

The Ancient Art of Bartering Goes Mainstream

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Does the business practice of bartering conjure up images of the underground economy and irate IRS auditors? Think again. That view is as out-of-date as claiming that typewriters still rank as important pieces of office equipment.

Some of the country's largest companies engage in barter, as do many of its smallest. If you're not already bartering, you should consider it, as bartering's many benefits can materially help your business.

Simply defined, barter is the exchange of goods and services without the involvement of cash. If you ever traded a Mickey Mantle baseball card for a Duke Snider and a Peewee Reese, you've bartered. If you've helped your neighbor paint her fence in exchange for her assistance in tuning up your car, you've bartered. If you've provided accounting services in exchange for eyeglasses, you've bartered. We've all bartered and, in fact, people have been bartering for as long as they have lived in communal groups.

Only recently, however, has barter come into its own in our modern economy. Computers, which can track barter inventory and trades, have transformed the barter economy because they have made the mechanics of bartering easy and inexpensive. The spread of barter exchanges, which create markets for traders, has also fueled its explosive growth.

Today, \$1 billion is bartered annually via exchanges, twice 1987's volume and three times 1984's, according to the International Reciprocal Trade Association, a group of barter exchanges headquartered in Alexandria, Virginia.

Commercial barter, which large companies use to rid themselves of excess inventory, totals an additional \$6 billion or more. The IRTA estimates that 280,000 firms trade via barter exchanges. Those who barter one-on-one, for which no statistics are compiled, probably number in the millions. Barter is big business, and getting bigger.

Why Barter

The most obvious reason for bartering is to conserve cash, and since cash is the lifeblood of every business, conserving it is usually a good idea.

But there's more to barter than saving cash. "If you boil barter down to its essence, it's a marketing program," notes Lisa

Peters, co-owner of Trade Services Interchange, a barter exchange in Rohnert Park, California. Barter helps market your business in ways not otherwise possible. For example, it attracts certain customers you would never otherwise have obtained. That's because barter-oriented business owners would rather barter than pay cash, and therefore favor fellow barterers.

Barter exchanges - via newsletters, telemarketing and member directories - advertise their members to other members. "This is a great source of advertising for me," claims Kathy Stuart, owner of Port of Subs, a restaurant in Rohnert Park.

The downside, many think, is that barter will turn cash-paying customers into trading customers. Those who barter universally discount

this, saying that virtually all barter business is additional business. "The number of times you convert a cash client to barter is almost nonexistent," asserts Lowell Curtis, president of the National Countertrade Corporation, a barter exchange in Alexandria, Virginia.

"Barter brought us \$22,000 to \$25,000 in business we wouldn't otherwise have," notes Ken Hodges, president of Gilchrist Flowers and Gifts in Kansas City, Missouri.

Barter can also expand your market area dramatically. Len Gerstel, co-owner of Gerstel Office Furniture in Brentwood, Maryland, explains that he has barter customers from Baltimore and Annapolis "who would not even have thought of coming to us because of our location." They are coming now because he is willing to take their trade dollars, having learned of him through the barter exchange.

Chiropractor Walter C. Towle of Leawood, Kansas, says barter has brought him both barter and cash-paying patients. Like many others who barter, he reports that his barter patients frequently refer their cash-paying friends to him, so barter ends up not only saving Towle from spending his own cash, but brings him additional cash as well.

In addition to its cash and marketing advantages, barter helps boost your bottom line because you pay for goods and services with "dollars" that cost you something less than 100 cents apiece.

Harold Rice heads Kansas City's American Exchange Network, a barter exchange. He got into the bartering business because his wife started bartering during the 1970s, and he saw its potential firsthand. A photographer, she bought a photography studio and immediately benefited from a barter trade. She needed \$1,000 worth of printing, and purchased it with \$1,000 in trade credits. Since she operated with a 50 percent gross profit margin, she in effect got \$1,000 worth of services at a cash cost of \$500.

Barter Is Not for Everyone

Admittedly, some businesses are not suitable for barter. For example, if you operate at full capacity or for some other reason do not want more customers, avoid trading. Those with low profit margins are also not good barter candidates. A

gross profit margin of 50 percent or more is most desirable. Barter exchanges charge you for their services, and you might have to make compromises to complete a trade, either of which can make barter uneconomical if your profit margins are slim.

You also need a product or service that will generate sufficient trading volume. Rice recently had a man want to join his exchange who sold biorhythms. When asked the percentage of businesses he thought would buy his services, he estimated five percent. Since the exchange had 500 members, this man's potential market was only eight customers, which did not justify the initial fee and ongoing costs of being an exchange member.

It is also essential to spend money on the various products or services available through barter in order for it to work for you. Obviously, for example, you can't make car payments, pay the mortgage or cover your child's college education by using this avenue.

Therefore, before jumping into the barter economy, analyze your products and services and your buying and spending habits to see if they

dovetail with what's available via barter. Your local barter exchange can give you a list of its members and their products and services, making it easy to see what's available to buy, and who your potential customers might be.

Barter Success

What can be obtained through barter is a subset of what is offered in the cash economy - everything available via barter is available with cash, but not the reverse. That's why those successful with barter are more flexible and open minded than most consumers.

Sometimes it is necessary to compromise. For example, your dream might be a computer with a 90 megahertz chip, but you may have to settle for one with 60 megahertz. Be patient as well. Don't expect that everything you want will be immediately available. Jeffrey H. Dorfman, president of Electronic Technical Services, Inc., in Trumbull, Connecticut, traded for a hot tub through barter, but had to wait a year and a half to get it.

Recognize the position of others. Dorfman, who sells used computer equipment, enjoys a high profit margin. He says that when he wants

something with a low profit margin, he's willing to let the other guy charge him more in trade dollars.

For example, suppose you sell a gizmo for \$100 that costs you \$25, and want someone else's widget that sells for \$100 but costs him \$75. If you let that person charge you \$125, he will enjoy a decent profit margin and therefore be more likely to trade, while you still enjoy a healthy discount. This is how you can encourage trading.

Always look for ways to spend trade dollars rather than cash. If not sensitive to the nuances of barter, you'll miss opportunities and end up

getting little out of it. "It's like joining the Chamber of Commerce," says Stuart. "If you don't go to the mixers or luncheons, you won't derive

any benefit." Similarly, you must actively participate in the barter community to fully enjoy its advantages.

The Mechanics

One-on-one bartering is common, and many do so quite successfully. Dave Memmott, owner of D. Memmott Hair salon in Salt Lake City, Utah, regularly trades hair services for dental care, dry cleaning and eyeglasses, and has even obtained sporting goods and other items through direct barter.

The shortcoming of direct barter is the difficulty of finding exactly what you want. You may sell janitorial services and want printing, for

example, but you'll be stymied if you can't find a printer who wants janitorial services. That's why barter exchanges were created.

These are for-profit businesses which create barter markets much like the New York Stock Exchange creates markets for stocks. Most cities have at least one, which can be found in your local Yellow Pages, usually under "Barter and Trade Exchanges."

It's in the exchange's interest to foster barter, since it makes money on each trade. That's why exchanges will usually actively search for a product or service you want if it is not readily available; all you have to do is ask. They also network with other exchanges throughout the country and even overseas, thereby extending your market and supply lines beyond your local area. Ken Hodges, whose florist and gift shop is in Kansas City, carries a large selection of stuffed animals that he gets via barter from a company in Chicago, for example.

Tax-wise, barter is treated like any other business transaction. The barter exchange keeps track of what you buy and sell, and reports your trades with a 1099 B form to the IRS. Barter "revenues" received are treated like any other revenues, and barter "expenses" are treated like any other expenses. Barter has no tax advantages or disadvantages.

When you buy or sell, you usually fill out a form in triplicate, much like those used with credit cards, with copies going to the buyer, seller

and the exchange. When you buy, trade dollars are deducted from your account, and when you sell, they are added. The exchange keeps the books and sends you monthly statements.

For this and other services, the exchange levies fees, which are paid in cash. Your first expense is a one-time initial fee, which typically

runs \$295 to \$595, according to Paul Suplizio, chief executive officer of the IRTA. Approximately 10 percent of the exchanges do not charge any initial fee. Rice's American Exchange Network charges \$495 and Peters' Trade Services Interchange charges \$300. In addition, the exchange might charge a flat ongoing fee. Price charges \$20 a month, Peters, \$50 a year.

All exchanges levy a transaction fee, which is a percentage of the value of the trade. These typically range from eight to 15 percent, and

may be charged on the buy side, sell side, or split between the two. Rice charges seven and one-half percent when the trader buys, and seven and one-half percent when he sells. Stuart charges 10 percent on a sale, and nothing on a buy.

While barter can't make a failing business a success, it can enhance a company's market and profit potential. For that reason, it is well worth considering.

Beware of Overextending

Buying goods and services through barter is fine, but you still need cash to operate. If you don't control your trading, you can get into a cash crunch. Kathy Stuart, who owns Port of Subs, a restaurant, has her barter exchange "sell" up to \$500 a month in script, which works like gift certificates and allows her to limit her barter business to no more than this amount. Len Gerstel of Gerstel Office Furniture only barter his lower priced items, because he doesn't want to take on hundreds of trade dollars in individual transactions.

Approximately five or six percent of chiropractor Walter C. Towle's practice comes from trade, while Ken Hodges of Gilchrist Flower and Gifts willingly trades about one-eighth of his sales. Most participating firms do five to 15 percent of their total business in trade. Be careful if you find that more than 25 percent of your business comes in trade. You may run out of money, even though your company is highly profitable.

Resource:

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