

The Dutch Auction

Tulips blossom and create the Dutch Auctions...

Dutch auctions have their roots-as their name indicates-in Netherlands, also known as country of the tulip.

Note that almost the half of all flowers and plants traded everyday in global level, originate from Netherlands.

The story of Dutch auctions commences at the end of 19th century. Farmers used to collect tulips at a central market, while experienced sellers used to undertake to sell them to merchants from all over the world.

The sellers used to set the starting price, the auction pace and the period that should each time pass in order for the price to be decreased. **The rule was simple: anytime, any merchant could buy any quantity of auctioned tulips, at the price active that moment.** Should the merchants not buy, the price was decreased.

In the meanwhile, as the time was passing, tulips were withered. On the other side, if someone bought, the rest merchants could remain without tulips. So, everybody was looking for the right price at the right time.

This simple rule is the Dutch Auction itself: each bid is the winner's bid, provided that there are still tulips (goods). When flowers are out of stock, the auctions ends.

Consequently, as the participants never know if someone else shall bid and when, they are pressed and this has as a result to give prices resembling the market reality and soon enough.

For this reason, Dutch auctions became really popular. So, they were not limited to tulips and Netherlands. On the contrary, they are used daily all over the world and for various reasons, as for exchange in Bolivia and Jamaica and fish sales in England and Israel.

The Dutch auction characteristics are the following:

- It is used for very large quantities of the same product, that will probably will be distributed/purchased partially and in different prices.
- The auctioneer sets the starting price, the readjustment price and the time limit for the change in price.
- The price remains stable during each time limit and is automatically changed per readjustment price, every time the specific time limit is completed.
- The Participants have the right to submit offers for all or part of the quantity being auctioned. The first one to submit an offer wins

the quantity for which he submitted offer, at the price active at that period. This quantity is awarded immediately to the Participant and is no longer available.

- The Participants may anytime watch the rest quantity and price for the specific time limit.

The auction ends at the expiration time, or when the available quantity is over (depending on which factor comes first). There is no extension.

Dutch auctions may be used in low and high bidding competitions. For instance, a packaged food production factory may supply the raw material it uses, from associations or other sources, by conducting an Online Dutch Auction.

Respectively, an agricultural association that has large quantities of the produced products, which it promotes to national and foreign market, may promote them by conducting a high bidding auction, starting from a price which is continuously decreased, until it distributes the whole quantity.