

## **Recognize Business Opportunity Fraud**

The Federal Trade Commission (FTC) says that fraudulent business opportunities consistently rank in the top 10 categories in its database of consumer fraud complaints. See the FTC's Privacy & Security web page at:

[www.ftc.gov/bcp/menus/consumer/tech/privacy.shtm](http://www.ftc.gov/bcp/menus/consumer/tech/privacy.shtm)

"Some scam artists are really sophisticated," says Dan Salsburg, attorney for the FTC. "They know exactly how to keep consumers from guessing the true nature of their business by rounding up phony references or creating misleading documents."

Salsburg says savvy consumers can learn to spot the telltale signs of fraud. For example, many fraudulent promoters send Spam e-mail or post Internet ads involving:

- Vending machines for candy, soda, snacks or personal care items
- Display racks for greeting cards, CDs, perfume or similar items
- Opportunities to buy into medical billing or envelope stuffing businesses or activities related to the Internet.

Other tip offs include claims of high pay in weeks or months for little effort ("work only hours a week"), as well as claims about working conditions like the ability to:

- "Set your own hours!"
- "Be your own boss!"
- "Work from home!"

The opportunities cost \$5,000 on average, Salsburg says.

According to the FTC, many business opportunities offered through the classifieds or via Spam e-mail have little chance of success. For example:

- A business with little or no demand in the market
- Cheap, low quality or outdated merchandise
- Poor customer service
- Few, if any, locations.

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The FTC says consumers interested in buying a business opportunity must know their rights. "Consumers should know to look for the information," says Salsburg. "If it's not there, the opportunity isn't worth pursuing."

### **The Franchise Rule**

The FTC Franchise Rule helps protect would be business owners from fraudulent promoters' abuses. It requires promoters of business opportunities that sell for \$500 or more to provide prospective buyers with certain information.

For example:

- If the promoter claims, even in an ad, that buyers can make a certain amount of money, the promoter must include the number and percentage of previous purchasers who achieved the claim.
- Promoters also must provide a franchise disclosure document that includes basic information about the promoter's company, including any lawsuits from purchasers or lawsuits alleging fraud.
- The promoter must give potential purchasers the names, addresses and phone numbers of at least 10 previous purchasers closest to the potential buyer.

The FTC advises you keep the following in mind when considering a business opportunity:

- If an ad includes an earnings claim, but not the number and percentage of people who achieved it, the seller is probably violating the law.
- Search the business opportunity's franchise disclosure document for a statement about previous purchasers. If the document says there haven't been any but the seller offers a list of references, they probably are phony.
- Get the list of 10 previous purchasers and interview each in person, preferably where their business operates.

Even if the business opportunity sells for less than \$500 and is not required to provide this information, Salsburg advises consumers to get a description of the opportunity in writing.

"Take your time," he advises. "Promoters of fraudulent business opportunities often use high-pressure sales tactics to get you to buy in. But if the business opportunity is legitimate, it'll be around when you're ready to decide."

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## **Other Preventive Measures**

- If the opportunity involves selling products from a well-known company, call the company's legal department.
- Find out whether the promoter is affiliated with it and ask whether the company has ever threatened trademark action against this promoter or others.
- Consult an attorney, accountant or other business advisor before you sign any papers or pay any money
- If the promoter requires a deposit, your attorney can establish an escrow account until you close the deal.
- 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 if there's any record of unresolved complaints.
- Remember that unscrupulous dealers will change names and locations to hide a history of complaints.

## **How to Report Possible Fraud**

- File a complaint online with the FTC or call toll-free (877) FTC-HELP (877-382-4357).
- Notify the state attorney general's office where you live and where the business-opportunity promoter is based.
- Call your county or state consumer protection agency, listed in the phone book's blue pages under county and state government.
- Alert the Better Business Bureau in your community and where the promoter is based.

**(End)**