

Going Once, Going Twice . . . : Are Local Governments Sold on Online Auctions?

Kristen A. Bovid and Brandy N. Sparks

According to the National Association of State Procurement Officials, local governments often overlook the importance of materials management, including disposal of surplus and confiscated goods.¹ Yet the manner in which a local government disposes of such goods affects many aspects of the organization, including staff responsibilities, revenues, and storage space. In addition, disposal often is strictly regulated by law.

Recently, several vendors have made claims about their ability to increase revenues and provide additional benefits to local governments in this oft-overlooked area of property disposal. A representative for the online auction company GovDeals.com asserts that using it increases revenues while avoiding depreciation, pilferage, environmental waste problems, storage concerns, collusion, and transportation issues.² PropertyRoom.com, an online auction vendor of confiscated goods, claims that using its service results in revenues two to ten times higher than those from traditional auctions.³

Praise for online auctions of surplus and confiscated goods is not confined to vendors. A 2001 article in *Governing* magazine notes, “[G]overnments are finding that selling surplus goods online can be more efficient—and can bring in a lot more money than a traditional auction.”⁴

The authors are 2007 graduates of the Master of Public Administration Program at UNC at Chapel Hill. Bovid is a budget and evaluation analyst for the City of Winston-Salem. Sparks is pursuing a career in human resource management. Contact them at kristenbovid@gmail.com and brandy.sparks@alumni.unc.edu.

Definitions

Confiscated goods: Items seized by the police.

Surplus goods: Items or property once owned and used by local governments that is no longer useful or needed.

Does evidence support these claims of increased efficiency? Our study examined the use of online auctions at the local government level. We explored experiences in North Carolina cities and counties by asking the following questions:

- How are online auctions being used? Are they supplementing or replacing on-site, traditional auctions?
- What are the benefits of using online auctions for surplus and confiscated goods (for the difference between the two types of goods, see the sidebar on this page)? Does use lead to increased revenues and savings in staff time?
- What are the drawbacks of using online auctions for surplus and confiscated goods?
- What are factors to consider in choosing and implementing an online auction system?

We analyzed information from several sources. Website analysis of two major online auction companies, GovDeals.com and PropertyRoom.com, and personal interviews with the organizations’ executives helped us understand what these vendors offer to local governments.⁵ We also sent e-mails to registered clients of GovDeals.com and PropertyRoom.com.

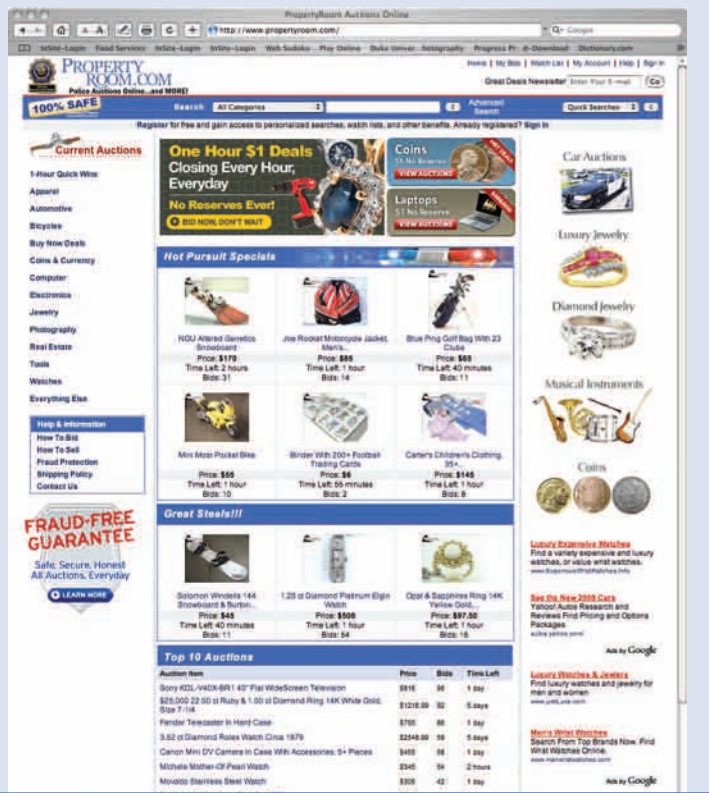
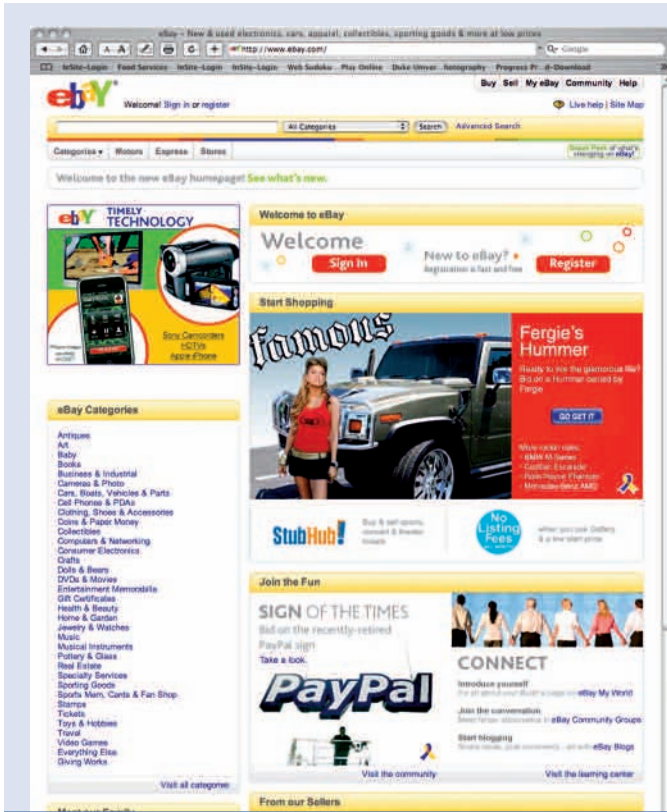
Further, we posted a request for information on the North Carolina Local Government Purchasing Listserv (hosted by the School of Government) to gather data on the use of online auctions across the state. We received responses from fifteen jurisdictions in North Carolina that currently use GovDeals.com and from four jurisdictions that use PropertyRoom.com.⁶

On-Site, Traditional Auctions

All responding local governments held on-site, traditional auctions before transitioning to online auctions. The majority hired an auctioneer and used their own staff to oversee the process, rather than going through a contracted company. Local governments reported on-site auctions lasting two to five hours, with all participating employees receiving overtime pay for time spent helping conduct the auctions.

On-site auctions have a number of advantages and disadvantages. Among the advantages are that they give potential buyers greater access to surplus items, and local governments are not burdened with the responsibility of transporting or shipping items after they are purchased. Also, local governments receive some form of payment immediately after the sale.

Increased staff time and overtime pay were cited as two significant disadvantages of on-site auctions. Not only do staff spend time categorizing and pricing items, but also they are responsible for advertising the auction to the community and preparing final sales data. Finally, local governments often must stockpile and store smaller items for up to one year to acquire a sufficient number of high-dollar items to attract a large audience. As a result, these items depreciate in value.



Online Auctions—Three Vendors

In contrast to traditional on-site auctions, online auctions can take place more frequently. Some local governments hold online auctions monthly, while others list items continuously. To list an item, a staff member or a contracted vendor uploads a photograph and a written description of the item. Some jurisdictions allow bidders to inspect items personally before making a bid, but typically bidders must rely on the description.

We found that the vast majority of responding local governments use online auction systems created by vendors, although at least one local government created an internal auction system. North Carolina local governments provided us with data on three vendors: GovDeals.com, PropertyRoom.com, and eBay. These vendors have varying fee schedules, services, policies, and audiences.

GovDeals.com contracts exclusively with government entities to auction surplus property online at www.govdeals.com. There are no fees or start-up costs

for local governments to sign a contract with GovDeals.com. The company's Web-based application allows clients to upload photographs and written descriptions about surplus items and establish opening and closing times for the auctions. GovDeals.com provides training to its clients and can typically get a new local government client up and running with an auction in under an hour.

Bidders must register and undergo a verification process before bidding. This policy keeps the default rate under 3 percent. If a bidder does default, GovDeals.com credits the client and allows the client to block the bidder from any future bids on its items.

The client pays GovDeals.com a fee of 7.5 percent of the highest bid for each item sold, with a minimum \$5.00 fee. Occasionally, the marketing department advertises large or unusual products at no charge to the client. For example, GovDeals.com advertised Kansas City's

On-site auctions have several drawbacks: staff time, storage costs, and goods' depreciation in value.

ten-year-old line of fire trucks in *Fire Chief* magazine and sent e-flyers to bidders who previously bid on fire trucks.

Whereas GovDeals.com enables local governments to create their own online auctions, PropertyRoom.com prides itself on being a full-service online auction site. It sends trucks to gather a police department's confiscated goods. Free, regular pickups are scheduled as needed. The goods are cleaned, organized, tested, appraised, and photographed at a distribution center before being auctioned online. After the auction has closed and the highest bidder has paid for the item, the company sends a check for 50 percent of the bid to the police department from which the item came. If an item does not sell, the company disposes of it.

Regarding verification of bidders, PropertyRoom.com requires bidders to register a credit card with the company. The company, rather than the local government, deals with defaulting bidders.

Table 1. A Comparison of Three Vendors

	GovDeals.com	PropertyRoom.com	eBay
Items Auctioned	Local government surplus goods	Local government confiscated goods, excluding weapons, hate materials, imitation brands, food, and alcohol	Nearly all items, except weapons, tobacco, and other dangerous materials
Fee Schedule	7.5% of bid with minimum \$5.00 fee; smaller percentage for items selling for more than \$100,000	50% of bid	Listing fee of \$0.20–\$4.80, plus 5.25% of bid for items selling for less than \$25.00, plus 3% of cost over \$25.00 for items selling for more than \$25.00 but less than \$1,000, plus 1.5% of cost over \$1,000 for items selling for more than \$1,000
Customer Service	New clients provided training, customer support desk available on weekdays, and free advertising provided for large and unusual items	Full service provided: items picked up, cleaned, organized, tested, photographed, and auctioned online for client	Training DVD available for \$7.95

In addition to auctioning goods, PropertyRoom.com invites people who have had property stolen to register it on www.stealitback.com. Incoming items are compared with the list, and goods are returned to rightful owners when possible.

Recently the company began allowing a limited number of third-party vendors to auction items online. It also launched a pilot program with a local government in California to sell surplus property.

Unlike GovDeals.com and PropertyRoom.com, eBay does not cater to local governments. Founded in 1995, it is open to any and all clients, bidders, and items. It is the most widely known and used online auction vendor, giving items listing on its site the potential to receive a great amount of exposure. With so many clients, however, eBay cannot provide hands-on training to new clients. Also, sellers are charged a listing fee ranging from \$0.20 to \$4.80 for each item to be sold, whether or not the item actually sells. Sellers are charged 5.25 percent of the highest bid for items selling for less than \$25.00. Items sold for more than \$25.00 but under \$1,000.00 are subject to a fee equal to \$1.31 plus

3 percent of the item’s cost over \$25.00. For items over \$1,000, an additional fee is charged, equal to 1.50 percent of the cost over \$1,000. Of the three vendors detailed in our study, eBay has the lowest percentage fee, but it also provides the least customer service.

Clearly, the three vendors offer different services, require different fees, and target different audiences (for a summary, see Table 1). A local government should carefully consider these differences in selecting a vendor. The majority of cities and counties that responded to our questionnaire use only GovDeals.com for the sale of their surplus property. One jurisdiction, however, uses a hybrid system, selling items with broad appeal on eBay but listing items that are difficult to ship or used mainly by local governments on GovDeals.com.⁷

Findings

Among local governments that have adopted online auctions, online auctions appear to be replacing, rather than supplementing, on-site auctions. Of the fifteen local governments using GovDeals.com, ten replaced traditional auctions in

the same year that they adopted online auctions. Three allowed for a period of overlap between the two systems, typically one year, before abandoning the traditional auctions. Only two cities retained traditional auctions and now manage a hybrid system for disposal of surplus goods.

Use of online auctions for the sale of confiscated goods appears to be more limited. Only twenty-one jurisdictions in the state have signed contracts with PropertyRoom.com.

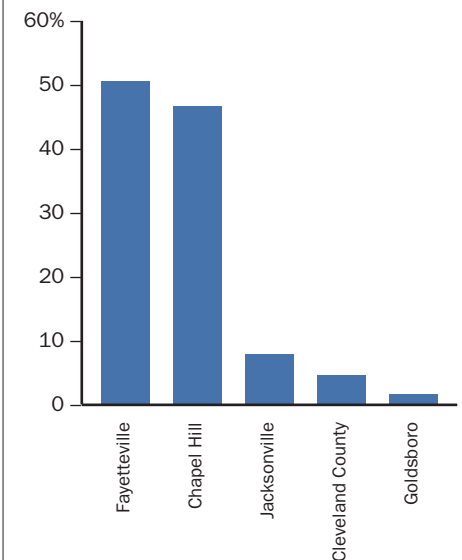
In addition to identifying patterns of use, we examined the two major purported benefits of online auctions: increased revenues and savings in staff time.

On the whole, increased revenues do seem to be a benefit of using online auctions. Results regarding savings in staff time are mixed.

We also heard anecdotal reports of other benefits, such as an increase in storage space. This appears to be especially helpful in evidence rooms of police departments, where space often is at a premium because of laws requiring evidence with DNA samples to be stored for lengthy periods.

We discovered an unexpected benefit while researching online auctions of surplus goods: a decrease in liability. According to a posting on the North Carolina Local Government Purchasing listserv, one city faced legal challenges

Figure 1. Percent Change in Annual Net Revenues Using Multiyear Averages



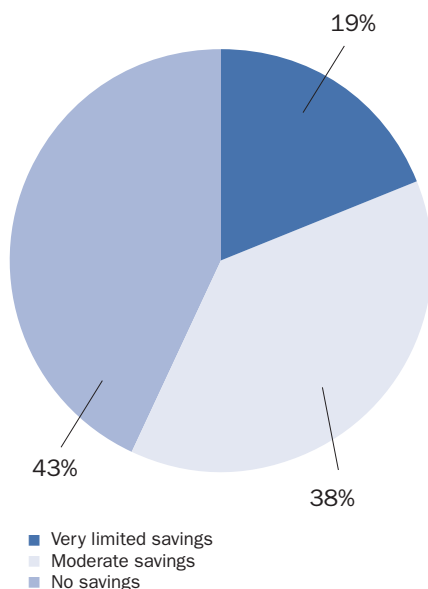
after a citizen was injured at an on-site public auction.⁸

We discuss our detailed findings regarding revenues and savings in staff time from the use of GovDeals.com and PropertyRoom.com separately in the following sections. We do not discuss eBay because we want to focus on online vendors that cater to local governments, and eBay does not.

GovDeals.com

We obtained data for multiple years of on-site auctions and at least one year of GovDeals.com auctions from five local governments. Many factors, including the types of items being sold and the weather, influence attendance and overall sales at on-site auctions. Using multiyear averages rather than revenue data from one single year can help smooth out yearly fluctuations and provide a more accurate representation. The average net revenue increase associated with the use of GovDeals.com for the five jurisdictions was 22 percent when multiyear averages were used and revenues were adjusted for inflation (for the individual increases, see Figure 1). This percentage corresponds to the low end of the “typical range of 25 to 40 percent” increase described to us by a GovDeals.com representative.

Figure 2. Savings in Staff Time Reported



There are many possible explanations for the 22 percent increase. The exposure to a much larger audience, sometimes accompanied by targeted advertisements, likely leads to higher bids. Also, on-site auctions are typically held only one time per year. If a vehicle becomes surplus property soon after an auction occurs, it must sit in storage for nearly a year. This storage time depreciates the value of the vehicle. Frequent online auctions mitigate against further depreciation. In addition, expenses are decreased. Items no longer need to be transported to an auction site, and employees do not need to be paid overtime.

Most local governments that we contacted attributed the increase to higher bids per item, rather than an increased quantity of items. However, there were no data to support these claims because none of the local governments could share with us average unit prices for commonly auctioned items. Also, the sustainability of the initial revenue increase is unclear because many of these jurisdictions just began using GovDeals.com.

Although overtime pay is not a concern with online auctions, we did not find evidence of significant savings in staff time. Fifty-seven percent of jurisdictions reported very limited or moderate time savings (see Figure 2). None of the reported savings amounted to a full-time equivalent. Staff in charge of online auctions often have added responsibilities, including photographing items, writing descriptions, and responding to bidders’ inquiries. One purchasing director explained how labor-intensive the process can be:

The online auction takes two hours or more per item or lot. This breaks down into locating the item or making up a lot, snapping a picture, getting all of the information about the item and then putting it into the GovDeals system. Before the closing date, I or the department averages about five calls asking questions that were not in the detailed information. When the item is sold, I average about three calls trying to get the

*auction winner to my door to make payment. Then I must get the winner to the department where the item is located, and the winner needs help loading the item at least 80 percent of the time.*⁹

Clearly, local governments should not expect major savings in staff time when they are beginning to use an online auction for surplus property. In fact, the most significant drawback we found to using online auctions for the sale of surplus goods was frustration among staff members.

PropertyRoom.com

As might be expected with the use of a full-service vendor, all four of the

PropertyRoom.com users that we contacted reported significant savings in staff time. None of these amounted to a full-time equivalent, but police departments do not typically

have staff devoted solely to disposal of unclaimed goods. When asked to comment on savings in staff time, one evidence custodian noted,

*With the old way, not only would we have to list the items for auction, we would have to coordinate the sales, physically hold the auction with someone from the Finance Department, and sign over the items to the buyer while Finance took the money. Using the Internet, we reach a tremendous amount of people, and we don’t have to do two-thirds of the work.*¹⁰

This savings in staff time translates into an increase in net revenues. The cities and the counties that we contacted have experienced very high expenses during traditional public auctions, largely because of overtime for police officers. For example, one respondent noted that 80 percent of the gross proceeds from the town’s 2003 public auction of unclaimed property went to covering expenses. Two local governments provided us with multiyear data from sale of confiscated goods. Revenues increased sharply with the use of the

If traditional auctions cost 50 percent or more of proceeds, the online approach may be better.

online auction vendor. Using multiyear averages, both cities experienced an average increase in net revenues of approximately 140 percent. One city has continued to see an increase for three years, suggesting the potential for sustainable increases.

Recommendations

After analyzing the data we received from cities and counties currently using online auction sites to dispose of their surplus goods, we offer the following observations and recommendations:

1. Keeping closer track of data from on-site and online auction sales could influence managerial decisions regarding current or future purchasing practices. Many of the local governments participating in this study kept relatively little data on their online sales of surplus goods, thereby limiting their ability to assess fully the benefits of this option. A particularly useful measure to track would be the unit prices for selected items (for example, sedans).

2. Police departments should assess the success of their current method of disposing of confiscated goods and consider the option of an online service specializing in police items. If expenses incurred with the department's current disposal method consume 50 percent or more of the proceeds from sales, the option might be warranted. For instance, PropertyRoom.com charges a 50 percent fee for its services, effectively capping a department's cost because nearly all usual expenses are eliminated. Not only would governments' confiscated goods

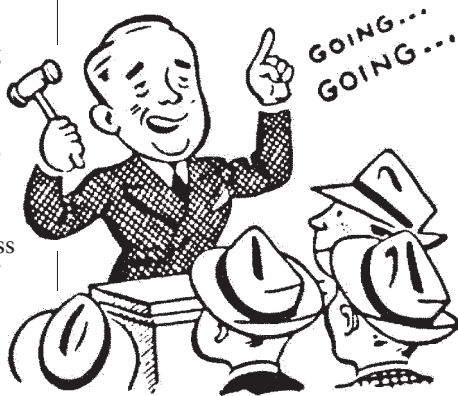
receive exposure to a larger audience on a national website, but also governments would free up storage space and staff hours otherwise spent dealing with auction-related issues.

3. Experimentation with online auction sites is relatively inexpensive and could reveal a better system of surplus property disposal. Our data suggest that local governments that switched from traditional public auctions to online auctions saw, on average, a 22 percent increase in revenues in the

first year of using online auctions. Given that there are virtually no start-up costs associated with using online auction vendors, we recommend that local governments consider registering and selling surplus items on secure and reputable online sites for at least one year to see if they receive additional revenues or other potential benefits associated with online auctions.

4. Local governments experimenting with online auctions should anticipate changes in staff responsibilities. Our study offers no evidence that using online auctions significantly reduces personnel costs in comparison with using traditional public auctions. Online auctions do not require as much staff participation as on-site auctions, but they do require at least one staff person to organize surplus items, maintain the online database, and ensure that payments are received and items picked up or delivered in a timely manner. A staff member assigned these responsibilities should, of course, be trained and compensated appropriately for the new duties.

Local governments that switched from traditional to online auctions saw a 22 percent increase in revenues in the first year.



Notes

We conducted our study for SOG faculty member David Ammons's course Productivity Improvement in Local Government. The full report is available from Susan Lynch at mpastaff@sog.unc.edu.

1. National Association of State Purchasing Officials, *State and Local Government Purchasing Principles and Practices* (Lexington, KY: National Association of State Purchasing Officials, 1997), 100.

2. Terry Bazzoon, "Selling Surplus Government Equipment On-line," *County Focus* 17, no. 1 (2006): 20–21.

3. PropertyRoom.com, Press Room, *Fast Facts about PropertyRoom.com*, <http://about.propertyroom.com/factsheet.html>.

4. Ellen Perlman, "Going, Going . . . Click!" Tech Talk, *Governing*, November 2001, www.governing.com/archive/2001/nov/techtalk.txt.

5. Steve Kranzusch (vice-president of marketing, GovDeals.com), interview by authors, September 28, 2006; Tom Lane (chairman and founder, PropertyRoom.com), telephone interview by authors, October 26, 2006.

6. The fifteen jurisdictions that provided us with data about use of GovDeals.com were Apex, Asheville, Buncombe County, Catawba County, Chapel Hill, Charlotte, Cleveland County, Davidson County, Edgecombe County, Fayetteville, Goldsboro, Hickory, Jacksonville, Monroe, and Winston-Salem. Currently, GovDeals.com has more than one hundred clients in North Carolina, including twenty-five counties. The four jurisdictions that provided us with data about use of PropertyRoom.com were Carrboro, Chapel Hill, Raleigh, and Winston-Salem/Forsyth County. Our study focuses on the jurisdictions that provided usable data in response to our request for information through the North Carolina Local Government Purchasing Listserv, by telephone, or by e-mail. Many other jurisdictions responded to our request, but the specific data we needed were unavailable.

7. Respondent from Apex, personal correspondence with authors, October 2006.

8. This information appeared in a posting by a City of Fayetteville employee on the following listserv: <http://lists.unc.edu/read/?forum=ncpurchasing>.

9. Respondent from Davidson County, personal correspondence with authors, October 2006.

10. Respondent from Carrboro, personal correspondence with authors, November 2006.