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<http://www.consumerreports.org/cro/2011/12/with-penny-auctions-you-can-spend-a-bundle-but-still-leave-empty-handed/index.htm>

# With penny auctions, you can spend a bundle but still leave empty-handed

**Their 24/7/365 auctions and seeming low prices are enticing, but don't bid without understanding how the deals work**

Last updated: June 2014

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Interactive

### Inside a penny auction

Click on the red dots in our interactive to see how a typical auction works. (Requires Flash.)

**June 30, 2014 update:** Read "[Bidding On Penny Auction Sites Is Risky](#)" to learn about state settlements with [ArrowOutlet](#), a company featured in this report but which has since gone out of business.

Penny-auction websites are buzzing with all kinds of deals on electronics, appliances, gift cards, and many other items. Encouraged by TV and Web ads promising as much as 95 percent off retail, millions of people are signing up for a piece of the auction action, looking to emulate such lucky bidders as those who landed a \$1,836.45 high-definition television for \$72.93 and a \$15 store gift card for 28 cents.

But actually winning an auction for big-ticket items for pennies on the dollar on such sites as [BidCactus](#), [BidRivals](#), [HappyBidDay](#), and [QuiBids](#) can take an extraordinary amount of effort and is hardly a given. And for all those contented people who click their way to an amazing deal, countless others end up spending a lot of cash only to end up empty-handed. (Take a tour through a penny auction in our interactive, right. If your device lacks Flash, check out a version of the interactive at the end of this article.)

The penny-auction world feels a bit like the Wild West. Dozens of sites running penny auctions already have shut down. Check online message boards and you'll find plenty of complaints and negative reviews from penny-auction customers who allege wrongdoing or simply express frustration over having spent a lot of money for nothing. In August, the [Federal Trade Commission issued an alert about penny auctions](#), saying, "Before you know it, you could spend far more than you intended, with no guarantee that you'll get anything in return."

## How penny auctions work

The penny-auction sites we visited work and look pretty much the same, although the rules, costs, and features differ. Some sites run hundreds or even thousands of auctions simultaneously around the clock, with items of different value, from \$10 gift cards to Target, Walmart, and other national retailers to expensive electronics and appliances. Some sites, such as [Label Doll](#), [MusiBids](#), and [Outdoor Sportsman Auctions](#), focus on particular products, such as fashion, music-related products, and outdoor sports gear. All products are offered for sale by the sites, not by third parties, as on eBay, for example.

Like traditional auctions, you bid on items, with each bid increasing the price. To bid, you simply click a bid button on a web-based interface. Auctions are timed, so when the clock runs out, the last and highest bidder wins the item at the final price.

Often that price is ridiculously low. That's because bidding starts at or near \$0, and each bid raises the price by a fixed increment, usually just a penny or two. So an item that gets 1,000 bids in one-penny increments sells for \$10, even if it would cost you hundreds or thousands at retail.

But unlike with traditional auctions, bidding isn't free. You must buy bids up front—typically for 50 cents to \$1 each. To get bids, you register a credit or debit card or use PayPal. Bids are sold in packs, with the minimum pack costing around \$25 to \$60, depending on the site. Unused bids are refundable on some sites, though sometimes within only 30 days or so after you buy them.

One key difference between traditional and penny auctions is that any bids you make on a penny auction are gone, whether or not you win. For example, if

you've made 100 60-cent bids on a \$2,000 computer but aren't the winner, you're out \$60. On the other hand, if you end up as the winning bidder, you and only you would have the right to buy the computer for the winning price. So if the bidding ends at \$14, the computer would cost you \$74: the \$14 plus the \$60 you bid. If for some reason you decided not to buy the item (which isn't likely), you'd be out only the \$60 you bid.

If you lose, some sites give you the option of buying the item at a higher, retail price, minus all or part of the amount you've bid. Not every site has this buy-now option.

Whether you're buying a product at the winning price or at retail, you also have to pay for shipping and handling, which varies by site. Return policies also differ from site to site. BidCactus has only a seven-day return policy. And ArrowOutlet imposes a 15 percent restocking fee on some returns.

The merchandise on these sites is typically new and comes with manufacturer warranties.

## Bidder beware



### Guaranteed savings?

Penny-auction sites such as QuiBids offer tantalizing deals 24 hours a day.

Getting an auction deal appears simple enough: Just wait until the clock is about to run out, place your bid, and hope for the win. But it's not that easy.

First off, lots of your fellow bidders will have the same plan, which is why you'll typically see a flurry of bids coming in as the clock is about to run out. And whenever someone bids, up to 15 to 30 seconds or so is added to the remaining time. As a result, you never know when an auction will end, even if the clock has ticked down close to the last second. Participants often bid again and again, extending the auction sometimes by hours or even days. That's especially likely to happen for hot products such as iPads, big-screen TVs, and other electronic gadgets. Some bidders get so carried away that they're determined to win no matter how many times they have to bid and how unreasonably high the price goes.

Complicating things further, many sites offer an automatic-bidding feature such as Bid-O-Matic and BidRunner that bid on your behalf until the price reaches a chosen level. So you can end up bidding not only against dozens of real-life bidders but also against a mindless, tireless computer, which won't doze off in the wee hours of the night. Sites usually limit how many items a participant can win within a given period, supposedly so others can have a chance. For example, among other win restrictions, QuiBids, by far the largest penny-auction site, allows participants only three wins per account each day and 12 wins over 28 days.

From the sites' perspective, the higher bidding goes, the more they stand to make. And the amount can be staggering. An example is a \$650 stereo receiver that recently sold for \$57.74 on QuiBids. With each bid increasing the price by one penny, the 5,774 60-cent bids for that receiver brought in as much as \$3,464.40. (Some bids are no-cost promotional bids or have been purchased at a discount.) So it's easy to see how the site can afford to sell the receiver to the winning bidder at such a steep discount from its retail price. Keep in mind that on QuiBids, some of those losing bids might have been applied by those who decided to buy the product at the site's full retail price.

But not every auction works out as favorably for the websites. Some items garner very few bids and sell for pennies on the dollar, especially low-value products that generate little interest. For example, on QuiBids, a \$10 retailer gift card recently went for a single 60-cent bid placed in the last few seconds. And one lucky bidder won a 55-inch Samsung flat-screen TV for just \$2.35. At one cent per bid, that's 238 bids overall, or \$142.80, hardly enough to cover the site's cost. [QuiBids says it loses money](#) on about half of its auctions and that "much of the profit from profitable auctions goes toward covering the losses from the unprofitable auctions."

But the problem for you as a bidder is that there's no way to tell when such a good deal will come up. And the more valuable and popular an item, the more likely bidders will show up like piranha, trying to sink their teeth into an unbelievable deal.

Not surprising, advertising and promotions for penny auctions focus not on those risks but on the dramatic savings that only some participants see.

"Are you ready to save up to 95 percent on what you want most?" a woman asks in [one recent QuiBids television ad](#). She describes QuiBids as "an exciting new way to shop for products like iPads, MacBooks, HDTVs, cameras appliances, and more."

The ad continues with examples of extreme savings, such as a testimonial from a man who relates buying a MacBook Pro for \$67. (The guy is a paid actor.)

There's no mention of losing bidders or how much they spent, assuming the ad was based on an actual auction. There's also no mention of any risk.

The auction site [HappyBidDay](#) has a similar ad, showing a laptop computer for only \$8.72 and a high-definition TV for \$22.32. "Sounds amazing? You'd better believe it," the ad says. As with the QuiBids ad, the site boasts of savings of as high as 95 percent without mentioning any potential for loss. Remember, only one person wins each auction.

In contrast, some sites, especially QuiBids, include helpful information and warnings about overspending and tips on how to bid effectively.

## **Are auctions just a form of gambling?**



### **Penny-auction police**

This website is a clearinghouse for information on the industry and its practices.

Some critics and happy customers alike say penny auctions are gambling. After all, you spend money with the hope of being the winning bidder at the end of the auction.

But the websites reject the gambling label. The main reason, they argue, is that there's no element of chance, as there would be when you play a state lottery, for example. They also say that you control how often you bid and when to stop.

"Since the outcome of every auction depends on how many bids a bidder is prepared to place, our auctions contain no element of chance," reads the FAQ questions at BidRivals." It is possible for a bidder to win any auction provided that the bidder is prepared to place enough bids."

Of course, you're taking a chance that no one else will bid more than you will, something that's impossible to know or predict. While the same could be said for eBay or any traditional auction, the difference is that when you bid on those other auctions you don't pay to bid so it costs you nothing but time if you lose.

"When you are risking money for a chance to do something, I'd say it is a gamble," said Amanda Lee, a penny-auction veteran from Minnesota who

created the [website PennyAuctionWatch.com](http://PennyAuctionWatch.com) to expose what she says are abuses in the industry. "You are risking money and time for a chance to win."

Another reason that some sites say online auctions aren't gambling is that you're not necessarily out the money you've bid if you lose. Those sites give you the option of buying most items at a retail price they set, minus all or part of the amount you've bid. For example, if you had bid 100 times on a QuiBids auction for that 55-inch Samsung flat-screen TV and lost, you could buy it for \$1,999, minus the \$60 cost of those 100 bids.

The site considers buy-now so integral to its business that it's trying position itself as an "entertainment retail auction" site where you can buy items at competitive prices after first taking a chance at getting an amazing deal.

But it's not that simple. In the TV example, if you lose the auction, you might not have the \$1,763.52 more you would need to buy the TV at QuiBids' full price, plus \$29.99 shipping. Beyond that, the buy-now price might not be a good deal. The same TV was selling through a retailer on Amazon for \$1,179 (with free shipping), a difference of more than \$650.

We found that buy-now prices on penny-auction sites are typically higher than those on Amazon and other retailers. One such price, for a camera bag on QuiBids, was nearly 15 percent higher than the MSRP: \$199 compared with \$170. The site says its prices are becoming more competitive as it grows and is able to deal directly with manufacturers and distributors.

And not every site allows you to apply 100 percent of losing bids to the cost of buying the product. ArrowOutlet lets you use only 10 cents of every losing 50-cent bid to buy an item. Other sites, such as Beezid, don't allow you to buy the item at all, so if you lose, your bid money is gone.

Whether it's technically gambling or not, Lee says, it's easy to get hooked. She remembers spending 12 hours one Christmas Eve bidding. "I didn't get any sleep, and I regretted it after that. If you have an addictive personality, you can get carried away."

It can be hard to resist the bidding wars that often occur during the last seconds on the clock, especially if you're already in for a large amount.

And there are other reasons that people feel compelled to bid longer than they should. Lee once kept bidding as the price of a \$50 gift card approached \$200. She was employing a common strategy on penny auction sites: Trying to establish a reputation as someone who won't quit and who is therefore not worth bidding against. (Some bidders use screen names such as "Bidtillwin.") In the end, she lost anyway. Given how ridiculously high the price went, she now

suspects that she was bidding against skills or a program the site had set up to increase the number of bids.

## Others investigate penny auctions

Lee is not the only one who has alleged wrongdoing. In September 2010, the penny-auction site PennyBidDr agreed to shut down and reimburse consumers nationwide as part of a settlement with the Washington State attorney general. The state had accused the company of using phony bids to increase the number of bids and to prevent legitimate bidders from winning. The site did not acknowledge wrongdoing.

And in a preliminary injunction issued in September, the U.S. District Court in Seattle froze the assets of Canadian entrepreneur and self-described philanthropist Jesse Willms, owner of Selloffauctions.com, SwipeAuctions.com, and Swipebids.com. The action came at the request of the Federal Trade Commission, which in May sued Willms, 10 companies he controls, and several other defendants accused in connection with an Internet scheme that bilked consumers out of \$450 million.

In issuing the injunction, the court cited a wide range of evidence, including more than 600 complaints from Willms' penny-auction customers to the FTC and 1,100 complaints to the Better Business Bureau of Alberta, Canada. Among other schemes, the FTC asserted that consumers who accepted offers for free "bonus" auction bids found that their credit and debit cards had been charged a one-time fee of \$150 and an ongoing \$11.95 per month.

The Better Business Bureau raised concerns about penny auction sites in a [July post on its blog](#). "BBBs nationwide have received many complaints about these types of auction sites," wrote Jason McGlone, the group's director of advertising review. "The majority of these complaints concern being charged during trial periods, poor customer service, and in a few cases consumers allege that the site they used employed bots to place bids in order to drive up prices." He went on to advise consumers to "tread carefully."

The BBB has given some penny-auction sites high ratings. QuiBids gets an [A minus rating and the BBB's flagship accreditation despite](#) the 535 complaints the organization has received about the site. Most of the complaints involve advertising and sales issues, problems with products or services, and billing or collection.

Web-based message boards are chockablock with complaints and negative reviews about penny auctions. For example, [ConsumerAffairs.com has received multiple posts](#) from BidRack customers who said they were unexpectedly charged \$99 when they thought they were signing up for free or very-low cost



bids or just registering. The Better Business Bureau says it has received [almost 800 complaints about the site](#), many describing similar practices.

**"You are risking money and time for a chance to win," said Amanda Lee of PennyAuctionWatch.com.**

In mid-September, the review site SiteJabber issued community alerts about more than 400 negative reviews for [QuiBids](#) and [83 for Beezid](#). Many of the reviews we examined questioned the penny-auction concept, calling it gambling and expressing frustration over having spent money for little or no return.

"Sadly, even I was drawn to those sites and I felt like I was putting quarters into a slot machine but with no real chance of winning," wrote one reviewer on SiteJabber.

Another wrote: "In my humble opinion it falls under 'scam' only because the web site owners advertise so heavily that you can win items for mere pennies on the dollar. While technically possible, in reality over the lifetime the average user will pay hundreds if not thousands of dollars over MSRP for items or not win any items at all and just sink money into the auctions with the false hope of winning them. Buyer beware!"

One reviewer said he starting bidding after first spending two to three weeks studying auctions on Beezid and entering the data into a spreadsheet. The result? "I still got hosed," he wrote. "There are simply far too many variables, outside your control or even ability to track and predict, to make this something you can go about with any real degree of calculated risk. It is a roulette wheel and the odds are always in favor of the house."

QuiBids chief financial officer Jeff Geurts says many complaints are from customers who don't read the site's tips and help articles, including the [QuiBids 101 information portal](#). "We spend so much effort on trying to educate customers on expectations," he said. "A very small percentage of those customers are going to ignore the QuiBids 101 section and not understand how we work."

But Geurts acknowledged that the QuiBids TV ad could foster unreasonable expectations by failing to mention the risks or that amazing savings aren't typical. "We are in the process of developing new commercials," he said. "A disclaimer about results not being typical will all be addressed in the next ad."

He says QuiBids takes steps to protect bidders "from themselves." Among them is warning new customers who try to bid on big-ticket items about how competitive such auctions can be. Also, the site stops customers from participating in an auction when the current bid price and the amount they've bid so far equals or exceeds the buy-now cost.



But he also acknowledged that the penny-auction industry has seen some bad players. With the failure of so many sites, he said, it's becoming more difficult for new sites to find financing, which he predicted would reduce the number of problems. Still, he said it's important for people to research a site before joining.

## The industry addresses concerns

To allay consumer concerns about cheating and other issues, some sites have undergone independent audits to prove that they are not engaged in shill bidding and that won or purchased merchandise is shipped. (Read the [July audit of QuiBids](#) [downloadable PDF] by the accounting firm Grant Thornton.)

Lee of PennyAuctionWatch.com says she won't endorse any auction site, audit report or not. "The site might be good today, but they might shut down or stop sending items," she said.

That's already happened. Lee estimates that she's out more than \$300 for merchandise that she paid for on penny-auction sites but was never delivered. "There are a lot of sites that shut down, never shipped anything out, never refunded anybody's money, and just have disappeared," said.

The penny-auction industry is relatively new, so it's too early to tell how successful it will be. QuiBids, which is based in Oklahoma City, started in mid-2009. It places its daily net profit margins at 5 to 10 percent. At least two sites, BigDeal.com and FashionBay.com, shut down after we began researching this report in August. BidDeal operations were transferred to competitor BidCactus. Among the dozens of other sites that have shut down are BidTrotter.com, MyEZBids.com, PursePenny.com, TheOutbidders.com, and ZaneyBid.com. PennySlam.com closed down in October 2010 [after just four days in operation](#). In a message posted on the site, its owners said they had "come to the conclusion that the Penny Auction Industry is a much higher risk than we had originally thought for us and the Bidders."

Lee believes the penny-auction concept isn't a sustainable business model. "A lot of wannabe entrepreneurs want to come into the industry," she said. "They think it's a good way to make money. In order to stay afloat, they really have to educate people and spend a lot of money marketing. It's really risky for the bidder and the site owner."

## Penny-auction bidding 101


If your goal is to get a good deal on a TV, computer, sofa, or any other product, forget penny auctions and buy from a traditional retailer, taking advantage of [haggling](#), coupons, and other special offers. But if you decide to try your hand at penny auctions, keep the following in mind:

- Be prepared to lose whatever you bid or the bids you've purchased.
- Bid only on sites that allow unlimited refunds of purchased bids, offer advice and tips, and have a buy-it-now feature that lets you apply all your losing bids towards a purchase.
- Find legitimate sites by checking user reviews. Look for a consensus among many reviewers instead of relying on just one or two posts. (We saw one report of a site paying or otherwise rewarding people for posting positive reviews.)
- Run a search with the name of the site you're interested in with such words as "complaints" and "rip-off" to see what problems people might have had. Also get a report for a site from the [Better Business Bureau](#), but don't rely solely on the BBB's letter grade. Read the entire report, paying special attention to the number and types of complaints and any government actions.
- Take the time to read an auction site's help section, FAQ, tips, message boards, and terms and conditions, including refund policies for bids and merchandise. Watch for conflicting terms: The help file on HappyBidDay.com says most unused bids can be refunded in three months, but the FAQ says the refund period is 30 days. The terms and conditions at Beezid indicate you can return items within 14 days, but the FAQ indicates 10 days. Neither site responded to our request for an interview.
- Observe several auctions before you buy bids and jump into the action. When you have a good idea of how everything works and what strategies to use, start by bidding only on low-value items, and don't bid wildly.
- Avoid bidding on a major item without first researching the product and checking retail prices. And when you lose an auction on a product you really want, don't automatically buy the item at the buy-now price. Compare the net cost, by subtracting any losing bids and adding shipping and any other fees, with the lowest price you can find elsewhere. If you're lucky enough to win an item at a very low price, buy it right away. If you delay even just a few days, you can lose your right to make the purchase.

## A typical bidding session

### Onkyo 7.2-Channel Home Theater Receiver

With its bountiful array of connections, the TX-NR709 A/V receiver handles just about any playback device you care to hook up.




1

Click on an image to have an enlarged view

2 **\$57.74** USD

20 00:58:00 3

Current Winner



YouTheBidder

BID

Each bid raises the price by \$0.01 USD.

BID	BIDDER	TYPE
\$57.74	YouTheBidder	BioMatic
\$57.73	BelleRiver	BioMatic
\$57.72	nixkademus	BioMatic
\$57.71	jorac1	Single
\$57.70	BelleRiver	BioMatic
\$57.69	Lahoree	Single
\$57.68	jorac1	Single
\$57.67	BelleRiver	BioMatic
\$57.66	nixkademus	BioMatic

**Your Savings:**


Value Price: 5 \$807.29

Price: -\$57.74

20 Bids 7 -\$12.00

Your savings 8 **\$737.55**

The "Value Price" reflects the price at other retailers. Prices are in USD.



6 "I got a \$100 Home Depot gift card from Quibids. Yeah!"  
Read More...

Register

7 How exactly do you pronounce "Quibids"?

In case you don't know, check out our help pages!

Want to know more?

- 1 **Product being offered.** In this case, an Onkyo home-theater receiver.
- 2 **Amount bid so far.** With each bid raising the price one penny, there have been 5,774 bids at this point.
- 3 **Amount left on this auction.** Each bid adds up to 30 seconds.
- 4 **Most recent bids,** with the latest at the top.
- 5 **Buy-now price set by the website.** If you lose, you can buy the item at this price, minus the value of your losing bids. We found it for \$157 less elsewhere.
- 6 **Testimonial.** Just advertising.
- 7 **How much you bid so far.** In this case, \$12.
- 8 **How much you would save** off the website's full "value" price if you were to actually win the receiver for \$57.74.