

Business Opportunity Scams

Hundreds of companies now face legal action filed by the Federal Trade Commission (FCC) and Justice Department because they sold business opportunity (biz opp) scams (dishonest, fake, illegal plans) to persons who want to start their own business (entrepreneurs). Over \$100 million a year is being lost to these scams (illegal activity) promising quick and easy money. Want-to-be entrepreneurs who want easy business income (money) are jumping into the arms of con artists (person who lies to get another person to do something illegal) who claim: “We are not just selling you a business, we put you IN business.” High school seniors and young college students are often the persons approached with promises of fast and easy money businesses deals.



Promises of easy work at home: You are told that you can earn \$2,000 or more per month by starting a home business such as Internet Sales, Craft Work, Medical Billing, Customer Service, Mystery

Shopper. You must buy a Starter Kit with supplies, training, and names of experts to help you. You will be sent poorly written training lessons with no money back guarantee. Lists of experts are out-of-date, or people who never heard of the business. If you used your credit card to pay for a Starter Kit, you may find that your credit card has additional charges you never approved.

Promises of instant riches: A flyer for a Utah snack vending machine company reads: “Many people earn \$36,000 per year in income working only five or six hours per week! Call 1-800-XXX-XXXX. We guarantee 36 prime locations.” In another case, a seller of video game machines, said that an operator had earned \$14,000 from 4 video game machines in 4 restaurants in just one week! (NOT TRUE PROMISES)

Promises of a new idea: A promoter selling a vending machine known as the “Alcohol Neutralizer” offered investors five machines for \$4,500. Installed in bars and taverns, the “Alcohol Neutralizer” was to dispense a herbal pill containing an active ingredient that promised to be able to reduce blood alcohol count (BAC) levels. The promoter said that the pills had been tested as safe and effective by the Food and Drug Administration (FDA) and were backed up by the work of Harvard Medical School researchers — which was NOT TRUE. A study by an Indiana University scientist found that the herbal ingredient in the pills might actually keep BAC levels higher for a longer period of time than if a drinker had never taken the pill.

Tactics Used to Sell Business Opportunity Schemes:

"Start a profitable business" scams are often promoted at trade shows (such as auto, boat, or computer shows) and through newspaper, magazine, and internet ads. Most of the scams make claims such as:

- Quick money and high income! No experience is necessary.
- Promise prime territories (sales areas).
- High-pressure, **decide quick**, sales techniques to pressure a victim into turning over his/her money.
- Promise that YOU are HANDPICKED by the company as a SPECIAL person.



Steps You Can Take To Protect Yourself:

- A. Be careful about claims that sound too good to be true. The “bait” on the “hook” of a biz op scam is that a person with no experience may be able to work only a few hours a week and earn lots of money. The truth is that making money almost always requires hard work . . . and lots of it.
- B. Read the required **written disclosure document** before giving your money. Business opportunities and franchise sellers are required to present you with a **written** disclosure document before you sign a contract or pay money. If this document is not given to you quickly, beware! You may use a written disclosure document in a court as evidence, if needed
- C. Make sure that the business opportunity has met state registration laws. Use the internet to search for your state's Small Business Office to ask for help to identify bogus (fake) business sellers who are trying to “fly below radar” in order to evade (hide from) your state's laws.
- D. Talk to current investors. The disclosure document must contain a list of the business opportunity’s current operators. But be on your guard! A seller of a bogus (fake) business opportunity may line up “singers” — persons who give phony (fake) stories of how great the business is doing. You should visit their business sites to see for yourself!
- E. Research the market. Don’t rely only on glowing promises from those who claim that customers want to buy the product. One business opportunity guaranteed “worst case” income of \$1,220 a month, but the police found that the investor made about \$200 monthly.
- F. Get advice. Don’t lose your life savings just because you failed to spend a few hundred dollars to talk to a lawyer or accountant. These people will be able to spot details that you are missing. Since they are not caught up in your dream for riches, they are in a better position to judge a business opportunity.
- G. **For information, visit Federal Trade Commission: consumer.ftc.gov Click: Jobs & Making Money**



QUICK CHECK:

1. a) What is "biz opp"? b) Define "scams"
c) Define “entrepreneurs” d) Define "con artist"
2. a) Why are entrepreneurs jumping into the arms of con artists? b) Which 2 persons are often approached with these promises?
3. a) List 5 home businesses opportunities that are usually scams? b) What must you buy?
4. a) What did “Alcohol Neutralizer” promise?
b) What did the IU university scientist find?
5. a) Where are "Start a profitable business" scams promoted? b) List 2 claims that may be made.
6. **Step A:** a) What is the bait on hook of a biz op scam? b) What is the truth?
7. **Step B:** a) With what are promoters required to present you? b) When should you beware?
c) Where may you be able to use a written disclosure document?
8. **Step C:** a) Define "bogus." b) What state office will help you identify bogus business sellers?
9. **Step D:** What do “singers” provide?
10. **Step E:** On what should you not rely?
11. **Step F:** List the 2 people that will give you advice. b) Why are they in a better position to judge a business opportunity?
12. What internet site do you visit for more information?
13. a) Have you or any one you know been offered a business opportunity plan? b) Explain.
14. a) From this lesson, list the 2 most valuable tips that will help you spot a fake business opportunity scam.