

Internet Auctions

A Guide for Buyers and Sellers

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Whether you're looking for a collectible or thinking about selling that treasure you discovered in the attic, an Internet auction may be just the thing for you.

Since their first appearance in 1995, Internet auctions have become one of the hottest phenomena of the web. They offer buyers a "virtual flea market" with an endless range of merchandise from around the world — and they give sellers a "storefront" from which to market everything from sports memorabilia to computer systems to millions of international buyers.

Whether you're a buyer or a seller, there's a smart way to "do" Internet auctions. Here's how to make sure you get the most from your auction action.

How Auctions Work

Internet auctions are bazaars. In most cases, sellers offer one item at a time, but sometimes sellers offer multiple lots of the same item. The auction web sites often refer to auctions of multiple items as "Dutch" or "English" auctions. At some sites, the seller may be required to sell all items at the price of the lowest successful bid. At other sites, the seller is entitled to the prices bid by each of the highest bidders.

Occasionally, Internet auction sellers set a "reserve price," which is the lowest price they will accept for an item. Some sites disclose the reserve price during the auction.

The bidding for each auction closes at a scheduled time, when the highest bidder "wins." In the case of sales of multiple lots, the participants with the highest bids at the close of the auction are obligated to buy the items. If no one bids at or above the reserve price, the auction closes without a "winner." At the close of a successful auction, the buyer and seller communicate — usually by e-mail — to arrange for payment and delivery of the goods.

Kinds of Auctions

Internet auctions can be business-to-person or person-to-person.

Operators of business-to-person auction sites have physical control of the merchandise being offered and accept payment for the goods. In person-to-person auctions, individual sellers or small businesses offer their items for auction directly to consumers. Generally, the seller — not the site — has physical possession of the merchandise. After the auction closes, the seller is responsible for dealing directly with the highest bidder to arrange for payment and delivery.

Payment Options

Buyers may have several payment options, including credit card, debit card, personal check, cashier's check, money order, cash on delivery and escrow services. However, all sellers do not accept all forms of

payment.

Credit cards offer buyers the most consumer protections, including the right to seek a credit from the credit card issuer if the product is not delivered or if the product received isn't the product ordered. Typically, sellers using business-to-person auction sites accept payment by credit card. But many sellers in person-to-person auctions don't. Usually they require payment by cashier's check or money order before they send the item to the winning bidder.

Some sellers agree to use an escrow service. For a fee — generally 5 percent of the cost of the item, paid by the buyer — an escrow service accepts payment from the buyer via check, money order or credit card. The service releases the money to the seller only after the buyer receives and approves the merchandise. This helps protect buyers from ending up empty-handed after paying their money. The flip side? Using an escrow service can delay the deal. As with any business transaction, investigate the escrow service's reputation before signing on to the service.

Occasionally, sellers agree to send items COD, with the buyer paying when the item is received.

Consumer Concerns

According to the [Federal Trade Commission](#), Internet auction fraud has become a significant problem.

Most consumer complaints center on sellers who:

- don't deliver the advertised goods;
- deliver something far less valuable than they advertised;
- don't deliver in a timely way; or
- fail to disclose all the relevant information about the product or terms of the sale.

If You're A Buyer...

Quick Tips for Buyers

- Identify the seller and check the seller's feedback rating.
- Do your homework. Be sure you understand what you're bidding on, its relative value and all terms and conditions of the sale, including the seller's return policies and who pays for shipping.
- Establish your top price and stick to it.
- Evaluate your payment options. If possible, use a credit card. It offers the most protection if there's a problem. Consider using an escrow service if the seller doesn't accept credit cards.

Know the Seller

- Find out who you're dealing with. Verify the seller's identity before you place your bid, and be wary of sellers who you can't identify. Some sellers may use a forged e-mail header, which makes follow-up contact close to impossible.
- Get a telephone number for the seller and use it to confirm that you have some way other than e-mail to contact the seller.

- Check to see how the seller has treated other buyers. Some auction sites post feedback ratings of sellers based on comments by other buyers. This may give you some idea of how you'll be treated, but beware of "shill" testimonials.
- Before you bid, find out what form of payment the seller will accept. If the seller accepts only cashier's checks or money orders, decide whether you are willing to take the risk of sending your payment before you receive the product.
- Find out who pays for shipping and delivery. Generally, sellers specify the cost of shipping the item and give buyers the option of express delivery for an additional fee. If you're uncertain about shipping costs, check with the seller before you bid.
- Check on the seller's return policy. Can you return the item for a full refund if you're not satisfied with it? If you return it, are you required to pay shipping costs or a restocking fee?
- If you have any questions about the item, e-mail or phone the seller. Don't place your bid until your questions have been answered.

Know the Product

- When considering whether to place a bid, know exactly what you're buying. Read the seller's description of the item or service, and if a photograph is posted, take time to look at it closely.
- Try to determine the relative value of an item before you bid. There's no guarantee that something is a good deal just because it's on the Internet auction block. "Brick-and-mortar" stores and online price-trading sites may be good reality checks on price. If you find a bargain at an auction site, remember the adage about deals that seem too good to be true. They usually are.
- Read the fine print. Look for words like "refurbished," "close-out," "discontinued" or "off-brand," especially when shopping for computer gear or electronic equipment.
- Consider whether the item comes with a warranty, and where you'll get follow-up service if you need it. Many sellers don't have the expertise or facilities to provide services for the goods they sell. If that's the case with your seller, be sure you're willing to forfeit that protection before placing a bid.

Know the Auction Site

- Check how the auction works. Don't assume that the rules used by one Internet auction site apply to another. Some sites offer step-by-step tutorials that take potential buyers through the bidding process. Taking a few minutes to go through the tutorial might save you frustration or disappointment later.
- Find out what protections the auction site offers buyers. Some sites provide free insurance or guarantees for items that are undelivered, inauthentic or just not what the seller claimed.

Bidding

- If you decide to enter the bidding, proceed with caution. Establish your top price and stick to it.
- Don't bid on an item you don't intend to buy. Remember that if you're the highest bidder, you are obligated to follow through with the transaction. Auction companies often bar "non-paying bidders" — those who back out of a deal — from future bidding.

- When bidding, take steps to protect your privacy. Don't give out personal identifying information like your Social Security number, driver's license number or bank account number. No seller should need it.
- Save all your transaction information. Print or make note of the seller's identification, the item description and the time, date and price you bid on the item. Print and save a copy of every e-mail you send or receive from the auction company or the seller.

Wrapping Up the Deal

- After you receive an e-mail with news that you've "won" an auction, arrange to pay for your purchase. Pay with a credit card, if possible, but it's likely that the seller will require payment by certified check or money order.
- If you're not comfortable sending a certified check or money order to the seller, consider using an escrow service or paying for your item cash on delivery.

Where to Turn for Help

If you run into a problem during your transaction, try to work it out directly with the seller or with the auction web site. If that doesn't work, file a complaint with the Federal Trade Commission by calling toll-free 1-877-FTC-HELP (382-4357) or visiting the FTC's web site at www.ftc.gov. Although the Commission cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violations. You also may want to contact your state Attorney General or your local consumer protection office.

If You're A Seller...

Quick Tips for Sellers

- Provide an accurate description of the item you're selling, including all terms of the sale and who will pay shipping costs.
- Respond quickly to any questions bidders may raise during the auction.
- Contact the high bidder as soon as possible after the auction closes to confirm details of the sale.
- Ship the merchandise as soon as you receive payment.

Your Legal Obligations

- Federal laws prohibit deceptive or misleading acts in commerce, including Internet auctions. You are required to advertise your product or service and the terms of the sale honestly and accurately.
- Sellers are prohibited from placing "shill" bids or false testimonials. Some sellers improperly create a fake identity and bid on their own auctions to drive up the offers. Likewise, some sellers place glowing testimonials about themselves in the comment section of Internet auction sites. These practices are not only unethical, they're also fraudulent.

- Sellers are prohibited from offering illegal goods through Internet auctions. While many auction sites monitor their sites and attempt to delete illegal items, the ultimate responsibility for ensuring that a sale is legal rests with the seller and buyer. Some auction sites post a list of prohibited items as a guide.
- After the auction closes, sellers are required to ship the merchandise within the time frame designated during the auction or, if no time frame is specified, within 30 days. If you can't meet the shipping commitment, you must give the buyer an opportunity to cancel the order for a full refund or agree to the new shipping date.

Advertising Your Product

- Describe your item or service — and its condition — as fully and accurately as possible, including whether it's new, used or reconditioned.
- Anticipate questions buyers might have and try to answer them in the description of your item or service. When possible, include a photograph of the item. The saying about a picture being worth 1,000 words rings especially true in Internet auctions.
- When putting an item up for auction, set the minimum bid at the lowest fair price you're willing to accept. Specify who will pay for shipping, and add whether you'll ship internationally.
- State your return policy in your auction description, and if you require the buyer to pay shipping costs or restocking fees for returns. Tell bidders where to get follow-up service. If you don't provide service for the item, say where the bidder could get it.

The Art of the Deal

- If a bidder asks a question about the item you're selling or the sales terms, respond as quickly as possible.
- When the auction closes, print all the information about the transaction, making a note of the buyer's identification, the description of the item and the time, date and price of the bid. Print and save a copy of every e-mail you send and receive from the auction site or successful bidder.
- Contact the winning bidder as quickly as possible after the auction closes. That's the time to confirm the final cost, including shipping charges, and to tell the buyer where to send the payment.
- Most sellers in person-to-person auctions require buyers to pay by check or money order because they don't have the capability to accept credit card payments. These payment methods offer fewer consumer protections than credit cards, so be aware that some buyers may not be comfortable using them. Some online auctions and third parties enable sellers to accept credit card payments. Review the terms of these offers carefully. If you accept credit card payments, bill the buyer's credit card account only when you're ready to ship the product.

Who Can Help

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Although the Commission cannot resolve individual problems for consumers, it can act against an individual or company if it sees a pattern of possible law violations. You also may want to

contact your state Attorney General or your local consumer protection office.

For more information from the FTC about your responsibilities when advertising or shipping products, ask for a copy of the [Guide to the Mail and Telephone Order Merchandise Rule](#). Call the FTC toll-free at 1-877-FTC-HELP (382-4357) or access the publication online at www.ftc.gov.