Reality Check

The 9 things you must know before buying a business opportunity.

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URL: http://www.entrepreneur.com/article/26618

Business Opportunity of a Lifetime!

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Who wouldn't be interested? For an investment small enough to fit on most credit cards, you can buy a (part time!) job that will kick out $60,000 a year! Where do I sign? To get the full story, let's take a look at two entrepreneurs who answered this ad.

Entrepreneur One calls and learns the opportunity is a rack distribution program for a new line of chocolate bonbons. "Six-figure incomes are common," the salesperson says, "and you will spend no more than two and a half hours a week on this business. You'll buy all product from the company, and location advisors will work with you to place the racks in the best spots in town."

"Even if I lose the entire $1,000," the entrepreneur rationalizes, "I can afford it." After buying the initial inventory, though, he's into it for $5,000, and it starts to look a bit more intimidating.

Six months later, broken display racks line his garage, bonbons are melting in his basement, and what product he has placed in stores is not moving. Let's put it this way: He's a long way from that six-figure income.

This ad also catches the eye of Entrepreneur Two. The difference is that this business opportunity buyer does her homework.

She looks into the product carefully, taking the time to talk to retail store owners in her town about displaying the line (they are not enthusiastic). She checks with the Better Business Bureau and finds out the seller has an unacceptably high number of complaints on file; what's more, three states have taken legal action for trade violations.

So she moves on with her search and finds a stronger business opportunity company with a more attractive product line and a lot less hype in its sales presentation. She visits company headquarters, meets senior management and walks through the manufacturing facility. Retailers show far more interest in this product. She contacts three current distributors who report fairly good success, long hours and strong market acceptance of the products.

Six months later, she's not making a six-figure income-but then, our second buyer was not led to expect pie-in-the-sky results. The business is providing a solid secondary income, one that could allow our savvy buyer to leave her job in a year and pursue the business opportunity full time.

First Things First

The experiences of Entrepreneur One and Entrepreneur Two take place every day in the United States, as hundreds of new entrepreneurs try their wings with entry-level business opportunities. What makes the experiences of Buyer One and Buyer Two so different? Homework, that's what.

Finding the right business opportunity for you will ultimately depend on your good judgment, your business sense, thorough research and street smarts. And as with most things in life worth doing, there are no shortcuts.

Let's take a look at the only way to research a business opportunity investment-one step at a time.

1. Be aware that business opportunities are inherently risky investments. Understand going into it that any business opportunity investment will put your funds at risk. It's just the nature of the beast. Any success you experience will be entirely due to your own drive and ingenuity in using the tools the business opportunity program provides. Of course, you can-and should-take steps to reduce the risks as much as possible (many are noted in "Check It Out" below), but as with any opportunity, do not invest money you are not prepared to lose.

2. Understand the purchase decision is driven by information you don't have. A business opportunity buyer is at an immediate disadvantage. The information you need to make an informed investment is entirely in the hands of the seller, and the seller is selecting the sizzling information he is using to sell you the program.

Take another look at the mock advertisement at the beginning of this article. Of the information selected by the seller, you have learned the earnings potential of the business and the initial investment (part of the story at least), and the advertisement confirms your frustrations with your working life. The seller alone knows the real story of this alluring investment. Your task in this transaction is to level the playing field by digging for the right information.

For many-but not all-business opportunities, the Federal Trade Commission (FTC) requires a disclosure document be given to potential buyers. This document will spell out some of the basic information about the company making the offering.

But even if you are not given a federal disclosure document, 25 states regulate business opportunity sales in various ways. Most of them impose their own disclosure and registration standards. Recently, Illinois adopted a business opportunity law that became effective on January 1. It requires sellers to register with state authorities and provide buyers with complete disclosure at least 10 business days before the sale.

3. Find a business opportunity that will meet your needs. One size does not fit all. Your childhood friend may be entirely comfortable selling lingerie through an exclusive distributorship, while you may want to concentrate on sports equipment. The first step in any business opportunity investment is to examine your needs, dreams, strengths, weaknesses and financial resources. Concentrate on fields that draw on your interests, such as hobbies, crafts, activities and the like.

4. Be prepared to sell. A wise man once said that nothing happens until somebody sells something, and that is never more true than in operating a solo business opportunity. It is fair to say that most business opportunity programs apply the skills of an individual salesperson (that's you) to distribute products or services packaged by the seller. That means you had better be prepared to knock on doors, make telephone calls, hit the pavement, and bring your enthusiasm and personal drive to the effort.

5. Determine if a market exists. No amount of drive and determination can make up for a weak market for the product line or a weak product distribution system. If there is one common flaw in the world of business opportunity sales, it is that so many programs are based on products or services for which there is an immature market or the company is too disorganized to deliver the support needed to distribute products through a national distribution network.

Make your own decision about the need for the product or service you will be handling. Ask your friends and family if they like the product or service, if they would buy it, and what they would be willing to pay for it. Stand on a street corner and conduct your own market survey, or invite neighbors in for coffee and ask them to act as a focus group. If you get a consistently negative reaction from these usually reliable sources, proceed with caution: It may be that there is no real market demand for the product or service.

6. Protect your funds. Business opportunity sales are often structured to the buyer's disadvantage, with substantial payment loaded upfront. Whenever you pay in advance in business, there is a chance your money will be at risk. Products may not be shipped to you on time, the wrong materials may arrive, the other party may go out of business with your funds in his or her pocket, or-it's unfortunate, but it happens-the other party may have no intention of delivering the fair value as was promised. Getting your money back is nearly impossible in most of these situations.

Don't be afraid to negotiate the terms of your purchase. Just because the deal is structured for an immediate, upfront payment doesn't mean that is how you must structure your offer. Nor does it mean that is the only price the seller will accept. The savvy investor will pay at the same pace as the product or services are delivered.

Offer to use an escrow account arrangement so the seller is assured of timely payment, but do not expose yourself to the risks of the front-loaded payment. Then, if a shipment is delayed, the product is not what you ordered, or the quality is unacceptable, you are in a strong position when dealing with the seller. You can refuse the shipment and withhold payment until the situation is corrected.

7. Don't invest for the wrong reasons. The number-one wrong reason for buying a business opportunity is fear-fear of a job layoff, fear of no paycheck, fear of escalating debt, fear of not being able to provide for your family, fear of missing a onetime opportunity. Psychologists tell us fear is a secondary personal motivator and may not take us the distance in building a business. It also affects judgment; fearful buyers may be driven to an impulse investment by a clever sales pitch because they tend to leave their critical judgment facilities back in the shadows of their fear.

A second wrong reason: a blind belief in yourself without regard to the merits of the program you are buying. By all means, don't lose your enthusiasm or douse the fire in your belly driving you to succeed in business. You will need that energy to carry you through the start-up phase of any venture. There is, in fact, no more rare and valuable quality you bring to this dance. The potential problem: An unquestioning belief in your determination to pull yourself up by the bootstraps leaves you vulnerable to the sales pitch used in many business opportunity programs. Sellers will play on your belief in yourself and present their investment as a confirmation of your self-confidence.

The only right reason to invest is based on a rational evaluation of the opportunity. Leave your insecurities at the door.

8. Get training in fundamental business skills. It is easy to believe, while listening to the typical motivating sales pitch, that you can step into an unfamiliar business situation and succeed on sheer determination. Not so. You will need to study the fundamentals, such as sales techniques, negotiation, business organization, basic business law, money and people management. Take the time to learn these skills-it is an investment that will be every bit as important as the purchase of the business opportunity itself.

9. Check 'em out thoroughly. There is no substitute for doing your own research into the background, legitimacy and success of the business opportunity seller whose program you are considering buying. If you do not receive a disclosure statement, make sure you gather the basics: the name and address of the seller, names of owners and principals, copies of any contracts to be signed, written commitments regarding product purchase and delivery schedules, payment terms and a copy of the seller's financial statements. Also write down any significant promises or guarantees made verbally about the program.

Then go to independent third-party sources to check for problems. These include current operators (ask for a list in your area, and contact at least 10 of them), state consumer protection agencies (to check if you're in one of the 25 business opportunity regulation states, see "Laws of the Land" on page 165), the Better Business Bureau, and even the FTC.

Buying a business opportunity has its trap doors, but for the most part they can be avoided by thoroughly understanding the transaction, taking basic steps to protect yourself and adding a healthy measure of good old-fashioned common sense.

Check It Out

A company's marketing materials and salespeople may not tell you everything you need to know about the opportunity. Besides reading the fine print, follow these tips to make sure the business you're getting into is legitimate and right for you.

When investigating any program in which you purchase products for resale:

Find out if the price of any inventory you're purchasing is indeed a wholesale price. Be wary of any initial level of inventory you're required to purchase that seems higher than reasonable.

Distributorships or dealerships aren't likely to be registered or have a disclosure document. Request financial statements, visit the headquarters and talk to other dealers.

Make sure there's an eager, unsaturated market for any product you plan to distribute.

If possible, test the product by purchasing a small amount of inventory. Or ask potential purchasers if they'd be interested in the type of product you're considering selling.

When investigating a licensing opportunity:

Ask for a copy of the license agreement, and consult an attorney to understand the rights being licensed.

If trademarks, copyrights, patents or other proprietary rights are granted with the license, make sure you understand them. Are you authorized to sell the product using the company name, or do you have to come up with your own name? Will marketing materials be supplied?

When investigating a multilevel marketing (MLM) opportunity:

Since success depends on the product, look for a high-quality product or service for which there is a demand.

Pyramid schemes, which require participants to make an investment or purchase in return for the right to recruit others for economic gain, are illegal. Legitimate MLM companies must be genuine retail organizations that market products or services to consumers.

Look carefully at the upfront investment required and determine whether you think it's reasonable. Often, there is no upfront investment, except for a sales kit or demonstration materials sold at cost.

Check for a buyback policy. Legitimate companies buy back inventory and sales kits from distributors who want to leave the program (within a reasonable time period).

When investigating a coin-operated business opportunity:

Be wary if a seller says the machines "find their own locations."

Some companies require you to purchase a certain number of machines; if you're not experienced, don't make a large investment.

Be sure the market isn't saturated with the product. Visit potential locations and gauge demand before you buy.

If you don't receive a disclosure document, find out why.-*Heather Page*

Tip Sheet

To protect yourself from scams, follow these tips from the Federal Trade Commission (FTC) and state authorities:

FTC: Be wary of high-pressure sales tactics. You may be told that the seller's offering is limited, that there is only one territory left, or that this is a onetime reduced price. Don't feel pressured to make any commitment. A good deal today should be available tomorrow.

Florida: Look for warning signs. These include:

Claims that the profits can be achieved easily or with little work or time invested.

A required initial investment that greatly exceeds the fair market value of any products, kits or training.

A large fee payable before you receive anything in return.

Evasive answers by the salespeople or unwillingness to give disclosure documents as required by law.

Maryland: Investigate earnings claims. Any claims about earnings, sales, gross sales or income projections must be based on actual operating history and must be provided as part of the disclosure statement. A franchisor or seller is required to provide you with substantiation of any earnings claims.

Laws Of the Land

Twenty-five states regulate business opportunity sales. For more information on the regulations, check with consumer protection agencies-often a part of the Attorney General's Office-in your state.

Alabama, California, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, South Carolina, South Dakota, Texas, Utah, Virginia and Washington

Sorry, Wrong Numbers

This spring, the Federal Trade Commission (FTC) filed legal actions against seven marketers of prepackaged businesses where the buyer receives the right to use 900-number services to sell information over the telephone. The federal government's action, dubbed Project Buylines, targeted companies it alleges have delivered false earnings claims. The FTC staff noted that few if any investors made promised amounts of revenue that ranged from a few thousand dollars to more than $200,000 a year.

In six of the seven actions, the FTC also alleged that the defendants had violated the FTC's Franchise Rule by failing to deliver requisite disclosure documents to investors. Those documents might have given them information "that would have led them to decide against purchasing the business opportunities," according to the FTC.

In each case, the FTC is seeking court orders that would require the defendants to pay for redress to injured consumers or disgorge their profits to the federal government and would bar similar activity in the future. In two of the cases, the courts immediately issued temporary restraining orders, effectively closing down the businesses, freezing assets, and appointing receivers to manage the companies' affairs pending the outcome of the legal actions.

For More Information . . .

The Federal Trade Commission (FTC) provides a package of information about the FTC Franchise and Business Opportunity Rule free of charge. Write to: Public Reference Branch, Federal Trade Commission, Washington, DC 20580, or call (202) 326-3128.

Contact Source

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