

FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Division of Consumer & Business Education

Online Penny Auctions: Nothing for Something?

Who doesn't love to get a good deal? Some people shop sales circulars, others clip coupons. Still others find online penny auctions to be a fun way to try to get big ticket items like electronics, jewelry, gift cards, appliances, and sports equipment at reduced prices. But in many ways, penny auctions are more like lotteries than traditional online auction sites. In a penny auction, you have to pay to bid.

The Federal Trade Commission (FTC), the nation's consumer protection agency, wants you to know how online penny auctions work and how to recognize some of their pitfalls before you get caught in a bidding frenzy. Penny auctions move fast. Before you know it, you could spend far more than you intended, with no guarantee that you'll get anything in return.

How does a penny auction work?

In a penny auction, items are posted by the site owner and you pay to bid for them. Unlike a traditional auction, where only the winning bidder pays anything, penny auctions require you to pay before – and as – you play, win or lose.

For openers, you may have to pay a fee just to register for the site. Sometimes, the fee is substantial. Then, you have to buy a “bid package.” For example, you may “buy” 100 bids for \$50. Additional bids cost more money, often between 50 cents and a dollar per bid.

The price of auction items usually starts at zero, and each bid bumps the price of the item up a penny. Each bid also adds time – from 10 seconds to 2 minutes – to a countdown clock. The goal is to be the high bidder when the clock runs out. But because the clock resets with each bid, the auction process can be unpredictable and take time to complete.

Bogus Bidders: Bots and Shills

Some unscrupulous auction sites use bid bots, which are computer programs that automatically bid on behalf of the website. And some fraudulent sites achieve the same effect using human shills. You may be seconds away from winning an auction when another user places a bid. That keeps the clock ticking, and forces you into a bidding war to stay in first place. Though the bidder appears to be another user, it may be a shill, or a bot programmed by the website to extend the auction and keep people bidding (and spending money) as they chase the “win.”

What does “winning” mean?

Winning the auction doesn't mean you've won the auction item: It means you've won the right to buy the item at the final price. For example, say you win an auction for a laptop that has a \$500 retail price tag. You placed 200 bids that cost \$1 each. The final price on the laptop is \$50. The laptop will actually cost you \$250, plus shipping and handling, and possibly a transaction fee.

If you lose an auction, chances are you've lost your money. If you placed 199 bids on the laptop, for example, you'd be out \$199. Some penny auction sites have a “Buy-It-Now” feature that lets players buy the item and apply the amount of the bids placed as a discount on the retail price of the product.

So if you applied your \$199 in bids to the \$500 retail price of the laptop, you wouldn't lose your investment in the bids you purchased, but you wouldn't save any money off the retail price, either.

Penny Auction Pitfalls

Penny auctions may offer deals, but they also can present problems. For example:

- **Time lags.** How soon do you need to receive the item you're bidding on? Can you tolerate it being delivered late, or not being delivered at all? Many complaints about penny auctions involve late shipments, no shipments, or shipments of products that aren't the same quality as advertised.
- **Misleading terms.** Terms like "bonus bids" might suggest that bids are free. In a penny auction, you pay for every bid.
- **Hidden costs.** Read each penny auction site's Terms of Use before you sign in or register. Sites may charge fees (for membership, ongoing subscriptions, or shipping), follow different rules, or have a variety of refund policies or other terms and conditions. The terms and conditions may not be well-disclosed elsewhere on the website.
- **Insecure payment options.** Consider how you'll pay. Do you have any recourse if something goes wrong? Don't send cash or use a money wiring service. Instead, consider using a credit card. That way, if something goes awry, like you don't get your merchandise or it's not what you expected, you can dispute the charge with your credit card issuer.
- **Phishing trips.** If you get a message that looks like it comes from an auction website or payment service and it asks for your password or financial information, hit delete. They're "phishing" for your information so they could use it to commit fraud.
- **Reputation rules.** Avoid doing business with sellers you can't identify. Check out any penny auction site by entering its name in a search engine online. Read about other people's experiences.
- **Hello? Anyone there?** Look for a phone number and call it to confirm that you can contact the seller in case you have questions or problems.

You're about to spend some money. Know exactly what you're bidding on. Print a copy of the seller's description of the product and read it closely, especially the fine print. Save copies of all emails you send and receive from the auction site, too.

Report Problems with Online Auctions

If you have problems during an online auction transaction, try to work them out directly with the website operator. If that doesn't work, file a complaint with the Federal Trade Commission at ftc.gov/complaint and your state Attorney General, using contact information at naag.org.

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. Watch a video, *How to File a Complaint*, at ftc.gov/video to learn more. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

