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## NF00-437 Setting Up Your Own Business Spotting Business Opportunities Among Scams

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## Setting Up Your Own Business Spotting Business Opportunities Among Scams

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Individuals are starting home-based businesses every day hoping to develop a new way to make a living, become their own boss, or supplement their income. Work-at-home schemes are one of the oldest types of consumer fraud. Individuals considering work-at-home offers should be cautious and ask questions prior to getting involved, especially in ones that promise large profits in a short period of time. If they seem too good to be true, they probably are. If purchase of materials or products is required to get started, be on guard. The following are examples of classic work-at-home scams:

### **Envelope Stuffing or Other Mailing Schemes.**

This is one of the oldest and most common scams. According to the Federal Trade Commission (FTC), promoters usually advertise that, for a "small" fee, they will tell an individual how to earn money stuffing envelopes at home. Promises of lots of money, a guaranteed salary or a per-envelope fee are made. Instead, for a fee, a letter giving instructions to place the same "envelope stuffing" ad in newspapers or magazines will arrive. The only way to earn money with this scheme is if people respond to the work-at-home ad.

### **Assembly or craft work.**

These scams often require an investment of hundreds of dollars in equipment or supplies. The entrepreneur may be required to spend hours producing goods for a company that has promised to buy them when completed. For example, a requirement might be the purchase of a sewing or sign-making machine from the company, materials or "kits" to make items such as aprons, baby shoes, ornaments, stuffed animals, or plastic signs. However, after the supplies and/or equipment are purchased and work performed, fraudulent operators don't pay for the products as promised. Often companies refuse to pay for the work because it did not meet "quality standards." Unfortunately, no work is ever "up to standard," leaving workers with relatively expensive equipment and supplies and no income. To sell the products, an entrepreneur must find his or her own market.

### **Internet-Related Business Opportunities.**

Internet-related business opportunities are promoted on Web sites and through e-mail, as well as through traditional advertising methods such as infomercials, classified ads, newspapers, seminars

and direct mail. Although the Internet has great commercial possibilities, everyone who invests does not automatically strike it rich. Remember a company with a flashy Web site is not necessarily legitimate.

Many Internet-related business opportunities target individuals who are not technologically savvy. Ads claim "no computer experience" or "no sales experience required." Examples of these types of scams include: selling machines or kiosks that provide walk-up access to the Internet for a fee, a bogus training program for "Internet consultants" and illegal pyramid schemes that recruit people to sell devices that enable television access to the Internet.

### **Medical Billing Schemes.**

Because competition in the medical billing market is very strong among a number of large and well-established firms, few consumers are able to find clients and generate income from a medical billing business opportunity. These scams are advertised as pre-packaged businesses. For a "small" investment (often as much as \$8,000), a "business start-up package" including a brochure, application, sample diskettes, a contract or licensing agreement, disclosure document, testimonial letters, video cassettes and reference lists can be obtained.

### **Multi-level and Pyramid Marketing Programs.**

Multi-level marketing is a system of selling goods or services through distributors. In a legal multi-level marketing company, the main focus is related to product sales. A genuine multi-level marketing business has an end user - a consumer who will actually buy the product or service. In pyramid marketing programs, the major focus is to sign up more distributors, not to sell products or services. According to the Federal Trade Commission, state laws against pyramiding allow payment of commissions for retail sales of goods or services, not for recruiting new distributors.

New pyramid schemes now are on the Internet in the form of cyber chain letters. People pay to join programs with the promise of big profits from membership fees paid by new recruits. Products are offered as part of membership; however, no money is earned for simply selling products or services to consumers, as in legitimate multi-level marketing plans.

### **Seminars Selling Home-Based Opportunities.**

Some companies travel throughout the United States selling home-based business opportunities usually at seminars and conferences. They are almost always from out-of-state. They promote and sell business opportunities such as vending machines, discount travel memberships, vitamins, scholarship search services and estate planning. Few, if any, consumers who purchase these business ventures make any substantial money.

### **Vending Machine and Display Rack Scams.**

Some business opportunities servicing vending machines or display racks are legitimate. Others are not. Complaints from persons investing money in these types of scams include: non-delivery of equipment after sending initial payment, no follow-up support as promised and refusal to refund money as promised. Those considering buying a vending machine or display rack are entitled to written disclosures as required by the Franchise & Business Opportunity Rule. Information must include the names, addresses and telephone numbers of at least 10 prior purchasers in the area; the number and percent of prior purchasers who have made as much or more sales, income or profits as the seller claims can be made; and an explanation of how the seller knows how much prior purchasers have made, and how any claims about sales, profits or earnings have been calculated. If the seller does not make these disclosures, it is violating federal law.

### **Wealth-Building Scams.**

These companies use infomercials to promote "get rich quick" books, audio tapes, video tapes, computer software, etc. Promoters of wealth-building schemes claim that if you follow their methods, substantial sums of money can be made through real estate, investments and business opportunities. Often these are just empty promises and are essentially worthless.

Additional information about specific scams can be found at the [Federal Trade Commission](#) and the [Better Business Bureau](#) web sites.

## **How Not To Be a Victim.**

Consider the following precautions if you are tempted to respond to one of the previously mentioned schemes:

- Be skeptical about "get-rich-quick" advertising claims.
- Ask companies for written documentation for claims in their presentation, especially about success rates.
- Be aware that "experts" who endorse a product often are paid by the advertiser.
- Be cautious about "testimonials." They may be paid and may not reflect the experience of most consumers.
- Before you buy, decide whether the price reflects a fair market value.
- Be wary of promises of free money or low-interest government loans.
- Do not be pressured to purchase immediately. Good opportunities are not sold through high pressure tactics.
- Be wary of purchasing a program if company representatives give evasive answers or are not willing to answer questions.

## **Where to Get More Information and Assistance**

### **[Federal Trade Commission](#)**

Victims of business scams should report them to the FTC. While the Commission cannot resolve individual problems, they can act against a company if it sees a pattern of possible law violations. Call toll-free (877) 382-4357.

### **[United States Postal Service](#)**

Under Title 18 of the United States Postal Code, there are four major sections that provide protections related to home-based business opportunities. These include 1) frauds and swindles, 2) fictitious name or address, 3) injunctions against fraud and 4) false representations; lotteries. These laws relate to the use of the U.S. Postal Service as part of a business opportunity scam or scheme. For additional information, contact the U.S. Postal Service.

### **[National Consumers League](#)**

They provide information about how to recognize the different types of fraud targeted to existing businesses and advice about what to do if a business is victimized. Call toll-free at (800) 876-7060. Fraud reports are relayed to the appropriate law enforcement agencies, including the FTC and state attorney generals' office.

### **[Better Business Bureau](#)**

The BBB is a nonprofit organization. Complaints and inquiries about a specific company should be addressed to the BBB where the company is located.

## State Agencies

The Consumer Protection Division of the Nebraska Attorney General's office is a source of information about potential business opportunities as well as an avenue to file complaints when victimized. Call toll-free at (800) 727-6432.

## **Reference**

*Ca\$hing In On Business Opportunities*, 1999.

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