

Beware of penny auction sites



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CONSUMER WATCH

If you were in the market for a ring that would ordinarily cost \$1,000, but only had to pay \$50 for it, you might consider that a good deal. Owners of some websites are betting you would and have made millions doing it.

Brands such as DealDash, Qbids and Beezid are called “penny auctions” and are part of a fast-growing online industry. They work quite differently from traditional auction sites such as eBay. With traditional sites, a seller places an item for bid, and potential buyers place their bids. As time runs out, whoever bid the highest amount is the winner and then must purchase the item.

But on penny auction sites, bidders pay regardless of whether they win. Participants pay for every bid and often buy bids in “packs,” sometimes costing hundreds of dollars. With each bid, the cost rises by a penny or more. With many auction sites, you’re not necessarily buying the item; you’re buying the right to buy it at the final price. If you win, you must claim the item within a specified amount of time or lose not only the item, but your bid money as well.

Consumer watchdogs and government regulators have warned the public for years about penny auctions. Last week in a Minnesota district court, a man filed a class-action suit against DealDash, one of the larger online penny auction sites, complaining that the company was advertising top-name brands, but was actually selling generic items sold by companies with a connection to DealDash’s founder. In addition (among a host of other allegations), the plaintiff alleges the deals advertised don’t really reflect the true cost paid by winners — or losers.

The plaintiff called DealDash auctions “perverse lotteries in which U.S. consumers have lost tens of millions of dollars in their fraud-induced pursuit of sham merchandise.” One concern, the suit contends, is that participants must register up front, and enter a credit or debit card number. The customer then is required to purchase a certain number of bids in a bid package (between 60 and 2,400), with costs varying. (The lawsuit contends the bids cost between 12 and 15 cents per bid). Thus, the consumer ends up paying a lot, sometimes exceeding the amount it would have taken to purchase the item at full price.

If you’re considering entering a penny auction, you should be aware of a few things. In a blog post about penny auctions, the Federal Trade Commission notes there are several potential problems with penny auction sites, including:

» **Time lags.** Many auction sites are slow to deliver merchandise, and sometimes the quality of merchandise isn’t as advertised.

» **Misleading terms.** Terms like “bonus bids” might trick you into thinking the bid is free, when it isn’t.

» **Hidden cost.** Some sites make you pay membership or subscription fees. Check the fine print.

» **Complaint problems.** Many dissatisfied customers find that they get no response or are told they have no recourse.

And finally, you’re betting against the house. If you participate, remember the old gambling adage: The house always wins.

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