

## Reserve price is vital in forward auctions (FA)



**Mukesh Sharma**  
Expert Faculty  
Global Institute for E-Commerce  
[www.instituteforecommerce.com](http://www.instituteforecommerce.com)

*"Forecasting is the art of being less wrong."* - [Jill Hays, supply chain professional](#)

The success of the forward auction (FA) for sale depends on how realistically the reserve price of items or services has been fixed prior of conducting the FA.

- If the reserve price (RP) has been fixed on higher side, which is normally a tendency of any client, then it is difficult to sale item in first attempt of e-auction.
- It is also possible that high start bid price kept in FA due to high reserve price as start bid is fixed majorly based on reserve price. Reserve price and start bid price have direct relationship in e-auctions. If it is so, then this high start bid price will bring a situations that bidders will not bid at all. This amounts that e-auction has failed in first attempt itself which is not good outcome of holding a FA.
- In case of failure of FA, the repetition of FA with same scope frustrates the bidders and they lose interest in participating again. Bidders also start doubting in the credibility of e-auctions in such situations as explained earlier.
- In view of failure of the FA, it is absolutely necessary that the right reserve price should be fixed for the items to be e-auctioned based on which appropriate start bid should be fixed. This methodology, if followed, will prompt the bidders to bid and FA will be successful.
- This is also the fact that above explained situation of fixing unrealistic reserve price normally happens in the cases where sale of items is not on regular basis or frequent, therefore, the reserve price fixation committee does not know true market condition and market price of items to be sold. As a result, therefore, price fixation committee fixes the unrealistic and higher reserve price. Keeping this situation in view, it is recommended that reserve price fixation should be done based on market condition and should be revised as and when market condition changes.

- Considering the experience of having conducted FAs, it is suggested that reserve price fixation should be done scientifically by a committee comprising of specialist of technical, costing and marketing. This committee of specialist should do lot of market research to assess the realistic price of goods. It is also, always possible to determine realistic price by such specialists considering the various factors like usability, condition of item, weight, prevailing price rate of materials etc.
- Problem of unrealistic reserve fixation, should not be encountered in regularly sold items for which, dynamic market conditions are generally known to the persons who are fixing reserve price.
- The change/revision of reserve price to lower side after failure of conducted FA, is really the way forward to sale the items finally. However, it is some time a very sensitive and important issue particularly in government organizations and PSUs as such change of reserve price to lower side need a very logical and evidenced justification with facts and figures as a record.
- In real practice, sale decision are taken on lower than of reserve price due to various reasons including changes in market prices based on supply demand position in the market. This situation as described here, should be considered by PSUs and government sectors also to have an appropriate sale decision and not holding the inventory unnecessarily for long time which also result carrying cost and other costs.
- Keeping situations as per above, FAs of PSUs and Govt. departments also should have a provision in their sale policy that if bids do not come in properly conducted FA in first and even in second attempt, then reserve price to be changed to lower.

**Conclusively:** *It can be inferred that fixing of unrealistic reserve price or not reviewing the reserve price at the time of FA according to the prevailing market condition or not allowing the sale at a price lower than reserve price, may hamper sale of goods and services through FA. Under this kind of scenario, sometimes, the process of e-auctions is blamed by some people which is neither correct nor logical. Bids are not coming in FA because the start bid is unrealistic and higher. This start bid might have been fixed on higher side possibly due to higher reserve price which needs to be reviewed.*

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