

INVENTORY MANAGEMENT

By Joan Varner

Bartering: Turning Excess into Success

In an industry where it takes just months for a product to become obsolete, more and more companies are turning to barter to get rid of their excess inventory and boost their bottom line. For Matthew Sethi, it was pricing error that first led him to bartering. Sethi, the vice president of marketing for Innovation Computers, a \$44 million computer sales and service company based in Deerfield Beach, FL, said because of the error, its main distributor owed the company \$10,000. The distributor couldn't pay the \$10,000 in cash, so it offered Innovation Computers \$20,000 in trade credit through the National Trade Association (NTA), located in Niles, IL.

Sethi took the deal and ended up using the trade credit to purchase advertising space. This first experience in bartering got him hooked. Now, Sethi regularly trades his company's excess inventory for items that have ranged from 500 gift baskets to a forklift. In other deals, he has had cash costs reduced by using trade, such as when his company used barter to offset printing costs by 40 percent for a run of 250,000 catalogs.

HOW DOES IT WORK?

In its simplest form, bartering involves an equal trade. One business swaps a good or service for another, like when Sethi traded computer equipment for advertising space.

Through professional barter exchanges, where members pay a commission for goods or services traded, more complicated trades are possible. Here's how it works: a business lists a good or service for trade through the exchange, and in return, the business receives a trade credit based on the dollar value of the item offered. The business can then use its trade credits to "purchase" goods or services offered by other members. The result is that the business is hooked up with a network of actively bartering companies.

For example, imagine a radio station that wants an economical way to entertain its top advertising clients. The station may offer advertising time, and trades its barter credits for meals at a local restaurant. In turn, the restaurant trades its credits for computer equipment. Lastly, the computer company might trade its credits for radio ads. Three separate businesses have taken part in a buy and sell transaction without ever exchanging a dime, except for paying the tax in cash, of course.

FULL TRADE BARTERING

While some people frequently mix barter and cash in the same deal, others prefer full trade barter. One such person is John Levy, the part-owner and president of two Elkhart Indiana companies, Romaine and Market Development Specialists, and the former owner of a chain of 31 computer stores. When people are not in a hurry, Levy explained, there is usually someone willing to do a full

The Basics of Bartering

In its simplest form, bartering involves an equal trade. Two businesses swap a good or service for another good or service.

In an industry setting, here's how it works:

- ▲ One business lists a good or service for trade through the exchange.
- ▲ In return, the business receives a trade credit based on the dollar value of the item offered.
- ▲ The business uses the trade credit to "purchase" goods or services offered by other companies.
- ▲ The end results is group of businesses engaged in a network of actively bartering companies.

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trade. Levy estimated he has done at least \$40 million in trades since 1984, and said he barterers for goods and services "Any chance that I possibly can." He calculated that Romaine, which sells cold compression bandages for swelling and burns, had about \$250,000 in barter last year. Levy also estimated Market Development Specialists, a consulting firm that specializes in marketing, advertising, inventory control and management issues for computer companies, bartered nearly \$2.5 million last year. Levy often turns to barter for his clients, as well. "The moment we find something we need in a company, the first thing we ask is, 'Can we barter for it?'"

THE POWER OF TRADE

Levy is a firm believer in the power of the trade. "I'm an optimistic person," he noted, "and believe you can always find someone to trade with." He is currently helping a client trade for a 737 jet.

Levy's own bartering has garnered him items including a 54-foot yacht, a 40,000 square foot warehouse in Southern California and a 16-unit hotel in New Mexico.

However, bartering is not only used for personal gain. Sethi sent one of his employees to a top resort in Barbados, paying for the accommodation and airline ticket on full trade.

Indeed, the network of goods and services available through barter is growing. Today's barter exchange may have as many as a few thousand members nationwide. Nevertheless, as bartering becomes more popular, some barter exchanges are starting to trade with each other, further expanding the opportunities available to their members.

THE BENEFITS OF BARTERING

By bartering, computer businesses can acquire the goods or services they need while conserving cash and reducing expenses. For example, a company can pay \$10,000 for a printing job with

\$5,000 in cash and \$5,000 in barter trade credit. The credit may be inventory that only cost \$3,000. Therefore, the company reduced their printing expenses by \$2,000 on a single job, resulting in an overall savings of 20 percent.

Bartering further bolsters the bottom line by enabling businesses to trade away excess inventory or resources. Through bartering, manufacturers can receive up to full whole-

largest barter exchanges, recorded a record-breaking \$35 million worth of trades in 1995, and is projecting this will rise to \$40 million in 1996.

According to Jill Halper, vice president of national accounts, the National Trade Assn. (NTA) has bartered \$5 million worth of computer items, including equipment and software, in the last three years. Halper said the National Trade Assn. (NTA) can handle deals ranging from \$50,000 to \$10 million or more.

Typical computer deals are in the six figure range.

Barter exchanges generally charge a one-time membership fee. Some may even extend a line of credit to new members. This way, members can start using credits before they've sold anything through a successful trade. Businesses can use credits accumulated for one item to trade for several different items that together equal their total credits.

SAME AS CASH

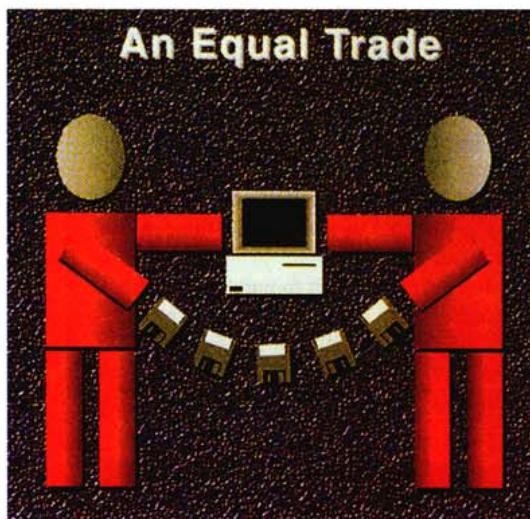
Companies that want to get involved in trading should remember that there is no tax advantage to bartering. Barter and cash transactions are the same in the eyes of

the Internal Revenue Service (I.R.S.)—both are taxed equally. In fact, barter exchanges must report goods and services sold through barter directly to the I.R.S.

Today, many businesses are finding that bartering definitely has its upside. Said Innovation Computers' Sethi, "It's a great way to get a tangible worth for dead stock."

Levy agrees, but he advises business owners to look at bartering as more than just an asset deployment problem solver. "The people who are successful at it treat it like a piece of their business," he said.

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sale for their goods. Compare this to cash liquidation, which may return just pennies on the dollar. Instead of taking a 60 to 70 percent loss on an item, Levy stressed, he earns credit for the full value through barter.

Bartering also provides another way of advertising. By bringing together buyers and sellers who may not have used each other's services before, bartering can introduce a company to new customers. These may be one-time customers, or people who come back to purchase items after they are acquainted with the business.

AN EXPANDING MARKET?

Companies that actively barter may do as much as five to ten percent of their business annually through trades. This adds up. The National Trade Association, one of the nation's