

On a Mission

Any business opportunity purchase demands careful investigation. What's at stake? Only the keys to an entrepreneurial kingdom.

Andrew A. Caffey | August 1, 2002

URL: <http://www.entrepreneur.com/article/25058>

For many entrepreneurs-in-the-making, the perfect business opportunity is the Holy Grail of business concepts. Potential investors seek this objective with the passion and commitment of a medieval knight on a quest. And it's no wonder-legend has it this ideal business opportunity is a self-contained, inexpensive program that will start you on the path toward personal wealth. You'll be able to spend more quality time with your family, take vacations you could never have afforded on your previous salary, and make more money on a Saturday morning than you did clocking 40 hours for "the man."

Before you know it, you'll be leaning casually on a Rolls Royce (a steed worthy of a knight of the Round Table) in front of a splendid mansion surrounded by smiling servants, just like the guy in the advertisement . . . right?

Hold your horses. Sure, knights need to be courageous, aggressive and visionary, but they also need armor. Not only can buying a business opportunity be expensive, but you could lose your entire investment if you make the wrong move.

The Calling

Unlike the gallant quest of Arthur's knights, your search for the perfect business opportunity has a 21st century twist: The Holy Grail of business opportunities isn't a single object. There's no perfect business opportunity for everyone. Each knight should recognize that he or she has individual goals and objectives that are different from those of all other knights. Here are some ways to figure out exactly what you're seeking before you begin your journey:

- Clarify your personal definition of success. Be realistic, and be honest with yourself. Consider the effort and energy you plan to invest, and realize a Rolls Royce may not be in the picture.
- Talk to the people who know you best. Can they see you in business, and do they encourage you to branch out on your own? Although you can't allow others to define you or your ambitions, you should carefully weigh the insightful guidance of the people who care about you.
- Think hard about your personal and business objectives. Do you want a part-time business to supplement your current income? Or are you interested in a full-time career change? Do you like selling, or are you inexperienced in sales and marketing? Would you enjoy telephone sales or do you feel you'd be more effective promoting your products or services in person?
- Do your research. Do you know people who have blazed the same trail? Track them down and get more information on how they started.
- Evaluate your financial resources. Do you have savings you're willing to invest in a risky business venture? Yes, we did say risky venture. Don't be blind to the risks just because you have drive and the determination to succeed. Business, by definition, is risky. Are you willing to put it all on the line and can you afford to lose it all?
- Finally, set realistic goals and prepare to go for them. Remember the wisdom of the ages, which is as true for you as it was for Arthur's knights: If you don't know where you're going, any road will take you there.

Information Quest

Once you've adjusted your armor and saddled up your charger, your next step is to hunt down information on available investment programs. Gallop to the nearest library and read about starting a business. Then find a business opportunity trade show that's coming to your area and make plans to attend. Leave your buying impulses and your wallet at home; on this outing, you're after information only.

The first thing you'll notice at a business opportunity show is that you're not alone in your longing for the perfect business. The aisles will be crowded with other questers. You can easily spot them: They have a furrowed brow and that intense look of concentration combined with eagerness for a deal

and sometimes just a hint of desperation.

You'll also encounter an extraordinary selection of business opportunity programs on display at the trade show. A number of companies will offer to sell you a string of vending machines, hawking everything from headache pills or cigarette lighters to alcohol breath analysis. Others will urge you to join a network of homebased businesses (travel agencies or computer services, for example); and still others will offer the chance to buy a distribution route for anything from ice cream bars or TV directories to snack foods. You'll find prices ranging from a few hundred dollars to as much as \$40,000.

Most trade shows also mix in a sprinkling of franchise offerings, such as quick copy operations, commercial cleaning programs, sub shops, shredding businesses and party theme stores. If you haven't given some thought to the direction of your quest, expect to be quickly overwhelmed by the array of choices.

Adding to your stress, the level of sales hype is high. Sales representatives grab your attention with fast talk and large earnings numbers. You want reliable information about the investment; they're feeding you enthusiastic claims about the extraordinary earnings potential.

Gather all the promotional material you're handed. Take notes as you go along. Collect business cards for future reference. Ask questions: Do you deliver a disclosure document that spells out the details about the investment? Can I have a copy of any contracts I'd have to sign? Do you provide current financial statements on your company?

Obtain a list of buyers who have purchased the program you're reviewing. Call and ask whether it's working for them. Are they making the money they wanted to make? Did the seller do everything it said it would do? What advice do they have for someone considering the program? Would they buy the package again knowing what they know now?

If the seller doesn't provide this key information, the risk of the investment skyrockets. Shoulder your lance and move on.

Evaluate the Prospects

Beware the temptation to evaluate an opportunity based entirely on its money-making potential. That potential is largely illusory at this stage: When all is said and done, the money you'll make will be determined predominantly by your personal effort, talent and persistence. What you need to know from the business opportunity seller and other buyers is that the product quality is consistent and that it will be delivered on time, meets a market need and corresponds with your expectations.

Avoid the fundamental mistake of projecting your optimism onto the business concept. Placing breath alcohol-level analyzers, table-top poker machines or breath-mint vending machines in bars may sound like an exquisitely profitable idea. But for all you know, these machines may be impossible to place due to the legitimate concerns of bar owners: Suppose the machines aren't covered by their insurance. Or, unbeknownst to you but common knowledge among bar and lounge owners, these types of machines may break down often and not make much money.

Don't acquire a garage full of useless machines before you discover the realities of the business. Find out whether there's a real market for the product or service the business opportunity offers. If the market is speculative or the product is so novel there's no established market, proceed with caution.

Disclosure Heraldry

The laws of the Federal Trade Commission and 25 states regulate the sale of business opportunity programs, and most of them require the delivery of a disclosure statement well before the purchase is made. That disclosure statement contains a wealth of information about the seller and its financial standing, as well as the training offered and services provided when you buy into the program. It also contains copies of any contracts you'll be asked to sign.

As good an idea as this is, only a small percentage of business opportunity programs actually comply with these disclosure laws. Many programs fall outside the legal definitions of a regulated business opportunity, while other companies simply ignore the requirements of the law.

Ask the seller's representative early in the sales process whether a

disclosure document is available. If you receive one, review it carefully. It will save you time tracking down the basic information from the seller and may contain the names and addresses of other buyers in your area.

Seek Good Counsel

One way to offset the risks of investing in a business opportunity is to consult with qualified advisors. Ask for help from a mentor, your spouse, a family friend, an attorney or your accountant. One of these trusted advisors might be able to bring a fresh perspective to your decision and help you think it through.

For any substantial investment (read: money you can't afford to lose), seek the guidance of an experienced advisor such as an attorney or an accountant. They'll typically ask tough questions about the investment, which could save you from making a costly mistake.

And yes, it does cost money to get that kind of advice. But although a lawyer might charge you \$500 to review a package and give you counsel, it may save you thousands of dollars that you might have invested in the wrong program. Consider this fee not an unnecessary extravagance, but a reasonable insurance policy premium.

An accountant can run a break-even analysis and tell you how many widgets you have to sell before you begin to make money, as well as how long it should take to earn back your initial investment. Whether this move represents a dramatic career change or a part-time experiment, you need to know the break-even numbers. Quite simply, accountants tell you if the investment makes sense for you.

Check with the Authorities

State and federal authorities may also be able to provide some assistance. Call the Federal Trade Commission's (FTC) consumer help line at (202) 326-3128. The FTC may not have specific information about the investment you're considering, but it does offer some useful general investor information. For you knights of the Net, the FTC's Web site (www.ftc.gov) is also quite useful.

State consumer protection agencies can tell you a lot about investing in

business opportunity programs. Expect some rather shrill warnings about investing in business packages after all, these agencies are in the consumer protection business. Ask whether agency officials know of any investigations or problems with the company you're considering if they do, you'd be smart to look into the situation further.

Your Holy Grail of a business opportunity is out there, but it's up to you to find it. Persistence and critical inquiry are the keys to your quest. Be bold!

Andrew A. Caffey is a practicing attorney in the Washington, DC, area, a former general counsel of the International Franchise Association, and an internationally recognized specialist in franchise and business opportunity law.