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## Taking it out in trade

# Bartering gives businesses alternate way to pay

By David Morrill, BUSINESS WRITER  
Inside Bay Area

WHEN Henry Vortriede opened Montclair Bistro about 20 months ago, he was confident it would succeed.

But to truly compete with the best culinary establishments in the East Bay, he also knew that his restaurant was missing one central ingredient: a state-of-the-art banquet room for corporate events and wedding receptions.

Vortriede had to have one, but because so many restaurants fail within the first few years he also knew that he couldn't risk burning through the Oakland establishment's cash. Especially when it would cost about \$60,000 to build.

But Vortriede found another way to get his banquet room built. He turned to bartering — the practice of trading one business' service for another's in lieu of cash.

"Without having to use up our cash, we now have something that looks like a room you'd find at The Ritz-Carlton for the price of throwing a few parties," he said.

Almost everybody has heard of bartering, but not everyone fully understands it. Bartering is often misconstrued as another term for an "under-the-table" type of deal. But the kind Vortriede is involved with is 100 percent legal, and experts call it a legitimate tool to help a business grow. There are even exchange services that help streamline the barter process.

"Getting into barter is like a mini-economy that you join," said Steven Van Yoder, who barter his marketing and public relations services through his San Francisco-based Get the Word Out Communications. "When businesses find out there's a way to trade services, there's this suspicion that this is too good to be true, but really it is common sense."

In simplest terms, bartering is a way of saying, "I have something you want, you have something I want, so let's trade."

Two children in a schoolyard who trade a bag of chips and two chocolate chip cookies for baseball cards are making a barter-like trade.

"If you think about it, bartering has been around for years," said Jeff Bondoc, owner of Amcon Sunrooms Inc. in Hayward. "I mean, way back when, there were people saying, 'I'll trade you some rice and potatoes for a few cows.'"

The most well-known form of the practice is direct bartering. An example of this is an ad on a Web site or community bulletin board that says, "Will trade nanny service for a place to stay."

But for this method to work, at least two people need to have an interest in each other's service or product at the same time. In the previous example, if a couple have a place to stay but don't need nanny service because they don't have children, the trade would never work.

There is, however, a way around such problems — a third-party barter organization.

With third-party groups, you don't have to obtain a return service or product from the same person to whom you provide the product or service.

Referred to as non-reciprocal trading, you get the cash equivalent of the service or product that you provided in "barter currency." That credit can then be used with any other provider involved with the barter organization.

Ron White, owner of Sign-A-Rama in Oakland, has taken a cruise, bought a car and recently a boat for himself from barter credit he has built up.

"I'm the sign guy, and everybody seems like they need a sign," said White, who's a member of the barter organization BizXchange. "It used to be where I'd go into an auto store, and it would be like, 'I'll make you a sign if you fix my car.' But now it is really a lot easier than that."

Even through barter exchange services, experts say, bartering should only be done if there are services or products that a customer or an individual could use.

Fortunately, there is a lot to select from with groups like BizXchange.

Choices for BizXchange members, for instance, include restaurants, dentists, auto repair services, shoe stores and printing companies.

"Pretty much any service you can think of, there's probably somebody that is willing to barter for it," said Chris Haddawy, a co-founder of BizXchange, which serves the Bay Area from its Oakland location.

Third-party barter companies vary widely in size and type of members they allow to join. They range from just a couple of people in charge of the service to large publicly owned companies.

Some, like BizXchange, screen all their members, while others will allow anyone to join if they pay membership dues. Those looking to join a third-party barter company are advised to make sure it fits them.

"One might offer printing services, but if it is in another part of the country and you're in the Bay Area, that might not do you any good," Haddawy said.

Dave Robison of GoKart Racer in Burlingame, a BizXchange member, sees bartering not only as a way to improve his business by trading for printing and advertising, but as a way to obtain new customers.

"It's sort of like advertising for us, because if a company decides to use us to have a corporate event, it's an opportunity to gain more customers who might otherwise not know about us," he said.

According to the International Reciprocal Trade Association, more than 60 percent of all Fortune 500 companies use bartering.

Additionally, more than 500,000 small businesses nationwide use bartering to conduct \$13.5 billion in trading each year, the association estimates.

"On a personal note, it is kind of fun, and on the business side it makes it a lot easier to do things you normally might not do if you had to write a check first," said Jonathan Yi of Husted's Collision Center in Berkeley.

At Mudd's Restaurant in San Ramon, John Ebert says that bartering has helped his business immensely.

"Everything from carpet cleaning, vacuum service, a roofer, contractor, printing, we do in trade," he said. "We actually belong to three different trade organizations, so it really helps a lot."

His restaurant is constantly fine-tuning its menu, so one of the services he uses the most is a printing service that prints out all its menus.

"For restaurants, this is a low-margin business to begin with, so cash flow is always an anxiety issue for us. So trading services helps us a lot," Ebert said.

Some business owners will use bartering to get perks such as trips or gift certificates to give to employees as a reward instead of cash.

Bondoc used some of his barter credit to purchase a VIP box that includes all-you-can-eat dining for an A's/Red Sox game, and he plans to bring all his employees.

"It's great because I can bring them all to a nice place like this, to help give my employees a lift, without having to pull cash out of the office," he said.

Still, with far more businesses out there, proponents of bartering say it is a practice that not enough have used.

"I think there's a misconception amongst people as to what barter really is," White said. "And because it has a negative connotation attached to it, and with so many gimmicks out there in the world, right away they go, 'Oh, no, it's not for me.'"

One misconception, proponents say, is that it is a shady means of doing business by sidestepping the Internal Revenue Service.

"I think there's this undercurrent of negativity about it, because there are all these stories about people using it to try to beat the system by doing stuff under the table," Ebert said. "Really, it's just not worth playing those games, especially when you're dealing with the IRS."

To the trader, bartering is a way of saving cash; to the IRS, a barter exchange is recognized as if it were a cash transaction.

Therefore, if a person receives \$1,000 in barter credit and spends only \$500, then the difference needs to be reported as taxable income.

When making direct trades, if the values of the two offers aren't equal, then an additional service or product can be thrown in to even it out. And you have to apply full price for services and products — no discounts to balance out the trade.

Many barter exchange companies, such as BizXchange, keep track of the credits and expenditures, and issue statements at the end of each month to make it easier for members to tally for their records.

While barter exchange companies provide a way to use a vast range of services, some require membership dues as well as a 6 or 7 percent commission every time a product is sold or bought.

Because of the commission, companies that pay commissions to sales representatives often have to make barter transactions another way.

If working for cash, for instance, Bondoc of Amcon Sunrooms will send out one of his regular sales representatives on a lead. If the custom sunroom builder makes the sale, then a certain percentage of it will go to the sales rep.

"If I use bartering dollars, I would then have to give an additional percentage to the bartering service," Bondoc said.

To get around this, if he knows it's a deal that is going to use barter credit, he will try to close the deal himself.

Barter expert and small-business adviser Lynnea Bylund, president and chief executive of Catalyst House Inc., says that if used wisely, bartering can really help a company get off the ground and eventually flourish.

"When capital is scarce, barter should be looked at as another currency that keeps things moving during tight times," Bylund said. "For businesses that have unsold inventory on your shelf that is just going to sit there, using barter may be a way to get value for it."

However, because there's no liquidity in bartering, only about 10 or 15 percent of your business each year should be done in trade.

"The best thing about bartering is you're saving your cash," she said. "One of the worst things is that you have to watch your bottom line, and be aware of the tax burden that you might face."

Some business owners will build up their barter credits through the products or services they provide, but in exchange they acquire items for personal use. Bylund says that if this is the case, in some instances the value of these items may need to be handled as if it were personal income.

As a die-hard Cal football fan, Ebert goes to all the team's home and away games. He will use his barter credit to exchange for Southwest Airline tickets and hotel rooms.

Bondoc, on the other hand, will use barter credits only if it benefits the company because he doesn't want to give his employees a wrong perception.

"I know a lot of people use bartering for their personal use, which is fine. But I don't," Bondoc said. "As an owner, I get enough perks, and I don't want people to say, 'Hey, why did the owner suddenly get a new roof on his house?'"

Businesses that don't need to use bartering are those that have no problem with cash flow.

"If you're an airline with routes that are always booked, or Chez Panisse in Berkeley where you need to make reservations well in advance, then there's no need to barter," Haddawy said. "But if you're still trying to gain more customers and build a reputation, barter can work out great."

Haddawy says that although BizXchange won't mandate how the barter dollars are spent, sometimes it will be like a full-service brokerage firm and suggest how the money should best be used.

"Our main hope is that most of the bartering is being done for them to help better their business," he said. "A business might struggle if most of the money is spent on limo trips to the wine country and new clothes."

### **Bartering tips**

Looking to get into the world of bartering? Consider these tips first:

1. Track your trade credits closely - Avoid doing more than 15 percent of your company's total revenues in barter.
2. Be flexible - If you are trading for a high-demand product, such as a plasma screen television, digital camera or cellular telephone, be willing to consider alternate brands and perhaps last year's model.
3. Size matters - Find out how many members are on a barter exchange before signing up. The more users there are, the better it will work to get you what you want when you need it. Ask the exchange for three or four members who can provide a reference.
4. Consider geography - Nearly 80 percent of all barter transactions take place within the same geographic community, so it's best to sign up with an exchange near where you live. Find out if the exchange has a reciprocal arrangement with other exchanges including ones that may be out of state, which can broaden your choice of products and services.
5. Watch for tax implications - Barter transactions might be cashless, but the IRS considers the fair market retail value of a barter transaction to be taxable as income, and conversely deductible when used in appropriate expenditures on business or as charitable donations. A special tax form, called the 1099-B, is used to report barter transactions.
6. Don't limit yourself to a few large business trades - Consider personal needs, too. If you regularly take cash out of your business for living expenses or home improvements, consider trading for those items and conserve your cash. But, if you do barter to acquire items for personal use or to give to employees, the value of the items may need to be declared as personal income.
7. Do your homework - Before joining a barter exchange, make sure it has been around a while and has members who offer the products and services you really need.

Source: Lynnea Bylund, small business adviser, Catalyst House Inc.

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