

# Penny auction sites could cost a chunk of change

June 24 2011, By CANDICE CHOI , AP Personal Finance Writer

---



This screen shot shows the QuiBids.com website, an online penny auction site. QuiBids.com, notes that it has an option that gives users a chance to recoup their losses. (AP Photo/QuiBids.com)

(AP) -- An iPad for \$88.07? An Xbox for \$15.33? Sold!

The television commercials for online penny auctions may have viewers fantasizing about scoring the latest tech gadgets at eye-popping discounts. But they could be in store for a big letdown.

The issue is that penny auctions aren't as straightforward as the name might sound. Unlike traditional auctions, participants have to pay to bid on an item. Every bid they place also adds more time to the auction clock. Those twists inject a gaming element into the shopping experience

that some say confuses participants about how much they're really spending.

"It's not a typical auction where consumers can bid and pay only if they win," notes Becky Maier, a spokeswoman for the Better Business Bureau of Western Pennsylvania. "They're paying to play."

One [class-action lawsuit](#) against a major penny [auction site](#) alleges the auctions are akin to a casino or lottery because the overwhelming majority of customers end up losing money.

The industry was virtually nonexistent just two years ago, but has grown to about 135 sites today, according to the research firm Technology Briefing Centers Inc.

The Better Business Bureau says penny auctions first came on its radar in 2009. The group issued consumer alerts on the sites shortly afterward as a result of an unusually high volume of complaints.

Before signing up for one of these sites, here's what consumers need to know:

### How They Work

To start bidding on an item, penny auction sites require users to buy a package of bids. Each bid typically costs 25 cents to \$1, so a pack of 100 bids may cost \$25 to \$100.

The setup could make it seem like participants are only bidding a penny at a time, even though the bids actually cost much more. Every bid also puts another 10 seconds or so on the auction clock, meaning there's a risk of getting caught up in the thrill of a bidding showdown.

To break down the economics of a sale, consider a [flat-screen TV](#) that ends with a winning bid of \$100. If the final bidder placed 20 bids during the auction, the total cost would be \$120 - \$20 for the bids (assuming each bid costs \$1) plus \$100 for the TV.

Even after tacking on a shipping fee, that's a steal and the winning bidder comes out looking like a shopping genius. But everyone else who took part in the auction is left lighter in the wallet with nothing to show for it.

"It's only enjoyable if you win," says Zachary Schwartz, a 24-year-old from Markle, Ind.

Schwartz decided to give Beezid.com a try about a year ago. He started bidding on an iPad but quit after the price reached \$100. He used up about \$80 in bids over the next few days without winning anything. He hasn't gone on the site since.

Schwartz placed a complaint with the Better Business Bureau and ultimately received a refund from Beezid.com.

Another site, QuiBids.com, notes that it tries to soften the blow for disappointed bidders. The site has a "buy now" feature that lets users buy an item for its retail price. The amount they spent bidding is credited toward the purchase.

So how can the sites afford to give such steep discounts? Consider an item that sells for \$100. Bidding starts at \$0, so users would need to have placed 10,000 bids to drive up the price by a penny at a time. If a bid costs \$1, the site would have raked in \$10,000 on the sale. That's not including the \$100 the winner has to pay for the item.

Problems To Watch

The nature of the complaints received by the Better Business Bureau spotlights the potential pitfalls. Most commonly, consumers said they were automatically charged for free trials or that they couldn't reach customer support. In other cases, consumers alleged that the sites used automated programs to drive up bid prices. So before signing up for an account, check with the BBB and research what users are saying about their experiences online.

It's also a good idea to carefully read a site's terms and conditions and understand the return policy. Also pay attention to whether there are any upfront fees.

Seb Clements, a 25-year-old who lives in Fort Worth, Texas, says he signed up for SwipeBids.com last year to do some Christmas shopping. The site requested his credit card information as part of the sign-up process. As soon as he hit the submit button, he received an email saying he'd been charged a \$175 membership fee. The fee included 100 bids.

He immediately tried to dispute the charge but there wasn't a phone number on the website. During an online chat with a customer service representative, he was told the money was not refundable.

"My wife and I ended up counting it as a life lesson," Clements says. The Federal Trade Commission last month took action against the operators of the site, alleging they swindled customers of \$467 million through multiple online scams.

## Tips on Playing

Despite the many concerns, the BBB notes that there are legitimate penny auction sites. Consumers who feel confident about giving it a try should keep a couple strategies in mind.

It's important to be calculated about placing bids because each carries a price tag. So before jumping into an auction, observe the site for a few days. Check out the final sale prices and how long bidding typically lasts for different types of items.

Auctions typically start with 24 hours on the clock. Generally the bidding won't begin in earnest until around the final 15 seconds, so it's a waste to place bids any sooner. Because each bid puts more time on the clock, the "final" 15 seconds will likely stretch on for some time.

It's also good to get your feet wet with a small item. The competition won't be as intense for a \$15 gift card, for example, as for a flat-screen TV.

©2011 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Penny auction sites could cost a chunk of change (2011, June 24) retrieved 26 April 2024 from <https://phys.org/news/2011-06-penny-auction-sites-chunk.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.