

# How To Spot A Scam

The top 10 warning signs of a shady franchise or business opportunity scam

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If you're in the market to buy a business, protect yourself by being on the lookout for these 10 warning signs of a franchise or business opportunity scam:

**1. The Rented Rolls-Royce Syndrome.** The overdressed, jewelry-laden sales representative works hard to impress you with an appearance of success. These people reek of money-and you hope, quite naturally, that it will rub off on you. (Motto: "Don't you want to be like me?") Antidote: Check the financial statements in the Uniform Franchise Offering Circular; they're required to be audited.

**2. The Hustle.** Giveaway sales pitches: "Territories are going fast!" "Act now or you'll be shut out!" "I'm leaving town on Monday afternoon, so make your decision now." They make you feel that you'd be a worthless, indecisive dreamer not to take immediate action. (Motto: "Wimps need not apply.") Antidote: Take your time, and recognize The Hustle for the crude closing technique that it is.

**3. The Cash-Only Transaction.** An obvious clue that companies are running their programs on the fly: They want cash so there's no way to trace them and so you can't stop payment if things crash and burn. (Motto: "In God we trust; all others pay cash.") Antidote: Insist on writing a check-made out to the company, not to an individual. Better yet, walk away.

**4. The Boast.** "Our dealers are pulling in six figures. We're not interested in small thinkers. If you think big, you can join the ranks of the really big money earners in our system. The sky's the limit." And this was in answer to your straightforward question about the names of purchasers in your area. (Motto: "We never met an exaggeration we didn't like.") Antidote: Write your own business plan and make it realistic. Don't try to be a big

thinker-just a smart one.

**5. The Big-Money Claim.** Most state authorities point to exaggerated profit claims as the biggest problem in business opportunity and franchise sales. "Earn \$10,000 a month in your spare time" sounds great, doesn't it? (Motto: "We can sling the zeros with the best of 'em.") If it's a franchise, any statement about earnings (regarding others in the system or your potential earnings) must appear in the Uniform Franchise Offering Circular. Antidote: Read the UFOC and find five franchise owners who have attained the earnings claimed.

**6. The Couch Potato's Dream.** "Make money in your spare time . . . This business can be operated on the phone while you're at the beach . . . Two hours a week earns \$10,000 a month." (Motto: "Why not be lazy and rich?") Understand this and understand it now: The only easy money in a deal like this one will be made by the seller. Antidote: Get off the couch, and roll up your sleeves for some honest and rewarding work.

**7. Location, Location, Location.** Buyers are frequently disappointed by promises of services from third-party location hunters. "We'll place these pistachio dispensers in prime locations in your town." (Motto: "I've got 10 sweet locations that are going to make you rich.") Turns out all the best locations are taken and the bar owners will not insure the machines against damage by their inebriated patrons. Next thing you know, your dining room table is loaded with pistachio dispensers-and your kids don't even like pistachios. Antidote: Get in the car, and check for available locations.

**8. The Disclosure Dance.** "Disclosure? Well, we're, uh, exempt from disclosure because we're, uh, not a public corporation. Yeah, that's it." (Motto: "Trust me, kid.") No business-format franchisor, with very rare exception, is exempt from delivering a disclosure document at your first serious sales meeting or at least 10 business days before the sales takes place. Antidote: "Disclosure: Don't let your money leave your pocket without it."

**9. The Registration Ruse.** You check out the franchisor with state authorities, and they respond, "Who?" (Motto: "Registration? We don't need no stinking registration!") Franchisors are required to register in 15

states; in Florida, Nebraska and Texas, franchisors may file for exemption. Antidote: If you are in a franchise registration state and the company is not registered, find out why. (Some companies are legitimately exempt.)

**10. The Thinly Capitalized Franchisor.** This franchisor dances lightly around the issue of its available capital. (Motto: "Don't you worry about all that bean-counter hocus-pocus. We don't.") Antidote: Take the UFOC to your accountant and learn what resources the franchisor has to back up its contractual obligations. If its capitalization is too thin or it has a negative net worth, it's not necessarily a scam, but the investment is riskier.

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