



Read This Before Investing in a “Business Opportunity” Buy-Back Contract or Co-Op

Franchise and Business Opportunities

Would you like to be your own boss? A franchise, business opportunity, co-op, or growers' association may sound appealing, especially if you have limited resources or business experience. However, you could lose a significant amount of money if you don't investigate a business carefully before you buy. The Federal Trade Commission's Franchise and Business Opportunity Rule requires franchise and business opportunity sellers to give you specific information to help you make an informed decision.

Use the FTC Rule

A franchise or business opportunity seller must give you a detailed disclosure document at least 10 business days before you pay any money or legally commit yourself to a purchase. You can use these disclosures to compare a particular business with others you may be considering or simply for information. The disclosure document includes: 1 names, addresses and telephone numbers of at least 10 previous purchasers who live closest to you; 1 a fully audited financial statement of the seller; 1 background and experience of the business' key executives; 1 cost of starting and maintaining the business; and 1 the responsibilities you and the seller will have to each other once you've invested in the opportunity.

If the seller doesn't give you a disclosure document, ask why. Verify the explanation with an attorney, a business advisor or the FTC by calling its toll-free helpline at 1-877-FTC-HELP (382-4357). Even if the business is not legally required to provide a disclosure document, you still may want one for your own information.

Get All the Facts

Before you buy a business:

- Study the disclosure document and proposed contract carefully.
- Interview current owners in person. (They should be listed in the disclosure document.) Visiting them in person may help you identify any that are "shills"-people paid to give favorable reports. Don't rely on a list of references selected by the company because it

- Investigate claims about your potential earnings. Some companies may claim that you'll earn a certain income or that existing franchisees or business opportunity purchasers earn a certain amount. Companies making earnings representations must provide you with the written basis for their claims. Be suspicious of any company that does not show you in writing how it computed its earnings claims.
- Sellers also must tell you in writing the number and percentage of owners who have done as well as they claim you will. Keep in mind that broad sales claims about successful areas of business-"Be a part of our \$4 billion industry," for example-may have no bearing on your likelihood of success. Also, recognize that once you buy the business, you may be competing with franchise owners or independent business people with more experience than you.
- Shop around. Compare franchises with other business opportunities. Some companies may offer benefits not available from the first company you considered. The Franchise Opportunities Handbook, published annually by the U.S. Department of Commerce, describes more than 1,400 companies that offer franchises. Contact those that interest you. Request their disclosure documents and compare their offerings.
- Listen carefully to the sales presentation. Some sales tactics should signal caution. For example, if you are pressured to sign immediately "because prices will go up tomorrow," or "another buyer wants this deal," slow down. A seller with a good offer doesn't use high-pressure tactics. Under the FTC rule, the seller must wait at least 10 business days after giving you the required documents before accepting your money or signature on an agreement. Be wary if the salesperson makes the job sound too easy. The thought of "easy money" may be appealing, but success generally requires hard work.
- Get the seller's promises in writing. Any oral promises you get from a salesperson should be written into the contract you sign. If the salesperson says one thing but the contract says nothing about it or says something different, it's the contract that counts. If a seller balks at putting oral promises in writing, be alert to potential problems and consider doing business with another firm.
- Consider getting professional advice. Ask a lawyer, accountant or business advisor to read the disclosure document and proposed contract. The money and time you spend on professional assistance, and research-such as phone calls to current owners-could save you from a bad investment decision.

Where to Complain

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into

Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

<http://www.ftc.gov/bcp/conline/pubs/invest/franchse.htm>

B & B Worm Farm, Inc - Order Initiating Investigation Date Filed: 03/19/2003 By Oklahoma Securities Commission

http://www.securities.state.ok.us/Enforcement/Orders/B&BWormFarm_OII.pdf

<http://www.state.tn.us/commerce/securities/EnfOrders/bbWormFarm0050603.pdf>

Here's a post from the *Worm Digest Forum* on 11/27/02 that asks a question about what is the down side of buy-back companies and a response from someone who knows.

Worm Forum

Buy Back Packages

Posted By: Vic

Date: Wednesday, 27 November 2002, at 10:59 a.m.

What is wrong with these programs if you have signed contracts with the company your dealing with? I've read a lot of negative things about these programs, but they've always been generalizations without any specifics.

I understand you can make more money selling worms retail than wholesale, but if you don't want to advertise and market your worms what is the down side of having a constant buyer?

Finally, if some of these operations are scams, which one are above board?

Thanks for your time,

Vic

Worm Forum

Re: buy back packages

Posted By: Kelly Slocum

Date: Wednesday, 27 November 2002, at 12:26 p.m.

In Response To: buy back packages (Vic)

Vic, these companies have done a very good job of keeping the focus in an area they can

address with a positive spin. They tell you that you can grow worms, that they will buy all you can grow, that they do so reliably, and that they will take care of all of the marketing for you.

This sleight of hand technique has duped many intelligent people. What is absent from the sales pitch, however, and what their sales pitch attempts to divert attention from, is how viable is the company and is there a real and ongoing market for large volumes of worms?

If you sign a contract to sell worms back to them for a period of years can you be sure their business plan and/or business practices will enable them to be in business for the entire period of your contract? These companies offer no information at all on the viability of their business plan. A few of the very clear headed folks on this forum routinely ask the very basic question, What does the buy back company do with the worms? To whom or to what industry are the worms sold? None of the buy-back companies will answer, citing concerns over giving away their markets as the reason for the secrecy. Without this information, however, which is supplied by the vast majority of ethical businesses in the US asking for investors or contractors, you have no way of knowing if the company is viable and will be around long enough for you to recoup your total investment costs, let alone see a decent return on that investment. Not one of these buy-back companies have been in business as worm or castings buy-back businesses for more than roughly four years. There is no long-term track record for you to confirm.

Further, the sleight of hand sales pitch has even worked on you, based on your post. You don't seem to question at all the market for worms, you only comment on the income potential between wholesale and retail. The real question is, who is buying worms in quantities so large as to support a company to contract with more than 1500 individual worm growers, none of which have a cap on the biomass of worms that can be sold back to them? Does it seem plausible that those who are the bedrock of this industry, who actually STARTED vermicomposting, who have verifiable experience, and who conducted and published the research on which our industry is based; people like Mary Appelhof, Peter Bogdanov, Scott Subler, Clive Edwards and Jim Jensen have never been contacted by any industry looking for mass quantities of worms, yet some obscure businessman with his background in an entirely unrelated industry is the one approached to supply them? Come on!

The concern for many legitimate workers in the industry is that these buy-back companies appear to be nothing more than smooth talking ponzi schemes. They have no market for worms, no real end users. Instead these worms are simply shipped off to the next person who buys a contract. The problem with this is that the company's payout to the worm grower over the period of the contract is far more than is the buy-in. With no legitimate market for their

worms, these companies will eventually have to pay out more than sales of new worm growing contracts bring in and, thus, go belly-up, leaving the growers holding the bag.

Some of these companies offer information that makes it appear they are being supported by the federal government, supplying product overseas, and some even claim to be working with landfills. The information they supply is not verifiable, however, and is often absolutely false. Anyone can put together a P and L statement and make it look good. That doesn't mean the numbers are real, however, and in many cases they are not.

An interesting exercise is to contact your state and ask for information on a buy-back company that interests you. Find out if the company is registered to do business in your state. You'll find that they almost never are, that they don't even have a license to do business in your area, let alone being registered with the state securities office. What legitimate business fails to register in the state(s) in which they work?

None of us have absolute proof (at this time) that we can show here that any one of these businesses are scams, sadly. I'm learning that it is frighteningly easy to hide and operate a scam and is a slow and difficult process to shut one down. Don't be fooled by the sleight of hand sales pitch of these companies. Make sure they have outlets for their products that ensure they will be around long enough to pay you as they assure you they will. The track record for these types of companies is consistent; they'll take your money and run, leaving you high and dry.

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