

PENNY WISE

THE COMPLETE GUIDE TO SAVING
MONEY WITH ONLINE PENNY AUCTIONS

SAMPLE CHAPTER
PURCHASE THE BOOK AT
PENNYWISETHEBOOK.COM

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PITCHING PENNIES

"If you would be wealthy, think of saving as well as getting."
—Founding Father Benjamin Franklin

It's a pretty good wager Heyyou, Whodat12, and Fanzienanzie have never met before. If they did, it might well have been in the lumber aisle at a neighborhood Lowe's.

On this workaday Tuesday, the trio is among a couple handfuls of devoted bidders aiming for a \$100 Lowe's gift card. As the bidding soars past \$13.56, the would-be shoppers are hot on the trail, each aiming for a bargain and paying for the privilege.

Watching the auction at a distance is like watching a horse race, except the horses in this race change and you have no idea when they'll hit the finish line. It keeps moving.

It ends a few minutes later with Nvartko – a late entry to the fray – the winner. For \$16.43, plus \$1.99 shipping, plus the cost of the penny bids – at 60 cents a pop – a card will soon be on its way.

If he (or she) threw 25 penny bids out there, and assuming Nvartko paid for all of them and didn't rely on ones obtained for free or gained as part of other auction wins, then the cost of a \$100 card arriving in the mailbox about a week later was a grand total of \$33.42.

Not bad.

Some folks do a lot better at these mini-contests. Gift cards can sell for – and do – literally pennies plus shipping. Computers, games, and toys have all been scooped up at comparable, eye-popping bargains.

On the other side, some folks do worse. Some walk away with nothing but an adrenalin rush and a hangover-type letdown.

If any of Nvartko's competitors want to get that card and load up on plywood, they'll have to buy the Lowe's card at face value plus shipping. At some auctions, like this one that took place on Oklahoma City-based QuiBids, losing bidders can apply the value of the paid-for, 60-cent penny bids used in the rush to win toward their purchase. At others, the loss needs to be chalked up to experience.

Welcome to the world of penny auctions.

GETTING PENNY WISE

This book's foundation is built on the successful bidding experience of co-author Josh Waldron. After trials, errors, and a good bit of examination, Josh took home nearly \$12,500 worth of items over a year and a half at a real, everything-factored-in net cost of a little more than \$7,000.

That amounts to paying roughly 42 percent less than the price at discount places like Amazon.com. The savings were even higher if based on the manufacturer's suggested retail price on the label or quoted on penny auction sites themselves.

The success wasn't overnight and it wasn't on a few sites. It came through winning more than 330 auctions and participating on 44 different penny auction sites through August 2011.

His average net loss of just more than \$42 on 21 of the sites was offset by an average net gain of nearly \$264 on the other 23 sites. Over time he learned to curb his losses, recognizing site deficiencies like slow timers, and move on. He also learned how and when to keep bidding.

The Penny Auction List website that followed, as well as the research done for this book by both co-authors, yielded more lessons.

First, let's cut to the chase.

Are penny auctions worth it? Are they a rip-off? Do you need to keep reading?

The short answers are: They certainly can be; some are; and we hope so.

The longer answers, drawing on experience and countless conversations with penny auction owners and operators, go something like this:

Can you save money with penny auctions? Yes.

Will you get rich? No.

Can you sustain net winnings over time? Yes.

Will you win on all sites? No.

Can you do better than Josh? We'd like to think so. Some bidders we talked to in writing this book do.

Will you pick up big screen televisions for a few dimes? Possibly, but don't count on it. They are harder to land than other merchandise.

Is all of this worth your time? That depends.

If you like shopping online, hunting for a bargain, and doing both with a thrill of victory thrown in, then penny auctions can definitely deliver for you.

If you are only happy when you save hundreds of dollars at a time on big ticket items, are easily frustrated when you lose, and aren't in the mood for the gift cards and smaller merchandise within your grasp, then you're probably better off doing something else.

Look at it this way: Josh generated an extra \$300 a month (or the net savings of more than \$5,000 divided by 18 months) through a penny auction hobby. Josh operated on a limited budget, and penny auctions provided less-expensive gifts and savings on everything from shopping to gasoline.

That's a pretty good track record. For Josh, the deals are worth the effort.

If it sounds worthwhile to you, then keep reading. We'll aim to help you do as well or better.

If that sounds like too much time for too little gain, or even too much risk for too little gain, we get it. It's better for you to decide that up front than drive down the penny auction highway any farther.

We can say this with authority: You won't always win. Sometimes you will frustratingly lose. And some sites you pick off the beaten path may be poorly run or dishonest.

If you can consider that a cost of doing business, then read on.

PENNY AUCTION SCAM

We'll get into some of the history of penny auctions in a little bit. Before then, we'd like to hit on something you may be wondering about.

The "s" word.

Penny auctions, run well and above board, are a legitimate business model. We'll outline for you just how they work. Even so, there are sites that use shady tactics, fake bidding, rigged clocks, and more. They are scams.



COMMON CENTS

Every area has its own unique terminology. "Strike," "ball," and "foul," for example, hardly make sense to someone who's never set foot on a diamond. (Yes, that kind of diamond, not the other kind.) The language of penny auctions isn't difficult, but it's important to know what certain words and phrases mean as you go. Look for Common Cents boxes through the book. They're helpful insights into terms, concepts, and applications that hang in and around the penny auction world.

Regulators – who have yet to really get into the game in all but a few states – have clamped the lid on some auctions. In August 2011, the Federal Trade Commission issued a consumer alert describing the penny auction process and advising potential bidders to “recognize some of the pitfalls before you get caught in a bidding frenzy.”

Some sites have collapsed under their own weight of bad marketing, poor quality, and lousy business decisions. Indeed, some we'll talk about have drawn literally millions of dollars in venture capital only to go belly-up.

It's also a fair question to ask whether the whole penny auction proposition is a losing one. Some academic studies focus on this challenge.

Ned Augenblick, a Stanford University economist, found "in aggregate, players significantly overbid" for auction items, leading to large profits for the penny auction business. Overall, he found, players generally collect small or negative winnings.

Augenblick concluded there are similarities to gambling, but there are also differences, such as the role of skill for winning players and "no obvious deception or manipulation" of the players.

Three economists from Brigham Young University found video game-related items in particular showed aggressive bidding and higher profits for auction sites. It also found penny auctions are "not any more lucrative than standard auction formats" for sellers. It also noted concerns about "skill bidding" that can be manipulated to generate more dollars for owners.

WHAT'S AHEAD

We've set the book up logically to help you understand what this new world is about.

If you want to pick and choose, here's a closer look at what's ahead:

Chapter 2 examines how we got here and gives you a picture of what this business is – from literally mom-and-pop to an emerging leader.

That's followed by a look inside the business model in Chapter 3. This can no-doubt be a money-making business, but it has not turned out to be the license to print money that a back-of-napkin analysis would lead you to believe. Some pretty big outfits have dumped big bucks into these online sales bins and lost. Turns out it is not so easy to succeed.

 **PENNY POINTS**

These little break-out boxes aim to lay out a simple path to success on a given point or tactic we've explained more deeply in the text. It is critical to have a plan and an approach as you play penny auctions. Look for Penny Points boxes through the book. These helpful snapshots can help you see or apply lessons from the book in a direct way.

In Chapter 4, we turn to the basics. If you're new to penny auctions, you need to read this chapter. It covers the fundamentals and formats and will answer the up-front questions many newbies have.

Chapters 5 and 6 take it up a level. We'll walk through buying items, studying websites, strategies, and tips. In Chapter 7, we hit some more advanced issues. These are the types of things you'll need to know to be in a position to do better and not lose lots of pennies.

Later in the book, we take a few extra steps for the doctoral-level students among us.

Chapter 8 looks at what you can do with stuff you win and get in the mail. You may not want to keep it, after all. There are ways to do well here.

In Chapter 9, we delve into the realm of starting your own website. This is not for everyone, but it is something more than a few folks think about. We'll help you work through the issues and see more closely if this is worth pursuing on your end.

Finally, Chapter 10 is the Piggybank. We throw lots of links and some of our book sources at you. This can be a resource area of some good use, we hope.

Enjoy the rest of the book, and save up your pennies.