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Volume 6 Issue 15 "I may disapprove of what you say, but I will defend to the death your right to say it." --Voltaire

MORE NEWS

BARTER! 'New-Old'

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Part II
(Editor's note: This is the second of a series of articles designed to acquaint Las Vegas Tribune readers and small business owners with the growing advantage of utilizing business barter)

Albert Einstein, Time Magazine's Man of the Century said, "If I had my life to live all over again, I would elect to be a trader of goods rather than a student of sciences . . . I think barter is a noble thing. I need to know much more about it."

It may well be that the ancient system of bartering, the exchange of goods of equal value, has revived and adapted to the modern economy in order to meet the changing needs of large corporations and the fast growing small business sector in the 21st Century.

Today, more than 500,000 businesses, ranging from airlines, caterers, doctors, lawyers, dentists, restaurants, hotels, and building contractors, to household names like Xerox, Pepsi Cola, Ramada Inns, McDonnell Douglas, Mattel, and Hilton, conduct $13.5 billion of barter transactions, according to the International Reciprocal Trade Association (IRTA), up from 240,000 firms doing $5.9 billion in 1991.

The Retail and Commercial Barter Industry

Based on present trends, 1.5 million businesses will be engaged in barter in North America within a decade, the International Reciprical Trade Association ('IRTA') recently announced. This would be three times the 500,000 firms now engaged in barter. IRTA expects the number of clients of barter companies to double over the next five years, and to double again by the end of a decade.

IRTA also foresees average trade volume per trade exchange client doubling from approximately $3,500 today to $7,000 by the year 2005. This estimate is in real terms, not considering inflation, which if included would raise trade volume even more. The significance of the take-off stage of growth is that the industry will be generating the retained earnings, and attracting the outside capital, needed to organize, train, and deploy the people and technology needed to service a growing number of global clients linked together in the emerging multi-media marketplace. It will add a significant new dimension to the financial and commercial worlds.

Industry Growth Factors

What explains the explosive growth of commercial barter? First, the modern computer makes possible the tracking of barter transactions, which used to be done by hand in colonial times. For example, John

Hancock's uncle, a minister by profession, is one of those early bookkeepers who recorded commercial trades of rum and whale oil in exchange for the wheat and furs of the early frontier.

Barter finance enables a firm to buy using its incremental cost of production. This applies to international trade as well. So long as incremental revenue exceeds incremental cost, it will pay a firm to barter. Barter's main drawback is the limitation on the range of products or services offered in trade.

The economic advantages of barter can be seen by comparing a firm's position before and after barter. We see that: barter results in additional revenue, hence added profit; barter enables a firm to conserve its cash, resulting in better liquidity and a saving equal to the going cost of money. Business people also establish new business relations through barter. They gain from an intangible web of referrals, advertising, and associations that generate both additional cash and barter business.

Barter Industry Competitive Analysis

Barter isn't an industry a lot of people think much about. In fact people think of traders in less developed countries, trading craft products for food staples. In fact, barter is profitable and maintains a steady and growing stream of customers.

Barter is a relatively new industry having developed very slowly until the advance of inexpensive microcomputers. There are now an estimated 1250 retail barter companies. The industry is lightly regulated at federal, state, and local levels. It is also extremely fragmented and therefore poised for organization and can benefit greatly from increased efficiencies, automation and economies of scale that a large national barter company can offer.

The typical retail barter company has between 200 and 1200 business members and operates from a single location serving a local or regional area. The sales function is assigned to 'trade-brokers' who record calls manually and match client services with client needs. The majority of the retail barter exchanges have a hard time keeping hard goods in for their business members. These companies rarely serve individual consumers, however.

With almost 425 million individuals in the North America (6 billion worldwide) it's only a matter of time until effective programs are developed that will facilitate barter among individuals on the Internet. The popularity of Internet auction sites is indicative of the potential profitability of a working consumer barter system.

To be continued...

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