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The DealDash (Penny Auction) Scam

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If you watch much TV or surf the internet, you’ve seen ads promising products as much as 95 percent off retail at DealDash.com or other penny auction sites. DealDash advertises itself as offering fair and honest auctions, but is it really? Millions of people have signed up for a chance to buy items at penny auctions at a fraction of the retail price. Who wouldn’t want to buy a new iPad for $30? But think about it; who would want to sell that iPad for $30 when it cost several hundred dollars wholesale? It is worth noting that the “penny” in penny auctions refers to the bid increments, but your actual cost could be many dollars.

Consumers are buying more items online every year and appreciate the convenience, selection, and often substantial cost savings. So, these penny auctions would appear to be an extension of that money-saving online buying concept.

Most consumers are familiar with online auctions at sites such as eBay, where interested individuals bid up the price of an item until time expires. The high bidder at the end of the auction wins the item at the winning bid price.

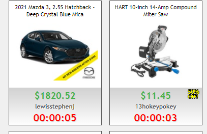
However, another form of online auctions, internet penny auctions, has expanded in recent years. While some of these sites are *technically* legitimate, many of their business practices are questionable, and most consumers would be better off avoiding them altogether.

## How penny auctions work

In some ways, online penny auctions are internet bidding sites that share some similarities with legitimate auction sites like eBay. However, the BIG difference is that consumers who bid on penny auctions must pay for each bid they make regardless of whether they win or lose the auction.

Generally, anyone interested in bidding in a penny auction must pay a registration fee before gaining access to bidding. While not required by all penny auction websites, this fee is often described and charged in what many consider an underhanded way. For example, it is typical for a consumer to make a query regarding online penny auctions. If the consumer provides credit card information, that credit card is immediately charged $60 - $99 as part of the registration process. Often consumers provide credit card information without realizing they are authorizing any payment.

## An Auction Example

As stated above, penny auctions’ business model immediately charges anyone furnishing them a credit card number of at least $60, which buys 100 bids.

Most new bidders bid on one or two auctions, lose their 100 bids ($60), and quickly realize getting a bargain wasn’t as easy as it looked. These sites count on the addictive nature of *almost* winning an auction, maybe losing by a penny or two, to encourage a percentage of bidders to buy more bids. Sometimes a substantial discount is offered - i.e., if you sign up right now, you can get 200 bids for the same $60.

Penny auctions usually allow losing bidders to apply at least part of the money spent on bidding towards buying the product at *their* retail price. However, penny auction sites, including DealDash, often substantially overstate the retail price of items, so buyers are usually either overpaying or perhaps getting completely ripped off.

## How the Auction Works

The bidding for an item typically begins at $0 and then increases by one cent each time someone bids. There is a countdown clock that restarts every time someone places a new bid. Some websites even allow users to set up automatic rebids if they are outbid. The total price of the item “won” is determined by the number of bids, so you could end up paying well over the retail value of the item you’re bidding on. Generally, you have also lost the money spent on the used bids if you lose the bid.

Let’s say the auction is for a new computer with a stated retail value of $599. The bidding starts at $0, increases in 1 cent increments, and one “lucky” bidder “wins” the computer for $30. The winning bidder is given credit for the bids he has “spent” at $0.60 each. It is not unusual to see individuals bidding hundreds of times, so if the winner in this example bid 300 times, that winner paid $180 for their 300 bids, if each bid cost $0.60. Still, this does not seem like a bad deal for the winner; $180 for a $599 computer, even if it is a system, you could get on Amazon for $399.

If a penny auction item sells for $180, the auction site has received 18000 incremental 1 cent bids, which cost the bidders as much as $10,800! Penny auction sites often promote themselves as “social media” buying and stress the social nature of their sites. What they don’t advertise is how addicting these sites can be. $10 gift cards can go for over $20 when bidders’ egos apparently overrule all common sense. And I can virtually guarantee that YOU will not get that computer for $180.

An individual cannot determine which penny auction sites are “legitimate.” Some state attorney generals have found that some penny auction websites use “shills” that automatically outbid people, making it virtually impossible to win items at a reasonable price. Some of these shills are software programs that show a fake username to persuade consumers that they are bidding against a real person. As a result, several penny auction sites have disappeared, never shipping items won. Other sites have sold financial information about users or put additional charges on credit cards without permission.

## Conclusion and Recommendation: Avoid Penny Auctions

While online penny auctions may sound like an attractive deal at first, consumers should be very wary before handing over any money or credit card information. It is doubtful that consumers will save any money by using the service to purchase goods, and much more probable they will be ripped off.

