

Online Auction Business Model

By [Rory Crump](#)

Online auctions deliver a fast and efficient business model for both home-based entrepreneurs breaking into e-commerce and established companies carving out new markets. Whether you want fast cash for garage treasure, you're sharpening a business plan for financial freedom, or you plan on taking a big-business product portfolio to a new audience, online auctions represent a global marketplace for selling just about anything.

How the Online Auction Industry Works

Sellers set up accounts, profiles and virtual stores based on the chosen auction site's parameters, uploading product descriptions and digital photographs to entice buyers. Buyers search and bid on available items within a prescribed timeline and opening bid price.

Industry Growth

These modern garage sales have exploded in growth and acceptance, driven by bargain hunters, competitive bidders and wholesale buyers. With low barriers to market entry, the [online auction business](#) has created a new breed of stay-at-home entrepreneurs. Shipping and payment methods are often negotiated between buyers and sellers.

Auction Evolution

Online auction sites have evolved and matured, creating tough competition and a few fraudulent traps. [eBay](#) still dominates the industry, but niche sites like [WineBid](#) have helped sellers target more discriminating buyers.

Opportunity Knocks

Knowing the rules, products and competition before launching your e-commerce dream will help smooth the pathway to success. Online auction popularity and ubiquity make it possible to move both your minivan and mood ring in the same virtual storefront - maybe at the same time.

Pros and Cons

Like any business, online auctions have both pluses and pitfalls. Knowing the industry landscape and key drivers before you launch an eBay-type business is just good due diligence.

Pros

1. Since online auctions are virtual transactions, traditional start-up costs like lease space, employees and insurance plans are not required for initial and ongoing success.
2. Online auction sites provide an internal, streamlined marketing channel with thousands of customers at your fingertips so you do not need a direct marketing strategy or a company website.
3. [PayPal](#) is the industry standard for payment software, therefore billing and collections are considered secure. Although deadbeats and frauds do exist, credible auction sites recognize and punish guilty parties.
4. From household items to vehicles, winners rely on proven auction-site tactics and positioning more than manufacturing the perfect product giving you endless market opportunities.
5. Unless you're selling seasonal products, the auction business is dynamic, ubiquitous, and never sleeps. Many merchants consider online auctions an enjoyable way to generate supplemental income.
6. Without the need for a sales force and extensive planning, marketers can determine product appeal and acceptance at a minimal investment.
7. [eBay](#), and other established sites, are constantly tweaking their services to meet customer demand. The auction-site industry has matured, become profitable, and only the strong have survived.
8. The global aspect of online auctions compress time and money for both buyers and sellers. Your products can go as far as you're willing to ship them.

Cons

1. Auction sites are no secret and because the barriers to entry are low, anyone can play. This makes the competition fierce.
2. Sellers complain about constant changes - including transaction fees - to the process and platform. With ratings and social media thrown in, some sellers consider the upgrades a nuisance.

3. Although security and integrity are paramount to a site's success, there do exist fraudulent sites and scams. The FBI has intervened in some cases.
4. Experienced sellers and established companies both benefit from economies of scale: more marketing expertise, familiar branding and proven success, which means that an online auction is no longer a safe haven for the little guy.
5. Buyers submitting last-second bids (also called snipers) are, to the casual buyer, taking the fun out of the game. After all, the bidding can be both a game and a rush.

Three Quick Keys to Success

Marsha Collier, a renowned eBay expert and author of [eBay for Dummies](#), offers these simple hints to success:

- . Write a strong product description and edit as needed.
- . Boost the aesthetic appeal of any product with professional-grade photos.
- . Use PayPal, when possible, to ensure both the buyer and seller are protected.

The online-auction model has inspired a revolution of entrepreneurs, many spinning their successes into full-time careers. The best sellers treat their online endeavors like a real business, always fine-tuning sales, marketing and customer service.