

Franchise and Business Opportunity Program Review 1993-2000

A Review of Complaint Data, Law Enforcement and
Consumer Education

PROGRAM REVIEW

Prepared by the Staff of the Bureau of Consumer Protection

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Acknowledgments

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Program Review

This report analyzes the Federal Trade Commission's franchise and business opportunity program from 1993 through 2000. The report is divided into three sections. The first section is a statistical analysis of franchise and business opportunity complaints. It draws from the Consumer Information System (CIS), the Commission's general complaint database. This complaint information includes consumer complaints brought to the Commission's attention directly from consumers, as well as complaints referred to the Commission by external organizations, such as state law enforcement agencies.

The second section is a statistical analysis of Commission franchise and business opportunity law enforcement activities. It includes an examination of Commission investigations and cases, a breakdown of allegations charged in Commission law suits, as well as a description of the correlation between complaints and investigations.

The third section is a review of Commission consumer education activities pertaining to franchises and business opportunities. It includes the number of publications distributed, web accesses and outreach efforts.

The report's Appendix includes additional information regarding several metrics, including tables of raw numbers.

Complaint Data

This section presents an analysis of franchise and business opportunity-related complaint data from 1993 through June 1999 that are currently available in the Commission's CIS system. It does not purport to represent a precise accounting of all correspondence that was possibly submitted to the Commission during the relevant time period. This is particularly true of data prior to 1997. Before 1997, complaint information, especially via telephone calls, was not routinely captured in a centralized database. In 1997, the Commission created the Consumer Response Center (CRC), which standardized complaint handling. At the same time, the Commission began accepting complaint data from non-FTC sources, such as from state law enforcement agencies and from regional offices of the Better Business Bureau. In addition, in the summer of 1998, the Commission established a toll-free number, and in October 1998 the Commission introduced an online complaint form. For these reasons, data submitted after 1996 is the most complete. Nonetheless, the CIS is the single best source of complaint data both before and after 1997.

Methodology

Initial Data Entry

An initial query of franchise and business opportunity-related complaints in the CIS generated 6,468 records. For a test period 1998-1999, these complaints represented between 3.3% and 3.6% of the total number of consumer complaints in the CIS. FTC staff entered information from all 6,468 records into a separate Microsoft Access database ("primary database") according to the protocol described below.

Every complaint record, even if a duplicate or mischaracterized as a franchise or business opportunity, was entered. The primary database included 41 different data fields, designed to capture all relevant information from each complaint. These fields included the date of the complaint; the state of the consumer and company; whether the company offered a franchise, business opportunity, or other venture; the amount of alleged injury; how the offering was advertised; the product or service involved; and the specific complaint allegations. Because many complaints did not have sufficient information to address each of the 41 fields, frequently some fields were left blank on individual records, indicating that no data were available.

Franchise and Business Opportunity Database

FTC staff subsequently reviewed the primary database to determine whether each complaint raised a franchise or business opportunity issue. The review process paid particular attention to verifying the characterization of each record as either a "Franchise," "Business Opportunity," "Multi-Level Marketing (MLM)," "Money-Making Scheme (MMS)," "Miscellaneous Scheme," or "Mischaracterized." Complaints verified as "Mischaracterized" – including, for example, requests for information, complaints about copyright infringement, and various others – were removed. Complaints that could be accurately identified as concerning MLMs or MMSs were removed. "Miscellaneous schemes" – those where insufficient information was provided to permit a more specific characterization – were retained in the database. This review produced a final set of 4,512 complaint records. The 4,512 records generated as a result of this filtering process form the Commission's Franchise and Business

Opportunity Database (“FBOD”). This section of the report exclusively concerns the FBOD data.

Report Organization

The statistical analysis of franchise and business opportunity complaint data is divided into five sections, as described below. Each section includes a summary, applicable charts, and analysis.

Overview: The overview section describes the FBOD generally, characterizing, to the extent known, each complaint as either a franchise complaint or a business opportunity complaint, the source of each complaint, and the complaint dates.

Companies: This section breaks down information on the companies identified in the complaints, including company location and complaints per company.

Consumers: This section highlights information about complainants, including geographic distribution and amount of injury per complainant.

Delivery and Goods: This section details the offerings and the sales process, including how offerings were advertised, what products or services appeared most frequently, and specific complaints about the goods offered.

Expectations, Disclosures, and Post-Sale Issues: This section identifies various other problems the complainant encountered in the course of the business interaction, including earnings claims, misrepresentations about support or training, disclosure issues, or refund disputes.

General Observations

Several results of the FBOD analysis merit mention at the outset. Perhaps most significant is the breakdown of business opportunity complaints relative to either franchise complaints or miscellaneous schemes. Of the 4,512 complaints, 3,392 complaints – more than 75% – involved business opportunities, while only slightly more than 6% were traditional franchise arrangements. Similarly, complaints were lodged against 949 business opportunity sellers, but against only 197 franchisors. This result tends to be consistent with our analysis of consumer injury. The majority of identifiable consumer injury was under \$10,000, and more than 92% of the complaints where injury could be determined involved injury under \$20,000. Injury over \$100,000 was extremely rare.

Second, most complaints involved isolated incidents: where the company could be identified from the complaint, 74% of the records represented a single complaint against a company. Only a few companies appeared to exhibit any pattern of problematic behavior.

Third, there generally has been a steady increase in the number of complaints over time. During the period 1997 through 1999, the period for which the most complete complaint data is available, the number of complaints rose from 1,013 in 1997 to more than 1,600 (extrapolating for the rest of 1999 based on the pace through June of that year). This observation does not necessarily imply an increase in the actual number of potential law violations. Rather, the growing numbers of complaints submitted directly from consumers via the Commission’s online complaint form and use of the Commission’s toll-free number suggest an increasing public awareness of the FTC (in concert with

other consumer protection agencies) as a forum for addressing complaints of this type. For example, while the Commission's online complaint form generated 210 franchise and business opportunity complaints during all of 1998, it generated 208 complaints during the first half of 1999 alone.

Fourth, the number of complaints as distributed by both the company locations and consumer locations tended to correspond to state population, such that more heavily populated states (FL, CA, TX, NY) usually led in both company complaints and consumer residency. One noticeable aberration was a relatively high number of complaints against Utah companies, placing the state in the top five in that category.

Finally, most franchises and business opportunities apparently continue to be advertised by mail and print media; these media represented more than half of the complaints where the advertising type was identified, and the combination of mail, print and telephone comprised almost two-thirds of the known total when the advertising medium was stated in the complaint. The Internet's role, in both advertising and as the subject of the offerings themselves, was less significant. Offerings advertised via the Internet represented less than 10% of the complaints, and offerings where the Internet was an integral part of the business proposal made up less than 5% of complaints where such subject information was available.

Overview

The Overview addresses some of the general metrics identified in the FBOD, including complaint type, complaint date, and how the complaint came to the FTC's attention.

Findings

1. More than 75% – 3,392 of the 4,512 FBOD complaints – concerned business opportunities, while only slightly more than 6% concerned traditional franchise arrangements. The overwhelming majority of the complaints submitted to the Commission, therefore, involved some form of business opportunity.
2. More than 12% of complaints appear to involve vending machine schemes.
3. Most complaints in the FBOD were recorded by the FTC or its Regional Offices. More than 60% of all the complaints were recorded by those two sources, by consumers using the FTC's online complaint form (public users), or via the FTC's toll-free number. The Better Business Bureaus and the National Consumer League together contributed more than a third of the complaints.
4. There appears to be a general increase in the number of complaints over time, if total 1999 complaints are predicted based on the pace through June 1999. This trend persists when franchises and business opportunity complaints are observed separately. Considering the sparse complaints available for earlier years, this observation does not necessarily imply an increase in the number of actual Franchise Rule violations being committed. The recently growing numbers of public user complaints and use of the FTC's toll-free number at least suggest an increasing public awareness of the FTC (in concert with other consumer protection agencies) as a forum for addressing complaints of this type.

Supporting Data and Analysis

Chart A.1

Type of Complaint

This chart presents the breakdown of the three possible complaint types for records in the FBOD. Each of these three categories followed a “Yes/No” protocol, but no record fell into more than one category. The vast majority of these complaints involved the sale of business opportunities.

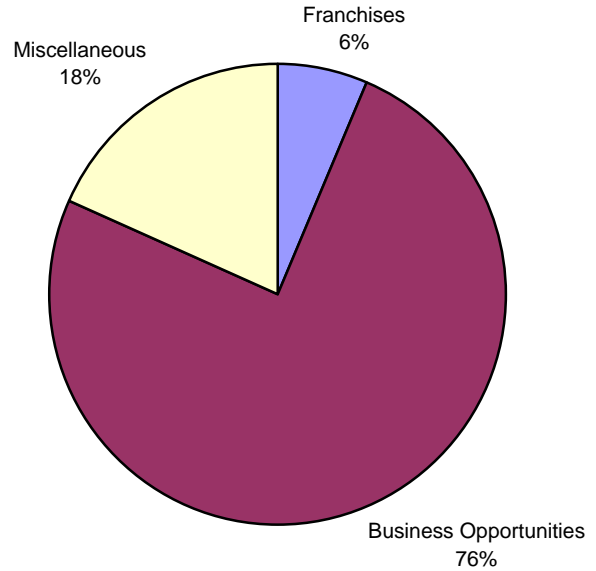
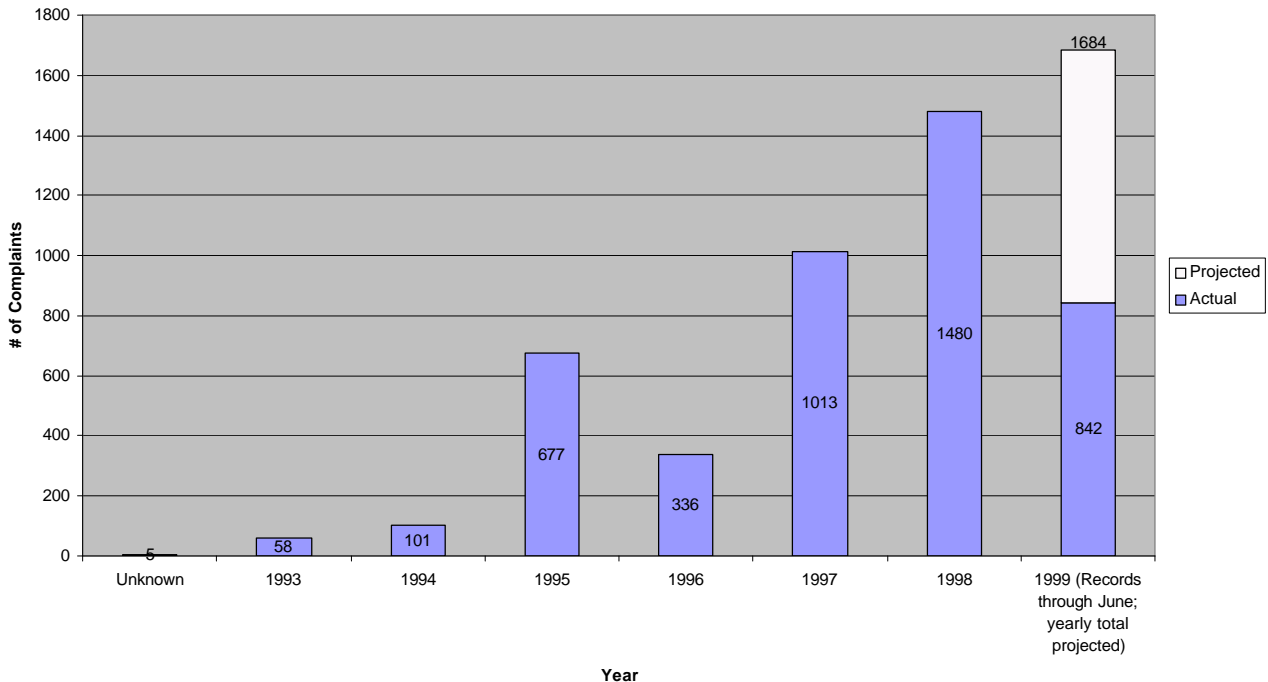


Chart A.2

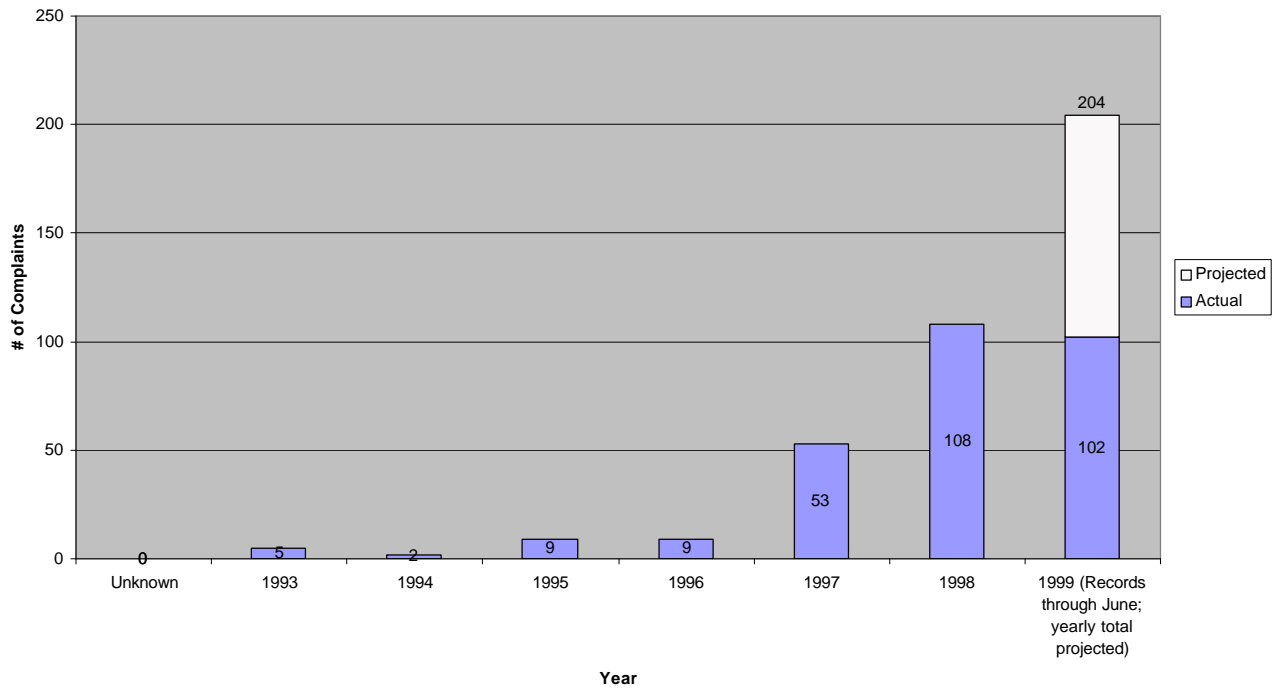
Complaint Count by Year

Chart A.2 tracks the FBOD complaints by time, as entered into the date field. All but eight of the FBOD records noted the year the record was created. The chart indicates a general increase in complaints (except for an upsurge in 1995), a trend that 1999 complaints were, through June, on pace to continue.



**Chart A.3
Franchise Complaints by Year**

Similar to Chart A.2, franchise complaints indicate a general increase by year.



**Chart A.4
Business Opportunity Complaints by Year**

As with Charts A.2 and A.3, business opportunity complaints follow the trend of generally increasing numbers each year.

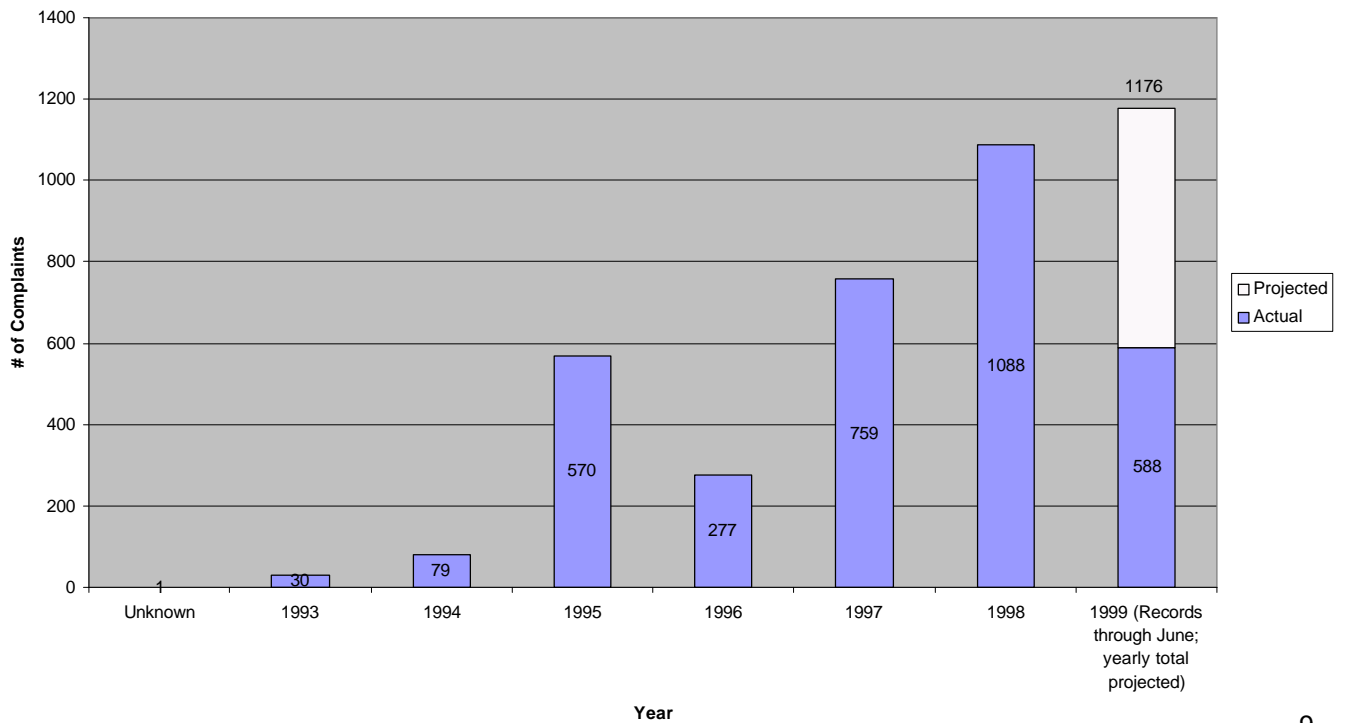


Chart A.5
Complaints by Source

This chart analyzes the source of complaint data. The “All FTC” category incorporates entries from several different offices within the FTC, but FTC Regional Office records are kept separate. The State Law Enforcement category groups records originating with both State Attorneys General and State Departments of Justice. Public Users refers to email complaints sent to the FTC by consumers. FTC sources – home office, regions, direct mail to the agency, and the FTC hotline – make up the bulk of the complaint records.

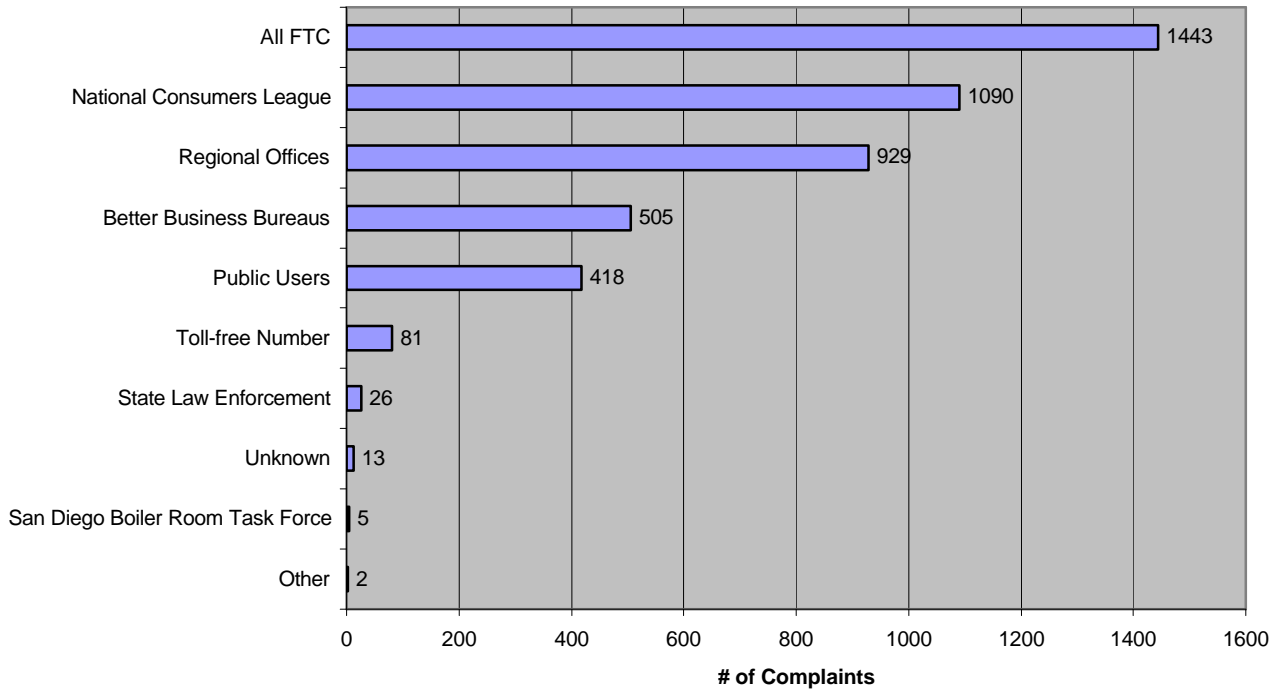
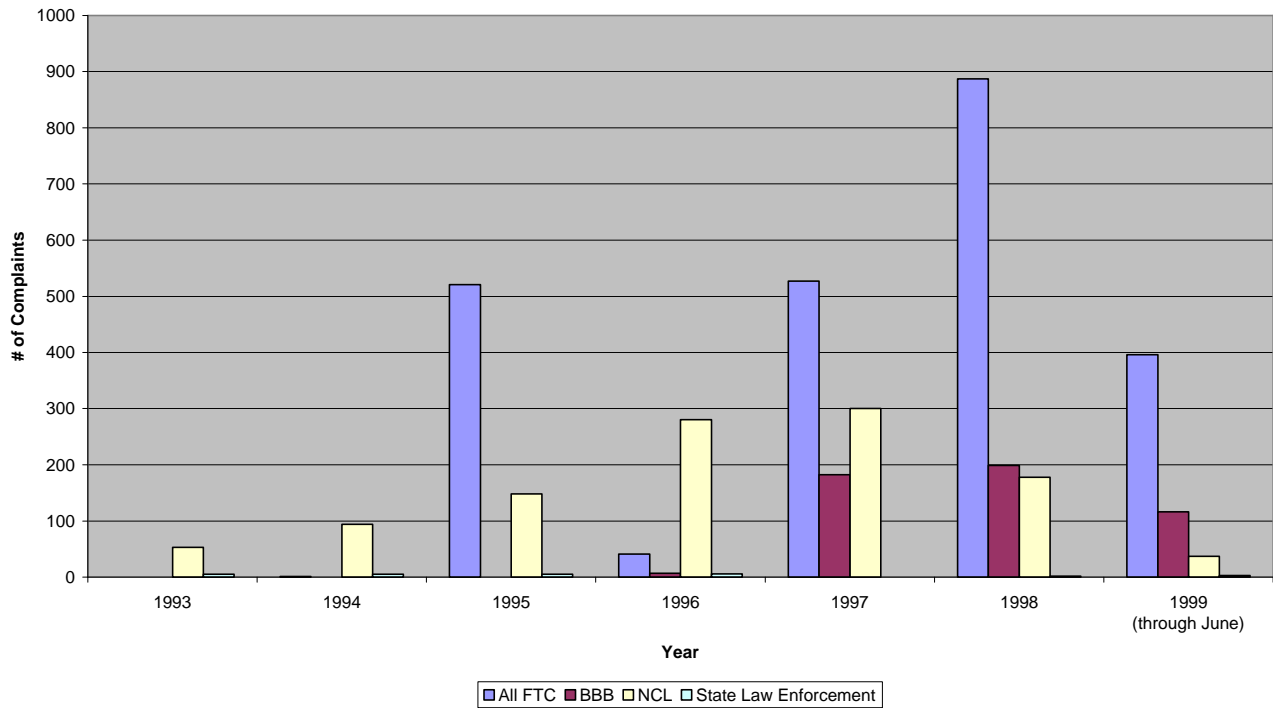


Chart A.6
Top Information Sources by Year

Chart A.6 combines data from the Year field and the Source of Information field, tracking over time the number of complaints from the database's top information sources. The result suggests the emerging importance of Public User and FTC hotline complaints. Note: FTC internal sources are combined with the Regional Office numbers for this chart's FTC category.



Companies

The Companies section breaks down information on the companies identified in each complaint, including company location and complaints per company.

Findings

1. The most populous states tended to exhibit higher complaint counts; Florida, California, Texas, and New York were the most common company locations. One notable exception was Utah, which made the top five states.
2. The majority of complaints – almost 75% – were isolated occurrences. Very few companies generated more than one complaint, and only about 5% of companies had more than 6 complaints.

Supporting Data and Analysis

Chart B.1
Top 10 States, by Number of Companies Complained About

Chart B.1 indicates the states with the most complaints against in-state companies. Complaints generally seemed to follow state population. However, given the sample size involved in the database, the relative ranking of those states with fewer complaints should not be interpreted as definitive. This chart excludes the sizeable category of “unknown” locations – where the complaint did not provide the state of the subject company. This category represented the second highest complaint count.

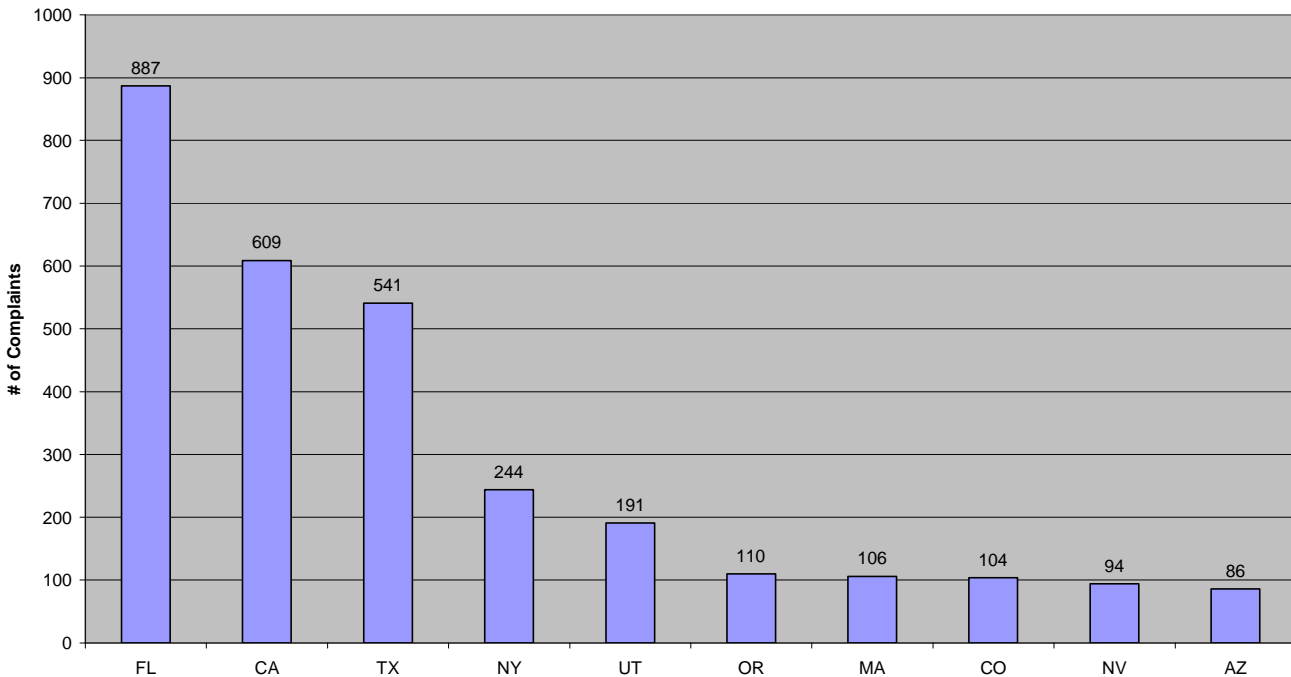
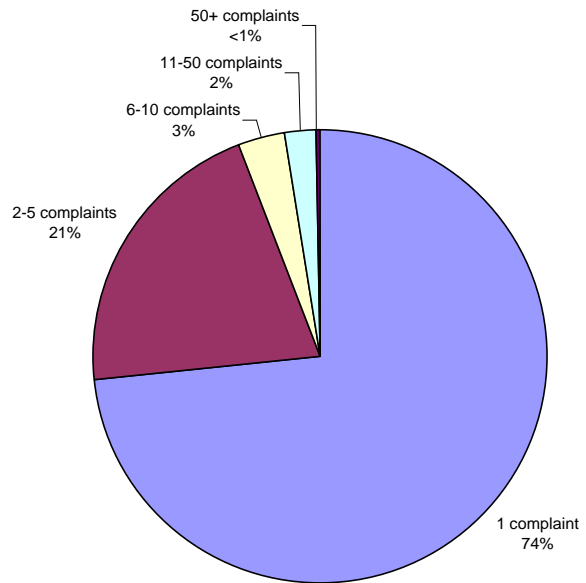


Chart B.2
Complaints per Company

Chart B.2 shows that the overwhelming majority of complaints were isolated; less than 6% of the companies in the FBOD generated six or more complaints.



Consumers

The “Consumers” section highlights information about complainants, including geographic distribution and amount of injury per complainant.

Findings

1. Of the consumers who complained, nearly 75% reported that they had experienced some financial injury.
2. More than 90% of identifiable consumer injury amounted to less than \$20,000 per consumer. Instances of injury over \$100,000 were extremely rare. However, when comparing business opportunities and franchises separately, complaints about franchises tended to report higher injury amounts. About 17% of franchise complaints indicated injury over \$20,000.
3. The more populous states tended to exhibit higher complaint counts: California, Texas, Florida, and New York were the most common consumer locations.

Supporting Data and Analysis

Chart C.1
Top 10 States, by Number of Consumer Complaints

Chart C.1 indicates the states with the most consumer complaints. Complaint volume generally seemed to follow state population. However, given the sample size involved in the database, the relative ranking of those states with fewer complaints should not be interpreted as definitive. This chart excludes the sizeable category of “unknown” locations — where the complaint did not provide the complainant’s state. This category represented the fifth greatest complaint count.

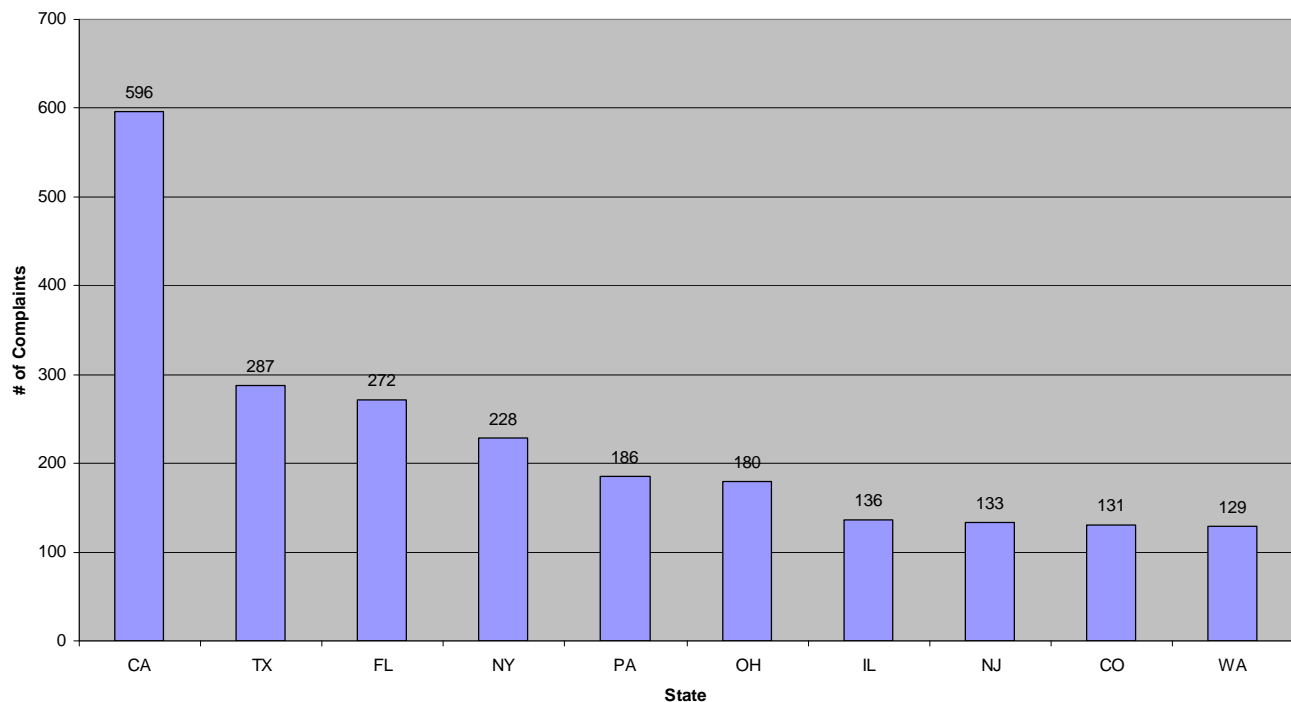


Chart C.2
Amount of Injury

Chart C.2 shows there was a wide range of injury to individual consumers, but most of the identifiable injury fell under \$20,000 per consumer. Injury amount, however, was not stated in a substantial number of the complaints.

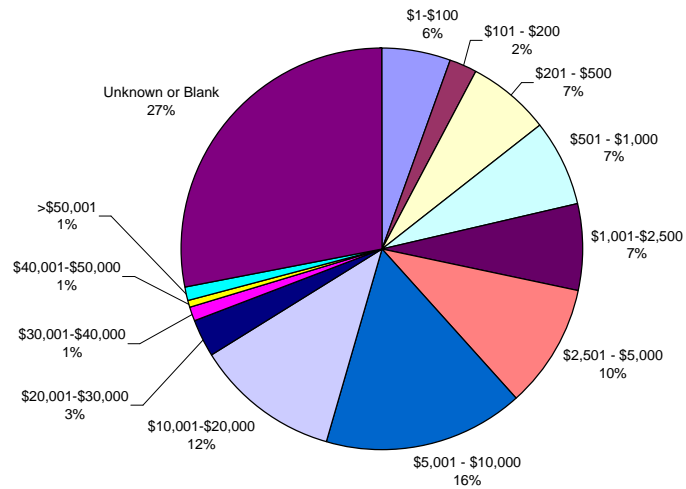


Chart C.3
Amount of Injury (unknowns or blanks omitted)

Chart C.3 indicates that where the amount of injury was specified, the most frequent amounts fell between \$2,500 and \$20,000; these made up more than 50% of the known total.

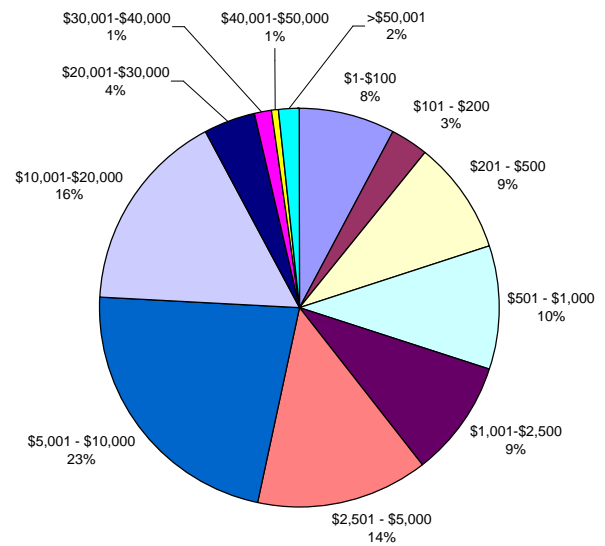


Chart C.4 Franchise Consumer Injury

Chart C.4 shows consumer injury figures for franchise records, where injury amount was available. While the \$2,500 to \$20,000 range is predominant, franchise complaints report relatively more injury in the \$20,000+ brackets.

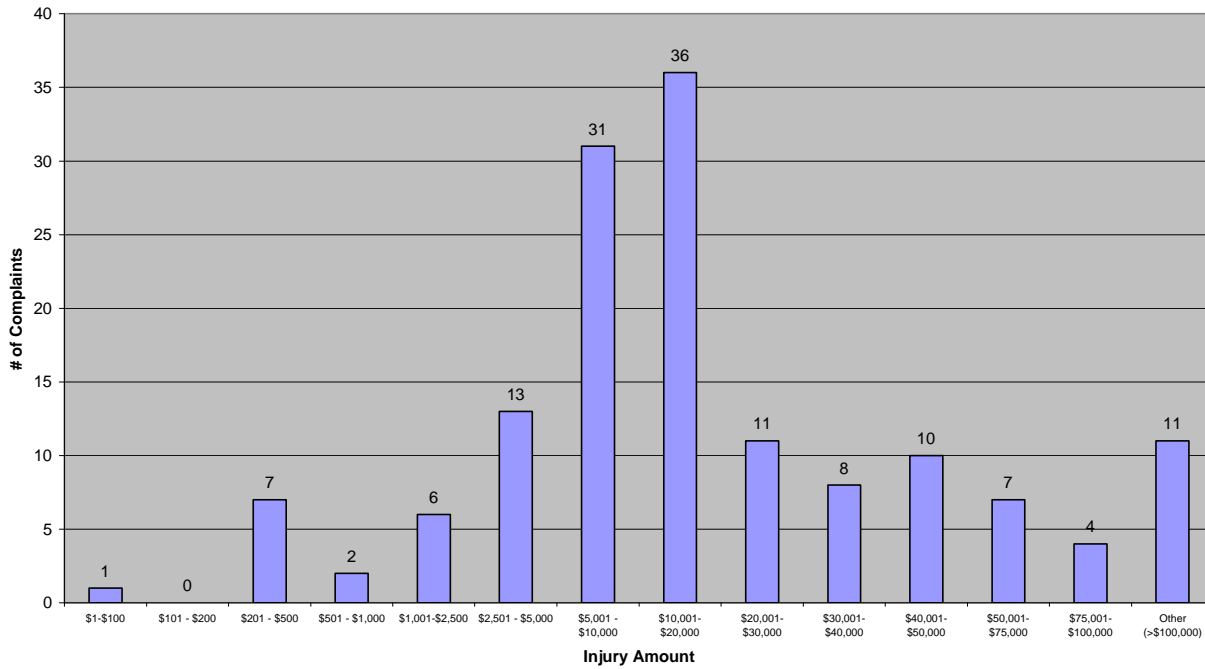


Chart C.5
Business Opportunity Consumer Injury

This graph shows consumer injury figures for business opportunity records where injury amount was available. It reinforces the frequency of injury in the \$2,500 to \$20,000 range and indicates the rarity of very high injury amounts for business opportunities.

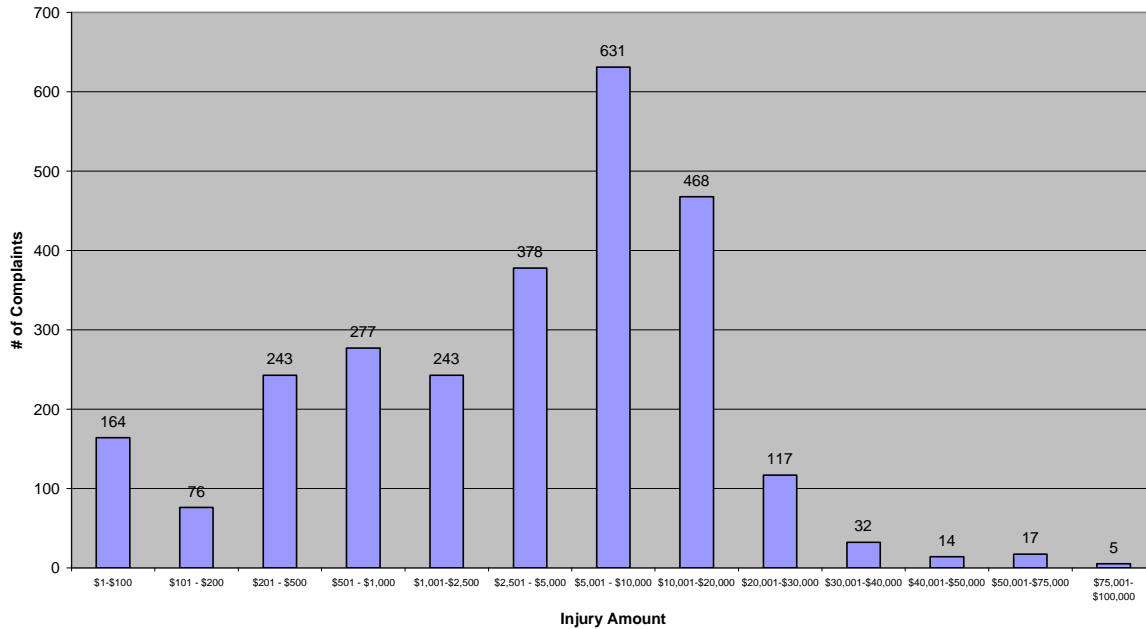
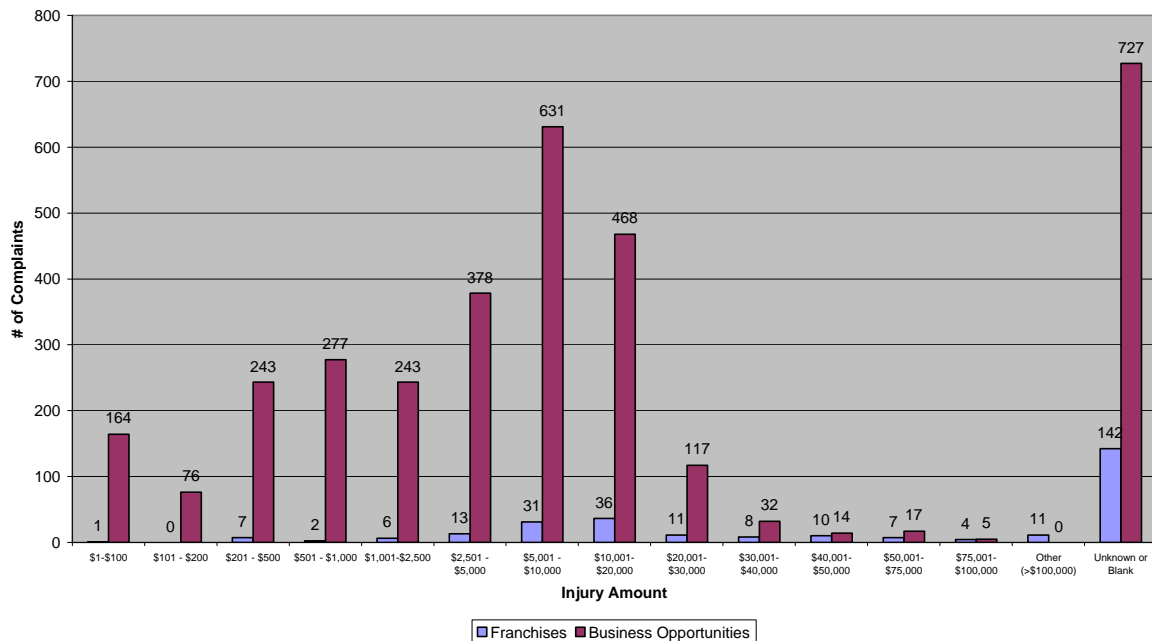


Chart C.6
Franchise and Business Opportunity Consumer Injury

This graph contrasts the injury amounts reported for franchises and business opportunities, highlighting the somewhat divergent injury ranges as well as the prevalence of business opportunities in the database.



Delivery and Goods

The “Delivery and Goods” section details the offerings and the sales process, including how offerings were advertised, what products or services appeared most frequently as an integral part of the offering, and specific complaints about the goods offered in connection with the offering.

Findings

1. Traditional advertising media – print, direct mail, and phone – remain the most important methods for publicizing both franchises and business opportunities. Advertising via email and the Internet made up less than 10% of the complaints where the medium was stated.
2. The complaints relate to a very wide range of products and services, although medical billing and pay phone sales were among the most frequently occurring.
3. The most common complaint about goods was non-delivery, cited in more than 10% of cases.

Supporting Data and Analysis

Chart D.1
How Advertised

Chart D.1 identifies how consumers originally became aware of the franchise or business opportunity. Although this information was only available for about half of the complaints, traditional media appear to remain the most frequent means of contact.

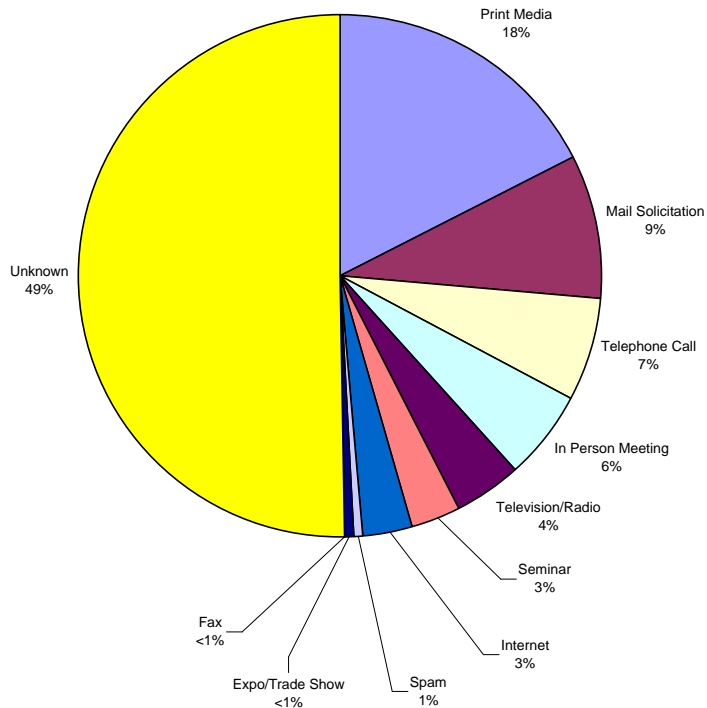


Chart D.2
How Advertised (non-values omitted)

Chart D.2 indicates the breakdown of the records for which the advertising medium was stated in the complaint. Print and mail together make up more than half of these complaints.

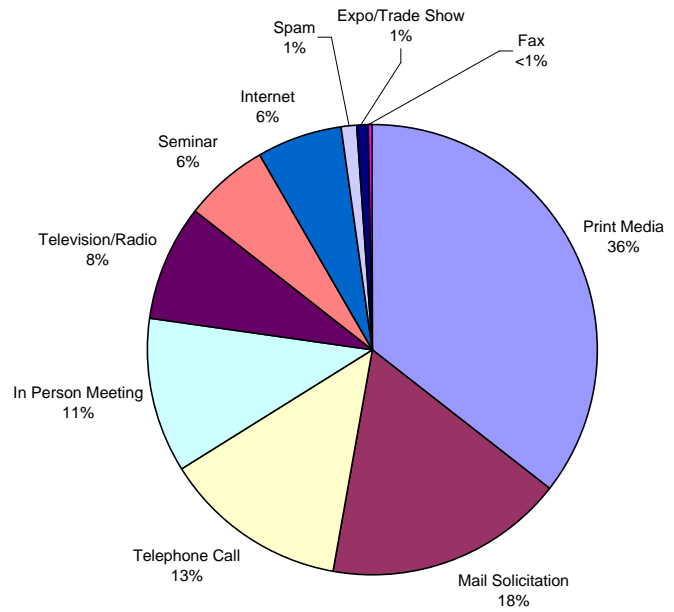


Chart D.3
Top 15 Products

Chart D.3 shows the product categories that received the most complaints in the database. Product type information was available for 659 of the records. The complaints identified a wide range of products, falling into 124 different categories.

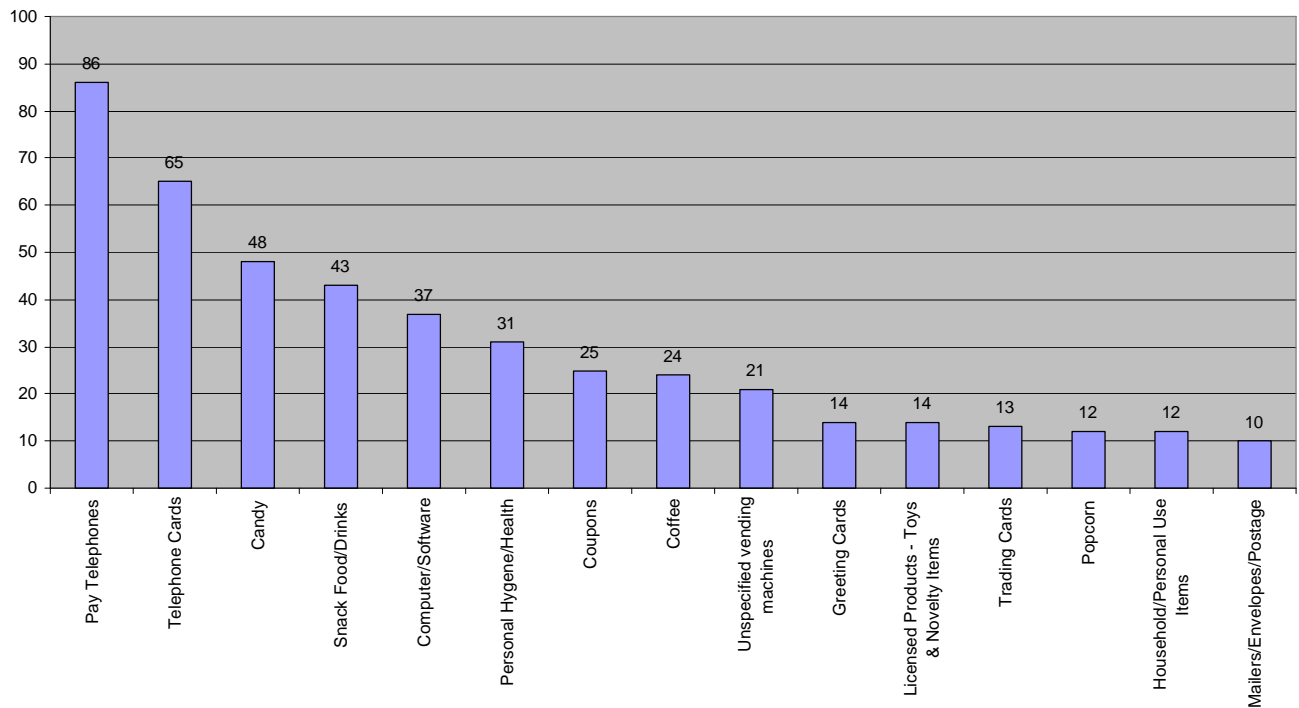


Chart D.4
Top 15 Services

Chart D.4 shows the service categories that received the most complaints in the database. Service type information was specified in 628 of the records. Medical billing was the dominant source of complaints, although as with product types, there was a wide range of services identified in 83 categories.

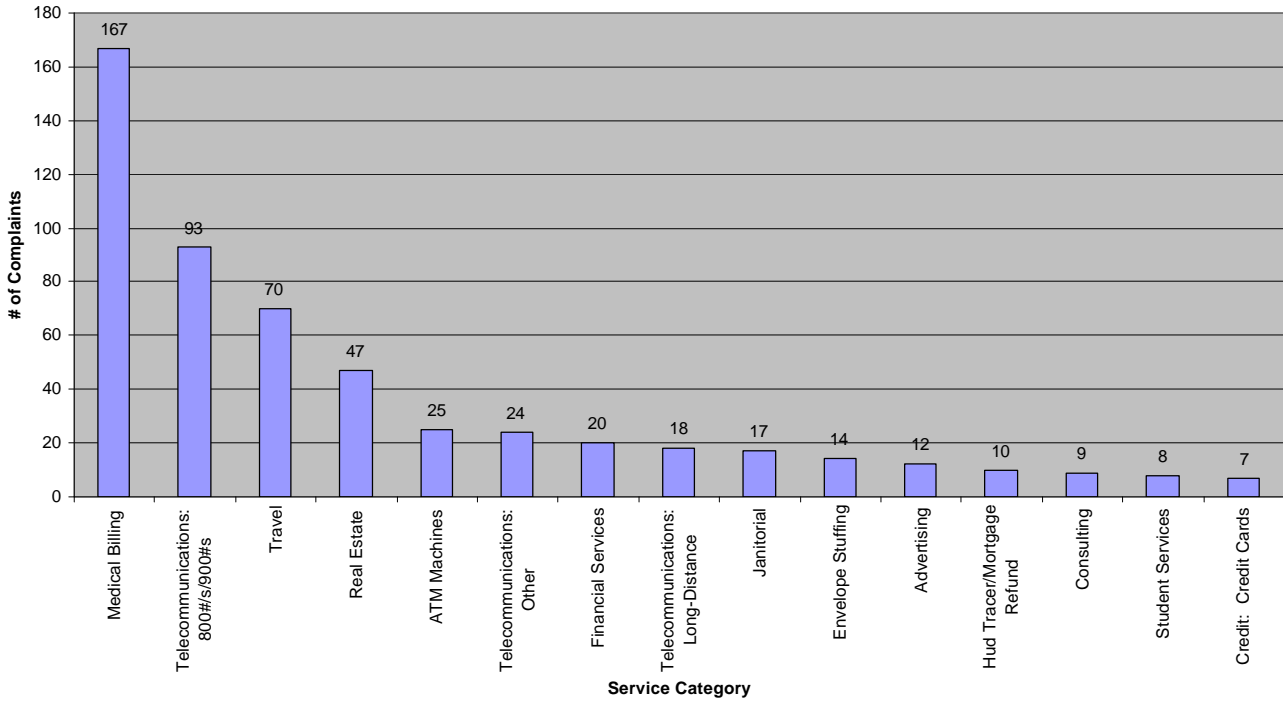


Chart D.5
Top Internet Offerings

Internet offerings represented a relatively small proportion of the database complaints. They comprised 22 different categories within the 179 records where information was available. Chart D.5 identifies Internet shopping malls as the leading cause of Internet opportunity complaints.

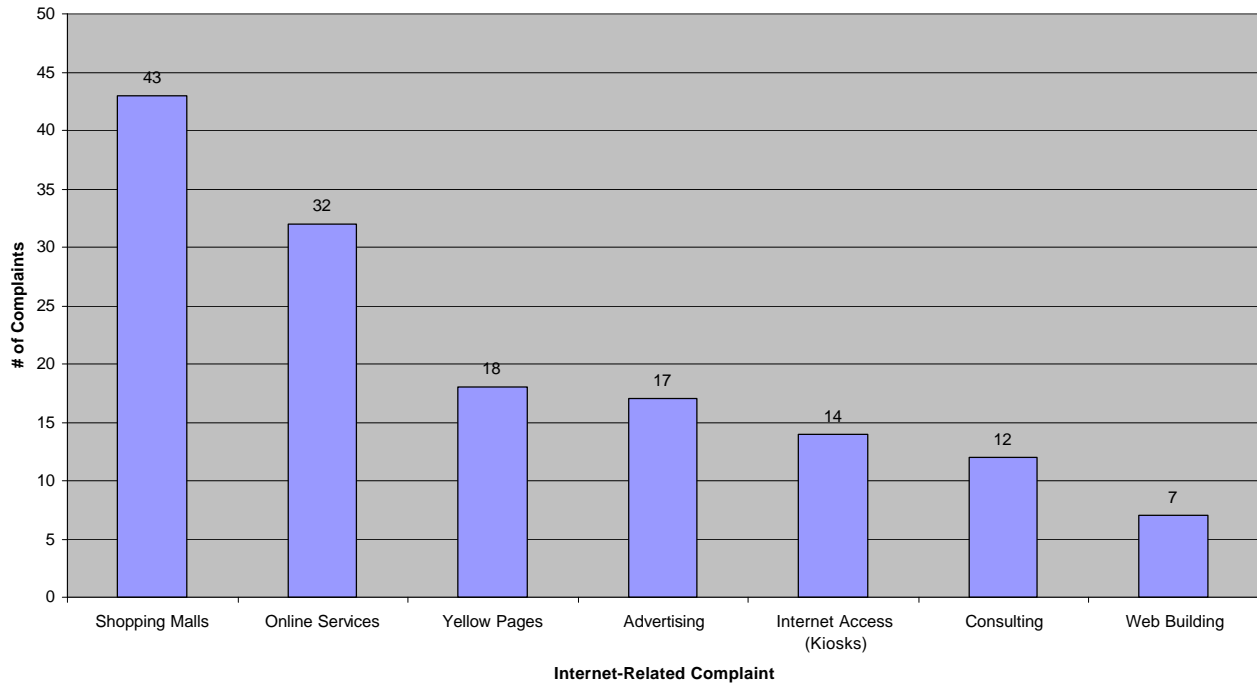


Chart D.6
Complaints About Goods

Chart D.6 displays goods-related complaints. Non-delivery was the most common complaint from franchise and business opportunity purchasers, occurring in more than 10% of all records.

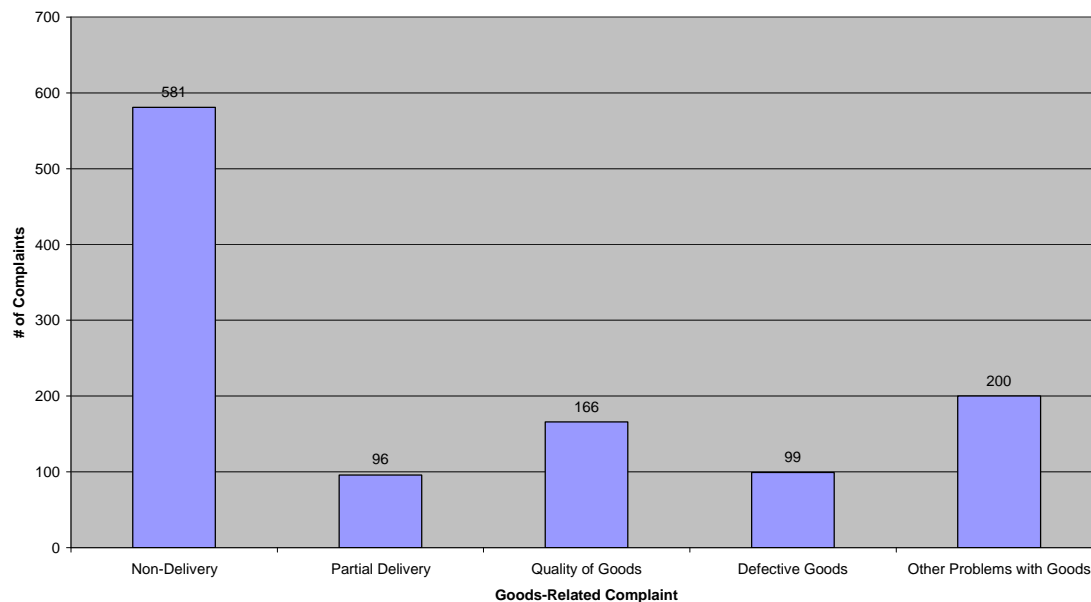


Chart D.7
Complaints About Franchise Goods

Chart D.7 confirms that for the subset of franchises, non-delivery was still the dominant complaint.

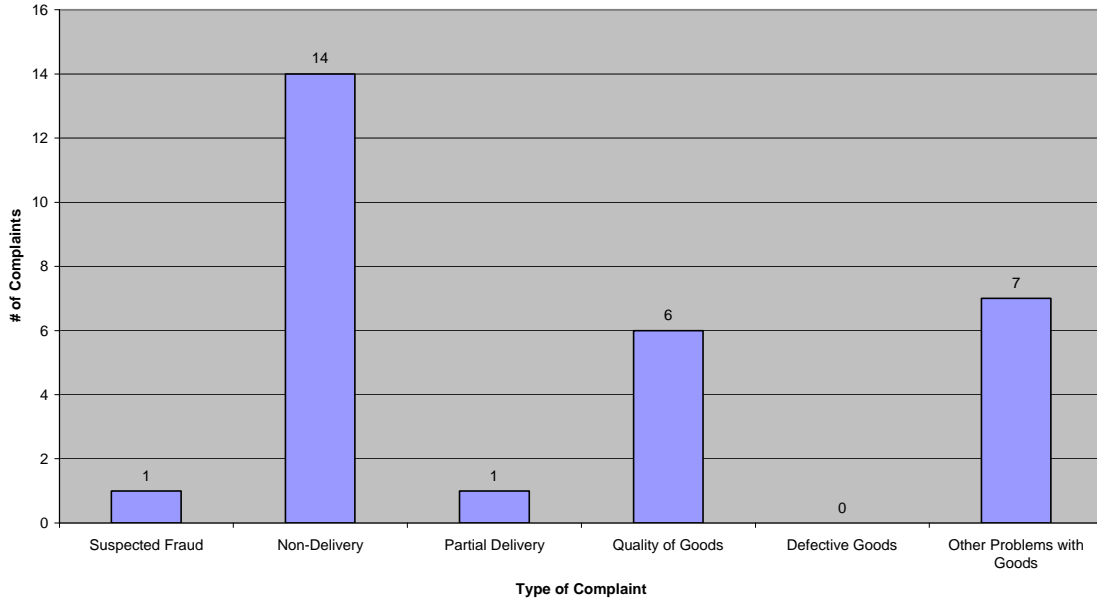


Chart D.8
Complaints About Business Opportunity Goods

The subset of business opportunity complaints reflected a similar distribution of goods-related issues, with non-delivery again the most common. Chart D.8 indicates that defective goods were a more frequently identified problem for business opportunities than for franchises.

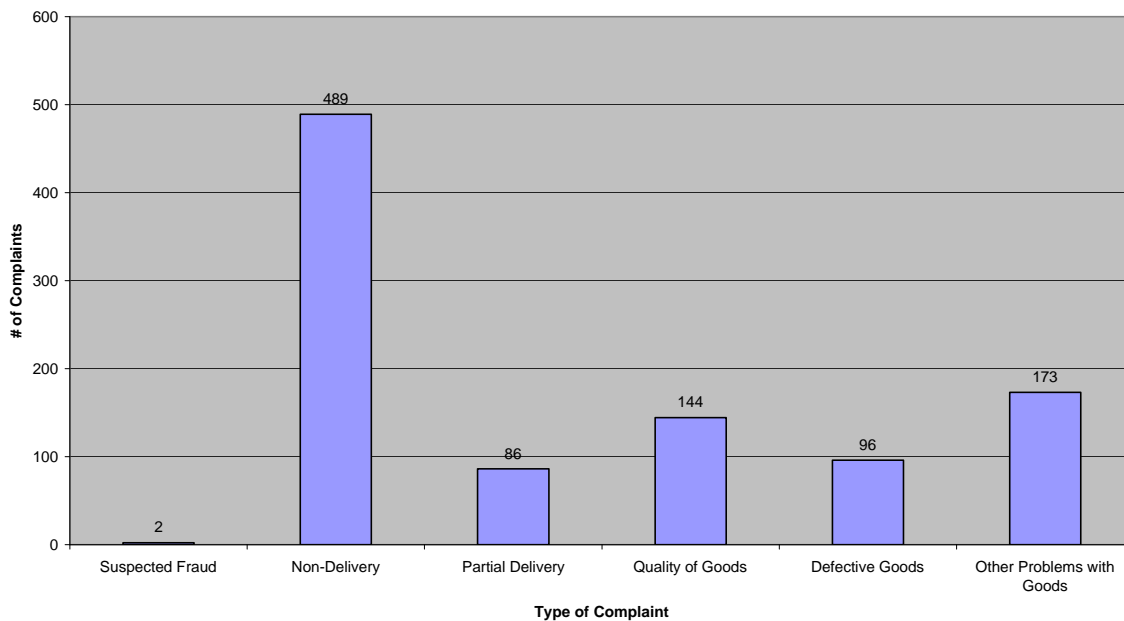
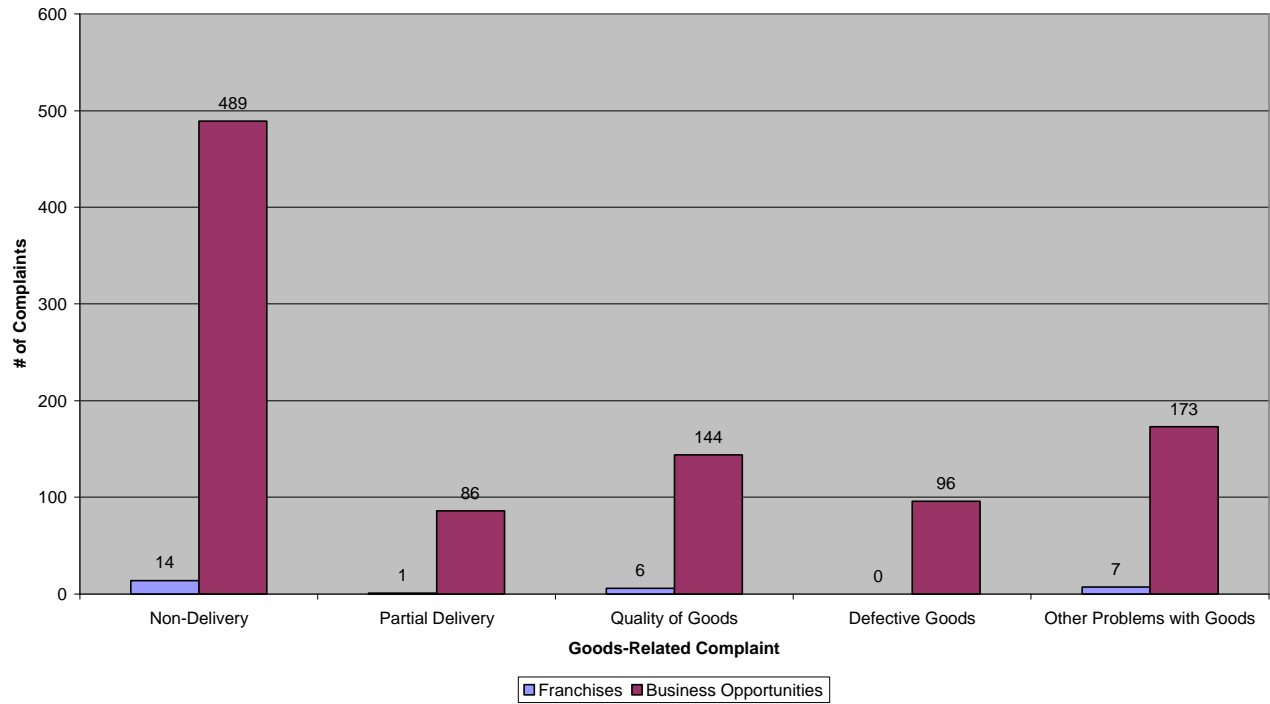


Chart D.9 Franchise and Business Opportunity Complaints About Goods

Chart D.9 compares the relative frequency of franchise and business opportunity complaints in various goods-related complaint categories.



Expectations, Disclosures, and Post-Sale Issues

The “Expectations, Disclosures, and Post-Sale” section identifies various other problems encountered in the course of the business interaction, including earnings claims, misrepresentations about support or training, disclosure issues, and refund disputes.

Findings

1. More than 10% of records included complaints about earnings claims. Lack of support or of promised locations each appeared in almost 5% of records.
2. Problematic disclosure issues (such as the absence of a disclosure document) were proportionally more frequent for franchises than for business opportunities.
3. Many complainants raised post-sale issues. Nearly 25% of records indicated that the complainant wanted to cancel, and more than 20% of records identified a refund policy issue or the inability to obtain a requested refund.

Supporting Data and Analysis

Chart E.1
Expectations Not Met

A large number of records reported that the description of the franchise or business opportunity included specific earnings claims. Chart E.1 also indicates that various support problems were among the most common complaints raised by franchise and business opportunity purchasers.

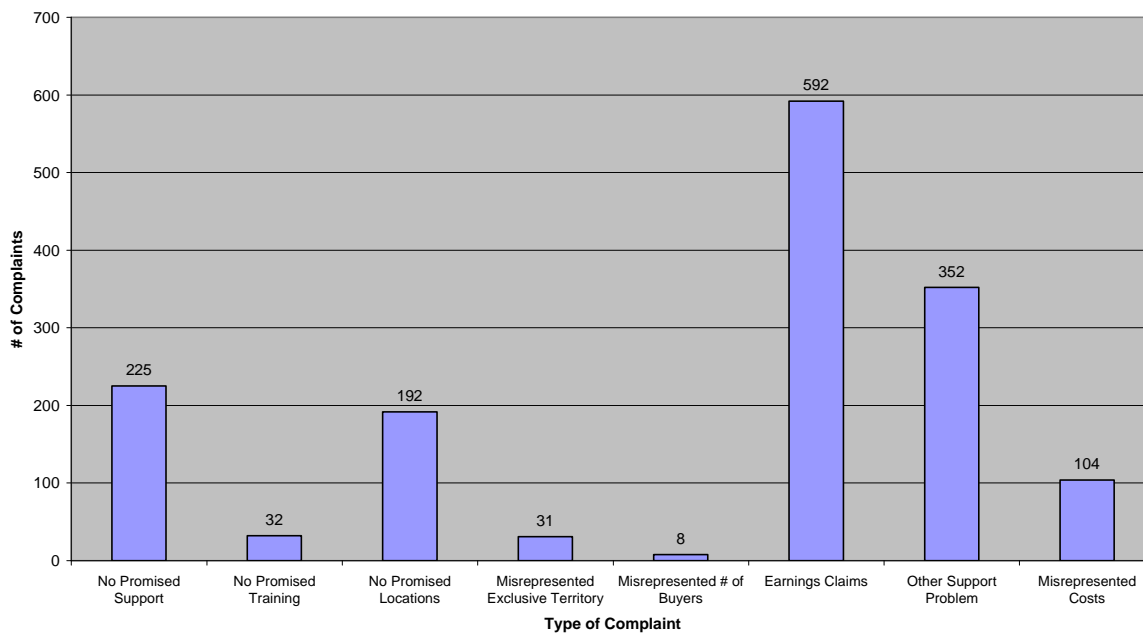


Chart E.2
Franchise Consumer Expectations Not Met

Chart E.2 indicates that territory and cost misrepresentations and lack of promised support were, proportionally, slightly more significant in the subset of franchise complaints than in the database as a whole.

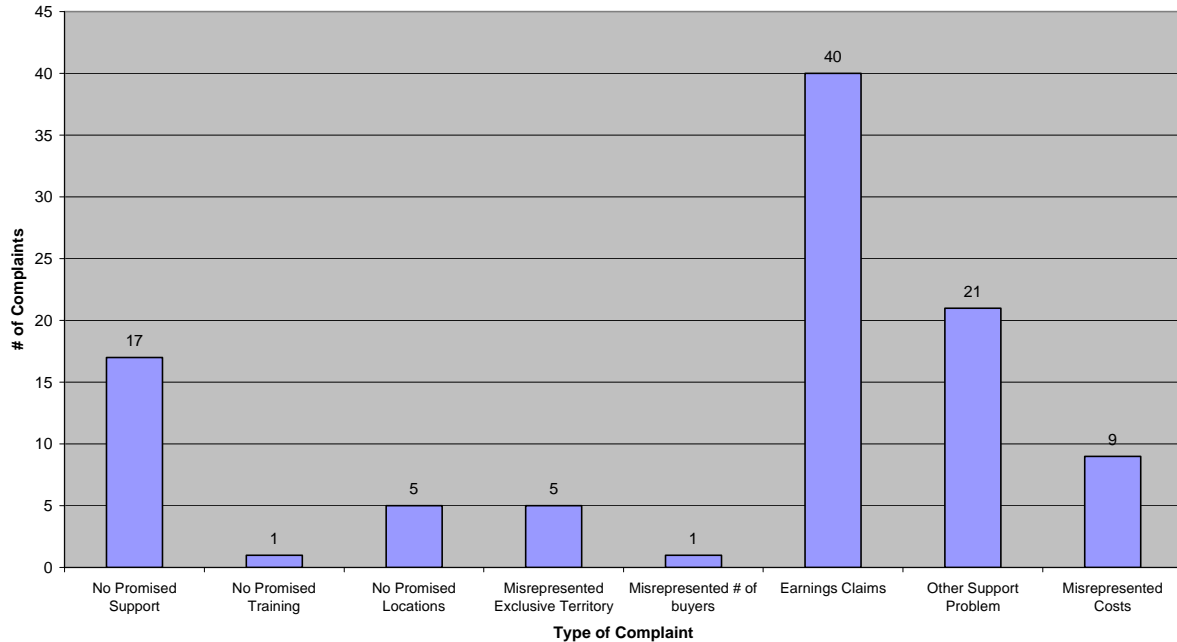


Chart E.3
Business Opportunity Consumer Expectations Not Met

Chart E.3 reinforces the frequency of earnings claims, support problems, and location complaints for the subset of business opportunities.

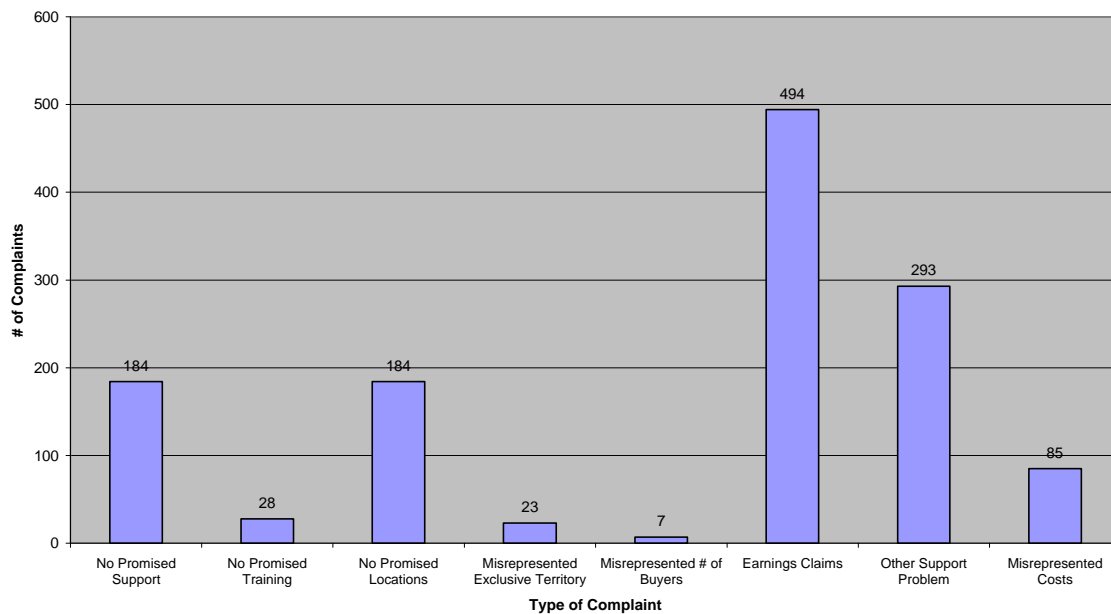


Chart E.4
Franchise and Business Opportunity Consumer Expectations Not Met

Chart E.4 compares the relative frequency of franchise and business opportunity complaints in several expectations-related complaint categories.

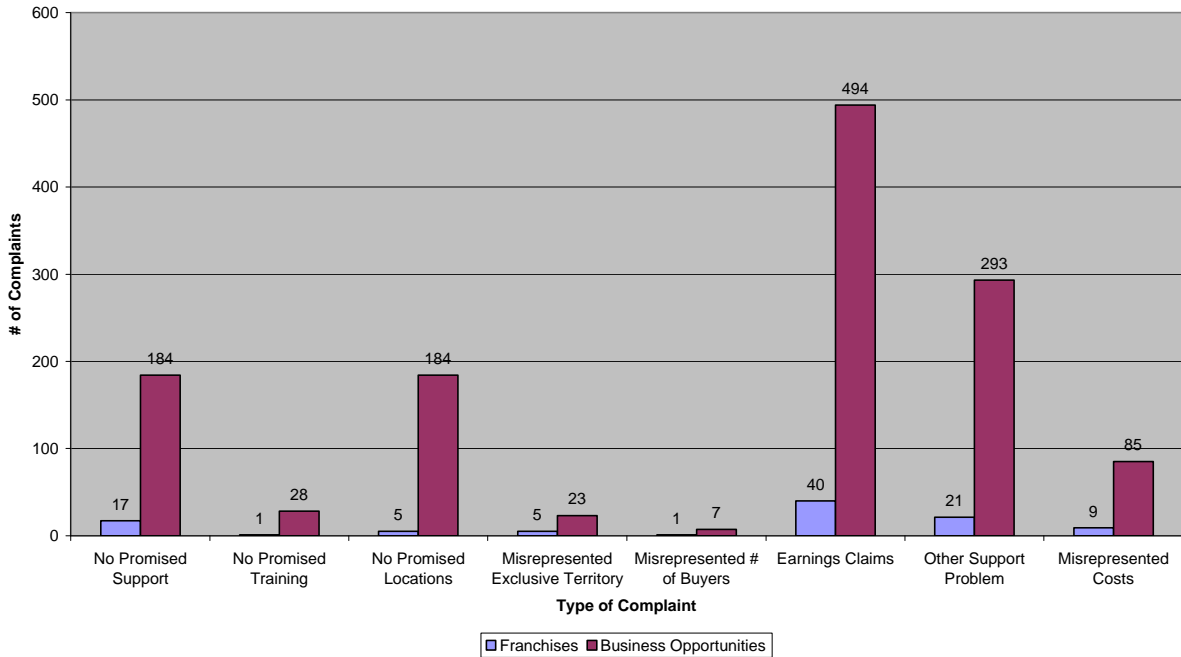


Chart E.5
Disclosure Questions

A relatively small number of consumers specifically indicated either that they had received no disclosure document or that some other substantive disclosure had not been made prior to the sale of the franchise or business opportunity.

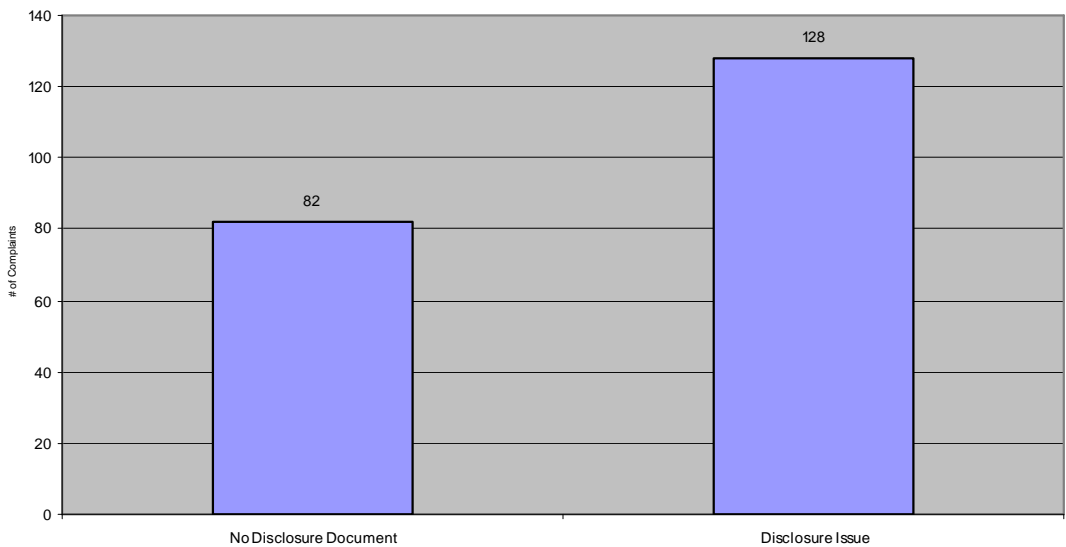


Chart E.6
Franchise and Business Opportunity Disclosure Questions

As Chart E.6 indicates, disclosure issues were proportionally far more frequent for franchises than for business opportunities. More than 15% of franchise records indicated a disclosure issue, and nearly 10% received no disclosure document. Disclosure complaints were proportionally sparse in the subset of business opportunity complaints, although the raw numbers were comparable to the franchise subset for those issues.

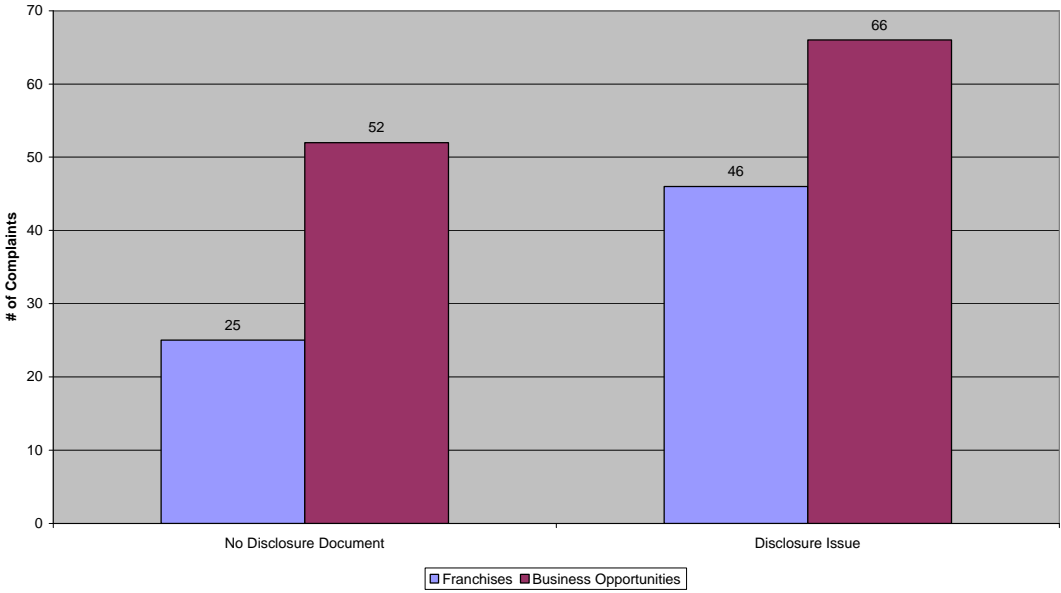


Chart E.7 Cancellation, Refund, and Billing Issues

Chart E.7 reveals that many records indicated consumer intentions to cancel after the sale; a significant number also cited the company's failure to refund or complained about the company's refund policy.

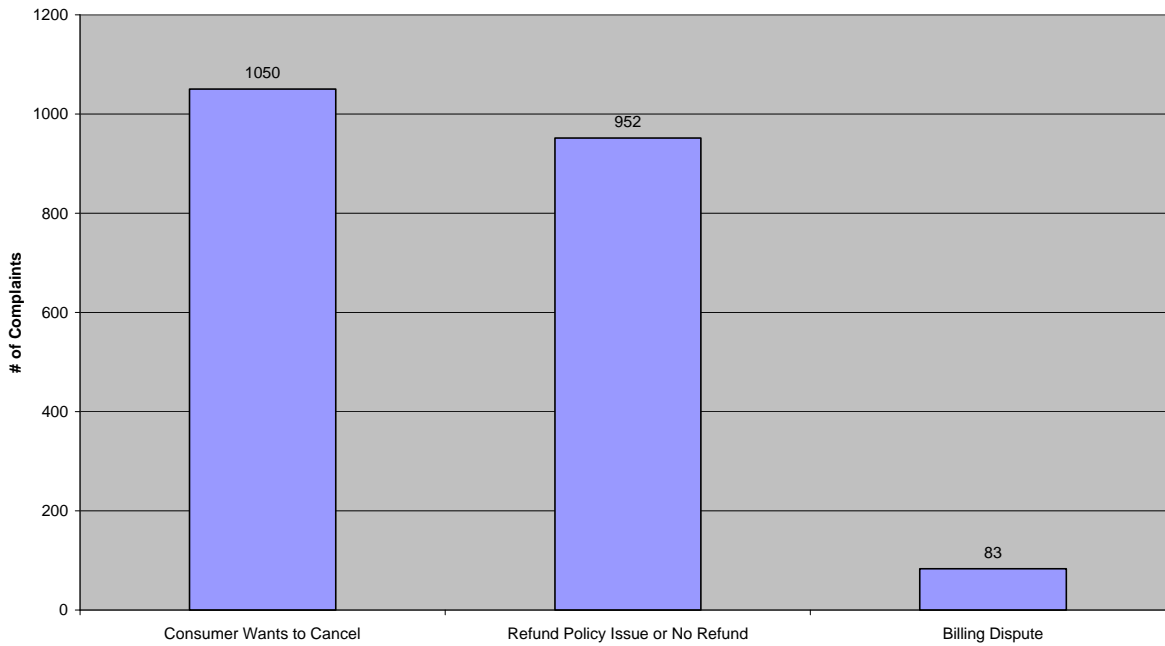
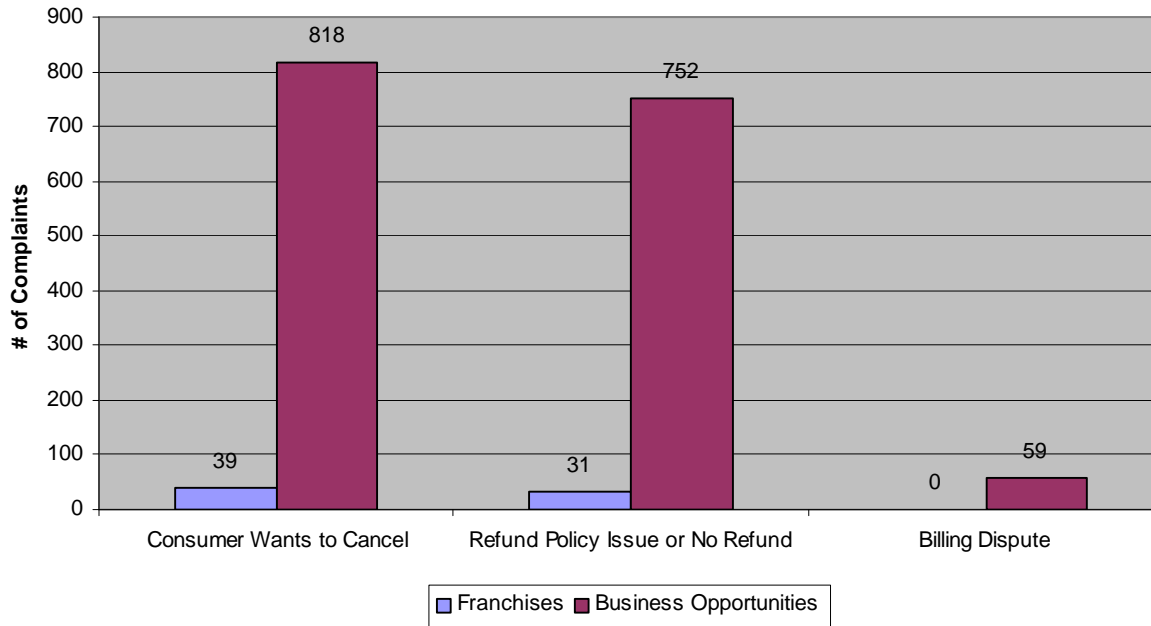


Chart E.8
Franchise and Business Opportunity Cancellation, Refund, and
Billing Issues

Post-sale issues were proportionally less frequent in franchise complaints than in the database as a whole. Nearly a quarter of business opportunity complaints indicated the consumer's desire to cancel, and more than 20% failed to receive a refund or were dissatisfied with company refund policies.



Law Enforcement

This section presents an analysis of franchise and business opportunity-related law enforcement activities from 1993 through 1999. It includes cases that were filed in 2000, if an investigation was opened in 1999 or earlier.

Law Enforcement Analysis Structure

The statistical analysis of franchise and business opportunity complaint data is divided into the five sections described below. Each section includes a summary, applicable charts, and analysis.

Investigations: This section analyzes the number of investigations opened during the relevant time period. Statistics are provided for both franchises and business opportunities covered by the Franchise Rule and only by Section 5 of the FTC Act.

Cases: This section analyzes the number of cases opened during the relevant time period. Statistics are provided for both franchise and business opportunities covered by either the Rule, Section 5 of the FTC Act, or both.

Victims: This section analyzes the number of victims in cases, to the extent known.

Allegations: This section analyses the Rule and Section 5 allegations charged in law enforcement matters.

Correlations: This section analyses the correlation between consumer complaints and investigations.

General Observations

We can draw several conclusions from our analysis of Commission law enforcement activities. First, during the relevant time period, the Commission pursued significantly more potential Rule and Section 5 business opportunity law enforcement matters (273 investigations, of which 148 resulted in cases) than franchise matters (59 investigations, of which 22 resulted in cases). This law enforcement approach was consistent with the number of business opportunity complaints submitted to the Commission, as analyzed in the previous section.

Second, since 1994, the Commission, in many instances, has leveraged its resources by bringing coordinated law enforcement projects with other federal, state, and local law enforcement authorities.

Third, the number of victims in Commission cases was consistent with the FBOD complaint statistical analysis: in many instances, the Commission brought law enforcement actions against companies with over 100 victims. In some instances, the number of victims was 50,000 or higher.

Fourth, making false or unsubstantiated earnings claims was the most frequent Rule and Section 5 allegation charged in Commission actions (127 Rule allegations and 123 Section 5 allegations).

Fifth, there was a direct correlation between the number of investigations opened by Commission staff and complaint data in the FBOD. In all instances where a business opportunity company remaining in business generated 18 or more complaints, an investigation was opened. Where business opportunities generated five to 17 complaints, Commission staff opened investigations against approximately a half to a third of the companies, provided they were still in business. Staff also opened 68 business opportunity investigations where only a single complaint was filed.

Similarly, staff opened investigations of each franchisor generating five or more complaints, and an additional 11 investigations where franchisors generated 4 or fewer complaints, including 8 investigations based upon only one complaint.

Investigations

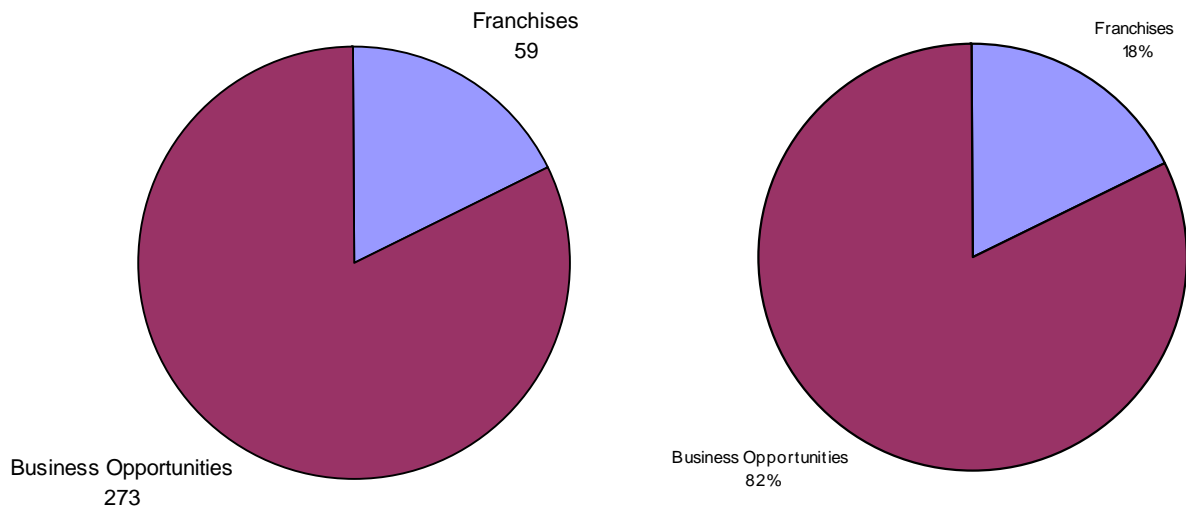
Findings

1. The Commission staff pursued 332 franchise and business opportunity investigations during the relevant time period. This included 273 business opportunity investigations and 59 franchise investigations.
2. Business opportunity investigations comprised 82% of the total investigations opened in this field.

Supporting Data and Analysis

Chart F.1
Franchise and Business Opportunity Investigations Opened, by Number and by Percent

These charts present the distribution of 332 Commission franchise and business opportunity (Rule and Section 5) investigations opened by staff between 1993 and 1999. Although franchise complaints represented only about 6% of the database, they represented 18% of investigations.



Cases

Findings

1. Since 1994, the Commission has coordinated its law enforcement activities with the states, bringing actions through law enforcement sweeps.
2. Since 1993, the Commission has brought 170 franchise or business opportunity cases. In the 170 cases, the Commission named as defendants 330 corporations and other entities (e.g. d/b/a's) and 305 individuals.
3. Of the 170 franchise or business opportunity cases, 148 were against business opportunity schemes during the relevant time period. This was consistent with our statistical analysis showing that the overwhelming number of complaints submitted to the Commission pertained to the sale of business opportunity ventures.
4. Of the 170 franchise or business opportunity cases, 22 were against franchisors during the relevant time period.
5. Starting in 1998, the Commission staff has referred franchise matters that raise technical or minor violations of the Rule to an Alternative Law Enforcement Program administered by the National Franchise Council (NFC), in lieu of a formal Commission action.

Supporting Data and Analysis

Table G.1
Joint Law Enforcement Projects

This table lists the joint law enforcement projects with states and other federal agencies from 1994 to 1999.

1994:	Trade Show Sweeps
1995:	Project Telesweep
1996:	Operation Missed Fortune
1997:	Project Trade Name Games
1998:	Project Vend Up Broke
1999:	Project Bizillion\$

Chart G.2
Case Breakdown by Type

This chart presents a breakdown of 170 cases filed by the Commission during the relevant time period. The chart divides Commission cases into three categories: 1) franchise cases; 2) franchise referrals, since 1998, to the National Franchise Council's Alternative Law Enforcement Program; and 3) non-franchise cases, which includes business opportunity matters pursued under the Franchise Rule, as well as under Section 5 of the FTC Act.

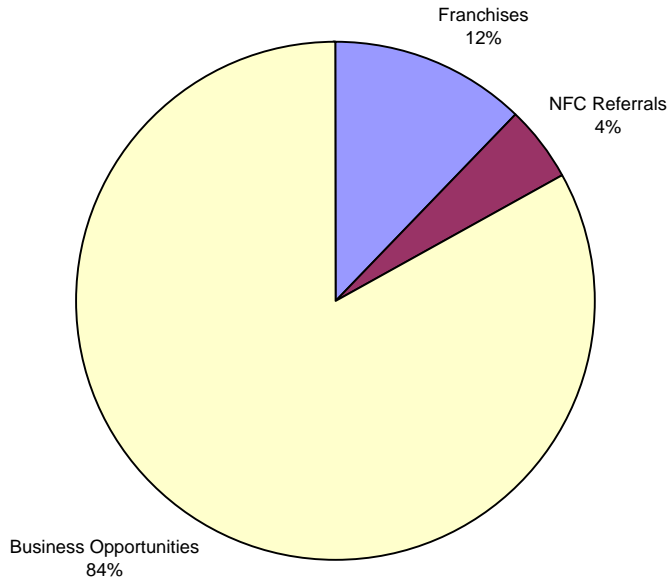


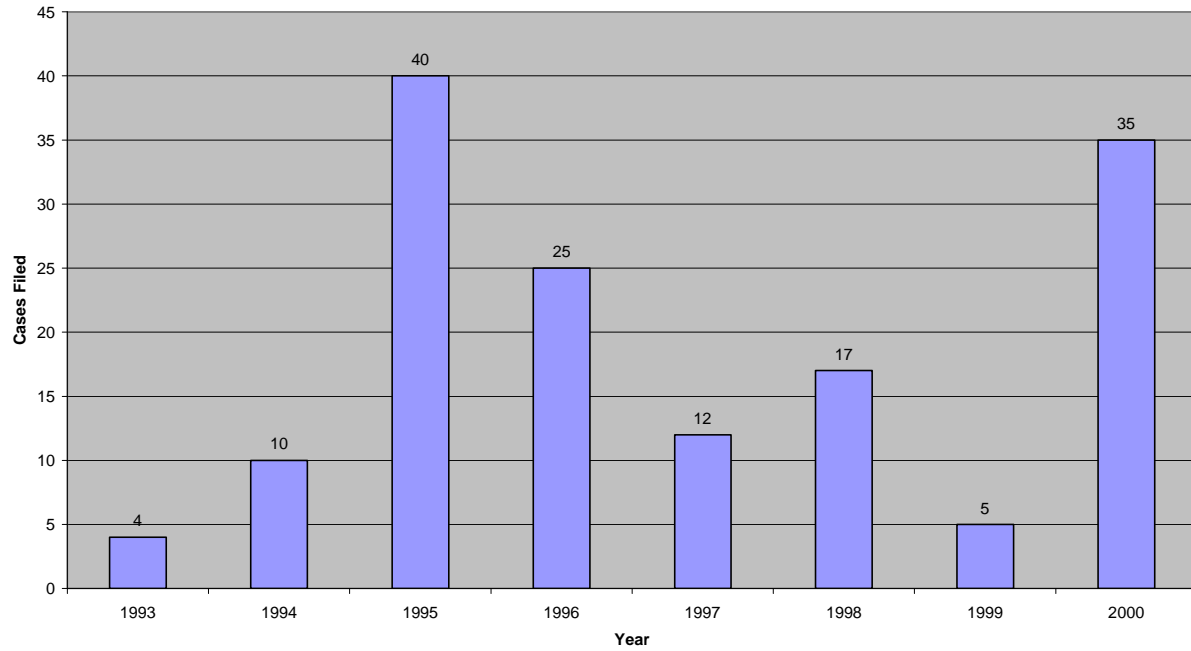
Table G.3
FTC Franchise Cases

This table shows the distribution of 22 franchise cases and 8 NFC referrals from 1993 to 1999.

1993:	7 court cases
1994:	7 court cases
1995:	5 court cases
1996:	3 court cases
1997:	0
1998:	1 NFC referral
1999:	6 NFC referrals
2000:	1 NFC referral

Chart G.4
FTC Business Opportunity Cases Filed

This chart shows the distribution, by year, of 148 business opportunity cases filed from 1993 to 2000.



Victims

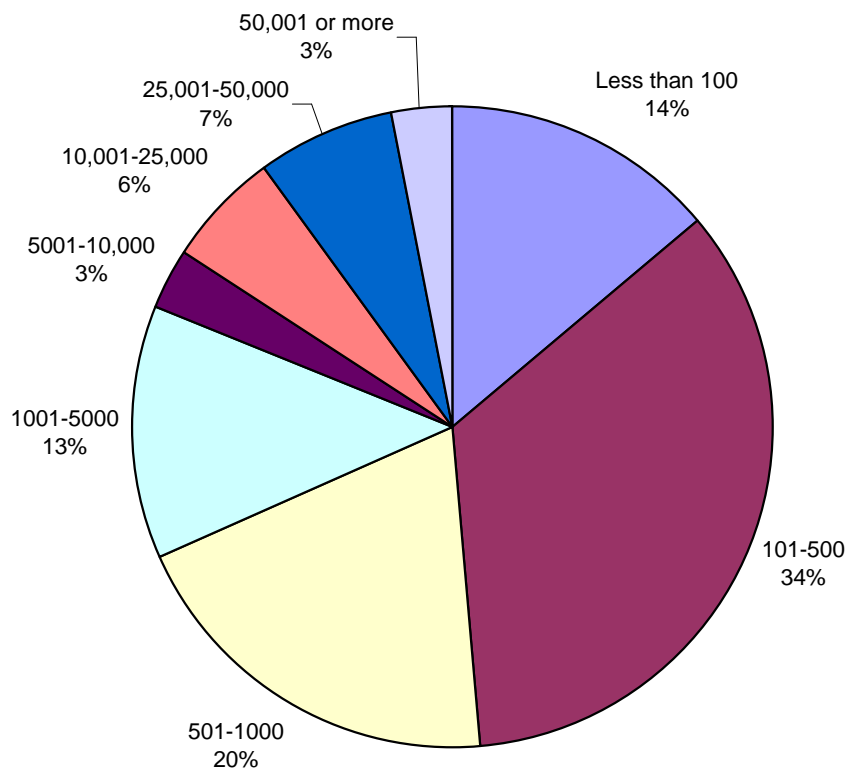
Findings

1. In many instances the number of victims of the defendants in Commission law enforcement actions is unknown. Based upon the information available, we found the Commission used its resources to bring actions in the public interest to combat widespread law violations that affected a large number of consumers.
2. Most Commission law enforcement actions targeted schemes with over 100 victims; 10% of the Commissions actions targeted schemes with 25,000 or more victims and 14% targeted schemes with fewer than 100 known victims.

Supporting Data and Analysis

Chart H.1
Case Distribution by Number of Victims

This chart presents the approximate distribution of victims in franchise and business opportunity cases. In most instances, even the approximate number of victims is unknown. For those cases where an approximate number of victims could be calculated, the most frequent number of victims ranged from 100 to 500.



Complaint Allegations

Findings

1. The most frequent allegation raised in Commission Franchise Rule cases was that the defendants made earnings claims in violation of the Rule (127 allegations). This included earnings claims made without providing an earnings claims document (or the equivalent Uniform Franchise Offering Circular [UFOC] Item 19 information required under state law); unsubstantiated earnings claims; or earnings claims made in the general media without the Rule's required disclosures.
2. The second most frequent allegation was the failure to furnish a disclosure document. This allegation has been particularly frequent with respect to business opportunity ventures. Commission cases alleged the failure to provide disclosure documents in 123 instances.
3. The most frequent allegation regarding the completeness and accuracy of disclosure documents applied to franchisee information (11 allegations). This included instances where the disclosure documents lacked franchisee names and addresses, as well as franchisee statistics (e.g., number of outlets and closures). Failure to disclose all litigation (6 allegations) had the second highest number of allegations.
4. Where the Commission alleged deceptive or unfair conduct under Section 5 of the FTC Act, the largest number of allegations (94) pertained to false earnings claims. This was followed by the use of skills or other false references (28).

Supporting Data and Analysis

Table I.1

Rule Complaint Allegations

This table presents a breakdown of the Rule allegations raised in all franchise and business opportunity enforcement matters. The most common allegation was the making of earnings claims without substantiation or without providing the required earnings claims document (127). The most common failure to disclose information in a disclosure document pertained to franchisee statistical information, as well as franchisee names, addresses, and telephone numbers (11).

Earnings claims	127
No disclosure document	113
Failure to disclose:	
Franchisee information	11
Litigation	6
Background information	4
Terminations, renewals, etc.	2
Bankruptcy	1
Costs/fees	1
Financial information	1
Refund policy	1
Inconsistent statements	4
Failure to make refunds	2
Contempt/order violations	2

Table I.2

Section 5 Complaint Allegations

This table presents a breakdown of Section 5 allegations raised in all franchise and business opportunity enforcement matters. The most common allegation was false earnings claims (94). Other common false or deceptive representations pertained to testimonials and references (28); profitability and availability of locations for vending machines or other devices (24); and support and assistance (17).

Earnings	94
Testimonials/references	28
Profitable locations/ availability of locations	24
Support/assistance	17
Nature of products/services/opportunity	11
Exclusive territories	10
Prior success of seller or locator	10
Investment/Costs/Expenses	9
Refunds	9
Availability of work	5
Delivery date	5
Location replacement policy	5
Availability of clients	3
Benefits	3
Government affiliation/approval	3
Investment recovery	3
Training	3
Commissions	2
Compliance with FTC/state requirements	2
Legal requirements	2
Previous buyers' success/failure rates	2
Product demand	2
Access to suppliers	1
Cancellation policy	1
Complaint resolution history	1
Litigation	1
Necessary effort	1
Prior experience required	1
Profit sharing	1
Selling requirements	1
Sources of income	1

Correlation Between Law Enforcement and Complaints

Findings

1. The opening of franchises and business opportunity investigations strongly correlated with the number of complaints received in the FBOD. This does not mean that every investigation was prompted by one or more complaints, although most were. In some instances, investigations were prompted by advertisements, or referrals from third parties, not reflected in the CIS database.
2. In all instances where the FBOD indicated that a business opportunity generated 18 or more complaints, Commission staff opened an investigation, provided that the company involved remained in business.
3. Where business opportunities generated fewer than 18 complaints, but more than seven complaints, Commission staff opened investigations in approximately half of the instances, provided the company involved remained in business.
4. Staff opened investigations in every instance where the FBOD showed that a franchise generated five or more complaints, provided that the complainant named the franchisor involved and stated a specific allegation (154 complaints). Staff also opened eight investigations where only a single complaint was filed.
5. In many instances, franchise complaints raise concerns that do not lend themselves to a law enforcement solution. For example, a complaint may 1) provide insufficient information for staff to take action (e.g., fails to name the franchiser or to state a specific allegation); 2) fall outside the Commission's jurisdiction (e.g., raises state law issues only); or 3) raise purely contractual matters (e.g., requires interpretation of contract provisions).

Supporting Data and Analysis

Table J.1
Correlation of Complaints to Business Opportunity Investigations

This table presents the correlation between the number of business opportunity complaints and the opening of an FTC investigation. Except in four instances (where the company complained about was already out of business) the Commission opened an investigation of each company generating 18 or more consumer complaints. For 17 or fewer complaints, the number of investigations decreased in proportion to a decline in the number of complaints filed. Nonetheless, Commission staff pursued 68 investigations of companies generating only one complaint.

Number of Complaints	Investigation Rate ¹
More than 101	1/1
91-100	1/1
81-90	1/1
71-80	2/2
61-70	1/1
51-60	1/1
41-50	2/2
31-40	3/5 (remaining 2/5 were out of business)
21-30	4/6 (remaining 2/6 were out of business)
20	1/1
18	3/3
17	1/3 (1 of remaining 2/3 was out of business)
16	3/4 (remaining 1/4 was out of business)
15	3/7 (2 of remaining 4/7 were out of business)
14	4/7 (1 of remaining 3/7 was out of business)
13	3/6 (1 of remaining 3/6 was out of business)
12	1/1
11	3/5 (1 of remaining 2/5 was out of business)
10	5/7
9	6/11
8	4/7
7	6/13
6	7/18 (8 of remaining 9/18 were out of business)
5	13/30 (6 of remaining 17/30 were out of business)
4	8/45 (7 of remaining 37/45 were out of business)
3	22/68 (8 of remaining 46/68 were out of business)
2	30/154 (26 of remaining 124/154 were out of business)
1	68/539 (42 of remaining 471/539 were out of business)

¹Number of investigations opened/number of companies generating the number of complaints indicated in first column.

Table J.2
Correlation of Franchise Complaints to Investigations

This table presents the correlation of franchise complaints to the franchise investigations noted above. The Commission staff opened an investigation of each franchise matter generating at least five complaints. No company received more than eight complaints. At the same time, staff opened an additional 11 investigations* where companies received four or fewer complaints, including eight investigations of companies with only one complaint.

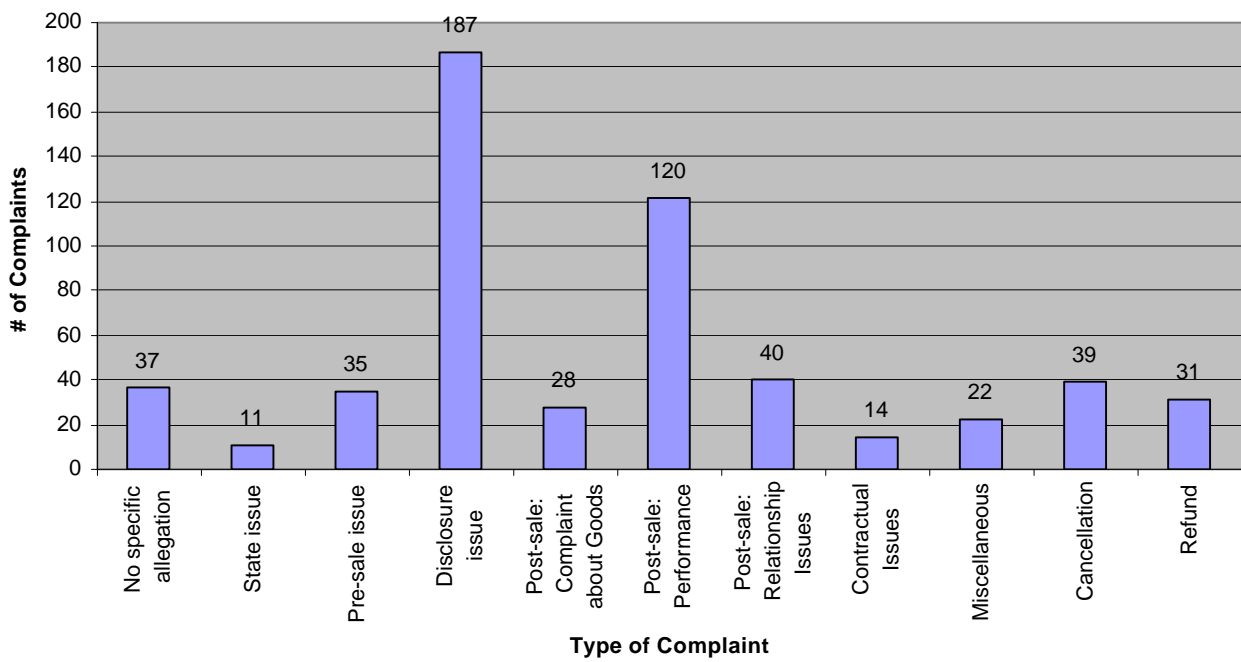
*This does not include the first company that was referred to the NFC program.

Number of Complaints	Investigation Rate ¹
8	1/1
5	1/1
4	1/2
3	2/6
2	0/12
1	8/91

¹Number of investigations opened/number of companies generating the number of complaints indicated in first column.

Table J.3
Franchise Complaint Viability

When considering the correlation between franchise complaints and investigations opened, we must consider not only whether the company remains in business, but whether the complaint is viable, that is, names a specific company, states a specific allegation, and falls within the Commission’s jurisdiction. In many instances, franchise complaints made no specific allegation (37 complaints); raised state law issues only (11 complaints); raised contractual interpretation issues only (14 complaints); or voiced concerns that do not lend themselves to a law enforcement solution, such as expressing remorse or a wish to cancel the franchise agreement (39 complaints).



Consumer Education

Overview

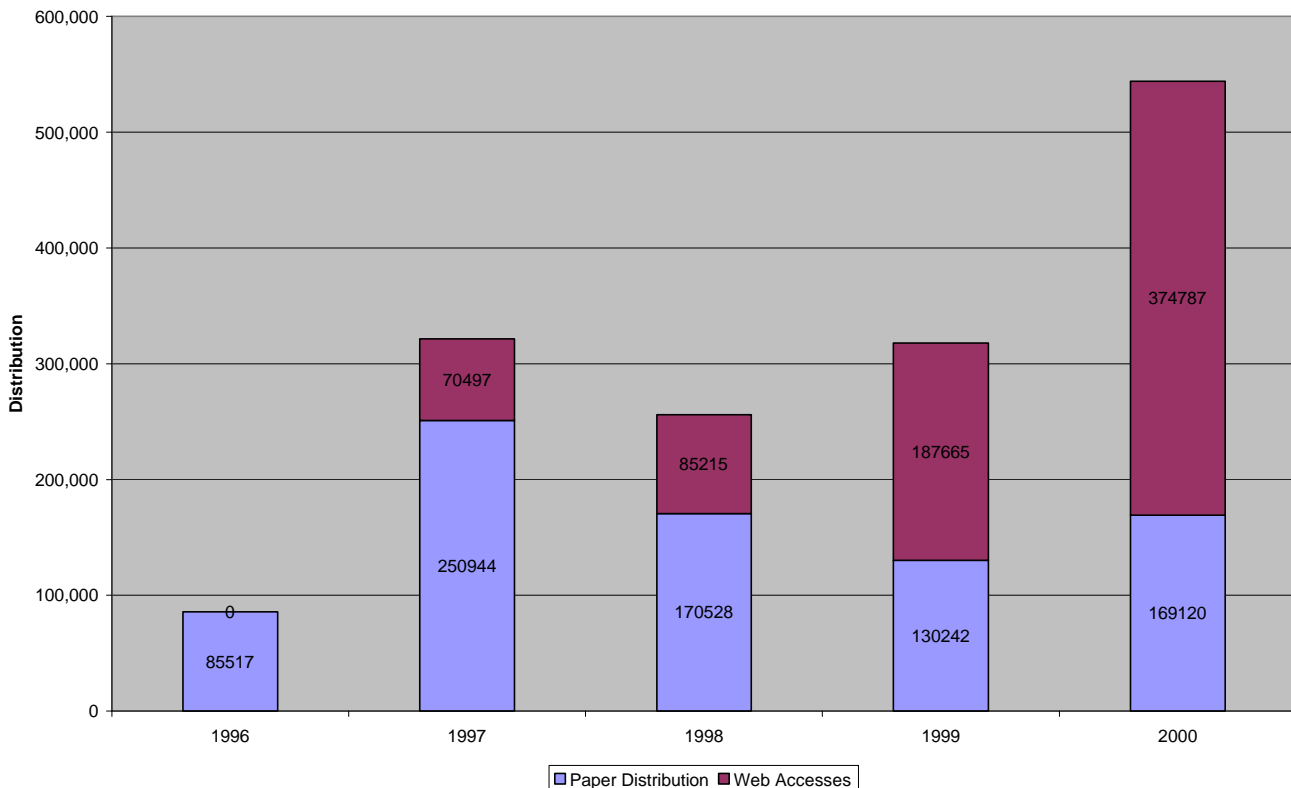
The FTC Office of Consumer and Business Education (OCBE) produces print, broadcast and online materials that offer practical, plain English advice for consumers about buying a wide variety of products and services and explain how various federal regulations help protect consumers' rights. It also produces print materials for business explaining how to comply with various rules and regulations.

OCBE has taken an ambitious approach to educating consumers about their rights in the franchise and business opportunities marketplace. In the last several years, the Office has produced more than a dozen relevant publications and launched several major education initiatives.

Print Products

OCBE's inventory includes 14 different publications for consumers who are interested in pursuing franchises and business opportunities. These publications seem to address a need: Since October 1995, over 806,000 of these publications have been distributed; an additional 718,000 publications have been accessed via the FTC's website since October 1996.

Chart K.1
Distribution of Franchise/Business Opportunity Consumer Education Information by Fiscal Year, 1996 to 2000



Websites (www.ftc.gov, www.consumer.gov)

In 1997, OCBE put all its consumer publications online, enhancing outreach considerably. Consumers can access the publications not only at the FTC's website, but also at www.consumer.gov, the federal government's "one-stop" outlet for federal consumer information (hosted and managed by the FTC). We cannot keep track of all the sites that link to the information on www.ftc.gov or www.consumer.gov, but a look at the numbers indicates that consumers are accessing the publications from a wide variety of sites.

Teaser Sites

Too often, consumers don't find consumer protection information until it's too late. Using "teaser" websites, OCBE tries to reach consumers before they make a purchase or invest their money. These web pages are accessible from major search engines and indexing services and mimic fraudulent sites. Internet shoppers looking for a business opportunity, for example, may find a site that offers a fantastic, money-making opportunity in display racks. (See www.wemarket4u.net/eztoys). Clicking through the "come on," the FTC seal appears, alerting consumers that they could have been scammed. The site offers tips on how to distinguish fraudulent pitches from legitimate ones and links to the FTC's website for additional information. Uniformly, visitors to these sites have praised the FTC for the novel and attention-getting way it is imparting information. (See also www.wemarket4u.net/netops).

In addition, OCBE also has devised Internet tutorials in the form of interactive puzzles and games to reinforce what consumers have read on the FTC's website or in their local newspapers. For example, the education component of enforcement actions dealing with investment fraud features an online quiz called "Test Your Investment IQ." A series of typical telemarketing misrepresentations asks consumers to define the investment offering as "solid" or "risky."

Audio Public Service Announcements

In 1995, OCBE distributed four audio public service announcements (PSAs) and corresponding announcer scripts about buying a franchise to 2,000 English language radio stations and three Spanish language PSAs to 200 Spanish language radio stations. Nearly 700 radio stations broadcast at least one of the PSAs, resulting in a total of more than 35,354 broadcasts of at least one PSA. The total audience reached through these broadcasts was approximately 96 million. The equivalent value of the air time received if purchased would be approximately \$884,000.

In 1996, OCBE distributed an additional four Spanish language audio "franchise" PSAs and two announcer scripts to 228 Spanish language radio stations. A total of 124 radio stations broadcast at least one of the PSAs, resulting in a total of 9,453 broadcasts of at least one PSA. The total audience reached through these broadcasts was more than 30 million. The equivalent value of the air time received if purchased would be approximately \$236,325.

In 1997, OCBE distributed four additional "franchise" public service announcements and announcer scripts to 1,000 radio stations. A total of 242 radio stations broadcast at least one of the PSAs, resulting in a total of 13,364 broadcasts of at least one PSA. The total audience reached through these broadcasts was more than 18 million. The equivalent value of the air time received if purchased would be approximately \$334,100.

Campaigns

In December 2000, OCBE launched “Top 10 Internet Scams,” a campaign designed to educate consumers about the most prevalent scams on the Internet and how to recognize and avoid them. Business opportunity scams advertised online ranked eighth in the Top 10. This OCBE effort supported the Bureau of Consumer Protection’s large law enforcement sweep. OCBE produced two new publications for print and the web: a Facts for Consumers (FFC) brochure, *Dot Cons* and a “news you can use” type feature, *Consumers Find Internet Offers That Just Don’t Click*. OCBE sent the brochure to a mailing list of 6,200 intermediaries, in addition to Internet service providers, Internet advertising groups, business groups, military news services, Fortune 100 copies and 25 top-circulation magazines. The consumer feature was distributed to media via BusinessWire, an online news distributor. OCBE developed a special website, www.ftc.gov/dotcons, that drew a record number of accesses for the FTC.

As part of “Project Biz-illion\$,” a multi-pronged attack on traditional fraudulent business opportunities, OCBE issued six consumer publications: *Franchise and Business Opportunities*, *Medical Billing Business Opportunity Schemes: A Bitter Pill*, *Work-At-Home Schemes*, *‘Net-Based Business Opportunities: Are Some Flop-portunities?*, *Could ‘Biz Opp’ Offers Be Out for Your Cooffers?*, and *Answering the Knock of a Business Opp*. OCBE sent the publications to its mailing list of 6,200 and to more than 13,000 media. OCBE also encouraged select websites to post information on their sites or link to a dedicated web page on www.ftc.gov. As part of its marketing efforts, the Office contacted four search engines offering public service announcements in the form of classified ads, to five classified ad sites; 10 women’s sites; seven sites geared to people with disabilities; and 21 employment services sites.

Appendix 1

Overview Summary Sheet										
Total Complaints	4512									
Breakdown of Franchises, Business Opportunities, and Miscellaneous Schemes	Count	% of Total								
Franchise	288	6.38%								
Business Opportunity	3392	75.18%								
Miscellaneous	832	18.44%								
# and % of Vending-Machine-Related Complaints	560	12.41%								
Breakdown of Complaints by Year	Count	% of Total		Franchise by Year	% of FC	BizOp by Year	% of BOC			
Unknown	5	0.11%		0	0.00%	1	0.03%			
1993	58	1.29%		5	1.73%	30	0.88%			
1994	101	2.24%		2	0.69%	79	2.33%			
1995	677	15.00%		9	3.11%	570	16.80%			
1996	336	7.45%		9	3.11%	277	8.17%			
1997	1013	22.45%		53	18.34%	759	22.38%			
1998	1480	32.79%		108	37.37%	1088	32.08%			
1999 (through June)	842	18.66%		102	35.29%	588	17.33%			
Complaints Over Time by Source of Information	Count	% of Total	1993	1994	1995	1996	1997	1998	1999 (through June)	No Date
All FTC	1443	31.98%			517	38	328	335	225	
Better Business Bureaus	505	11.19%				7	182	199	116	1
National Consumers League	1090	24.16%	53	94	148	280	300	178	37	
Other	2	0.04%			1			1		
Public Users	418	9.26%						210	208	
Regional Offices	929	20.59%		1	4	3	199	552	170	
San Diego Boiler Room Task Force	5	0.11%		1	2	2				
State Law Enforcement	26	0.58%	5	5	5	6		2	3	
Toll-free Number	81	1.80%							81	
Unknown	13	0.29%					4	3	2	4

Note: The "State Law Enforcement" category includes complaints from State AG offices and State DOJ's.

Appendix 2

Companies Summary Sheet		
Total Complaints	4512	
General Company Stats	Count	% of Total
# of Companies Identified in Complaints	1940	43.00%
# and % Companies Out of Business	244	5.41%
Distribution of Complaints by Company Location	Count	Ranking
FL	887	1
Unknown	764	2
CA	609	3
TX	541	4
NY	244	5
UT	191	6
OR	110	7
MA	106	8
CO	104	9
NV	94	10
AZ	86	11
GA	68	12
IL	64	13
OH	62	14
MD	49	15
TN	42	16
PA	37	17
WA	35	18
SC	33	19
NM	31	20
Canada	27	21
NH	26	22
VA	26	23
NJ	25	24
IN	24	25
NC	24	26
AL	22	27
MI	19	28
MN	18	29
IA	15	30
MO	15	31
KS	14	32
LA	14	33
OK	11	34
CT	10	35
DC	8	36
DE	8	37
KY	7	38
AR	5	39
ID	5	40
MS	5	41

Companies Summary Sheet (continued)

Other Foreign	5	42
WI	5	43
NE	4	44
HI	3	45
ND	2	46
VT	2	47
WV	2	48
MT	1	49
PR	1	50
RI	1	51
WY	1	52
Top 10 Company Complaint Locations	Count	
FL	887	
CA	609	
TX	541	
NY	244	
UT	191	
OR	110	
MA	106	
CO	104	
NV	94	
AZ	86	
Note: this excludes the 764 'Unknown'		
Complaints per Company	Number of Companies	
1 complaint	1424	
2-5 complaints	404	
6-10 complaints	64	
10-50 complaints	41	
50+ complaints	7	
162 complaints unknown		

Appendix 3

Consumers Summary Sheet			
Total Complaints	4512		
General Consumer Stats	Count	% of Total	
# and % of Consumers Actually Injured	3319	73.56%	
# Consumers that Suspected Fraud	3	0.07%	
Distribution of Complaints by Consumer Location	Count	Ranking	
CA	596	1	
TX	287	2	
FL	272	3	
NY	228	4	
Unknown	222	5	
PA	186	6	
OH	180	7	
IL	136	8	
NJ	133	9	
CO	131	10	
WA	129	11	
VA	119	12	
GA	112	13	
NC	112	14	
MO	97	15	
MI	96	16	
OR	94	17	
MD	86	18	
AZ	85	19	
MN	81	20	
WI	80	21	
IN	79	22	
TN	75	23	
MA	70	24	
OK	56	25	
Canada	53	26	
IA	52	27	
LA	50	28	
NV	47	29	
SC	45	30	
AL	44	31	
KY	44	32	
UT	37	33	
KS	36	34	
CT	35	35	
HI	34	36	
NE	33	37	
ID	32	38	
NM	28	39	
MT	25	40	
AR	24	41	
MS	20	42	
NH	18	43	
Other Foreign	16	44	
DC	12	45	
RI	12	46	
SD	12	47	

Consumers Summary Sheet (continued)

WV	11	48		
AK	10	49		
DE	10	50		
WY	9	51		
ND	8	52		
ME	6	53		
PR	5	54		
VT	2	55		
Top 10 Consumer Complaint Locations				
	Count			
CA	596			
TX	287			
FL	272			
NY	228			
PA	186			
OH	180			
IL	136			
NJ	133			
CO	131			
WA	129			
Note: this excludes the 222 'Unknown'				
Breakdown of Injury Amounts				
	Count	% of Total 'Known'		
\$1-\$100	249	7.68%		
\$101 - \$200	100	3.08%		
\$201 - \$500	303	9.34%		
\$501 - \$1,000	319	9.83%		
\$1,001-\$2,500	306	9.43%		
\$2,501 - \$5,000	449	13.84%		
\$5,001 - \$10,000	732	22.56%		
\$10,001-\$20,000	531	16.37%		
\$20,001-\$30,000	136	4.19%		
\$30,001-\$40,000	44	1.36%		
\$40,001-\$50,000	25	0.77%		
\$50,001-\$75,000	26	0.80%		
\$75,001-\$100,000	12	0.37%		
Other (>\$100,000)	12	0.37%		
Unknown or Blank	1268			
Franchise and Business Opportunity Injury				
	Franchises	% of Franchise Complaints	Business Opportunities	% of BizOp Complaints
\$1-\$100	1	0.35%	164	4.83%
\$101 - \$200	0	0.00%	76	2.24%
\$201 - \$500	7	2.43%	243	7.16%
\$501 - \$1,000	2	0.69%	277	8.17%
\$1,001-\$2,500	6	2.08%	243	7.16%
\$2,501 - \$5,000	13	4.51%	378	11.14%
\$5,001 - \$10,000	31	10.76%	631	18.60%
\$10,001-\$20,000	36	12.50%	468	13.80%
\$20,001-\$30,000	11	3.82%	117	3.45%
\$30,001-\$40,000	8	2.78%	32	0.94%
\$40,001-\$50,000	10	3.47%	14	0.41%
\$50,001-\$75,000	7	2.43%	17	0.50%
\$75,001-\$100,000	4	1.39%	5	0.15%
Other (>\$100,000)	11	3.82%	0	0.00%
Unknown or Blank	141	48.96%	727	21.43%

Appendix 4

Delivery and Goods Summary Sheet			
Total Complaints	4512		
Breakdown of How Advertised	Count	% of Total 'Known'	
Print Media	796	35.47%	
Mail Solicitation	390	17.38%	
Telephone Call	299	13.32%	
In Person Meeting	249	11.10%	
Television/Radio	187	8.33%	
Seminar	138	6.15%	
Internet	138	6.15%	
Spam	25	1.11%	
Expo/Trade Show	16	0.71%	
Fax	6	0.27%	
Unknown	2268		
Products, Services and Internet Opportunities	Count	% of Total	Categories
Product Type	658	14.58%	124
Service Type	628	13.92%	83
Internet Offer Type	179	3.97%	22
Top 15 Products	Related Complaints		
Pay Telephones	86		
Telephone Cards	65		
Candy	48		
Snack Food/Drinks	43		
Computer/Software	37		
Personal Hygiene/Health	31		
Coupons	25		
Coffee	24		
Unspecified vending machines	21		
Greeting Cards	14		
Licensed Products - Toys & Novelty Items	14		
Trading Cards	13		
Popcorn	12		
Household/Personal Use Items	12		
Mailers/Envelopes/Postage	10		
Top 15 Services	Related Complaints		
Medical Billing	167		
Telecommunications: 800#/s/900#s	93		
Travel	70		
Real Estate	47		
ATM Machines	25		
Telecommunications: Other	24		
Financial Services	20		
Telecommunications: Long-Distance	18		
Janitorial	17		
Envelope Stuffing	14		
Advertising	12		
Hud Tracer/Mortgage Refund	10		
Consulting	9		
Student Services	8		
Credit: Credit Cards	7		

Delivery and Goods Summary Sheet (continued)

Top Internet Opportunities	Related Complaints			
Shopping Malls	43			
Online Services	32			
Yellow Pages	18			
Advertising	17			
Internet Access (Kiosks)	14			
Consulting	12			
Web Building	7			
Complaints about Goods	# of Complaints	% of Total Complaints		
Non-Delivery	581	12.88%		
Partial Delivery	96	2.13%		
Quality of Goods	166	3.68%		
Defective Goods	99	2.19%		
Other Problems with Goods	200	4.43%		
Franchise and Business Opportunity Complaints about Goods	Franchises	% of Franchise	Business Opportunities	% of BizOps
Non-Delivery	14	4.86%	489	14.42%
Partial Delivery	1	0.35%	86	2.54%
Quality of Goods	6	2.08%	144	4.25%
Defective Goods	0	0.00%	96	2.83%
Other Problems with Goods	7	2.43%	173	5.10%

Breakdown of Product and Service Types

Product	Count	Services	Count
Unknown or N/A	3854	Unknown or N/A	3884
Pay Telephones	86	Medical Billing	167
Telephone Cards	65	Telecommunications: 800#/s/900#s	93
Candy	48	Travel	70
Snack Food/Drinks	43	Real Estate	47
Computer/Software	37	ATM Machines	25
Personal Hygiene/Health	31	Telecommunications: Other	24
Coupons	25	Financial Services	20
Coffee	24	Telecommunications: Long-Distance	18
Vending Machines	21	Janitorial	17
Greeting Cards	14	Envelope Stuffing	14
Licensed Products - Toys & Novelty Items	14	Advertising	12
Trading Cards	13	Hud Tracer/Mortgage Refund	10
Household/Personal Use Items	12	Consulting	9
Popcorn	12	Student Services	8
Mailers/Envelopes/Postage	10	Credit: Credit Cards	7
Game Machines	9	Mystery Shopper	5
Media Boards	9	Employment Services/ Headhunting	4
Surplus Property	9	Auctions	3
Automobile Products	7	Billing	3
Books	7	Child Protection/Tracking	3
Cigars/Humidors	7	Liquidating Merchandise	3
Licensed Products - Sports	6	Accounting	2
Phone Card Machines	6	Home Repair/Maintenance	2
Gasoline Cards	4	Insurance	2
Jewelry	4	Legal Services	2
Log Homes	4	Medical Transcriptions	2
Office Supplies	4	Telecommunications:	2
Perfume	4	Telecommunications: Cable	2
Art/Antiques	3	Advertising-Mailing Lists	1
Food	3	Background Checks	1
Music Cards	3	Broker	1
Novelty Items	3	Broker-Discounted Material	1
Personal Items	3	Business Consulting	1
Photo Items	3	Carpet Cleaning	1
Toys	3	Ceiling Cleaning	1
Agriculture	2	Charity Golf Shootouts	1
Bus. Cards/ Calendars	2	Child Safety	1
Camera/Film	2	Commodities Trading	1
Credit Card Machine	2	Computer Leasing	1
Credit Cards	2	Concert Promotion	1
Mailers	2	Consulting/Locating Businesses	1
Music CDs	2	Credit: Credit Card billing	1
Music coupons	2	Debt Collection	1
Pet Products	2	Delivering Phone Applications	1
Restaurant	2	Deregulation of energy (gas/electric)	1
"30 Days to Financial Freedom"	1	Direct TV	1
"Programs"	1	Electricity Resale	1
Agricultural	1	Electronic Billing	1

Breakdown of Product and Service Types (continued)

Product	Count	Services	Count
Agricultural	1	Electronic Billing	1
Air Purifiers	1	Employment Monitoring	1
Automobile/Auto Products	1	Equipment Leasing	1
Automobiles	1	Factoring	1
Bagels	1	Faxing Info to Businesses	1
Brochures	1	Fundraising	1
Cameras	1	Grave Stone Polishing	1
Catalogs	1	Hospital Bill Auditing	1
CDs	1	Import/Export	1
Child Protection Kit	1	Insurance Refund Distribution	1
Children's Videos	1	Investments	1
Cigarettes	1	Job Recruiting	1
Clothing	1	Kids TV Programming	1
Collectibles	1	Leasing	1
Commercial Program for Travel	1	Marketing	1
Commercials for Tickets	1	Merchandise Brokering	1
Commodities	1	Mobile Diagnostic Lab	1
Commodity Trading Course	1	Mortgage Foreclosure Business	1
Coupons- Gum Vending	1	Phone Sales	1
Coupons/Computer Products	1	Product Advancement Services	1
Credit Card Terminal	1	Real Estate Support	1
Diet Program	1	Recruiting Franchisees	1
Direct Mail Business	1	Referral Service	1
Discount Property	1	Representation of Injury Victims	1
Discounted Products	1	Research Specialist	1
Distressed Property	1	Tax Evasion/Offshore Investments	1
Double Zipper Organizer Planners	1	Telecommunications: Cellular Service	1
DRVs (and prepaid mailers)	1	Telecommunications: Cellular Telephones	1
E-mail Addresses Generator: for Spamming	1	Telemarketing	1
Environmental	1	Telephone Bill Auditing	1
Flooring	1	Television Production	1
Fuel Cards	1	Television Programming	1
Fundraiser Organizing Program	1	Temp Services	1
Furniture	1	Unsolicited Faxes	1
Get Started Kit	1	Vending Machine Locating	1
Gold Machines	1	Weight Loss	1
Hearing Aids	1		
Hearing Oil Units	1	Internet	Count
Home Security Systems	1	Unknown or N/A	4333
Internet Advertising	1	Shopping Malls	43
IPI Kit	1	Online Services	32
JC Penney Program	1	Yellow Pages	18
Laser Tag	1	Advertising	17
Laundry Kit	1	Internet Access (Kiosks)	14
Lead Generating Display Boxes	1	Consulting	12
Leads for Primary Business	1	Other	10
Maps	1	Web Building	7
Marine Oil	1	Unspecified	4
Medical Diagnostic Equipment	1	Web Pages	3
Metal Conditioner Products	1	Miscellaneous	3
Mobile Homes	1	Internet Access	2

Breakdown of Product and Service Types (continued)

Product	Count	Services	Count
Money-Making Course	1	Web Site	2
Mortgage Leads	1	Web TV	2
Natural Health Products	1	Access Via Television	1
Oil	1	Adult Web Site	1
Outsourcing	1	Cybercash Processor	1
Peppermint Patty Vending Machines	1	E-commerce Stores	1
Personal Hygiene/Health (from Vending Machines)	1	Job Recruiting	1
Pest Repellant	1	Marketing	1
Pet Supplies	1	Undescribed	1
Satellite Tracking Device	1	Web Hosting	1
Silver Ingots	1		
Sporting Goods	1		
Sports Cards	1		
Sports Memorabilia	1		
Stickers	1		
Trading Systems	1		
Travel 2000 promotion	1		
Travel Vouchers	1		
Used Software	1		
Valuelink Memberships	1		
Video Games	1		
Vouchers	1		
Watches	1		
Water Filters	1		
Workshop Program	1		

Appendix 5

Expectations, Disclosures, and Post-Sale Summary Sheet				
Total Complaints	4512			
Consumer Expectations	Count	% of Total		
No Promised Support	225	4.99%		
No Promised Training	32	0.71%		
No Promised Locations	192	4.26%		
Misrepresented Exclusive Territory	31	0.69%		
Misrepresented # of Buyers	8	0.18%		
Earnings Claims	592	13.12%		
Other Support Problem	352	7.80%		
Misrepresented Costs	104	2.30%		
Franchise and Business Opportunity Consumer Expectations	Franchises	% of Franchise	Business Opportunities	% of BizOps
No Promised Support	17	5.90%	184	5.42%
No Promised Training	1	0.35%	28	0.83%
No Promised Locations	5	1.74%	184	5.42%
Misrepresented Exclusive Territory	5	1.74%	23	0.68%
Misrepresented # of Buyers	1	0.35%	7	0.21%
Earnings Claims	40	13.89%	494	14.56%
Other Support Problem	21	7.29%	293	8.64%
Misrepresented Costs	9	3.13%	85	2.51%
Disclosures	Count	% of Total		
No Disclosure Document	82	1.82%		
Disclosure Issue	128	2.84%		
Franchise and BizOp Disclosure Records	Franchises	% of Franchise	Business Opportunities	% of BizOps
No Disclosure Document	25	8.68%	52	1.53%
Disclosure Issue	46	15.97%	66	1.95%
Post-Sale Issues	Count	% of Total		
Consumer Wants to Cancel	1050	23.27%		
Refund Policy Issue or No Refund	952	21.10%		
Billing Dispute	83	1.84%		
Franchise and Business Opportunity Post-Sale Issues	Franchises	% of Franchise	Business Opportunities	% of BizOps
Consumer Wants to Cancel	39	13.54%	818	24.12%
Refund Policy Issue or No Refund	31	10.76%	752	22.17%
Billing Dispute	0	0.00%	59	1.74%

Appendix 6

Law Enforcement Section Summary	
Investigations 1993-1999	
Total	332
Franchises	59
Business Opportunities	273
Type	Number
Franchise	22
NFC Referrals	8
Business Opportunity	148
# of Victims	Cases
Less than 100	14
101-500	35
501-1000	20
1001-5000	13
5001-10,000	3
10,001-25,000	6
25,001-50,000	7
50,001 or more	3

Appendix 7

FBOD Franchise Complaint Allegations

Complaints without any specific allegations	37	
Complaints that raise state issues only	11	
Pre-Sale Issues		
Application issues	7	
Franchisor changed terms or conditions	3	
Franchisor wanted advanced fee	2	
Franchisor misrepresented legal requirements	2	
Franchisor misrepresented nature of opportunity	7	
Franchisor misrepresented product capabilities	3	
Unspecified misrepresentations	5	
Other misrepresentations	3	
False advertising	2	
Bait and switch	1	
Disclosure Issues		
Earnings claims	40	
No disclosure document	25	
Disclosure Issue	46	
	Disclosure avoidance	2
	Timing provisions	9
	Franchisor's background	5
	State licensing requirements	1
	Litigation	2
	Costs	9
	Franchisee information	5
	Territories	5
	Financing availability/terms	5
	Patent/trademark	3
	Financial information	5
	No contract attached	1
	Unspecified disclosure issue	21
	Other disclosure issue	3
Post-Sale: Goods-Delivery		
Non-delivery	14	
Partial delivery	1	
Quality of goods	6	
Defective goods	0	
Other goods problems	7	
Post-Sale: Performance		
Beach of contract	76	
No promised support	17	
No promised training	1	
No promised locatins	5	
Other support problem	21	
Post-Sale: Relationship Issues		
Lack of continued franchisor cooperation	1	
Franchisor changed terms or conditions	3	
Encroachment/territory dispute	6	
Chruning of territories	1	
Franchisor unresponsive	4	
Franchisor will not permit termination	1	
Franchisee pressured to buy/perform	2	
Use of franchisee fees/funds	3	

FBOD Franchise Complaint Allegations (continued)

Illegal seizure of franchisee property	1
Renewal dispute	1
Franchisor auditing confidential information	1
Franchisee threatened with termination	1
Termination/cancellation terms or conditions	4
Unspecified post-sale relationship issue	3
Other post-sale relationship issue	8
Contractual Issues	
Level or calculation of fees/royalties	3
Contract interpretation	3
Required supplier	1
Price fixing	2
Other contractual issue	5
Miscellaneous	
Franchisee dissatisfied	13
Disclosures are to protect franchisor	1
Franchisee wants inclusion in redress program	4
Franchisee can't sell route	1
Franchisee forced to drop law suit/no recourse	1
Franchisee forced to shut down	1
Franchisor may go bankrupt	1
Cancellation	39
Refund	31
Billing dispute	0

Appendix 8

Consumer Education Materials Distributed - Paper and Web													
Publication Title or Internet Campaign	FY 96	FY 97			FY98			FY99			FY00		
	Total	Paper	Web	Total	Paper	Web	Total	Paper	Web	Total	Paper	Web	Total
Answering the Knock of a Business 'Opp'	20294	49070	10396	59466	20773	8299	29072	13050	10723	23773	14900	5085	19985
The Bottom Line About Multilevel Marketing Plans								4925	18147	23072	11750	33174	44924
Consumer Guide to Buying a Franchise	14618	12535	3450	15985	9533	7229	16762	4717	11574	16291	3015	20234	23249
Costly Coupon Scams		8375	368	8743	5201	2840	8041	4400	6805	11205	6450	7251	13701
Could Biz Opp Offers Be Out for Your Coffers?											18600	16575	35175
Don't Get Burned...By a Pyramid Scheme Campaign						7285	7285		16703	16703		38800	38800
Franchise and Business Opportunities	21745	34181	9870	44051	13863	9341	23204	16325	11458	27783	8700	12746	21446
Get-Rich-Quick and Self-Employment Schemes Campaign			2863	2863		4303	4303		5990	5990		7229	7229
The Gifting Club "Gotcha"											16600	12127	28727
Going to Display Rack and Ruin		10375	381	10756	3847	2511	6358	3950	2517	6467	1900	4052	5952
Lotions and Potions: The Bottom Line About MLM Plans											16000	9290	25290
Medical Billing Business Opportunity Schemes					21201	4755	25956	8700	25032	33732	9400	44563	53963
Multilevel Marketing Plans		46781	18569	65350	21961	12780	34741	15950	22299	38249	10755	38914	49669
Net Based Business Ops: Are Some Flop-portunities?								2750	9144	11894	3000	12812	15812
Project Trade Name Games Campaign			1024	1024		1371	1371		2326	2326		2560	2560
The Seminar Pitch: A Real Curve Ball					6965	1672	8637	10350	6612	16962	11700	7525	19225
Wealth Building Scams	28860	34276	9508	43784	21232	6387	27619	16375	11121	27496	11300	16001	27301
Work-at-Home Schemes		55351	14068	69419	45952	16442	62394	28750	27214	55964	25050	85849	110899
Totals	85517	250944	70497	321441	170528	85215	255743	130242	187665	317907	169120	374787	543907
Year	Paper	Web											
FY 96	85517	0											
FY 97	250944	70497											
FY 98	170528	85215											
FY 99	130242	187665											
FY 00	169120	374787											
Year	Total												
FY 96	85517												
FY 97	321441												
FY 98	255743												
FY 99	317907												
FY 00	543907												

