

FTC FACTS for Consumers

'Net-Based Business Opportunities:



Are Some Flop-portunities?

Whether it's recruiting people to sell so-called Internet-access devices, placing kiosks with Internet access in public places, or dealing in other Internet-related activities, consumers are being lured to the vast commercial potential of the Web by business promoters.

However, the Federal Trade Commission (FTC) says that many of these business opportunities are scams that promise more than they can possibly deliver.

The scam artists lure would-be entrepreneurs with false promises of big earnings for little effort. They pitch their fraudulent offerings on the Web; in e-mail solicitations; through infomercials, classified ads and newspaper and magazine "advertorials"; and in flyers, telemarketing pitches, seminars, and direct-mail solicitations.

Here are a few examples of Internet-related business opportunities that didn't live up to their promises:



Example 1: Providing TV access to the Internet

The Pitch: The promoter promises that you can earn thousands of dollars a month by recruiting people to sell devices that provide television access to the Internet.

The Problem: The program claims to pay participants based on how many people they recruit into the program, not on their product sales. That makes the program a pyramid scheme — not a legitimate multi-level marketing plan. Pyramid schemes are illegal. Mathematically, nearly everyone who participates in them loses their money. When there are no new recruits, the pyramid collapses.



Example 2: Selling walk-up Internet access

The Pitch: The promoter claims you can earn big money by selling machines or kiosks that provide walk-up Internet access — for a fee — in places like airports, hotels and shopping malls. The machines cost thousands of dollars, but the promoter says the cost can be recovered because the machines generate “amazing” earnings. And, the company promises to help find profitable locations for the machines.

The Problem: Rather than the high-traffic locations that the promoter promises, the buyer’s machines get placed where demand for Internet access is low. As a result, a would-be entrepreneur can’t possibly make the promised earnings.



Example 3: Giving seminars on making money on the Internet

The Pitch: The promoter advertises that you can earn more than \$150,000 as an “Internet consultant” who sponsors free seminars to teach other consumers how to make money on the Internet.

The Problem: The seminars really feature high-pressure sales pitches for the promoter’s Internet yellow pages or Internet advertising.

And, even though the promoter promises to provide Internet and sales training to buyers — for a fee of several thousand dollars — the buyers never get the promised training. In the end, they never earn the promised amounts.

The FTC offers this advice to consumers considering an Internet-related business opportunity:

- Consider the promotion 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, many 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 purchasers or lawsuits alleging fraud. Look for a statement about previous purchasers. If the document says there have been no previous purchases but the seller offers you a list of references, be careful: the references probably are phonies.

- Interview *each* previous purchaser in person, preferably where their business operates. The FTC requires most 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 www.ftc.gov or call toll free 1-877-FTC-HELP (1-877-382-4357).

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 www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357). 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.

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FEDERAL TRADE COMMISSION	FOR THE CONSUMER
1-877-FTC-HELP	www.ftc.gov

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

June 2002