



INTERNET AUCTIONS AND VIRTUAL MALLS

If you are a small business owner looking for alternatives to creating your own e-commerce website and want to sell online, then you will find this booklet useful. Even if you already have your own website, you can use this booklet to learn more about selling or buying products and services using Internet Auctions. You can also consider virtual malls or e-mall services where your site is listed along with others.

What is an Internet Auction?

Internet auctions bring people and/or businesses together on one website to buy and sell products and services. Buying and selling processes vary across auction sites; so make sure you familiarize yourself with these techniques by visiting these websites.

Most auction sites act as hosts for other businesses or individuals. Generally the host of the website organizes the site, provides and displays product or service information and processes payments online. A fee is charged to list the product or service and/ or a commission is taken on each completed sale.

EXAMPLES OF BUSINESS TO BUSINESS INTERNET AUCTION WEBSITES

- www.elance.com
- www.biddingo.com
- www.Merx.com
- www.icriq.com

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EXAMPLES OF BUSINESS TO CONSUMER INTERNET AUCTION WEBSITES

- www.eBay.com
- www.uBid.com
- www.priceline.com
- www.groupon.com

Why Internet Auctions for Small Businesses?

Selling

Even if you do not have an e-commerce website, you can use online auction sites or other e-marketplaces to sell your products or services quickly and easily to consumers and other businesses. For small business owners, Internet auctions can be a way to test how a potential market responds. Using online auctions is also one of the least expensive ways to market your products and services. It is also a good way to liquidate products that are overstocked or dated.

If you have a small or home-based business, or only a few products you would like to sell, online auctions can be a good option for marketing your products and services and expanding your business.

Buying

Internet auctions are also useful because they can connect you with other businesses around the world that are selling the products or services that you require. Through online auctions you have access to information on several vendors and may be able to get products and services at a lower price than what is available in the non-virtual marketplace. As well, online auctions can make transactions between businesses easy, fast, and convenient.

How Do Internet Auctions Work?

Most online auctions work a lot like traditional auctions. The buyer typically bids against others for a particular product or service and the highest bidder is able to buy the item at the end of the auction.

If you are looking to buy something, you can browse an online auction site by looking through different product categories or by using keywords that reflect what you are looking for. When you are buying an item, most auction sites can automatically place a higher bid (in response to other bids) for you up to the limit that you have established ahead of time. This means you do not have to continually check the site to see if you won or to place higher bids.

Sellers may have the option to set a reserve price (the lowest price they are willing to accept). A time limit may also be established for bidding and when the bidding closes the product or service goes to the highest bidder. Internet auction sites may have a variety of payment options such as credit card, online payment services such as PayPal or Escrow, debit card, personal cheque, cashier's cheque, or money order. The types of acceptable payment methods are usually posted on the auction website.

AUCTION WEBSITE TUTORIALS

Many of the auction websites have tutorials to help you learn how to use the website to buy or sell.

Types of Online Auctions

There are different types of online auctions. Make sure you understand how the online auction works before you buy or sell.

Person-to-Person Online Auctions

Person-to-person online auctions involve individual sellers (including small business owners) who sell their items directly to consumers and other buyers. With this type of auction the seller has physical possession of the product. The seller is responsible for dealing directly with the bidder to arrange for payment and delivery.

Business-to-Person Online Auctions

With this type of online auction, the operator of the auction site has physical possession of the product being offered and arranges for payment and delivery on behalf of its owner.

Reverse Online Auctions

In a traditional auction, the buyer typically bids against others for a particular product or service. The highest bidder is then able to buy the item. In a reverse auction, the buyer elicits offers from the sellers. The primary objective of the reverse auction is to drive purchase prices downward, as sellers compete with each other to obtain the business. Reverse auctions are often used as a procurement tool by purchasing and supply management organizations (business-to-business procurement).

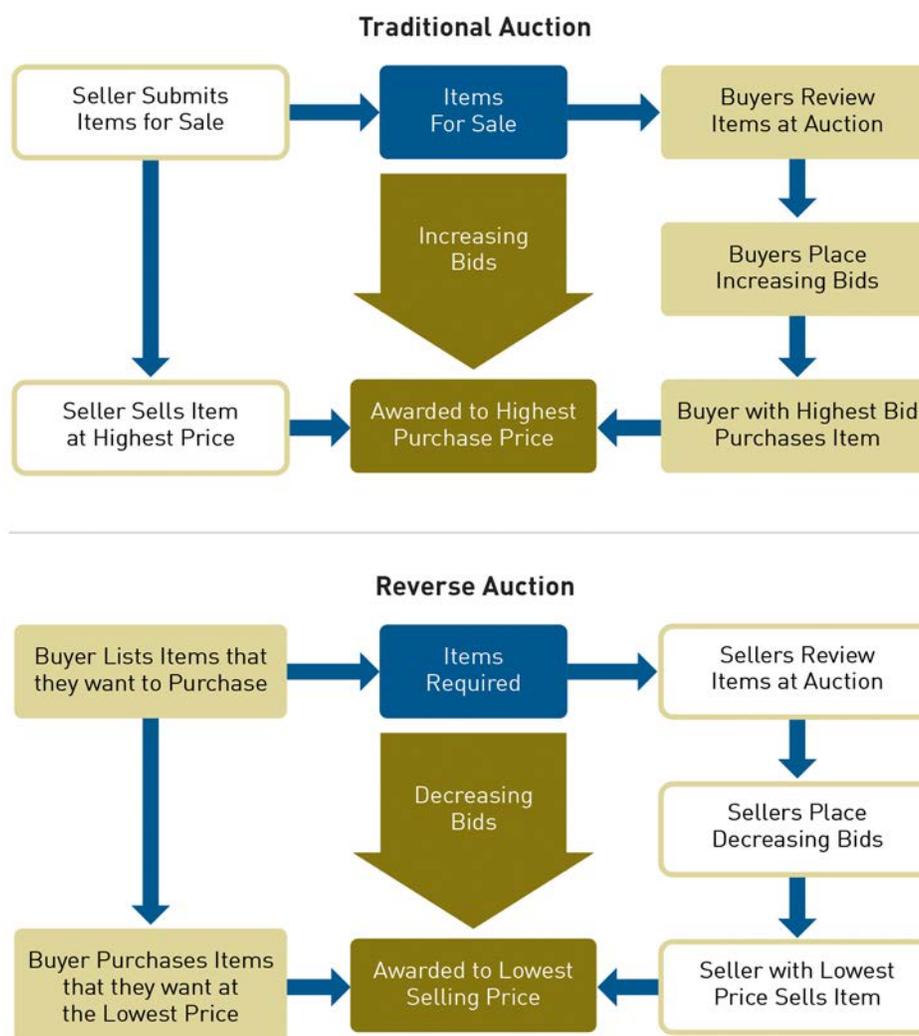
While reverse auctions have a number of challenges (e.g. the buyer can dominate the process), there are a number of benefits. These include:

- Reduced negotiation time.
- Short procurement cycle.
- Increased transparency of competing bids.

EXAMPLES OF REVERSE AUCTION WEBSITES:

- www.oltiby.com
- www.reverseauctioncountdown.com

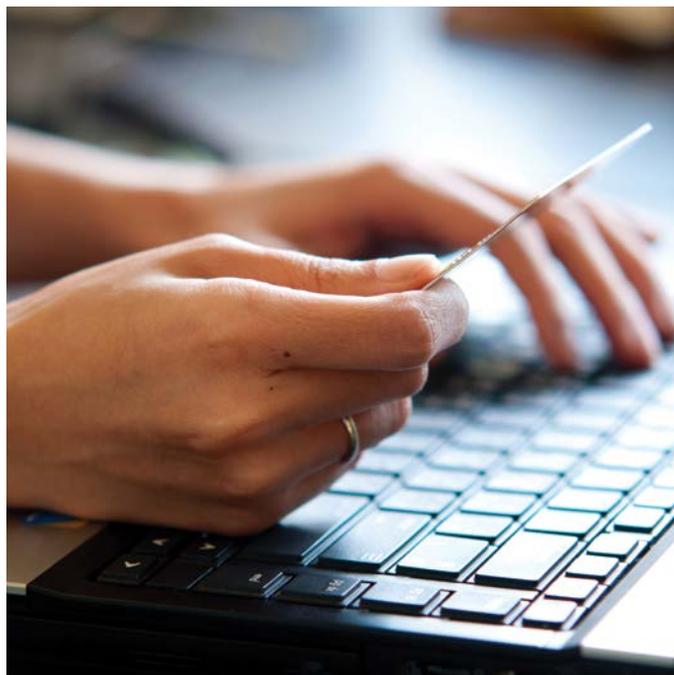
The graphics below present the key differences between traditional auctions and reverse auctions.



Tips for Buyers

Here are some things to consider before you make a purchase using an online auction:

- Review how the auction works. Many auction sites have online tutorials to help you use the auction. You can also browse the site to see what it has to offer.
- Know what it is you are buying. Read the product description carefully. Are you aware of what is included and not included? If you are not sure about some things, ask the seller. Some auction sites have an "Ask seller a question" feature that allows you to ask questions about the product.
- Research the product. What is the product's retail or market price? Look at other auction sites or manufacturers' websites to see what similar items are selling for.
- Check the listing agreement. If you win the bid you are obligated to abide by the agreement. Will the seller ship to where you live? What are the payment options? Does the product have a warranty? Is there a return or refund policy? Keep in mind that there may be limited opportunities to return goods or obtain refunds.



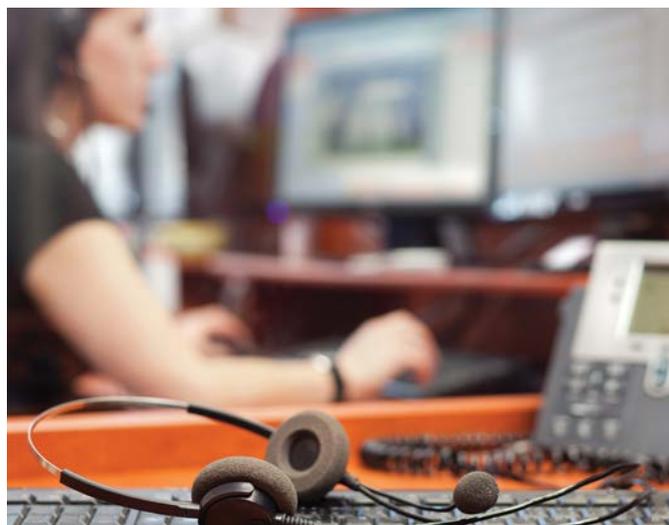
- As a buyer (or seller) consider the payment options that you are willing to use or that are available for use. To use a third party online payment service, both buyers and sellers usually set up accounts that allow them to make or accept payments. Sometimes sellers do not have to create an account in order to receive funds. Most online payment services charge the seller to receive the funds. Keep in mind that credit cards or some online payment services can be reversed in some circumstances (e.g. the product is not shipped). Some online payment services offer protection to buyers if goods are not shipped or if goods are not as described in the auction. Credit card users typically have charge back rights.
- Check to see if the auction site has a feedback system allowing buyers and sellers to rate each other. Check out feedback on the seller whose products you are interested in. What is their feedback rating?
- Determine whether you pay for shipping and handling costs.
- Review fraud protection features and the privacy policy included on the website. Are products insured against fraud, against shipping mishaps, etc.?
- Consider protection features that are included in various payment options. Buyers should not wire money (using a money transmitter or directly to a seller's bank account) unless they know the seller personally or can verify the seller's identity. Some auction sites prohibit the use of wire transfers as a method of payment.
- For the purchase of valuable products, a buyer should consider using an escrow service or purchasing from a bonded or insured seller to protect their funds. Escrow services accept and hold payment from a buyer until the buyer receives and approves the product. The buyer pays the fee for an online escrow service. Before using an escrow service, both the buyer and the seller should verify that it is a legitimate company.
- When you are relying on the seller's bonded status or insurance against fraud, check the legitimacy of the bonding or insurance company.

Source: On Guard Online, and Internet Auctions – What You Should Know Before You Buy or Sell. Australian Competition & Consumer Information.

Tips for Sellers

Here are some things to consider before you sell using an online auction:

- Figure out what you want to sell. You may want to start with only a few items to test how the auction site works.
- Look at online auction sites. Check out how sellers market and present their products. See how packing and shipping are handled. Check the terms and conditions of the auction.
- Try buying online yourself. You may want to browse Internet auction sites and look at them from the buyer's viewpoint. Think about what makes you want to buy or not want to buy an item. Is the seller providing enough information about the product or service?
- Assess the online site in terms of the security features it offers, and also efficient notification mechanisms for bidders (allows a large number of bidders).
- Assess whether the auction site is right for your product or service. Can you use the auction site to reach new markets? Can you use the auction to liquidate stock?
- Select an auction site that has a track record for obtaining high prices and for attracting potential customers.
- Know the regulations for exporting. If you are selling to people in other countries via the Internet you are exporting. Visit the Government of Canada's export website for more information about exporting: Exportsource www.canadabusiness.ca/eng/105/165. If you do not want to accept bids from other countries you should indicate this in your terms of sale.
- Know your legal liabilities. Make sure you are aware of Consumer Protection and other legal requirements. Consumer protection legislation usually requires that the seller provide clear information including details of the goods or services offered, terms of sale, shipping costs, return and refund policies, delivery arrangements, payment. The consumer also has the right to receive goods and services on time. Go to the Government of Ontario website to view consumer rights as legislated by the *Ontario Consumer Protection Act*: http://www.gov.on.ca/mgs/en/ConsProt/STEL02_167849.html. These rights apply to online transactions.
- Describe your product and the terms of sale clearly, in sufficient detail and accurately. Have you thought about the types of questions a buyer might ask you and made sure that you have answered these questions in a description? You will lose the buyer if you do not provide enough detail.
- Consider how your product or service should be categorized. This will help buyers find it easily.
- Consider packaging, storage and shipping costs when pricing your product.
- Consider the payment options that you are willing to use or that are available for use.
- Follow principles of good customer service. Good customer service is especially critical on the Internet – because it is more impersonal. Also keep in mind that negative feedback can affect your sales. On many online auction sites, customers can rate the seller's performance. Auction members typically have a feedback profile or rating. Respond to customer questions as quickly as possible. Contact the successful buyer as soon after the auction closes as possible; confirm the final cost, including shipping charges, and tell the buyer where to send the payment. Keep records of email correspondence with the customer.



Source: Adapted from <http://www.onguardonline.gov>
<http://www.smallbusinessbc.ca>



Tips for Suppliers

Below are some things to consider if you are planning to sell using a reverse auction:

- Consider how the auction works and the potential pitfalls.
- Review the terms and conditions of the auction to see if they are acceptable or not. The terms and conditions should clearly define, among other things, the winning bid, and whether the buyer can split the contract or is obligated to award the whole contract to the winner.
- Plan your bidding strategy.
- Identify the costs of your product or service (to avoid losing money).

What is a Virtual Mall?

A virtual mall (or e-mall or online mall) is an Internet site that works like a shopping mall. People can access a wide variety of sellers and products within one website. Some online malls have a shared shopping cart and payment system across all the sellers. For other sites the sellers have more control of e-commerce and payment, and shipping functions.

How Do Virtual Malls Work?

The virtual mall host/operator generally charges a fee for setting up and maintaining the seller's booth or store, and for including the seller in the product catalogue. Additionally, the host may charge a fee to the seller for every sale, or every time someone clicks on a product listing.

The listing fees may range from as low as 25 cents to \$2 or more per product. The completion fees range between 1.25 percent and 5 percent, usually depending on the price of the item.

Virtual malls vary in terms of how they operate. They can range from fully integrated sites where the host takes care of payment processing and the site catalogue, to malls where the seller has control over the look of the store, payment, shipping, and refunds.

For more integrated virtual mall sites, the host may also develop user profiles of the customers that visit any of the online stores. This can lead to the development of highly specialized malls (i.e. oriented at niche markets).

EXAMPLES OF POPULAR VIRTUAL MALLS

Amazon www.amazon.ca

What You Can Buy or Sell

Amazon.ca is an online shopping web site. Originally, Amazon focused on selling books, but now sells a wide range of products including electronics, baby products, outdoor equipment, tools, and much more.

More Information

Amazon holds products from its vendors in large warehouses across the world, and packs and ships them directly to customers. It also provides customer service to its online customers. For merchants, Amazon offers two types of selling plans : a monthly subscription fee (for those expecting to sell more than 20 items a month), or a per-item fee (for smaller vendors). For more information, see Amazon.ca page on selling: <http://www.amazon.ca/gp/seller-account/mm-product-page.html?ie=UTF8&ld=AZFooterSOA&topic=200341890>

Etsy www.etsy.com

What You Can Buy or Sell

Etsy allows people to sell their handmade items. Non-handmade crafting supplies, and vintage items (20 years or older) are also sold here.

More Information

The Etsy website provides you with the 'do's and don'ts'. <http://www.etsy.com/dosdnts.php#a4>

eCRATER www.ecrater.com

What You Can Buy or Sell

Sells a wide variety of products. For example – antiques, art, business and industrial supplies, consumer electronics, clothing and shoes, crafts, health and personal care products, tools and hardware, and toys, games and hobbies.

More Information

It is a free online marketplace. Second it is a free e-commerce website builder. When sellers register with eCRATER they receive customizable free online stores. In addition, all products get listed on their free online marketplace. Sellers receive free website hosting, a subdomain and an admin tool to manage their free online stores. All products are posted to Google Product Search as well.

eCRATER notes that it is free. However, the seller may opt to pay advertising costs to advertise their products so they appear in premium positions in the relevant product categories. For more information see the website's Facts and Questions help pages: <http://www.ecrater.com/help.php>

Shoptoit www.shoptoit.ca**What You Can Buy or Sell**

Canada's longest standing and largest bilingual shopping search engine that is directed at Canadian customers. A large variety of products are sold, including items for the home and garden, clothing, sporting goods and beauty products.

More Information

Potential customers, who search for products from the Shoptoit homepage, are directed to various companies' own online stores. Therefore, Shoptoit.ca's value to vendors is essentially in its ability to drive traffic to their e-commerce site.

Vendors pay based on the number of clicks to their site. Aside from products, vendors can also advertise promotions, feature flyers, provide shopping advice, and include store locations. Visit Shoptoit site for more information on how to list with its shopping network: <http://www.shoptoit.ca/ss/static/en/list.shtml>

Shopping at Yahoo! www.shopping.yahoo.com or <http://yahoo.shoptoit.ca> (Yahoo! Canada Shopping)**What You Can Buy or Sell**

Sells a wide variety of products such as clothing and accessories, electronics, computers, health, video games, tools and more.

More Information

Yahoo! Product Submit is a pay-for-performance program that provides for the inclusion of products in Yahoo! Product Search and Product Pages and is based on a cost-per-click price that varies by Yahoo! Shopping category. The seller pays when the consumer clicks on your product listing. Products can also be included in Yahoo! Shopping by signing up for Yahoo! Merchant Solutions. This allows the seller to create and manage its store online. For more information go to the Yahoo website's help pages: <http://help.yahoo.com/l/us/yahoo/shopping>

How Virtual Malls Can Help Small Businesses

Virtual malls can provide you with access to a larger market at a low cost. It is also a good way of advertising your products and services online. As a buyer, virtual malls allow you to comparison shop without having to do all the 'leg work'.

Keep in mind that virtual malls are based on the retail model and in the short-term it is one of the easiest ways to set up your e-commerce site. With a virtual mall you don't have to worry about setting up an e-website. Virtual malls can draw buyers who might not otherwise find your

website. It is a low risk and low cost option for testing your products online. If your online business becomes established, then you may want to consider other options such as establishing your own online store.

Is there a Downside?

Virtual malls may not be a good solution for you if you want your business to stand out from the rest of the crowd. While there are a lot of e-malls that have been launched in the past few years, many fail within the first two years. Businesses should consider carefully whether a particular e-mall is right for them.



Presenting and Advertising Your Products and Services Online

The following is a list of things to consider when presenting and advertising your products and services on an Internet auction or a virtual mall website:

- Have you included photos of the product? Because people do not have direct access to the products, the photos are very important. If you are thinking of taking the pictures yourself there are do-it-yourself tutorials online.
- Have you included a description of the product or service?
- Make sure your product/service is easy to find. For Internet auctions make sure you categorize your product or service appropriately so that people can find it. For e-malls, make sure your titles have the product included (e.g. computer, office supplies). The tags should also include the most relevant information about your product (colour, size, type, condition of product, etc.).
- Is the product/service information accurate and clear?
- Is there enough detail to help the buyer make an informed choice? For example, have you listed the name of the product, model, size, manufacturer, and colour, and other information that would be helpful?
- Have you provided details about warranty and return policy and who is responsible for paying shipping costs or restocking fees if the item is returned?
- Have you included your website's URL address with your contact information? You can include your URL in your e-mail signature. This will enhance your credibility and bring more people to your website.
- Have you let potential buyers know if you provide follow-up service? If not, have you provided information as to where they can go for follow-up service?

Payment Processing

The seller is often responsible for payment processing on many of the Internet auction and virtual mall sites. Payment options include:

1. Third party payment systems
2. Credit card
3. Personal cheques, cashier's cheques, or money orders

To use a third party online payment service for Internet auctions or virtual malls, both buyers and sellers usually must set up accounts that allow them to make or accept payments. Most online payment services will charge the seller to use their service (receive and transfer the funds from one account to the other).

If your business chooses to offer credit cards as a payment option, take the time to research and find a reputable credit card processor. It is important that you carefully read through the terms and conditions of the contract to avoid encountering unexpected charges down the road. For example, a common mistake amongst businesses is that they enter into a contract unaware that the rate they pay on card transactions fluctuates according to the card type. This results in unforeseen costs to the merchant.

At the same time, it is important to choose a credit card processor that fits the needs of your business. For example, if you have a mobile business, there are some credit card processors like Square, Google Wallet, and PayPal that allow for you to make and/or accept credit card payments with a smartphone and mobile card reader.

Source: <http://www.shopify.com/blog/4378162-4-serious-mistakes-business-owners-make-with-their-credit-card-processor#axzz2H9z3As7C>

According to Wikipedia (www.wikipedia.org), PayPal (www.paypal.com) is the most popular third-party online payment system.

According to www.canadaone.com small businesses use third-party payment systems, such as PayPal (www.paypal.com), CCNow (www.ccnw.com), PsiGate (www.psigate.com), Beanstream (www.beanstream.com) and InternetSecure (www.internetsecure.com).

Buyers and Sellers – What you should Consider when Choosing a Payment Option:

- **Costs associated with the payment option.**
 - These can include transaction fees, setup fees, and monthly fees.
 - Take the time to understand the features offered by each option and the pricing model.
 - There are different fees and features associated with merchant accounts.
 - What are the fees associated with fraudulent transactions?
- **Privacy of the transaction data.**
 - Check the service provider's policy for disclosure and sharing of information.
- **Fraud protection.**
 - Review fraud protection tools. Merchant accounts typically have a number of customizable fraud filters that identify and track suspicious transactions. The transaction can be placed on hold while the bank notifies the business of the suspicious activity.
- **Liability coverage.**
 - What is the liability coverage in case something goes wrong?

Tips for Protecting Online Transactions

When making online transactions, buyers and sellers should consider the following tips:

- **Check to see if payments can be reversed.** Payments with credit cards can be reversed. Keep in mind that credit card users typically have charge back rights. Some online payment services offer protection to buyers if goods are not shipped or if goods are not as described in the auction or virtual mall.
- **Review the terms of agreement of an online payment or escrow service.** Before agreeing to use an online payment or escrow service, read the terms of agreement. If it's an online payment service, the seller should find out who pays for credit card charge backs or transaction reversal requests.
- **Examine the payment service's privacy policy and security measures.** As a seller you should never disclose financial or personal information unless you know why it's being collected, how it will be used, and how it will be safeguarded.





- **Verify that cheques and money orders are legitimate.** Sellers should ensure that cheques and money orders they receive from buyers are legitimate before shipping the goods.
- **Sellers should bill the credit card account only after the product has been shipped.** Sellers that accept credit card payments directly, should bill the credit card account only after the product has been shipped.
- **Check escrow or online payment services, particularly if you are not familiar with them.** If a buyer insists on using a particular escrow or online payment service that you've never heard of, check it out by visiting its website or calling its customer service line. If there isn't one, or if you call and can't reach someone, don't use the service. If the service claims to be affiliated with a government agency, that might be a sign of a scam. Don't use an online escrow service that does not process its own transactions, but that requires you to set up accounts with online payment services. Legitimate escrow services never do this.

Future Trends

Internet auctions and virtual malls are good channels for businesses that are looking to sell their products and services online. The ease and convenience that these online venues offer both sellers and buyers ensures they will continue to play an important role in the future.

E-commerce companies like eBay are creating more sophisticated online shopping models that are allowing for a more personalized and social experience for the user. For example, in 2012 eBay launched a redesigned homepage that allows users to customize their page according to their interests and purchasing preferences. Instead of having to specifically search for products users can customize a personalized feed and browse a collection of new items every visit. As these social commerce models become more popular and adopted by other Internet auction and virtual mall sites, it may become even more common for consumers and businesses to do their buying and selling online.

Source: <http://allthingsd.com/20121012/what-is-mobile-commerce-ebay-takes-a-stab-with-its-new-site-redesign>

Related Topics Covered in Other Booklets

- *E-Commerce: Purchasing and Selling Online*
- *Online Sources of E-Business Information*

To view or download these booklets visit ontario.ca/ebusiness.



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This publication is part of an **E-Business Toolkit** which includes a series of booklets on advanced e-business topics and an introductory handbook *How You Can Profit from E-Business*. The entire Toolkit is available at ontario.ca/ebusiness.

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