

The C.A.L.M. method of mass product distribution: An update & comparative analysis

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ABSTRACT

This paper updates the evaluation of the C.A.L.M. Method: The Consignment Auction Liquidation Marketing Method of Mass Product Distribution as well as provides a limited comparison of eBay as a form of auction product distribution. Originally developed and initiated in 1993 in response to the common need business organizations have for product liquidation outlets, the C.A.L.M method targets audiences contemplating the distribution of products, including manufacturers, wholesalers, retailers, and other entrepreneurs. General merchandise is distributed via consignment auction outlets located throughout the United States. Building on a previously published ten-year time span evaluation on the effectiveness of the C.A.L.M. method, cumulative data collected over each of the subsequent five years is presented. In addition, the effectiveness of eBay as a method of auction product distribution and combined with primary data, provides comparative insight to the C.A.L.M. method of distribution. Both the C.A.L.M. method and eBay yield the opportunity for profitable liquidation of mass quantities of merchandise on a national basis. These evaluations yield the opportunity for insight regarding each method's actual effectiveness and add to the limited amount of research found in this area of mass distribution.

Keywords: Consignment Auction Liquidation Marketing; C.A.L.M. Method; Mass Product Distribution; eBay; Auction; distribution channels

INTRODUCTION

Historically, the origin of trade has been the focus of economists and anthropologists. The term “trading” is often used when referring to the marketing of products. Trading is “an act of affecting an exchange of goods or services between a seller and a buyer.” It is, then, considered to be both a purchase and a sale. The exact origin of trade is uncertain, but one suggested essential prerequisite to trading is the development of the “ability to value things in terms of other things” (Walters & Robin, 1978).

The desire to acquire things is a common characteristic of human culture. Providing a wide assortment of goods such as clothing, adornments, food, weapons, tools, and so forth addresses this human need. The desire for obtaining individual possessions provides the motivation for consumers to engage in various related activities. In primitive cultures, goods were largely produced within the household and exchanges of those goods were limited to minimal surpluses produced. The significant technological developments, which began in the late 1800, have provided the opportunity for maximizing surplus production. Steam power, railroad systems, and other aspects of “Scientific Management” applied practical management practices to the production of goods that resulted in increased factory output (Alderson, 1954). This creation of surplus products results in the need for exchanges through intermediaries or “middlemen”. This increased output then had to be distributed and sold (Converse, 1951).

The increased production of goods is responsible for the expansion of the field of “marketing” including the development of the “marketing mix”. The four primary elements making up the marketing mix include product, price, promotion and place/distribution (Kotler, 1996). This paper addresses the place/distribution element of the marketing mix.

The place/distribution element of the marketing mix relates to “channels of distribution” which can be described as the series of individuals or firms that facilitate the movement of a product from the producer to the final consumer (Solomon and Stuart, 2003). A common channel of distribution may begin with a manufacturer, who sells to a wholesaler, who sells to a retailer, who then finally sells to the final consumer. By utilizing multiple channels of distribution, often referred to as “hybrid marketing systems”, firms have the opportunity to distribute more products/services to diverse target markets. According to Lamb, Hair and McDaniel (2003), nontraditional channels of distribution can provide significant additional avenues for distribution and sales of products. Nontraditional channels include “off-price” retailers, warehouse clubs, factory outlets, etc.

An additional nontraditional channel of distribution presented here is referred to as the “C.A.L.M. Method” (Consignment Auction Liquidation Marketing Method). This method uses auction liquidation as its means of distribution and sale of goods. Consignment auction outlets exist in almost every community throughout the United States. Consignment auction outlets accept merchandise from consignors, sell that merchandise to the highest bidder, and withhold a consignment fee. These outlets are often referred to as an “auction house”, “auction gallery”, or “auction barn”. Merchandise can be consigned through a nearly unlimited number of consignment auction outlets by utilizing one of many optional ground delivery services.

In addition, over the years, the internet-based consignment auctions, such as eBay, have enjoyed rapid periods of growth in popularity. Having become a dominant global billion-dollar retailer with an image of a bargain-hunters paradise, eBay began having serious competition from copycat competitors and more attractive retailers. In 2008, in hopes of reframing eBay as a modern retailer, a new campaign was launched focusing on the website's "Brand New" segment, one that competes directly with Amazon and Play.com in an effort to reinvigorate eBay and recapture a larger share of the market (Fernandez, 2008).

Playing to its strengths, eBay has launched a new apparel program in more direct competition with retailers like Target Corp, J.C. Penny Company and Macy's Inc. and Web sites like Gilt Groupe and Ideeli (Moin, 2010). Lorrie Norrington, president of eBay Marketplaces reported that on eBay, while 56 percent is fixed price selling and 44 percent is auction selling, for apparel, the company expects that rate to eventually reach 80 percent fixed and 20 percent auction (Moin, 2010.) Consumers are making their preferences clear when eBay's auction business slid 6% in the first quarter of 2008 contrasting with a 22 percent increase in their fixed-price segment (Holahan, 2008).

Predictably, Internet auction companies act as auctioneers for items listed on their Websites and because it is impossible for bidders to inspect the goods before bidding, consumers must make their purchasing decisions under more severe uncertainty than retail stores (Cheema, et.al, 2005; Dewally and Ederington, 2006). Despite their soaring popularity, Internet auctions remain far from mainstream e-commerce outlets (Li, Srinivasan, & Sun, 2009).

FORMATIVE EVALUATION OF THE C.A.L.M. METHOD

The formative evaluation of the C.A.L.M. method in this paper is based largely on the profitability of various merchandise categories. This evaluation covers a time span of fifteen years. From January 1, 1994 to December 31, 2009, there were 153,461 pieces of merchandise consigned to over 600 consignment auction liquidation outlets in the United States. The procurement cost of this consigned merchandise totaled \$132,102. After the sale of merchandise by these outlets, the total proceeds or revenue received by the consignor equaled \$245,469 for a gross profit margin of 86%. Tables 1 & 2 (Appendix) depict the performance of merchandise consigned grouped into ten categories. These categories are listed in the order of most to least profitable.

Table 1 (Appendix) depicts the performance of merchandise consigned based on a more recent time period, the last five years. From January 1, 2004 to December 31, 2009, there were 36,285 pieces of merchandise consigned to over 100 consignment auction liquidation outlets in the United States. The procurement cost of this consigned merchandise totaled \$23,021. After the sale of merchandise by these outlets, the total proceeds or revenue received by the consignor equaled \$49,597 for a gross profit margin of 115% as depicted in Table 2 (Appendix).

Tables 1 & 2 (Appendix) demonstrate a significant increase in the gross profit margin when comparing more recent fiscal periods to earlier ones. The gross profit margin for the period covering January 1, 1994 to December 31, 2003 was 79%, while the gross profit margin for the period covering January 1, 2004 to December 31, 2009 was 115%. This demonstrates an increase in the gross profit margin of 46% over the last

five years. The gross profit margin sustained in the top four categories of “Cutlery”, “Canes/Walking Sticks”, “Tools” and “Jewelry” indicates significance. Fluctuations regarding the performance of the other categories may be explained by two market variables: extraordinary opportunistic purchases and the increased market presence of competing retailers, including discount and off-price retailers. For the “apparel” category, for example, extraordinary procurement opportunities leveraged to create larger gross profit margins have become less common. In addition, the “Cutlery” and “Canes/Walking Sticks” categories have less competition with discount and off-price retailers, which do not commonly carry these specific types of merchandise. Regardless, the overall increase in the gross profit margin indicates both significance and further potential. An alternative consignment auction liquidation marketing opportunity relates to online sites including eBay.

EBAY COMPARISON

eBay is described as an “online provider of marketplaces for the sale of goods and services”. The company operates internationally but is headquartered in San Jose, California. eBay employs approximately 16,400 people and reported revenues of over \$8 million in 2009. Although eBay has provided similar opportunities for the auctioning of consigned goods, a direct comparative analysis and actual utilization is challenged by a number of points of differentiation when compared with traditional consignment auctions including its legal definition/status; operational concerns: an increased risk of internet fraud and a transition from auction price sales to a fixed price format (Data Monitor, 2010).

The Uniform Commercial Code defines an auction as “a public sale of property to the highest bidder” (Willner, 1966). Riefa (2008) points out that the factor which differentiates traditional consignment auctions and online eBay auctions is the lack of a relationship of agency in the auction process between the online site and the seller. Therefore, eBay may be more accurately perceived as an intermediary but not as a traditional consignment auction channel.

Operational concerns arise when comparing the traditional consignment auction liquidation marketing format with the eBay format including fees and increased competition/duplicate items. Auctioneers or electronic auction site providers such as eBay subtract or withhold a percentage of the highest bid referred to as a consignment fee. Although the average consignment fee for traditional consignment auction has increased approximately 17% from 2004 to 2009, the fee for sales on eBay has increased approximately 80%. In addition, on eBay the presence of multiple listings of same or similar products results in significantly lower bid levels received as well as a significantly higher rate of unsold items. Recent limited field experiences, for example, have resulted in finalized sales for only approximately 40% of items listed for sale on eBay. Terapeak (2010) provides similar eBay market research data presented in Table 3 (Appendix). Based on the same merchandise categories used in evaluating the traditional C.A.L.M. method, the number of items consigned, the average bids received per item and the sell-through rate, are presented. The sell-through rate refers to the percentage of consigned merchandise that actually sold. The time span includes the week of October 28 through November 5, 2010. The categories are listed in order of most to least sell-through rate.

Table 3 demonstrates the significantly high rate of unsold items consigned on eBay. In fact, for the majority of merchandise categories, an average of less than one bid per item was received. In comparison, less than 1% of merchandise sold through the traditional C.A.L.M method remained unsold after consigned. This low rate results from a number of factors present within the traditional C.A.L.M environment including the no-minimum/no reserve pricing format, the short-term nature of the sales process and the ability of the auctioneer to combine goods from a consignee if not sold.

eBay currently faces significant challenges due to various forms of internet fraud. Sales of counterfeit products sold through eBay continue to rise. The difficulty of tracing the identity of the sellers of goods within the online environment has significantly increased the presence of counterfeit products sold through eBay. Other forms of fraud related to eBay transactions include credit card fraud and non-delivery of goods. Gregg and Scott (2008) identified six types of fraud related to the online auction format. Non-delivery of goods refers to the practice of a seller placing an item up for bid with no intention of delivering it. Misrepresentation refers to the seller deceiving the buyer related to the true value of an item. Black-market goods refer to any illegal goods sold on online auction sites. Fee stacking refers to the seller adding hidden charges to an item after being sold. Triangulation refers to the use of stolen credit cards used to purchase from an online merchant then the item is resold at auction. Shill bidding refers to intentional fake bids placed by sellers to drive up the price of merchandise offered. The reported extent of fraudulent transactions on eBay varies. According to eBay, less than 0.01% of its auctions are fraudulent. Various researchers, such as Gregg and Scott (2008), report that the rate of fraud accusations made by eBay customers was 20 times higher than the rate reported through eBay officials. According to the FBI, the actual rate of fraud was 100 times higher than the rate reported through eBay officials (Bauerly, 2009). In addition, Gavish and Tucci (2006) provided evidence that the actual fraud levels are twice the FBI estimate. According to the Federal Trade Commission (FTC), online fraud accounts for the majority of FTC cases and 45% of all complaints are related to internet auction fraud. The average loss reported was \$602.50 per auction complaint.

eBay currently offers more merchandise based on the fixed-price listing format, rather than the bid-based pricing experienced within the traditional consignment auction format. In 2009, the fixed-price listing format accounted for approximately 53% of eBay's gross merchandise volume (Data Monitor, 2010). Recent research has identified trends showing a continued decrease in the bid-based auction format due to the convenience of fixed-price selling. As a result eBay may be more effectively compared to more traditional selling formats in the future. Hasker and Sickles (2010) point out, however, that the attractive properties of the traditional C.A.L.M. (consignment auction liquidation marketing) method may be overlooked.

CONCLUDING REMARKS

In summary, based on data from both a 15-year time span and a most-recent 5-year basis, the traditional C.A.L.M. method continues to demonstrate significant opportunities as an effective and profitable method for the mass distribution of products on a national basis. Specific findings indicate that certain merchandise categories, including cutlery, canes/walking sticks, tools and jewelry provide for significantly higher

gross profit margins than do such categories as apparel, specialty items, miscellaneous/hardware/novelty items, kitchen items, sports items or toys. Although this field experience continues to produce evidence indicating an effective method for the distribution of goods, it will now be essential to continue to provide further field testing of this nontraditional method of distribution.

The comparison of the traditional C.A.L.M method with the online auction format and the attractiveness of such a format is challenging because of its evolving status and related emerging concerns. Although eBay obviously provides opportunities for profitable liquidation of mass quantities of merchandise on a national and global basis, its role in providing a consignment auction format is currently challenged by concerns regarding its actual legal status, the significant frequency of fraudulent transactions, the increased emphasis on the fixed pricing of merchandise sold and the large quantity of consigned items remaining unsold.

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APPENDIX

Item Consigned	Total Number of Pieces	Total Procurement Cost	Total Revenue	Gross Profit Margin
Canes/Walking Sticks	4783	\$ 4,150	\$12,696	206%
Apparel	16,601	10,335	28,286	174%
Tools	3,839	2,969	7,713	160%
Jewelry	20,740	11,387	26,167	130%
Cutlery	35,062	51,926	90,171	74%
Toys	17990	11,127	19,280	73%
Kitchen Items	9,634	4,438	7,668	72%
Miscellaneous/Hardware/Novelty	30,694	16,820	28,262	68%
Specialty Items	6,370	10,045	13,442	34%
Sports Items	7,748	8,906	11,794	32%

Item Consigned	Total Number of Pieces	Total Procurement Cost	Total Revenue	Gross Profit Margin
Cutlery	5,717	\$7,121	\$20,680	190%
Canes/Walking Sticks	955	482	2,089	190%
Tools	355	421	1,105	162%
Jewelry	7,866	5,034	12,523	149%
Toys	6,337	1,394	2,828	103%
Sports Items	463	225	414	84%

Kitchen Items	3,576	872	1,489	71%
Miscellaneous/Hardware/Novelty	9,507	2,102	3,219	53%
Specialty Items	2,694	2,344	3,038	30%
Apparel	1,515	2,788	2,212	(21%)

Item Consigned	Number of Items	Average Number of Bids Per Item	Sell-through Rate
Miscellaneous	4,611	2.03	46%
Toys	24,924	1.18	39%
Apparel	8,702	.72	33%
Cutlery	4,459	1.12	33%
Cans/Walking Sticks	1,602	.85	31%
Tools	33,703	.96	29%
Kitchen Items	44,825	.67	23%
Specialty Items	21,299	.99	23%
Sports Items	80,495	.66	21%

