



Internet Auctions and Virtual Malls

Is this Booklet Right for You?

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 where you can sell (or buy) products and services online (e.g. Internet Auctions). You can also consider virtual malls or e-mall services where your site is listed along with others. E-malls are discussed later in this booklet.

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 product information, displays the product 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 Auction Websites

- www.uBid.com (general auction site).
- www.eBay.com (general auction site).
- www.alibaba.com (general auction site).
- www.bidville.com (general auction site).
- www.liquidation.com (commercial surplus inventory and government surplus assets – a wide variety of product categories).
- www.dovebid.com (global provider of capital asset auction, valuation, redeployment, and management services).
- www.elance.com (focuses on services. You can search for a service provider by category or post your project and receive proposals from service providers).

Sources: *Index of the web.com* www.indexoftheweb.com/Shopping/Auctions.htm
www.emarketservices.com, <http://www.e-bc.ca/pages/resources/internet-auctions.php>

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Why Internet Auctions for Small Businesses?

Even if you do not have an e-commerce website on which to sell your products, you can use online auction sites or other e-marketplaces to sell your products quickly and easily. 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. 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 expanding your business.

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.

Examples of Internet auction websites

- www.eBay.com
- www.amazon.com
- www.trademe.co.nz
- www.uBid.com

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).

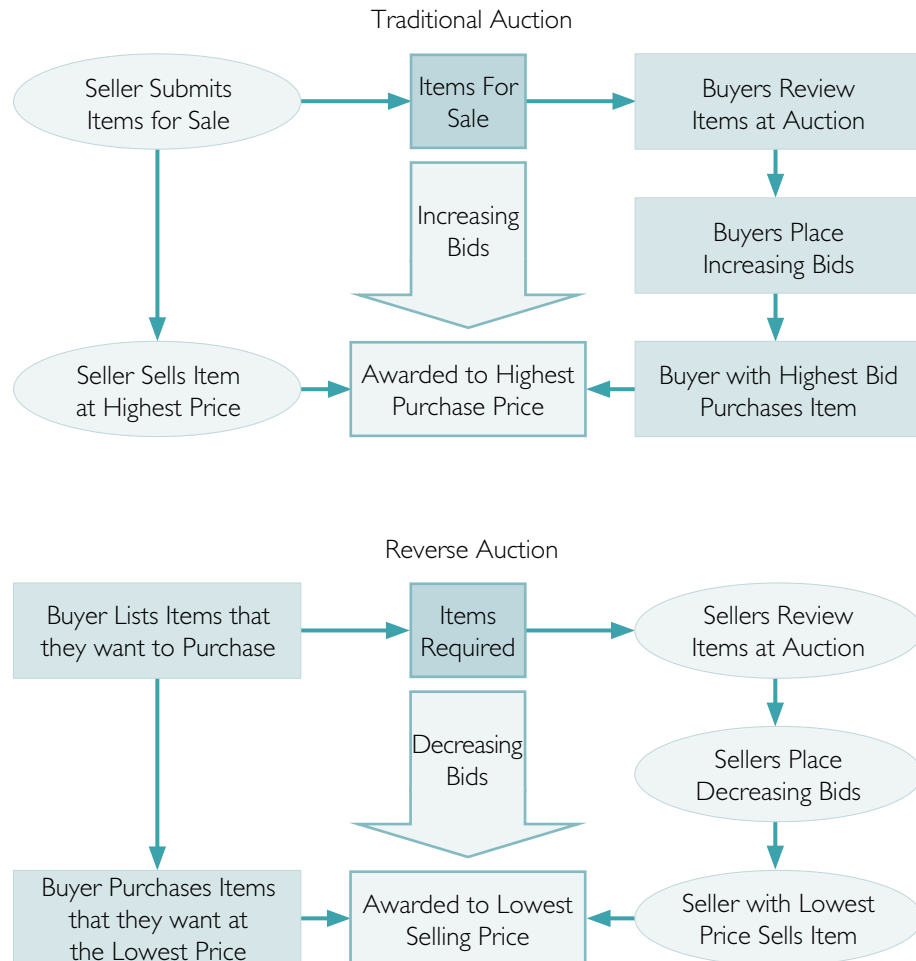
Examples of reverse auction websites:

- www.priceline.com
- www.oltiby.com

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.

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.

Tips for Buyers – Internet Auctions

- 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: <http://www.onguardonline.gov/topics/internet-auctions.aspx> 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.

Tips for Sellers – Internet Auctions

- 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 clearly, in sufficient detail and accurately. Have you described your product and the terms of sale in sufficient detail? 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.e-bc.ca/pages/resources/internet-auctions.php> and <http://www.onguardonline.gov/topics/internet-auctions.aspx>

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

Tips for Suppliers – Reverse Auctions

- 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

What You Can Buy or Sell	More Information
Etsy www.etsy.com	
Etsy allows people to sell their handmade items. Non-handmade crafting supplies, and vintage items (20 years or older) are also sold here.	http://www.etsy.com/dosdents.php#a4 The Etsy website provides you with the 'do's and don'ts'.

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What You Can Buy or Sell**More Information****eCRATER** www.ecrater.com

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.

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>

Shopping at Yahoo! www.shopping.yahoo.com or <http://yahoo.shoptoit.ca> (Yahoo! Canada Shopping)

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

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>

Canoe Shopping www.shop.canoe.ca

Canadian virtual mall – sells a wide variety of products such as gifts, clothing, flowers and food, sports and outdoor equipment, electronics, computers, health products and more.

Go to Canoe's help pages for information on how to advertise, how to register, terms of service and more. <http://www.canoe.ca/Help/home.html>

MSN Shopping www.shopping.msn.com

Sells a wide variety of products such as gifts, furniture, books and magazines, computers, electronics, movies, music and more.

MSN Shopping is a service designed to help buyers find products available through participating stores. The products available on the site are sold and shipped by these stores independently of MSN Shopping. Each store determines its own accepted payment method(s). MSN Shopping is dedicated to connecting stores with active online shoppers who are ready to buy. You can shop by category or by price allowing buyers to comparison shop.

MSN offers sellers a pay for performance program where inclusion in product categories (gift guides) is based on a cost-per-click price that varies by product category. The sellers pay for leads directly to their sites. For more information see the Facts and Questions web page: <http://shopping.msn.com/content/shp/?ctid=79#xsFAQ11>

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 checklist of things to consider when presenting and advertising your products and services on a virtual mall website.

Presenting and Advertising Your Products and Services Online

- 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).

Buyers and sellers have several things to consider when selecting their payment options.

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.ccnow.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.
- Also consider chargeback fees. 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:

Payment Processing – Tips for Protecting Transactions

- 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.

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Payment Processing – Tips for Protecting Transactions

- 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.

This booklet is part of a series on advanced e-business topics which supplements an introductory handbook *How You Can Profit from E-Business*. For more information on those publications, visit the Ministry website at www.ontario.ca/ebusiness.

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