LAS VEGAS TRIBUNE

December 03, 2004

Volume 6 Issue 18

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

ENTERTAINMENT

The 'New-Old' Business Currency BARTERING GOES MAINSTREAM

LYNNEA M. BYLUND
TRIBUNE SPECIAL
BUSINESS CORRESPONDENT
PART IV OF A SERIES

(Editor's note: This is the fourth in a series = of articles designed to acquaint Las Vegas Tribune readers and small business owners with the growing advantage of utilizing business barter. If you missed any of the previous installments they may be found in the 'archives' section of Las Vegas Tribune Online at www.lasvegastribune.com)

Lynnea M. Bylund

Does the business practice of bartering conjure up images of the underground economy and irate IRS auditors? Think again. That view is as out-of-date as claiming that typewriters still rank as important pieces of office equipment. Some of the country's largest companies engage in barter, as do many of its smallest. If you're not already bartering, you should consider it, as bartering's many benefits can materially help your business.

Simply defined, barter is the exchange of goods and services without the involvement of cash. If you ever traded a Mickey Mantle baseball card for a Duke Snider and a Peewee Reese, you've bartered. If you've helped your neighbor paint his fence in exchange for his assistance in tuning up your car, you've bartered. If you've provided accounting services in exchange for eyeglasses, you've bartered. We've all bartered and, in fact, people have been bartering for as long as they have lived in communal groups.

Only recently, however, has barter come of age in our modern economy. Computers, which can track barter inventory and trades, have transformed the barter economy because they have made the mechanics of bartering easy and inexpensive. The spread of barter exchanges, which create markets for traders, has also fueled its accelerating growth.

Today, $12+ billion is bartered annually via exchanges, twice 1987's volume and three times 1984's, according to the International Reciprocal Trade Association ('IRTA'), a group of barter exchanges headquartered in

Alexandria, Virginia. 'Commercial barter,' which large companies use to rid themselves of excess inventory, totals an additional $ 6 billion or more.

IRTA estimates that 350,000 firms trade via barter exchanges. Those who barter one-on-one, for which no statistics are compiled, probably number in the millions. Barter is big business, and getting bigger.

PAR-VALUE CURRENCY:

BARTER'S BIGGEST BUGABOO

Notwithstanding barter's impressive growth in recent years, it is necessary to address a clear problem that the industry is grappling with: that of 'par-value' of trade exchange 'currencies.' Trade currencies are represented by everything from national trade exchange consortiums to citywide barter clubs. Though every barter member would like to think their barter dollars are equal to those issued by every other exchange, it simply is not true.

"The bottom line is that every type of currency is valued against cash and the U.S. dollar," says Tom McDowell, executive director of the National Association of Trade Exchanges (NATE). "I've never been able to figure out how somebody can pay three or four times what something is worth knowing they have a taxable event ahead of them, yet it happens every day."

McDowell added that if a person uses barter dollars for business or medical expenses that can be legitimately deducted off gross revenues, this problem is generally avoided. "It's the use of barter dollars for personal expenses that causes the greatest suffering when it comes time to pay the taxman," says McDowell.

Another consideration is the added sales tax and association fees. If you buy an item for $30 in barter that is really worth $15 in cash, you must pay taxes and fees on the $30 price not the $15 market value.

Another problem in the barter business is the de facto unwritten practice of taking advantage of newer or less savvy members who think they can get top dollar for their excess inventory or unused production capacity."

As barter exchanges and brokers are paid based on the amount of the transaction, there is little incentive to promote trading at less than full price. Thus, goods and services selling at multiples of fair market value precipitate inflation of barter currencies and across the board devaluation against the U.S. Dollar.

These practices, however, contrast with real dollar-for-dollar value offered by doctors, chiropractors and dentists. Blank spaces in the appointment book filled at the last minute with patients who pay in barter return something rather than nothing, though it may be heavily discounted off full-paying cash customers. However, barter members who deal in services are usually some of the most successful since barter augments rather than replaces cash business. Members who must outlay cash to purchase hard goods they incorporate into products they sell for barter can be particularly vulnerable to barter currency valuation disparities. Dealing in barter currency gives a new meaning to the slogan on the U.S. Dollar bill: "Caveat emptor" (let the buyer beware).

Before we make our case for the establishment of a Uniform Barter Currency ('UBC'), let's take a look at how currency has evolved through the millennia.

CURRENCY: A HISTORICAL PERSPECTIVE

Money, or currency, was created to facilitate trade between people with disparate wants and needs. Common currency was usually something with a high intrinsic value, which was transportable, divisible, desirable, hard to counterfeit and would maintain its value over time. Precious metals were ideal as money. Near the Black Sea, bronze ingots were cast in the shape of dolphins, while in China, they were shaped as knives or spades. Around 600 BC, coins minted from gold and silver appeared in ancient Greece. But, it wasn't until the Roman Empire issued the gold aureus as a currency considered to be "universal" in its acceptance across the civilized Western world.

When the Roman Empire waned and riches stopped flowing in from conquered lands, the government began debasing the currency in order to raise revenue. Bronze coins dipped in silver caused devaluation and inflation. This created a loss of confidence that inhibited trade and foretold the eventual demise of the Roman Empire that split into unstable factions in the West and the stable Byzantine Empire in the East whose gold tremessis maintained its currency value for over a thousand years.

Later, during the Renaissance, gold and silver bullion on deposit in national vaults backed paper notes or bills of exchange that, in essence, became the first paper currency. The idea for a universal European currency was first published in 1588 by the Italian Bernardo Davanzati after delivering his ideas to the Academy in Florence. The metric system, introduced during the French Revolution, also implied a uniform system of monetary exchange. In 1865, the Latin Monetary Union was established with France, Belgium, Switzerland and Italy agreeing to mint coins to a single standard of quality and quantity.

The International Monetary Conference of 1867 tried to create a "universal standard" coin equal to 25 French francs, 1 British pound and 5 U.S. dollars. This effort failed and separate currencies remained in effect, fixed primarily to the value of gold, silver or the British pound sterling. The Bank of England acted as the central bank for the world and managed the world gold standard by controlling interest rates. This worked fine until World War I when countries suspended their currency conversion practices and began wildly printing money, resulting in runaway inflation and devaluation. Historic photos depict wheelbarrows of printed bills being exchanged for a loaf of bread in Eastern Europe while in America images of lines of poor people waiting at soup kitchens characterize the Great Depression.

In 1944, the Bretton Woods Conference established a U.S. Dollar standard to replace the gold standard. It lasted until 1973 when flexible exchange rates replaced the fixed rate system. The Werner Report, approved in 1971, proposed a single European currency by 1980. Over the next three decades, European countries shuffled through numerous membership alignments, exchange rate multiples and various political fluctuations.

Finally, on July 1, 2002, the Euro (European Monetary Unit) officially became the currency of Europe, replacing individual currencies of France, Germany, Italy, Belgium, Portugal, Spain, the Netherlands, Austria, Luxembourg, Finland and Ireland. Since then, the Euro has become one of the strongest currencies in the world, rising in value against the British pound, the Japanese yen and the U.S. dollar.

BARRIERS TO A UNIFORM

BARTER CURRENCY

Four hundred barter groups in America with distinct currencies and different business philosophies define the biggest problem. The euro took decades to evolve and only involves 11 member countries. What chance does barter have?

"You would have to establish one trade currency as the standard and then value every other currency against it," says McDowell. "The problem is nobody wants to be the peso (Mexico), everybody wants to be the yen or the euro."

Just as world currencies once backed by gold became backed by the confidence people had in a country's financial reputation, barter currencies rely ultimately on their liquidity strength and how easily it can be converted into goods and services, and at what value.

"The real value of a barter exchange is the liquidity of its currency," says Dr. Henry Petree, an executive of Bartercard USA. "The easier it is for members to spend their trade dollars to obtain items at fair market value, the more liquid (valuable) the currency." Bartercard, the largest trade exchange in the world, has 40,000 members in Australia, a nation with a population of 19 million people. "That is incredible market penetration that enables members to carry on trade business much like cash business and reciprocal agreements with other major barter groups have extended our range even further," Petree adds.

Large U.S. barter groups act much like small countries in respect to the issuance and acceptability of their currencies. ITEX and BXI, two of the largest North American trade exchanges, have members in most states serviced by a network of local brokers. If a member wants something not available locally, their local trade broker can search for it across the nation by contacting other brokerage offices or via the Internet, and paying with ITEX dollars or BXI trade credits.

NATE, CRUMP and IRTA are international organizations whose members are independent trade exchanges and trade groups. These organizations serve as financial clearing houses for currencies issued by their member groups give trade exchange members the opportunity to secure goods and services from other groups.

However, there are still barriers to trading between exchanges. NATE members cannot trade with IRTA members. ITEX members cannot trade with BXI members. In order to do a cross-exchange trade, one must go to a trade currency broker, individuals who often operate in the gray areas of the business where valuations are often less than a trade currency's stated worth and far less than the recognized dollar-for-dollar evaluation of the IRS.

"That market is very small and unreliable," said NATE's McDowell. "The volume of transactions is very low. It doesn't offer a fair evaluation of barter currencies relative to one another because it is not an active ongoing market. For a barter currency exchange to be considered a fair means of evaluation, it would have to allow anyone to trade one currency for another at any time, not just when someone needed a particular currency to make a purchase."

United Trade Network, Las Vegas' biggest trade exchange with approximately 1000 business members in Southern Nevada, takes a unique approach to solving this barrier: "UTN serves its markets, like Las Vegas, well because we not only have a strong liquid currency base, but we also belong to both NATE and IRTA, giving UTN members significant trading options throughout the U.S. and unknown to members of many other exchanges," states UTN sales manager Kevin Anderson.

UNIFORM BARTER CURRENCY

AND THE IRS

The benefits to having a Uniform Barter Currency (UBC) would be widespread across the industry. It would allow members to trade in areas where their exchange's currency doesn't have a strong presence. If a member wanted to go fishing in Minnesota, for example, where his Texas-based exchange had no offices, being able to do that using a uniform currency adds value to members. UBC would facilitate transactions, make all the currencies stronger and give members a wider range of trading opportunities. But first, trade exchanges and barter groups would have to agree on a fair exchange rate, much like the Europe countries did in hammering out the details of the euro.

"I think representatives from different barter group are going to have different opinions on what will work or not work," says Krista Vardabash, executive director of IRTA. "NATE has the BANC that facilitates member transactions, and IRTA has Universal Currency. Is one BANC dollar worth one UC, is one UC worth one Crump, is one Crump worth one Alliance Barter dollar, and on down the line?" Vardabash asked. "The IRS has already established that one trade credit is worth one U.S. Dollar, but among barter groups there is no perceived parity of value. Everybody thinks their dollar is worth more," she said.

Establishing a UBC would be the first step to getting the IRS to accept trade dollars for tax liability, all or in part. Legislation allows the Treasury Secretary latitude in accepting foreign currencies for taxes owed. Why not accept barter currency?

"What would be the government's motivation to do this?" McDowell asked. "The Government is getting cash now. Why would they want to take barter dollars that are worth less? However, if I could tell businesses that they could pay their taxes in barter, I would have a line up at my door of people to sign up and I couldn't get enough bodies to handle the paperwork," he said.

Maybe a half-way measure would be the place to start. Taxes owed on barter transactions, both state and federal, could be paid with the same currency that incurred the liability, i.e. barter dollars.

"I don't know if anyone has ever approached them to hammer home any type of legislation that would make it feasible," said Vardabash. "The organized barter industry has come a long way, but it still has a long way to go. The fact that we have two major associations of barter groups (NATE and IRTA) shows that the industry has not collectively come together to hammer home the true power of barter."

Then again, if some legislation was to be passed, it might open up the barter industry to the same kind of scrutiny and regulation financial institutions must endure. But, would that be bad? Putting trade exchanges on par with the cash-based economy would only raise the level and worth of barter. And, the barter industry would also have to set up a mechanism to facilitate the government's expenditure of barter dollars, a weighty prospect as the least.

Barter is one of the best kept secrets that a small business owner can be aware of. While barter can't make a failing business a success, it can enhance a company's survival, market and profit potential. For that reason, it is well worth considering... but it pays to know the ropes!

Lynnea Bylund is the president of Las Vegas-based Catalyst House www.catalysthouse.com, a strategic teaming and capital formation consulting agency. She may be reached at 702-349-4786 or lynnea@ catalysthouse.com