's important: Do your own homework with dealers you know. Don't rely solely on references the auctioneer provides. "References are tough because they are easy to game. Do an independent check. Do an independent check for phone numbers for the references. Call other dealers in your own area or near the auction site to see what they say," Woodruff said.

8. Ask for the name of the shipping company the auction firm will use and check out that company as well. You should also be welcome to use your own transportation.

Why it's important: "Transportation is something you should expect from an auction. They may not provide it, but they will give you some options. Where it becomes a problem is if you have to use it, or if it's a strong incentive to use it," Woodruff said. Check with other dealers to verify that transport companies have a good reputation.

9. Beware of an unclear inspection process or other logistics. Do they have a process, and is it reasonable and backed up by good customer service? Can you pick up your units the day of sale if you pay in cash?

What to ask for: "The auction company should be able to describe to you exactly what is going to happen to your vehicle from the time it's picked up to the time it reaches the facility. If there is no process, or they don't know what it is, that's a problem," Woodruff said. With a streamlined process, there should be no obstacle to picking up an unsold or cash-purchased vehicle and all its paperwork the day of the auction.

10. Check the auction's website for previews.

What to look for: Stock photos are a red flag. An auction's website should provide a clear audit trail for vehicles, including pictures, condition rating and book values. The auction house should be taking and posting the photos of each actual vehicle that will be in the auction, not asking the dealer to provide them. Photos should be posted online before the auction and within a couple of days after vehicles are delivered to the auction site, or at least a couple of days before the sale, both for exposure and for the audit trail.

11. Avoid "ironclad" contracts with no room to back out ahead of the auction.

Why it's important: Circumstances can change. Reputable companies will be around next month if you decide to hold off. They'd rather accommodate a withdrawal than discourage future business. There may be a no-sale fee associated with withdrawing. Fees should be clearly stated in contracts.

12. Check the firm's reputation.

Why it's important: If other dealers in your area have not heard of or done business with the firm, or have sensed red flags, don't rush into anything. Search online for reviews, but don't assume that no news is good news. New or unestablished businesses may not have had time to build any reputation, good or bad.

The last word: "The best day at an auction is when everybody's happy. Buyers are happy, sellers are happy. The second best day is when nobody's happy," Woodruff said. That's when you've hit equilibrium. If it's too slanted one way or the other, that's a problem."