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Hundreds go cashless through barter exchange

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Joseph Chenkovich enjoys a skyline view from his 12th-story balcony in Belltown's Olympus Apartments, but since moving here 18 months ago, he has never written a rent check.

A Seattle chef and caterer, Chenkovich managed not to fork over any cash whatsoever when he vacationed at an oceanfront condominium in Maui this past winter. Nor did he charge up a credit card when he splurged on a limousine for friends and employees to ride in style to a recent Prince concert.

Instead, Chenkovich tapped into BizXchange Inc., a rapidly growing exchange that allows members to barter for products and services with other members in lieu of using cash.

Since joining in 2002, the owner of Candles Cafe & Catering has provided catering services to fellow BizXchange members in exchange for normal business expenses, including printing letterhead and brochures. He's also used it to rent dishes, tables and linen and to pay for holiday gift certificates for customers. And when he was looking for a place to live a year and a half ago, someone told him to check with the exchange. Sure enough, he found a landlord who was a member and soon he was moving in.

"Boom, the next thing you know I've got a brand-new apartment," said Chenkovich, who figures bartering through BizXchange accounted for about 7 percent of his business in 2003.

Chenkovich is among a growing number of Seattle area business owners signing up for the trade exchange, said BizXchange president Bob Bagga. The exchange has about 800 members, up from about 560 last September. Members are trading about \$2 million in products and services each month, everything from meals to



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Joseph Chenkovich, owner of Candles Cafe & Catering, takes heavy advantage of bartering services, even paying his rent that way.

advertising to office furniture to financial planning and printing.

Bagga, along with two partners, founded BizXchange in early 2002. Its headquarters are in Seattle, in bartered office space, of course. The company also has members in the San Francisco area, although about 65 percent of its clients are in the Puget Sound region. The company has 18 employees, with 13 in Seattle and five in Berkeley, Calif.

Bagga said BizXchange targets companies with \$1 million to \$100 million in annual revenue. But members include companies below the threshold. Members also include large corporations such as Southwest Airlines. Other high-profile members include the Seattle Supersonics and Harbor Properties.

BizXchange does between 5 percent and

10 percent of its business outside of its core markets in Seattle and the Bay Area. But a successful business exchange must have a concentration of local companies, because businesses tend to spend locally, Bagga said. He has a vision of establishing a global exchange, but to succeed Bagga said it will have to be comprised of a network of strong, local bartering services.

It costs \$595 to join BizXchange and members also pay a \$30 monthly maintenance fee, which covers tracking fees, including a completed 1099-B tax form required by the Internal Revenue Service. BizXchange makes money by charging fees equal to 12 percent on each transaction, split equally between seller and buyer.

BizXchange is currently focused on growing the business-to-business membership. But Bagga said the exchange could serve consumer markets, too, allowing members to build up incentive credits much like a rental car company rewards customers with frequent-flyer miles.

BizXchange markets the company by cold sales calls from its seven-member direct sales staff. The company also attends trade shows, and relies on referrals.

BizXchange's major competitor is the publicly traded ITEX Retail Trade Exchange, based in Bellevue, a company that has struggled with an internal shakeup, legal challenges and a proxy fight recently.

Bagga, who started a similar bartering company in Toronto in 1992 before later merging it with a Seattle company and selling it in 1999, said BizXchange became profitable in July 2002. In 2003, BizXchange's total trade transactions were \$16.8 million. This year, Bagga estimates the total will be about \$26 million.

Bartering is big business, accounting for about \$10 billion in sales worldwide each year, according to the International Reciprocal Trade Association. About 65 percent of Fortune 500 companies use trade

agreements with clients and suppliers. And the New York-based association estimates that about a half million small businesses will use commercial trade exchanges this year.

“This is a very micro economy,” Bob Meyer, founder, editor and publisher of BarterNews, a quarterly magazine that has covered commercial bartering for the past 25 years.

Meyer said business exchanges can be huge boosts for small businesses, most of which are always struggling with cash flow. The key is to have enough members and enough diversity. In other words, the exchange must have enough goods and services that a company normally would want to make it worthwhile to join, said Meyer. If a balance is not maintained, the exchange can collapse as members start to inflate the prices of their services to make up for the fact that they can't sell them in the exchange.

Meyer said there are about 800 such barter exchanges worldwide and their ranks are growing annually at a rate of 5 to 7 percent. The successful exchanges are run by people who are diligent about selling and recruiting new members and closely monitoring and managing the exchange's

“currency,” or unspent barter credits that represent the goods and services members commit to pay for the goods and services they reap from the exchange.

At BizXchange, trade transitions are based on the dollar value of their goods and services. Those “BizX dollar” transitions are credited or debited to member accounts. Bagga said so far BizXchange has enabled its members to spend their BizX dollars as easily as they barter for services by ensuring that the membership is growing with the types of goods and services companies most often need.

Christian Kar, who owns Silver Cup Coffee with his wife, Erika, said he's been involved with other exchanges since the early 1990s. But BizXchange is superior because it is professionally run and more proactive about pitching his services to other members.

Kar said he took out about \$11,000 in phone directory ads in both 2003 and 2004. Those were advertising dollars he didn't have the cash to pay for. But Kar said he was confident he could cover the ads through new business drummed up through the exchange.

“It's excellent. I keep telling them to get

more business because I have no problem spending it,” said Kar, whose business includes 15 drive-through coffee shops. Silver Cup Coffee also roasts coffee and sells commercial grinders, espresso makers and other equipment.

Kar is currently renting industrial space in Everett but recently took out a \$2.8 million loan to buy and renovate the old 27,000-square-foot United Furniture warehouse in Lynnwood. After the purchase, he realized his ambitious renovation plans would cost more than he had originally estimated, and more than the loan would cover.

Kar gave BizXchange a laundry list of things they wanted to get done: Construction work, carpets, building supplies. And while he was not able to barter every service, thanks to the exchange he is able to pay for storefront windows, the electrical and plumbing. It all added up to about a quarter of the renovation project that is just under way and expected to cost \$450,000.

“It was the creme on this project,” Kar said. “I really didn't want to skimp on the building.”

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