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SMALL BUSINESS; Shops Swap, and Keep Sales Coming

By **JULIE FLAHERTY**

EDWARD L. SILVERSTEIN, 65, has traded the haircuts, perms and dye jobs given at his Shear Success beauty salon in Newington, Conn., for many goodies over the years.

In the salon itself, he has traded them for a new tile floor, carpeting, upholstery, electrical work, coffee, a water cooler and the service of cleaners who come twice a month. At home, he has traded hair care to have his car repaired, his lawn mowed and his driveway plowed. In his leisure time, he has traded for a trip with his wife to the Poconos, a white-water rafting expedition in Maine with a grandson and a hot-air balloon trip with another grandson.

And three years ago, he traded his services for most of a \$20,000 addition to his home. The root-canal surgery? One of his more painful trades.

Mr. Silverstein barter his way to just about anything he needs as a member of a local barter network, also known as a retail trade exchange. He earns credits known as trade dollars whenever he trims the bangs or polishes the nails of an exchange member, and he uses the credits to buy services -- from accounting to vacations -- from other exchange members. He is not apologetic about it, either.

"There was a time when people thought barter meant your business was in bad shape," said Mr. Silverstein, who has been doing it for more than a decade. "Now, a lot of people are saying their business is doing good, but they say 'I can get 10 percent more business through barter.'"

With its stigma as a poor man's business tool largely disappearing and the slow economy of the last few years attracting many new adherents, retail barter has been expanding by about 6 percent annually, according to the National Association of Trade Exchanges in Mentor, Ohio. There is plenty of room for more growth; California, Florida and Arizona have active exchanges, but major cities like Cincinnati, Newark and Richmond do not. "There is not a market in this country that has enough trade exchanges," said Tom McDowell, the association's executive director.

The retail segment of the barter industry that entrepreneurs engage in is aiming for the same recognition that corporate barter has achieved among multimillion-dollar companies. Unlike a retail exchange, a corporate barter company will buy a manufacturer's unsold inventory, usually at wholesale value, in exchange for trade credits. Corporate barter has been an accepted business tool for more than 40 years, with an estimated 65 percent of Fortune 500 companies using it, according to the International Reciprocal Trade Association in Rochester, N.Y.

As retail trade gains favor with more small businesses, the quality of products being exchanged has improved, people in the industry say.

Debbie Lombardi, president of Barter Business Unlimited, a retail trade exchange in Newington, Conn., is the host of an expo every year for members to show off their stuff, and a walk among the booths at the 2003 show in late October revealed an uncanny assortment of ventures, including pizzerias, art importers, photographers, florists, dog trainers, hotels, colleges, interior decorators and business consultants. For tax purposes, barter income is treated like cash, and trade exchanges are legally required to report the barter income of each client to the Internal Revenue Service.

"Ten years ago, you would have been happy to get anything on barter," Ms. Lombardi said. "Now it's choices, it's options."

Health care services are in particularly high demand as small-business owners struggle to cope with the rising price of health plans for themselves and their employees. (Chiropractors, eye doctors and dentists were in attendance at the October expo.) Legal services and hotel rooms are also big items these days.

The industry had a shot at stardom a few years ago, when a handful of start-ups, financed with millions of dollars by backers like American Express, splashed onto the Internet, each with the goal of becoming the dominant, nationwide barter network.

"What happened was you had venture capitalism come into the industry with all this seed money and say, We are going to take this barter concept and make this one great, big, huge, awesome operation all done by a Web site and the Internet," said Krista Vardabash, executive director of the International Reciprocal Trade Association. "With BarterNet, that was definitely the thought -- that this was going to be the eBay of the barter industry."

Today, however, sites like Bigvine, BarterTrust, LassoBucks and Ubarter are defunct, and BarterNet, now named Intagio, is not an Internet-only company; half of its transactions are completed with the help of brokers.

George Geis, a professor who specializes in the digital economy at Anderson Graduate School of Management at the University of California, Los Angeles, said the sites were prime candidates for the dot-com bust. "It's a romantic notion that this could happen online, but in fact, like so much romance it gave way to the challenge of really executing it," he said

The fatal flaw of the online barter companies, said Mr. McDowell of the trade exchange association, was that they could not teach small-business owners how to barter effectively.

"They don't have the time to spend to figure out how to trade," he said. "They're busy with paying their bills and getting their help out and complying with regulations."

For now, the retail barter business in the United States remains firmly in the hands of the 400 trade exchanges, which are, for the most part, independently run small businesses that make money by charging membership and other fees.

One reason the Internet may be slow to transform barter is that most exchanges are done locally; a landscaper in California has little to offer a dentist in Florida. A successful exchange also has to keep an appropriate mix of businesses to ensure that the value of the trade dollar is strong. "We have to manage a supply-and-demand economy," Mr. McDowell said. "If we have too many dollars in circulation chasing too few products, we get inflation, just like the economy does."

While barter can be an easy way for businesses to sell extra inventory, it can also help businesses that are short on cash and do not want to jeopardize their credit rating. John Collins, 42, who owns Hartford Toner and Cartridge in Broad Brook, Conn., says barter kept his family going while his second business, a convenience store, was struggling in the mid-1990's.

"I went out and bought a lot of food on barter," said Mr. Collins, who treated his family to meals at Italian, Tex-Mex and other restaurants on the exchange, cutting his grocery bills in half. "I conserved cash and I ate well."

Now his business is thriving, he said, and he barterers whenever possible, even for property, including a nine-family apartment complex he recently acquired as an investment.

It is possible to get burned in barter if you play your cards wrong, though. Mr. Silverstein did so much work for barter credit one year that he came up short on actual cash. "All of the sudden I had \$15,000 worth of barter and I couldn't pay my rent," he said. Now he limits his barter to about 7 percent of his business gross.

Will an online barter company eventually make the local trade exchanges obsolete? While most exchanges have some sort of Internet presence, they say that their brokers play a crucial role in advising client businesses on which products, and how much of them, to trade. For the moment, at least, Mr. Silverstein is grateful for the personal attention he gets, and even gives his broker a challenge now and then.

"I called my broker and said, 'Any possibility you can get tickets to Cher?'" he recalled. Two days before the concert, the broker came through. "I also saw Bruce Springsteen," said Mr. Silverstein, making him the only person, perhaps, to pay the Boss in shampoo.