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Online 'penny auction' sites: regulation needed

Online 'penny auction' sites allow bidders to win expensive items at a price that appears unbelievably cheap, however users are charged by the site for each bid that they place. Dr. Mark Griffiths, a Professor of Gambling Studies at Nottingham Trent University, examines how 'penny auction' sites operate, and whether they should be regulated.

In December 2008, I was contacted by BBC's *Breakfast News* programme asking me to comment on the rise of 'penny auction' websites on the internet. I have to admit that I had never really heard of these types of sites before the BBC researcher rang me, but she pointed me in the direction of five or six sites that I went and examined in greater detail. These included such sites as 'Madbid', 'Swoopo', Bid Boogie', 'Rapid Bargain' and 'Budson'. My first thought when looking at what people do on these sites was that the activity was akin to gambling - and now that I have spent even longer researching these sites my opinion has crystallised even further. To me, they are all but gambling in name and they don't seem to be regulated by any organisation or authority. Before explaining why I think people who use these sites are engaging in a gambling-like activity, I will briefly outline how these sites work.

How do online 'penny auctions' work?

The basic idea behind online penny auctions is perhaps laudable. They offer the chance to buy brand new products at very competitive prices. Typically, penny auctions work like this: on sites like Madbid, Bid Boogie and Budson, a bid is raised by one penny at the time, so when the current price of a product is (for example) £1.10, the bid is raised to £1.11. There is no time limit as such for the sales time, instead whenever no additional bids are made during a product specific time limit (e.g., five minutes) the auction is automatically closed. To give an example, if a bid is made at 1:06pm and there is a five-minute time limit, at 1:11pm the auction is closed, assuming no other bids are made. The opening times of the auctions are often product specific

(e.g., 10am - 10pm). Should the product not have been sold by 10pm, the auction continues again the following morning. Although many websites only allow bid increments of 1p at a time, others allow more (e.g., Rapid Bargain's bids increase at 5p increments, Swoopo's bids increase at 8p increments).

So what's the catch?

In order for a person to participate in a penny auction, they need to place a bid in an ongoing auction. They can do this by:

- placing a bid by sending a text message from their mobile phone (at £1.50 a bid plus operator's costs); or
- placing a bid through the creation of an online account where the person buys a 'bundle' of bids (at 75p to £1.40 a bid depending on how big a bundle they buy in advance).

To bid by text message, a person sends a message with the code for the specific product that they want to bid on. To bid using an online account, a person clicks on 'Register' and follows the online instructions. There is no limit to how many bids that can be submitted on the same auction product. There is also no limit on how many different products can be bid on at any one time.

Here's an example of a real winning bid on the day I wrote this article. A PlayStation videogame console (retail price of £310) was won in a penny auction for £8.34. To the winner of the auction, this was won at a hugely discounted price. However, what this really means is that there were 834 separate bids for this item all costing between 75p and £1.50 per bid (depending whether it was done online or via mobile phone). Looking at the 'bid history', most of the final 50 bids were made by just two individuals who at a minimum

spent at least £30 in those final bids trying to secure the item. Although one person won the console, the other person spent a lot of money and got nothing. It should also be noted that if the product is returned for any reason, the winning bidder is only refunded on the final price of the product, not on the cost of the bids placed on that auction.

So why are penny auctions akin to gambling?

I think there are many reasons as to why online penny auctions are akin to gambling. Below are some of the main similarities between penny auctions and gambling:

- In penny auctions, winning is essentially chance-determined: There may be limitations on the number of text messages operators allow per month but theoretically, a person can bid again and again (on either a single product or multiple products) with no certainty that they will ever win the product. In short, a person could make ten bids for an item on their mobile phone at £1.50 a bid and end up with nothing. Whether a bidder wins the auction or not, it does not seem to depend on any discernable skill and it is more like a chance-based lottery. If there is no real skill in participating and it is essentially a chance activity, how is this not a form of gambling?

- Penny auction websites utilise the 'availability bias': The availability bias occurs when a person evaluating the probability of a chance event makes the judgement in terms of the ease with which relevant instances come to mind¹. For instance, lottery winners are highly publicised. This perpetuates the idea that wins are regular and commonplace. Penny auction websites display the winners of each item. This is a way of emphasising winning and minimising the act of losing.

There is no watchdog or regulatory body that oversees their operation

Similarly, penny auction websites have a 'Meet the winners' webpage highlighting people that have won very expensive items (like a car) for incredibly low amounts of money. These instances are very rare but by publicising them, it makes them appear a more common occurrence.

- Penny auction operators utilise the suspension of judgement: Many gambling operators would prefer their clientele to play with virtual representations of money. This is known as the 'suspension of judgement' and refers to a structural characteristic that temporarily disrupts the gambler's financial value system². The most obvious example is when money is converted to chips at the casino as a way of 'disguising' the money's true value (i.e., it decreases the psychological value of the money to be gambled and people feel less guilty about losing it). Other virtual representations of money include the use of credits, tokens and smart cards in slot machine gambling, the use of e-cash in internet gambling, and the use of premium rate telephone calls in interactive television gambling. Penny auction websites utilise both premium rate telephone calls and the use of bidding credits (when people buy online bundles of bids). Like many forms of gambling such as gambling on slot machines, penny auction websites appear deceptively inexpensive to the consumer, but can lead to relatively large amounts of money to be spent.

- 'Near misses' are commonplace in penny auctions: In gambling scenarios, near misses (or more accurately, 'near wins') refer to any non-winning outcomes of a gamble that are 'perceived' as being almost successful³. The notion of player perception is important to this definition, since 'near misses' are the same as other losing

outcomes in that they do not cost the operator anything.

Furthermore, it is thought that near misses encourage future gambling (as further gambling helps dissipate the frustration of losing). Any bidder who just misses out on winning an item on a penny auction website also experiences a near miss experience. Such experiences may also lead to further bidding on other items as a way to relieve the frustration of not winning an item.

- Multiple staking for no reward is commonplace in penny auctions: On most auction websites, anyone can see the bidding history of individuals who have bid on any individual items. It is clear from looking at almost any of the item bidding histories that many people make multiple bids without ever winning the product. Here, people's multiple bids are similar to putting down multiple stakes when there is a high jackpot prize to be won (e.g., buying lots of lottery tickets during a 'rollover' week)⁴. In penny auctions, all the bidders bar one on each auction fail to win the product (prize). Just like people who play lotteries, the vast majority of people who bid on penny auction websites do not get anything for their money, except the hope of winning.

- Penny auction websites feature 'autoplay' like features: It has been increasingly popular for slot machines to have a built-in 'autoplay' feature⁵. (In these instances, the machine plays for the gambler. The most obvious result is an increase in event frequency (i.e., faster play) that may be more profitable to the operators. Autoplay features reduce the level of human interaction (i.e., compared to a machine, human choice inevitably slows down overall playing time). For the machine operator, the more plays, the greater the player turnover and

the greater the profit. Penny auction websites also utilise 'autoplay' type features in the form of 'auto-bids'. Using an auto-bid tool through the website account allows automatic bids to be placed until a certain user pre-determined product price limit. Again, this feature increases profits for the operator and means that bidders are paying money to the operator without any person being involved.

- Penny auction websites provide tips for winning: As with many internet gambling websites (especially online poker websites), penny auction website operators feature webpage sections providing tips on winning for its clientele (e.g., 'What can I do to improve my chances of winning?'). The Rapid Bargain auction website has tips that may help perpetuate myths of winning. For example: 'Although you can get some incredible bargains on our most expensive items, they also tend to be the most competitive auctions, attracting hundreds of bidders. Our cheaper products tend to have fewer bidders, meaning you're much more likely to win.'
- Penny auction websites have responsible gambling-like policies: Instead of 'responsible gambling' policies, the more ethically and responsibly minded penny auction websites have 'responsible bidding' policies. For instance, one website (Madbid) has a helpful FAQ section that included the question 'Is there a risk of addiction to the service?' and provided a link to their 'Responsible Bidding' page. This is so similar to what responsible internet gambling websites do that it seems clear that

the penny auction operators see their service as something like gambling. Madbid admit on their website that 'we understand that there is risk that taking part in one of the offered auctions can lead to personal and social distress if, for example, excessive time being spent on the site, and reducing time left to be spent with family and friends'. Here are the 'responsible bidding' guidelines of the Madbid penny auction:

- Take regular breaks between buying activities.
- Decide a monthly budget in advance as your own personal limit. Do not increase the maximum limit that you have decided for yourself later on.
- Before you start participating in a product purchase, decide the number of bids you are willing to place or determine a price at which you will not raise the bid further.
- Never participate under the influence of alcohol or medication, or if you are in a depressive mood.
- Bid only when you are fully rested and concentrated.

This list looks as though the operators have read the responsible gambling guidelines at an online gambling website and simply replaced the words 'gamble' and 'gambling' with the words 'bid' and 'buying'!

In this short article, I have tried to argue that penny auction websites are internet gambling websites in all but name. They appear to be unregulated and there is no watchdog or regulatory body that oversees their operation. At the very least, the British Gambling Commission should at least do their own investigation to

determine whether penny auction websites should come under their regulatory jurisdiction. I also think it would be more socially responsible if penny auction websites listed the total amount spent on bids by the person who got the winning item rather than what the final winning bid was.

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