

# Protect Yourself From Unscrupulous Business Opportunities

A business opportunity involves the sale of goods or services that enables the novice entrepreneur to start a business. Typical business opportunities involve vending machines, amusement games or display racks for such items as greeting cards and computer software. Ideally, the vending machines or display racks are located in high-traffic areas, such as malls, airports or shopping centers. .

The promoter of a business opportunity may be responsible for providing vending machines or display racks and finding locations for investors. The promoter may offer to locate the machines for investors, may assist the investor in locating the machines, or may refer the investor to a professional locating service. The promoter may also represent that it will repair or replace broken machines. The promoter may also supply marketing plans, training, or other general guidance. Generally, the operator of the business opportunity is responsible for cleaning and restocking the machines or display racks, making sure needed repairs get done, and collecting the money.

## **Proceed with extreme caution.**

If you detect any warning signs in a business opportunity you are reviewing, you should proceed with extreme caution. If you have concerns about how you are faring with an existing business opportunity and believe there are problems present in your deal, it may be time for you to complain to a regulator.

## **Be skeptical about earnings claims.**

Be skeptical about earnings claims that sound too good to be true. The "bait" on the "hook" of a business opportunity scam is that the person with no experience may be able to work only a few hours a week and earn \$50,000, \$100,000 or more a year. The truth is that making money almost always requires a lot of hard work.

## **Exercise caution when it comes to ads.**

Exercise caution when considering newspaper and magazine ads that contain little more than glowing promises and an "800" number. This is very likely a pitch to lure you into calling a high-pressure telemarketing boiler room operation. Keep in mind that just because an ad appears in a reputable newspaper or magazine does not mean that the information it contains is accurate or legitimate. The con artists pushing bogus business opportunities will make any statement necessary to separate an unwary individual from his or her savings.

## **Review disclosure document.**

Obtain and review the required disclosure documents before money changes hands. Keep in mind that business opportunity and franchise promoters are required to present you with a disclosure document before you sign a contract or pay a fee. If this document is not made readily available, beware! When you get the document, carefully review the portions dealing with risks; the business experience of the company and directors; the history of any lawsuits, fees to be paid and conditions under which fees and deposits will be returned; audited financial statements containing balance sheets for the three previous years; and substantiation for any earnings claims made to you.

**Check compliance with state laws.**

Make sure that the business opportunity is compliant with applicable state registration laws. However, even if a business opportunity promoter complies with the laws in your state governing such deals, there is no guarantee that you will make money.

**Talk to current investors and watch out for "singers"**

You should always take the time to speak with several people who are current investors in the business opportunity that you are considering. The disclosure document must contain a list of the business opportunities' current operators. However, be cautious – a scheming promoter of a bogus business opportunity may line up "singers" who provide phony testimonials.

**Be suspicious if you cannot reach references by phone.**

In one case investigated by the FTC, a promoter used three aliases to pose as an investor. The best way to avoid "singers" is to get the names and addresses of the retail locations where the vending machines or rack display are purportedly located and visit the locations in person. You can then judge for yourself the quality of the machines, their state of repair, and the traffic volume of the location.

**Interview at least five references and ask the following questions:**

Are you happy with your investment?

Has the promoter come through for you?

Are you making the money you thought you'd be making?

Would you make this investment again?

What do you like and dislike about this business opportunity?

What are the names and addresses of the retail locations where your machines are currently located?

**Research the business and the market.**

Make sure that you have a clear grasp of how the business opportunity will work and what demand (if any) there is likely to be in your territory. Don't rely on glowing promises from telemarketers who claim consumers are clamoring to get your product.

**Get professional advice if you need it.**

Don't lose your life savings just because you failed to spend a few hundred dollars to talk to a lawyer, an accountant or another expert. These people will sometimes be able to spot key details that you are missing. Outsiders are sometimes in a better position to review a business opportunity from a neutral vantage point.

**Don't automatically assume that promises of prime sites, speedy repairs, and ongoing assistance will be there when you need them.**

Remember that a bogus promoter will promise you a lot to get your money. Be cautious when you sign up with a firm that is supposed to identify prime sites for your vending machines, display racks, or other items. Keep in mind that many who get taken advantage of in business opportunities lose their money when promoters fail to come through with promised repairs and other ongoing assistance.

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