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BUYER'S PREMIUM OR SELLER'S PENALTY ?

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National Auctioneers Association

One topic is buyer's premiums and their effect on buyer's and sellers. Buyer's premiums are widely misunderstood, however, when used properly, are excellent marketing tools. **Some auctioneers proudly include in their advertising words like "No Buyer's Penalty" as a means to let people know there will not be a buyer's premium.** At the same time, it is important to recognize use of buyer's premiums can have an effect on the final results of an auction. In fact, premiums can become a penalty to the sellers.

There are many stories which explain how the original concept of buyer's premiums entered the auction arena. The original concept may have been started by one of the large New York-based auction houses as a means was sought to increase their bottom line profit.

Some say the concept originated with a seller who was unwilling to pay the commission suggested by the auction house. Others suggest the concept developed as means to recover increasing auction event expenses including promotion. However the concept originated, buyer's premiums are so common as to become almost universally accepted. Some claim there are places in the United States where the concept of a buyer's premium is not common and would be unacceptable.

Having gone into some of these areas to conduct auctions, even though bidders came protesting being charged buyer's premiums, they participated in the event. Many people attending auctions do not understand the concept of paying a buyer's premium until it is time to check out.

Most auctioneers make a point of explaining the auction process before the auction starts, including the fact a buyer's premium is to be added to all top bid prices. **When higher-priced items are offered and sold at auction, the addition of a buyer's premium can become a penalty to the seller since bidders usually factor the amount of the premium into their bid.**

Some try to explain it as similar to the collection of sales tax: however most people have difficulty accepting this principle. **For example, if the buyer's premium being charged is 10% and Ontario sales tax 8% and federal tax at 5%, the TOTAL AMOUNT BECOMES 23%. On a purchase of \$10,000.00, the final price is \$12,300.00 of which bidders take notice.**

Suggesting that bidders just get caught up in "auction fever" and forget about the buyer's premium assumes those attending the auction are simple minded. Based upon past experiences most bidders come to auctions with a complete understanding of the process and know how they should be treated.