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## LET'S TRADE!

### BARTER HELPS BUSINESS OWNERS CUT COSTS AND BOOST PROFITS

Several years ago, Mark Miles' Greener Pastures lawn care service was facing bankruptcy. He needed to create new income streams, but he had little cash to invest in traditional marketing.

So he joined a barter exchange, and with a \$10,000 credit line in “trade dollars,” he was able to barter his services for various business needs, including marketing—and through this, he grew his customer base without cash.

“Barter was my vehicle to do the marketing to get new cash customers,” he said. The move has turned his business around, and now, Greener Pastures is estimated to be worth \$20 million.

Bartering—the cashless trading of goods and services—is the most ancient form of commerce. Yet, many contemporary businesses are taking

a second look at bartering as a great way to improve cash flow and enjoy higher profits. You, too, can put barter to work for your business; all that's required is revisiting an idea as old as civilization itself.

#### Trading in a Cash World

Where our ancestors might have traded chickens for horseshoes, today's savvy entrepreneurs swap hotel rooms for printing, office space for a night on the town and dental work for vacations in the Caribbean, all with the help of bartering.

Bartering can also help you offset normal operating expenses and keep more cash in the bank. Through cash conservation (shifting existing cash expenses to trade), business owners can keep more of their “green dollars” in the bank by using trade to cover fixed costs, such as plumbing, accounting and even office rental.

The kind of business generated by bartering can even help companies during lean seasons. Gary Martin Jr., president of Custom Garages Inc., has been bartering for two years. He recommends it for service companies with short-term job contracts.

“It truly helps fill in those hard weeks,” he said. “I am thankful for that business during slow times, and it keeps my good employees busy.” These trade jobs have kept his business visible and have eventually led to a steadier stream of cash customers through referrals and leads.

Unfortunately, modern society has become so accustomed to dealing in cash that most have forgotten the barter option. But if you understand how to exploit barter from a contemporary perspective, you can make trade work for your business in a very big way.

## Bartering Direct, or with a Network

Many bartering deals happen one-on-one between businesses who trade with one another. But it's not always easy to find a company offering what you need—and one that's willing to barter with you for it. In these situations, business barter exchanges can help.

Barter exchanges operate like banks or credit card companies. For a small cash commission (typically 5 to 8 percent of each transaction), they facilitate trading between business members and provide monthly transaction statements. Instead of cash, barter exchanges issue "barter credits" that are used like cash between exchange members.

These organizations connect you to local businesses, from restaurants, to dentists, to moving companies. It is an efficient system that makes trading

easy—partners are found with the help of a barter exchange representative who works deals to serve your buying needs.

## Calculate Your Cost of Trade

Before you jump into barter you must know your "cost of trade," or the real cash outlay involved in doing a barter transaction.

Barter is particularly effective for service-oriented companies whose product is labor, requiring little or no out-of-pocket expense. Calculate your direct costs, such as products or commissions—non-employee expenses that you will incur before a trade takes place.

Once you know the true cash cost of your trade dollars, you can determine the difference between the cost and the price of the items you want to purchase.

A service business, for example, may not have to lay out any cash when it performs its work. Therefore, a typewriter, though it may be priced at \$500 in trade, will actually cost that business less than the same typewriter priced at \$400 in cash once they calculate relatively small cash outlay to perform that \$500 work on trade.

## Rules for Successful Bartering

The most important thing to remember about bartering is that it can bring you new clients and customers in addition to your cash customers. These are clients who otherwise may not have had the opportunity to try your service. This increases your visibility and allows you to build a larger cash customer base.

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## Owner's Headaches

our total business in trade," said Mark Kendziorek, general manager of Closets By Design. "And we spend our credits in advertising. It has generated business we might not have gotten." His closet system installation business has also spent trade credits on the company Christmas party, computer consulting and employee incentives like restaurant gift cards—saving on cash expenses.

Bartering is not rocket science, but you still need to be careful. Whether you trade one-on-one or through an exchange, the following are a handful of principles to keep in mind to avoid problems.

### 1. Cash Is Still King

Do not take more trade than you can comfortably handle and wisely spend. Barter may be a close second to cash, but you can't pay your telephone bill or the IRS with trade. Because cash is

the one currency you can spend for everything you need, it is vital that you DO NOT load up on trade jobs at the expense of cash clients.

"We limit our trade jobs to one or two a month, to avoid displacing any cash business," added Mark Kendziorek. "We can only install so many closet systems a day."

### 2. Formalize Trade Deals

Remember that bartering is still a business deal—the standards and etiquette of the cash world still apply. Both parties should expect and deliver courtesy, high standards and a commitment to putting out a great product. You should practice due diligence when selecting a trade partner and expect the other party to ask around about you as well.

When applicable, set deadlines for the completion of projects and put all agreements in writing. Anticipate

disparate perceptions of value between trading parties before work begins. Talk about this openly and make sure that both of you believe you are getting a fair deal.

### 3. Be Flexible

To make barter work for your business, flexibility is crucial, which often means switching from established vendors to those within the barter exchange. For example, you may need a computer or other piece of equipment. If you have the cash, you go to the store and buy it. With barter, you sometimes have to work with your broker to find what you need, and you may need it shipped in from elsewhere.

### 4. Remember the Taxman

Barter income is considered taxable and must be reported to the IRS. For this purpose, barter exchanges issue



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1099-B forms to members and the IRS at the end of a tax year. The expenses you cover with trade can be deducted. This means that barter should be used for tax deductible expenses whenever possible to avoid a large tax bill at year's end.

And to avoid cash flow problems, carefully consider your level of barter activity to insure it can be spent relatively quickly. Discuss barter activities with your accountant. The last thing you want is to pay a hefty tax bill at year's end because of excessive barter income.

### Membership Has Its Benefits

When you join a barter exchange, expect to pay an initiation fee (typically \$100 to \$500), annual dues and a 5 to 8 percent commission on every trade. In return, the exchange will provide ongoing account maintenance, a monthly statement, checks

or debit cards and a membership directory. Some provide a line of credit to let you start trading right away.

Once you are a member, barter is most valuable as a tool to bring you new clients and customers. "When someone joins an exchange, they're exposed to thousands of potential clients," says Tom McDowell, former director of The National Association of Trade Exchanges. "All of barter's benefits exist because members get new customers they did not have before."

There are two national clearinghouses for barter exchanges, the National Association of Trade Exchanges at [www.nate.org](http://www.nate.org) and the International Reciprocal Trade Association at [www.irta.net](http://www.irta.net). Either can provide you a list of exchanges in your area.

In the end, the benefits of bartering are only limited by your creativity. As business becomes more competitive,

the concept of trading promises to become more popular. Small businesses are discovering that bartering can become an integral component of their business plans, enabling them to see higher profits, meet like-minded business contacts and improve the quality of their business and personal lives. ■

*Chris Haddawy is senior vice president of business development at BizXchange and has been an integral part of the barter industry for more than eighteen years. Haddawy also served on the board of the National Association of Trade Exchanges (NATE) to set guidelines for ethical business practices and facilitate the sharing of information among independent trade exchanges around the world. To learn more, call 1.800.939.BIZX or visit [www.bizx.com](http://www.bizx.com).*



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