

Bartering Picking Up With Slower Economy

Pressed for cash, many companies are swapping with other businesses through exchanges.

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With company profits down some 20% since '00, many cash-squeezed firms are reverting to the centuries-old system of barter to drum up customers and obtain the goods and services they need.

Bartering is especially attractive to small businesses experiencing cash-flow problems due to the economic slowdown. It can help get them through the rough patch. "It works best for industries that operate around the clock, such as radio stations, hotels, printers and restaurants," says Robert Meyer, editor of *BarterNews*. "When time passes and nobody uses the service, it can't be recovered."

Unlike the furs-for-trinkets swaps of Colonial times, modern-day barter is done through dozens of barter exchanges that operate like banks and stock exchanges. For a fee of 5% from the seller and 5% from the buyer, most exchanges will deal in everything from roof repair to baseball tickets. A roofing contractor, for example, will be paid in the exchange's own currency or in credits stored in a credit card. The contractor can use the currency for a hotel in Hawaii, a radio advertisement, a printing circular or anything else listed on the exchange. "You're not taking away cash business," notes Sharon Jacoby of ITEX trade exchange. "You are getting business you would not have gotten any other way."

Barter deals came in particularly handy when consumer demand softened after Sept. 11. "Since then, business has been fabulous for trade, up about 23% over last year," says John Sobolewski, executive director of the National Association of Trade Exchanges. "Many hotels and restaurants used barter to make up for holiday parties canceled after Sept. 11. And some companies that canceled employee bonuses used barter to get ham, candy or fruit baskets for employees."

Companies should take precautions before plunging into barter. It's important to join a barter exchange that is big enough or healthy enough to stay in business a long time. If an exchange goes out of business, credits might become worthless. And don't look on a barter exchange as a tax dodge. Exchanges have to report transactions to the Internal Revenue Service and state and local tax authorities for sales tax purposes. And taxes must be paid in cash—the government won't accept barter credits. Many exchanges specialize in local business, often within 25 miles of a large city, where products can be transferred easily and buyers know exactly what they are getting.

Internet entrepreneurs thought that online barter would catch on big, but that has yet to develop. Most Internet-only barter exchanges have fallen by the wayside, just as consumer shopping sites have bitten the dust. While businesses can post ads on the old-fashioned exchanges' Web sites, they seem to want these sites backed up by a bricks-and-mortar company. They will be wary of trading with anonymous people whose claims and credit cannot be verified.

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