

The Business of Bartering

“Do you want to trade?”

Our world of business transactions started with a crafty, creative and simple form of one-on-one bartering to get a fair exchange of services or goods. This process has continued for centuries, moving from goods exchanged to a monetary currency. Bartering, or ‘contra’ as it is often referred to, is still a viable business process between companies and individuals.

Whatever you call it, bartering is common practice amongst business associates. But is it the best way to support one another and do you ever get full value in the process? In reality, it is tempting to exchange business services and it seems like a logical process of a fair trade. It preserves cash flow and is a great way to get the consultants, advertising, essential services, accountants and even lawyers, etc. we need to run our individual businesses.

Often, however, using a contra deal as a form of business exchange can be more trouble than it's worth. For those not wise enough to trade effectively, it can be of little value and even shown as a loss. The various service providers in your community almost certainly use different methods to calculate their fees and profit margins and this complicates the fair business exchange process. For example, some companies have an hourly fee, others charge a mark up for goods being traded.

If you seek to exchange your products for someone else's services, or your services for someone else's product(s), how should the products and services be valued? At cost? At wholesale? At retail? And, how would you calculate the wholesale price of your services?

Like any trade, bartering is an educated sport and value is in the eye of the trader. These values can vary and the focus on need is weighted heavily against the true value. For the wise investor, this must be considered in any agreement. If you want to support the other businesses and you know, use and recommend their products and services, then do it, but only if it is to your advantage financially.

The most popular form of contra bartering is the exchange of goods for advertising or media promotions. A common rule, though one not popular with media advertisers, is to use a minimum of 2 - 1 value and if possible, try for more. Over the years in retail, I often negotiated contra deals with a net value in my favor of 4 - 1 on specific deals. The value to me was in the volume of media dollars received vs. the net dollars lost for the cash sale of the products provided. The best rule to follow, in my opinion, is to avoid contra because it is cash that fuels businesses, not a barter system in today's economy. But, if the value far outweighs the investment, then the common sense rule of supply and demand will ensure you are positioned in a positive place.

Remember, cash is always king especially in today's uncertain economy. Bartering and trading should only be used as a supplement not a replacement for cash. But, the trend often seen in most challenging economies is to barter and trade and as such, those with the best skills win. Be wise, be smart, be crafty and be knowledgeable. Back away if unsure and only agree to a sure win. Try to flip the value of the trade to cash as soon as you can. Set limits on how much you will trade and stick to it. Remember it is income and it is taxable. Talk to your accountant if you are unsure how to record your bartering.

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