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How to Buy Equipment At Auction

Today’s auction arena provides contractors with the finest selection of used equipment, rolling stock, tools and materials ever known. Outstanding bargains on rudimentary and hard-to-find equipment exist in this dynamic and blossoming industry. Equipment of all sizes, types, vintages and conditions are sold in this popular secondary market. Savvy and prudent equipment buyers are building and supplementing their fleets while saving untold dollars. Hundreds of auction companies offer thousands of products weekly all over the booming domestic market, as well as the growing international auctions.

But the auction method also contains the elements of mystique, intimidation, unscrupulous players and unsavory terms that can adversely

affect the experience. Buying a “pig-in-a-poke,” having buyer’s remorse or conducting illegitimate practices can be very real possibilities for the uneducated bidder. Preparation and understanding will hone the necessary skills to gain the best from this forum while containing costs and not wasting time.

Some auction buyers will make this a lifelong endeavor, while for others, it will be done on an as-needed basis. No matter the frequency, the successful auction buyer must consider and understand the following:

- ▶ The auction method
- ▶ Auctioneers
- ▶ Products and their condition
- ▶ Costs and values
- ▶ Techniques and terms

Please understand that scenarios and situations are endless in this

ancient but still developing industry that is sometimes loosely regulated. However, let’s explore the background and some basic issues that influence civilizations purest economic form when properly conducted and attended.

The Auction Method

Webster defines the word auction as, “A public sale of items to the highest bidder.” Simple enough? Not really! The auction we know today can be manipulated and adjusted into a fairly complex offering that may have various pitfalls for the potential buyer. It may not be “public” as in closed dealer auctions, and the development of the “highest bidder” may have varying connotations.

The type of auction most familiar to contractors is the traditional style of items being sold in “lots”

via a bid caller, the auctioneer. (There are other types: silent, blind, Dutch, sealed bid, etc.) A "lot" could be one hydraulic excavator or one thousand pieces of drill steel. They will be identified by lot number and description in the sale day catalog with a corresponding number on the items.

This approach from a functional standpoint is fairly uniform in the industry. What is not uniform is the style in which it is executed, notably "with reserve" or "absolute." The Uniform Commercial Code, the law regulating commercial transactions accepted by most states, indicates:

"An auction is with reserve unless the goods are in explicit terms put up without reserve...."

The terms "absolute" and "without reserve" are synonymous. The National Auctioneers Association defines the term "absolute" as:

"An auction where the property is sold to the highest qualified bidder with no limiting conditions or amount. The seller may not bid personally or through an agent. Also known as an auction without reserve."

Let the buyer beware that if an auction is not specifically advertised absolute and without reserve or minimum, it in fact is.

Compounding this problem, unscrupulous auction companies may start the bidding themselves, allow "shills" or "plants" in the crowd or permit owners to bid on their own equipment. Legitimate, unknowing and uncondoning auctioneers may fall victim to a dishonest seller's attempt to have his equipment bid on to enhance the selling price.

When an auction is not absolute, it is with reserve and goods are sold "subject to owner's confirmation." If a reserve or upset price is not met, he cannot say "sold," he must "pass." To have a shill in the crowd, for the auctioneer to run the bid or allow the owner to bid unbeknownst to the crowd is illegal, unethical and unfair. The wise auction attendee should understand and be aware of these possibilities.

Goods sold at auction are generally sold "as-is," "where-is" without any warranty express or implied. Auctioneers do not warrant fitness for a particular purpose but do and must warrant good title without liens or encumbrances. In certain instances, creditors are given the right to bid

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to the level that they are owed in a default situation. This is called credit bidding and is provided for by law. Debt and true value are two different things and should be considered when attending these auctions.

The auction method, when legitimately and professionally conducted, provides a pure forum to establish selling price through competitive bidding by bona fide purchasers of the goods. It is not, and should not be, a preconceived notion of the outcome. Every auction is different and unique. Varying results occur on any given day, in any given location for any multitude of causes and factors.

Auctioneers

Auctioneers and auction companies can be so diverse that it may be difficult to say they are in the same business. One may exude total profes-

sionalism complimented with unconditional integrity, product knowledge and great service. Another may be rude and dishonest and know nothing about the goods to be sold. However, this doesn't mean that the potential buyer cannot find a bargain at auctions conducted by either, although the sheer aggravation and disappointment may preclude the latter.

Many states require an auctioneer/auction company to be licensed. This license is backed with training, testing, bonding and continuing education. States with licensing requirements have an auctioneer board available with which to wage complaints. The intentions of an auctioneer may be indicated by the quality and truth of their advertising, affiliation with professional trade associations, a visit to their website and references from other auction attendees.

An auctioneer's ability to provide quality auctions is the most important part of their reputation. Some are better than others from a geographical and product type standpoint. Before the equipment buyer ventures to an auction, considerations should be given to the quality and level of the auctioneer. This information weighed with travel time, cost of doing business and true need of the available equipment needs to be considered before investing time and effort.

Remember, the quality of an auctioneer is not only measured in their ability to melodiously call bids. It's also measured in the quality of their understanding of strategy, logistics and their staff. The proper staff should provide parking, short registration lines, informative catalogs, sale site comfort needs, understandable order of sale, security, quick



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Products and Their Condition

Over the years, I have heard contractors proclaim, "I don't buy at auction because you don't know what you're buying." In today's rapid exchange of information, this statement is ridiculous. The identification of available equipment and the ability to assess condition has never been easier.

The potential buyer can be informed by being on an auctioneer's mailing list, surfing many industry websites, looking at trade journals and newspaper ads and developing relationships with auctioneers and equipment salesmen. These various media forms can be viewed from a geographical perspective based on the buyer's transportation desires.



The identification of fitness for utility and overall condition plays heavily in respect to value and buying trends. The Internet, through manufacturers, governmental and rental house

websites, can provide specifications, weights and dimensions. If unavailable through these means, contact a selling distributor or the auctioneer. Overall, the contractor or an employee



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can be as much as 15 percent that is added to the high bid price, which serves as compensation to the auctioneer. This is not the norm and auction attendees need to understand this fee when choosing the proper auctioneers with which to do business.

Terms and Techniques

All auction companies require payment before any item is removed. Most require complete payment on the sale day in cash, certified funds or check with letter of credit. Some may take credit cards and accept wire transfers, and some auctioneers may take personal or company checks up to a certain amount. Based on your interest at that auction, be prepared to comply. Bring your letter of credit to registration or have multiple certified checks in varying denominations. This will speed registration, settlement and removal. Costs can be contained by the purchasers' ability to efficiently utilize the auction process from initial interest to the utilization of the products in business.

The auctioneer's job is to achieve the highest selling price for the seller. The bidder's job is to buy at the most reasonable cost. The auction company should be

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there to assist both the novice and seasoned bidder. Communicate with the auction company—ask questions. Don't be afraid to ask the auctioneer who has the bid, to slow down or to stop. The bidder who unknowingly is declared the high bidder doesn't help anyone involved in the process. Upon registration and after receiving an auction day catalog, identify the items of interest by lot number. Do your inspection, verify the description, and write down next to the lot number the highest price you will pay. When the bidding starts, do not bid higher than the price you wrote down. Think in terms of odd increments such as \$5,250 not \$5,000 or \$101,000 not \$100,000. Be prepared for the strategy of choice, where similar items are offered for the highest bidder to take one or all. Identify the best of the group on down. Remember

the high bidder can take them all. Don't be afraid to offer the auctioneer a lower increment than he is calling. He is trying to keep them up. Select a comfortable level on items of slight and great interest, and give the auctioneer a starting bid. This keeps things rolling, and the auctioneer will remember you. Be professional, patient, courteous and understanding of the unique forum you are attending.

There are many topics related to auctions not covered in this article. Namely, selling at auction, Internet auctions, live-time Internet bidding and absentee and proxy bidding, which are all part of this dynamic industry. Understanding of the other areas will also aid in the buying process. A day or two away from day-to-day activities with the proper preparation can result in great savings

of capital expenditures and market education equating to a competitive edge. Take advantage of this popular, growing market. Money saved is money earned. Have some fun, and be prepared! ■

Michael J. Hunyady is founder, owner, and president of Hunyady Auction Company and Hunyady Appraisal Services, full service providers of auctions and appraisals to the machinery and equipment industries. Hunyady is a senior member of the American Society of Appraisers and a charter member and former president of the Equipment Appraisers Association of North America. He can be reached by phone at 215.361.9099, by e-mail at mhunyady@hunyady.com or visit www.hunyady.com.

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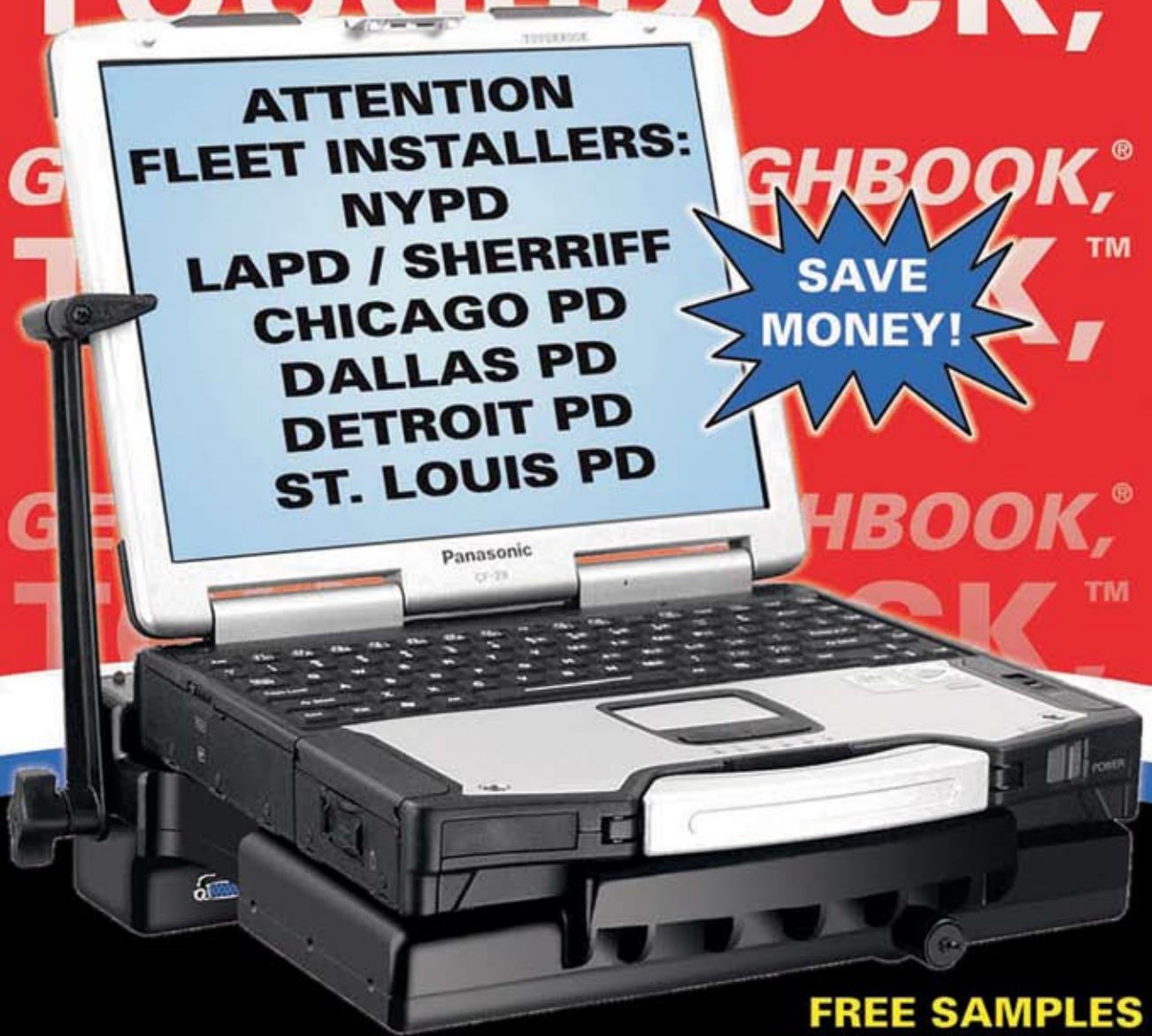
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