

## Looking to Earn Extra Income? Here's How to Avoid Bogus Business Opportunity Offers

**I**t's easy to see why ads for business opportunities appeal to people who want to make extra money: The ads promise good pay and ideal working conditions. But, as many who have answered these ads learn – and as the Federal Trade Commission (FTC) has found – many business opportunity promotions are scams that take people's money up front and fail to deliver on the promises.

If you're a would-be business owner, what can you do to make sure you don't respond to an ad for a bogus business opportunity? First, do your homework, including getting pre-investment information in writing. Under the Business Opportunity Rule, which is enforced by the FTC, 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.

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.

### **Spotting Clues to a Scam**

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, medical billing, mystery shopping, work-at-home, and some internet-related business opportunities.

Promotions for fraudulent business opportunities are common: you will find them 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, \$350 a day; \$2,000 a week; \$160,000 a year) and 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 really aren't interested in helping you run a successful business. That's because they're running a scam. 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; offering supposed "experts" with no expertise; or ignoring your questions and concerns.

While fraudulent business opportunities prey on consumers, they also harm legitimate businesses. To evade the law, they 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:

- Read 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 probably is violating the law.
- Get information in writing about how much money you can make. If the business opportunity costs \$500 or more, the promoter may be required to back up his claims in a written document that includes the number and percentage of recent clients who have earned at least as much as the promoter suggests. Even if the opportunity involves an investment of under \$500, it's a good idea to ask the promoter to put the earnings information in writing.
- Study all materials the business opportunity provides. Under the FTC Business Opportunity Rule, most business opportunity promoters are required to provide certain documents to potential purchasers, which include 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 no one has purchased this opportunity and 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 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. Do a few internet searches by entering the company name, or the name of the

company's CEO or president, and words like "complaints" or "scam." 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 companies whose merchandise you would promote. 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 may hype a "no risk" refund policy and use high-pressure sales tactics to get you to buy in before you've researched the opportunity. Don't rely on a refund policy or money-back guarantee as a substitute for checking out the offer: scammers will make it virtually impossible for you to get your money back. And if the business opportunity is legitimate, it'll be around when you're ready to decide.

## Report Possible Fraud

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

- the state attorney general's office both where you live and 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](http://www.ftc.gov) or call toll-free 1-877-FTC-HELP (1-877-382-4357).

The FTC works 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 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. Watch a video, *How to File a Complaint*, at [ftc.gov/video](http://ftc.gov/video) to learn more. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

FEDERAL TRADE COMMISSION

[ftc.gov](http://ftc.gov)

1-877-FTC-HELP

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