

FTC FACTS for Consumers

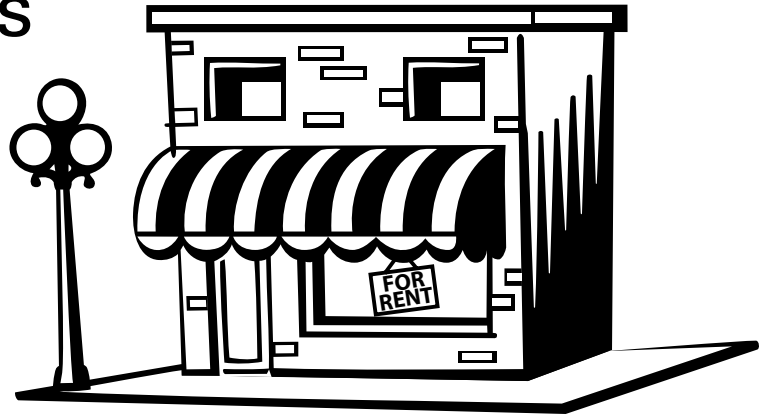
ftc.gov

FOR THE CONSUMER

FEDERAL TRADE COMMISSION

1-877-FTC-HELP

Franchise and Business Opportunities



Want to be your own boss? A franchise or business opportunity may sound appealing, especially if you have limited resources or business experience. However, you could lose a significant amount of money if you don't investigate a business carefully before you buy. The Federal Trade Commission's Franchise and Business Opportunity Rule requires franchise and business opportunity sellers to give you specific information to help you make an informed decision.

USE THE FTC RULE

A franchise or business opportunity seller must give you a detailed disclosure document at least 10 business days before you pay any money or legally commit yourself to a purchase. You can use these disclosures to compare a particular business with others you may be considering or simply for information. The disclosure document includes:

- names, addresses, and telephone numbers of at least 10 previous purchasers who live closest to you;
- a fully audited financial statement of the seller;
- background and experience of the business's key executives;
- cost of starting and maintaining the business; and
- the responsibilities you and the seller will have to each other once you've invested in the opportunity.

Facts for Consumers

If the seller doesn't give you a disclosure document, ask why. Verify the explanation with an attorney, a business advisor or the FTC by calling its toll-free helpline at 1-877-FTC-HELP (877-382-4357). Even if the business is not legally required to provide a disclosure document, you still may want one for your own information.

GET ALL THE FACTS

Before you buy a business:

- Study the disclosure document and proposed contract carefully.
- Interview current owners in person. (They should be listed in the disclosure document.) Visiting them in person may help you identify any that are “shills” — people paid to give favorable reports. Don't rely on a list of references selected by the company because it may contain shills. Ask owners and operators how the information in the disclosure document matches their experiences with the company.
- Investigate claims about your potential earnings. Some companies may claim that you'll earn a certain income or that existing franchisees or business opportunity purchasers earn a certain amount. Companies making earnings representations must provide you with the written basis for their claims. Be suspicious of any company that does not show you in writing how it computed its earnings claims.
- Sellers also must tell you in writing the number and percentage of owners who have done as well as they claim you will. Keep in mind that broad sales claims about successful areas of business — “Be a part of our \$4 billion industry,” for example — may have no bearing on your likelihood of success. Also, recognize that once you buy the business, you may be competing with franchise owners or independent business people with more experience than you.
- Shop around. Compare franchises with other business opportunities. Some companies may

offer benefits not available from the first company you considered. The Franchise Opportunities Handbook, published annually by the U.S. Department of Commerce, describes more than 1,400 companies that offer franchises. Contact those that interest you. Request their disclosure documents and compare their offerings.

- Listen carefully to the sales presentation. Some sales tactics should signal caution. For example, if you are pressured to sign immediately “because prices will go up tomorrow,” or “another buyer wants this deal,” slow down. A seller with a good offer doesn't use high-pressure tactics. Under the FTC rule, the seller must wait at least 10 business days after giving you the required documents before accepting your money or signature on an agreement. Be wary if the salesperson makes the job sound too easy. The thought of “easy money” may be appealing, but success generally requires hard work.
- Get the seller's promises in writing. Any oral promises you get from a salesperson should be written into the contract you sign. If the salesperson says one thing but the contract says nothing about it or says something different, it's the contract that counts. If a seller balks at putting oral promises in writing, be alert to potential problems and consider doing business with another firm.
- Consider getting professional advice. Ask a lawyer, accountant, or business advisor to read the disclosure document and proposed contract. The money and time you spend on professional assistance and research — such as phone calls to current owners — could save you from a bad investment decision.

FOR MORE INFORMATION

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 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.

Facts for Consumers

The Federal Trade Commission (FTC) is the nation's consumer protection agency. Here are some tips from the FTC to help you be a more savvy consumer.

1. Know who you're dealing with. Do business only with companies that clearly provide their name, street address, and phone number.
2. Protect your personal information. Share credit card or other personal information only when buying from a company you know and trust.
3. Take your time. Resist the urge to "act now." Most any offer that's good today will be good tomorrow, too.
4. Rate the risks. Every potentially high-profit investment is a high-risk investment. That means you could lose your investment — all of it.
5. Read the small print. Get all promises in writing and read all paperwork before making any payments or signing any contracts. Pay special attention to the small print.
6. "Free" means free. Throw out any offer that says you have to pay to get a gift or a "free" gift. If something is free or a gift, you don't have to pay for it. Period.
7. Report fraud. If you think you've been a victim of fraud, report it. It's one way to get even with a scam artist who cheated you. By reporting your complaint to 1-877-FTC-HELP or ftc.gov, you are providing important information to help law enforcement officials track down scam artists and stop them!

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Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education