

# FTC FACTS for Consumers

ftc.gov

FOR THE CONSUMER

FEDERAL TRADE COMMISSION

1-877-FTC-HELP



**Could 'Biz Opp'  
Offers Be Out  
for Your Coffers?**

A-1 Pay phones. \$160K (thousand) per year potential....Premium locations.

Huge profits. Distribute candy mints, part-time, full-time....

Work 6 hours/week. Earn 45K+/year. Must sell!

Big \$\$\$. No competition. Low investment.

**I**t's easy to see why ads for business opportunities like these appeal to consumers looking to make extra money: They promise good pay for little effort. But, as many consumers who have answered these ads have learned — and the Federal Trade Commission (FTC) has found — many business opportunity promotions are nothing but scams that take consumers' money up front and fail to deliver on the promises.

If you're a prospective business owner, what can you do to make sure this doesn't happen to you? First, do your homework, including getting pre-investment information in writing. Under the FTC Franchise Rule, most potential business purchasers have the right to receive information about the earnings potential of a business opportunity. Most legitimate business opportunity promoters don't hesitate to give this information.

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Second, research other aspects of the business' performance. One way to do that is to personally interview other people who have bought into the program.

## THE USUAL SUSPECTS

Spotting fraudulent business opportunities is no easy task, but there are certain clues: One may be the type of business opportunity being advertised. Fraud is most often associated with vending machine, display rack, pay phone, medical billing, work-at-home, and some Internet-related business opportunities.

Promotions for fraudulent business opportunities often appear in the classified pages of daily and weekly newspapers and magazines, and online. They also may be marketed in television infomercials and commercials.

The ads use similar bait: Good pay (say, \$160,000 a year) in a short period (weeks or months) for little effort. They trumpet an ideal work situation — the ability to set your own hours, be your own boss, and work from home.



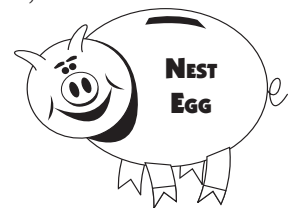
What the ads don't say is that the people behind these so-called business opportunities aren't really interested in helping you run a successful business: They're interested only in getting your money. To get you to buy in, they may mislead you about the business opportunity's earnings potential and promote a "phantom" opportunity that has little chance of succeeding — for example, a business with little or no market. They may doom your chances of success by providing cheap, low-quality or out-dated merchandise; poor quality equipment (such as defective pay phones and vending machines) and locations that get little foot traffic, like rural gas stations, out-of-the-way snack shops or stores in deserted strip malls.

While fraudulent business opportunities prey on consumers, they also harm legitimate businesses. To evade the law, promoters of fraudulent business opportunities often jump from one city to the next, leaving behind unpaid bills for newspaper ads, office rent, phone bills, mail delivery, and other services.

## AN OUNCE OF PREVENTION

If you're considering a business opportunity, do your homework first:

- Look at the ad carefully. If it claims buyers can earn a certain income, then it also must give the number and percentage of previous purchasers who achieved the earnings. If an earnings claim is there — but the additional information isn't — the business opportunity seller is probably violating the law.
- Get earnings claims in writing. If the business opportunity costs \$500 or more, then the promoter must back up the earnings claim in a written document. It should include the earnings claim, as well as the number and percentage of recent clients who have earned at least as much as the promoter suggested. If it's a work-at-home or other business opportunity that involves an investment of under \$500, ask the promoter to put the earnings information in writing.
- Study the business opportunity's franchise disclosure document. Under the FTC Franchise Rule, most business opportunity promoters are required to provide this document to potential purchasers. It includes information about the company, including whether it has faced any lawsuits from previous purchasers or lawsuits alleging fraud. Look for a statement about previous purchasers. If the document says there haven't been any previous purchasers but the



seller offers a list of references, be skeptical: the references probably are phonies.

- Interview *each* previous purchaser in person, preferably where their business operates. The FTC requires business opportunity promoters to give potential purchasers the names, addresses and phone numbers of at least 10 previous purchasers who live the closest to the potential purchaser. Interviewing them helps reduce the risk of being misled by phony references.
- Contact the attorney general's office, state or county consumer protection agency and Better Business Bureau both where the business opportunity promoter is based and where you live to find out whether there is any record of unresolved complaints. While a complaint record may indicate questionable business practices, a lack of complaints doesn't necessarily mean that the promoter and the business opportunity don't have problems. Unscrupulous dealers often change names and locations to hide a history of complaints.
- If the business opportunity involves selling products from well-known companies, call the legal department of the company whose merchandise would be promoted. Find out whether the business opportunity and its promoter are affiliated with the company. Ask whether the company has ever threatened trademark action against the business opportunity promoter.
- Consult an attorney, accountant or other business advisor before you put any money down or sign any papers. Entering into a business opportunity can be costly, so it's best to have an expert check out the contract first. If the promoter requires a deposit, ask your attorney to



establish an escrow account where the deposit can be maintained by a third party until you make the deal.

- Take your time. Promoters of fraudulent business opportunities are likely to use high-pressure sales tactics to get you to buy in. If the business opportunity is legitimate, it'll still be around when you're ready to decide.

### REPORTING POSSIBLE FRAUD

If you suspect a business opportunity promotion is fraudulent, report it to:

- the state attorney general's office in the state where you live and in the state where the business opportunity promoter is based.
- your county or state consumer protection agency. Check the blue pages of the phone book under county and state government.
- the Better Business Bureau in your area and the area where the promoter is based.
- the FTC. File a complaint online at [ftc.gov](http://ftc.gov) or call toll-free 1-877-FTC-HELP (1-877-382-4357).



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The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit [ftc.gov](http://ftc.gov) or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

FEDERAL TRADE COMMISSION	<a href="http://ftc.gov">ftc.gov</a>
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**Federal Trade Commission**  
Bureau of Consumer Protection  
Division of Consumer and Business Education

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