



FAIR EXCHANGE

BARTERING NOW MEANS BIG BUSINESS, THANKS
TO THE CREATION OF COMMERCIAL EXCHANGES THAT KEEP
MEMBERS HAPPY AND THE TRANSACTIONS ABOVE BOARD

BY TAMAR SATOV

ADASHING YOUNG CROONER WHO LOOKS AND SOUNDS like Frank Sinatra from days gone by belts out a roaring rendition of *New York New York*, while a crowd of 400 eat, drink and enjoy each other's company and high spirits. It's what you might expect at a company's annual dinner dance, but there is one feature that sets this gathering apart from the rest. Every drop of wine, every morsel of food, the use of the ballroom at the lakefront hotel, and even the services of the Sinatra look-alike — all were obtained on barter by Toronto-based Barter Business Exchange.

As a medium of exchange, bartering has come a long way from the days of trading produce for livestock. Businesses large and small are trading goods and services through commercial operations such as Barter Business Exchange (BBE), and in the process are solving cash flow problems, increasing sales, and ridding themselves of excess inventory. Unlike traditional methods of barter, where one good is traded directly for another, a commercial exchange enables participants to trade for barter dollars, which can then be used to "buy" the goods or services of any of the exchange's other member businesses. Trade exchanges also ensure that all transactions are conducted above board, and that the government sees its fair share.

If businesses and their advisers haven't heard much

about barter yet, they will soon. It's already a \$1.8-billion-a-year industry in the United States and is rapidly catching on in Canada. BBE, which is one of the largest exchanges in Canada, has been in operation for only four years; it already has 1,800 members and offices in Toronto, Windsor, Hamilton and Coquitlam, British Columbia. BarterPlus Systems Inc., another Canadian barter giant, opened in Toronto in 1990, and recently set up shop in Vancouver. Between these two exchanges alone, more than 3,500 businesses are conducting \$32-million worth of barter transactions in Canada each year. There are currently about 450 such exchanges across the continent, making barter a serious approach to business.

"The bigger companies — the manufacturers especially — are taking a very good look at us now because very few of them aren't sitting on excess inventories," says Robin Maini, president of BBE. "That's exactly why barter makes so much sense for them." Maini should know — the clients he deals with at the exchange include Revlon, Crystal Springs (a bottled water company), and Hotel Inter-Continental. But goods from large manufacturers aren't the only treasures to barter for; everything from restaurant meals to orthodontics, to golf club memberships and, yes, accounting services can be obtained through trade. "Even small purchases can add to the value of

Illustration by Sandra Dionisi



our trade dollar,” says Michael Caron, president of BarterPlus Systems Inc. “We wouldn’t turn away clients just because they trade only a couple of thousand dollars a year. It might be a shoe repair, but who knows, if someone wants to get their shoes repaired they might like to do it on trade.”

The way most trade exchanges work, including BBE and BarterPlus, is much like a credit card company. Each client is issued a card, and has a barter account that gets debited or credited when he or she engages in transactions with other members of the exchange. Clients can find out what’s available for purchase through the exchange by looking through member directories, calling their trade broker, or using various technologies such as fax-back sheets or the Internet. The exchange charges a fee for each transaction (usually between 5% and 10%), and may also charge a monthly administration fee, initiation fee or renewal fee. (Often, at least part of these fees are remitted in trade dollars, by debiting the client’s account.)

As with credit-card sales, sellers must obtain authorization from the exchange before any transaction goes through. This can be done over the phone, or through various automated systems — one Vancouver exchange even uses card swipe machines that authorize debits in 25 seconds. Clients receive monthly statements detailing all of their transactions, their current balance and all fees charged by the exchange. Taxes — which are also handled in the same way as with a credit card — are added onto the trade dollar amount of any sale, and the seller is responsible for remitting taxes to the government in cash. “There’s going to be a negative cash effect when people make a sale on barter, because they’re going to have to take the cash out of their pocket and remit it to their respective governments,” says Caron. “But when they spend their trade dollars, it becomes a cash positive, so it’s a wash.” (See “Accounting for barter” for more details.)

To ensure that everything runs smoothly, exchanges have a number of rules, and they spend a significant amount of time policing their systems. BarterPlus has a formal complaint procedure in which clients are allowed three strikes — then they’re out. No-nos include charging more for barter business than for cash business, providing poor quality or charging cash. Occasionally, clients refuse to honour their barter debt. “A client may not accept barter business that’s coming his way because it’s like writing a cheque on a payable,” says Bob Bagga, vice-president of BBE. “We’ve taken clients to court and have obtained liens on everything from Ferraris to homes.”



TO ENSURE THAT EVERYTHING
RUNS SMOOTHLY, BARTER
EXCHANGES HAVE A NUMBER
OF RULES, AND THEY
SPEND A SIGNIFICANT
AMOUNT OF TIME POLICING
THEIR SYSTEMS

Having outstanding barter debts, however, is not nearly as common as accumulating too many barter dollars. “One of the dangers of barter is that you can collect huge credit balances and have nowhere to spend it,” says Allen Sloan, a partner in the CA firm Sloan Paskowitz, in Thornhill, Ontario, which provides some of its services through BarterPlus. “You have to work it. You almost have to have a shopping list of things that you are willing to purchase, and stay tuned in to what becomes available on the system.” Sloan’s firm traded about \$40,000 of services over the past year, and has used its trade credits in various ways, including the printing of letterhead, business cards and brochures; artwork for the office; rulers inscribed with the company’s name for marketing purposes; office cleaning services; meals and employee incentives. “I look after our staff by giving them bonuses by way of barter,” says Sloan. “For example, one of the staff drove down to Florida for Christmas, and we worked on the itinerary so he could stay at Howard Johnsons along the way through the barter.”

Companies must also be wary of accepting a disproportionate

amount of barter business compared to cash business. Sloan remembers a client who sold windows and got caught up in a wave of barter that almost shut him down. “He knew business was coming to him and he never really calculated that he had to put out the cash to buy the windows that would be installed,” says Sloan. “It’s not quite the same for CAs, because it’s time you’re selling, not merchandise. Even so, if next month all we do is barter business and don’t have any cash clients, I still have to pay the rent and pay the staff.”

Bagga agrees that these types of traps do exist, but he believes it’s BBE’s job to educate the members. “We tell our clients that the key is, before you write a cheque, call your barter company. You’ve got your accountant, your lawyer, your ad agency — and we want to be up there and help put together a long-term business plan for you. We want companies to come to us and say, ‘This is what I want — can you get it?’” BarterPlus’s Caron also encourages his clients to submit trade purchase requests, so that they can approach vendors with an order already on the table. “Then it’s a pretty easy argument for us when we go to see them, because we already know we can bring in business. All we need to know is if they can buy things in our system,” says Caron.

In one instance, BarterPlus’s Vancouver office helped a member coffee chain barter for one of its mainstays — milk — which cost it about \$250,000 a year. The exchange sourced a milk supplier and set up a vendor co-op agreement, which

ACCOUNTING FOR BARTER

Don't confuse commercial barter with "contra" trading or any other type of activity in the underground economy. Commercial barter is by the books — the taxman gets every dime he deserves. If you have any lingering doubts as to the legitimacy of the barter industry, consider that the Liquor Licence Board of Ontario allows liquor manufacturers to barter. The LLBO issued a statement recognizing a trade dollar as a currency, which is taxed as a dollar and recorded as a dollar on financial statements.

Revenue Canada takes the view that barter transactions are within the purview of the Income Tax Act, and also recognizes the trend toward commercial barter. In *Interpretation Bulletin 490*, regarding barter transactions and the Income Tax Act, it stated that "the practice of bartering for goods and services has evolved into a sophisticated computer-controlled system of commerce proliferated by franchised, member-only barter clubs, where credit units possessing a notional monetary unit value have become a medium of exchange."

Accounting for this medium of exchange is actually quite straightforward, say the experts. "According to the FASB, a trade dollar is an asset," says Paul Suplizio, CEO of the International Reciprocal Trade Association (IRTA) based in Virginia (see "All barter exchanges are not created equal" on p. 19). "Therefore, it should be carried on the books at the same value. We believe that the value of one barter dollar is equal to the value of one regular dollar. The fact that it is barter doesn't make it any more complicated than a regular cash transaction."

KPMG's Vancouver office, which issued an opinion regarding the accounting procedures of the barter company Mutual Exchange Canada, echoes that sentiment: "Since the value of one trade dollar is equal to one Canadian dollar, there should be no need to have separate revenue

and expense accounts, or any accounts for that matter, that distinguish between the portion of any transactions that are completed through the use of trade dollars instead of cash unless there is a specific desire to separately track such transactions."

In its statement, KPMG also explained how trade dollars could be recorded and controlled by businesses that were members of the exchange: "In a company's chart of accounts, a separate account could be set up as an asset account where the trade dollar amounts are recorded at their net realizable value in Canadian dollar equivalents as contemplated by Section 3830 of the *CICA Handbook*. This account would record all transactions involving trade dollars and could be reconciled to the trade dollar account balance shown by MEC on its monthly statement to the member, issued at the end of each accounting period."

Allen Sloan, who trades his CA services on Toronto's BarterPlus Systems Inc., says accountants have to treat their barter account just like it's a bank account. "When you're doing the books of someone [who barter], you have to review all of their barter statements, and you have to include all of the revenue that comes from it. You have to allocate all of the expenses and you have to differentiate between the personal side and the business side, which is often an issue."

The one problem Sloan targets for companies that barter, however, is paying the Goods and Services Tax. The way BarterPlus operates, for example, is that GST and provincial sales taxes are added to the trade dollar amount of any sale, and the seller is responsible for remitting taxes to the government in cash. "At the end of the quarter when you do your GST, you have to lay out the cash for the GST that you've collected. So that becomes a bit of a cash flow problem if you do too much," says Sloan.

is a long-term, part cash, part trade supply arrangement. Similarly, BBE sought out corrugated box companies to meet the needs of one of its clients. The extra work is in the exchanges' best interest, because the more members they have on board, the more members they will attract. "Our business is putting buyers and sellers together, so the products and services that people can acquire are on the exchange — that's our asset," says Caron.

To add to the value of that asset, BarterPlus has affiliations with barter exchanges around the world, including England, France, South Africa, the United States and Australia. In this way, clients can use their trade dollars on vacation, or to open up shop in another country. "Two people who owned franchises of a retail chain in Australia were able to transfer their balances from the Australian barter company to BarterPlus, and they used them to do renovations on their stores here in Toronto," says Caron. "They were really impressed that they could move to the other side of the world and do this."

Even if a company can't find enough goods or services throughout the world to purchase with its barter credits, it can find many other creative ways to spend trade dollars.

Medical benefits, employee incentive programs, events, training or even wages are possibilities. Vancouver's Mutual Exchange Canada Inc. (MEC) has established a system with the Bank of Montreal for member businesses to pay part of employees' salaries in trade dollars. Net pay is the same as if it were a complete cash payment, but an employee might receive 200 trade dollars on his or her barter account and be left with the cash portion on the paycheque. According to MEC's senior vice-president Steeve Croteau, employers like the system because it increases their cash flow, and employees like it because it gives them a form of financing with their employer.

Using barter as an alternative form of credit can also be a godsend to fledgling businesses. MEC helped a national coffee franchise open a store in Whistler, British Columbia, by loaning it \$30,000 in trade. "They needed about \$65,000 but didn't have enough equity to borrow from the bank. After we loaned them the trade dollars, they went back to the bank and were accepted, because there was now enough equity. The trade dollars were accepted as a down payment," says Croteau. Other exchanges will also extend credit — BBE lent a downtown Toronto restaurant trade dollars for its

startup costs. "It was great for them because they were able to substitute \$80,000 worth of expenses in hard cash and trade it at food and liquor costs — which is anywhere between 20 and 40 cents on the dollar depending on the food cost — and they could pay it back over time," says vice-president Bagga.

Once member businesses accumulate trade dollars on an exchange, they are free to reap the rewards that barter has to offer. According to a survey that BarterPlus conducted among its clients last year, the primary reason for joining the exchange was to generate new business. "Our microeconomy offers a captive audience, and people have an incentive to buy from you rather than outside suppliers because it saves

them money," says Caron. The secondary reason cited for joining the exchange was cash flow: "If you are able to go and buy something with the trade of your product or service that you normally buy with cash, that of course costs you less. You are effectively buying at the wholesale cost of your product or service." A similar survey published in the United States' *National Public Accountant* showed that the top reasons US companies barter is to dispose of surplus inventory, retain cash, and collect problem receivables.

For Boyd Hunter, a partner of Hunter & Belgrave in Dartmouth, Nova Scotia, trading on Halifax's Interact Barter Exchange was not only an ideal source for new business, but also an improved method of collecting payment. "An electrical contracting firm came to me as a result of being on Interact and they've turned out to be a very good client," says Hunter. "And if you've got enough to buy, it's immediate collection of your receivables. Whereas if it's on a cash basis, maybe you wait 60 or 90 days before the client pays you."

Hunter's main concern was not where he would spend his trade credits, but whether there were any ethical considerations attached to being on the exchange as a chartered accountant. "CAs are not supposed to directly solicit any client who is currently with another CA firm," says Hunter, who logs about \$8,000 in barter business annually. "So I've avoided putting advertisements in the exchange's monthly mailouts to be careful not to be seen soliciting any members on the exchange that may be dealing with other CA firms." He also discussed the matter with the director of his provincial institute, who told him that it wasn't a direct enough form of solicitation to cause concern.

In some ways, barter may even be seen as more personal than the world of cash and credit. One of Robin Maini's clients at BBE would certainly attest to that — his cat was hit by a car and needed surgery, so he took the pet to an animal hospital where he normally paid for services in trade. The problem was, the client didn't have enough trade credits in his account to receive authorization for the transaction. "He called and asked for an unsecured line of credit to save the cat, and of course, I said yes," says Maini. "The funny thing is that every time I see this client he thanks me and gives me a big hug — and it's been a year and a half now." In the end, it may be this small-town type of caring that keeps businesses coming back to barter.

Tamar Satov is a freelance writer and editor.

ALL BARTER EXCHANGES ARE NOT CREATED EQUAL

With the current popularity of barter, trade exchanges are popping up everywhere in the hope of cashing in on the trend. But the level of success that a business achieves with commercial barter is only as good as the trade exchange it is affiliated with. When shopping around for a barter exchange, consumers would be wise to talk to some of the exchange's other members, to see if they have encountered any problems.

In addition, find out how many of the exchange's staff are Certified Trade Brokers (CTB) — a designation obtained from either the Virginia-based International Reciprocal Trade Association (IRTA), or the National Association of Trade Exchanges (NATE) in Ohio. To obtain CTB accreditation, individuals must pass written and oral tests, have a university or college degree (or attain a certain level of experience in the barter industry), and participate in a continuing education program.

Also look for the exchange to be registered with IRTA or NATE. Besides providing information and training to their member exchanges, these associations promote and develop ethical standards for the barter industry, and act as arbiters if a problem arises between an exchange and a consumer.

Leaders in the Canadian barter industry have become active in IRTA and NATE in the absence of a Canadian association of barter exchanges. Michael Caron, president of BarterPlus Systems Inc., is on IRTA's board, while Robin Maini, president of Barter Business Exchange, is on the board of NATE.

At publication time, the following Canadian barter exchanges were members of either or both IRTA and NATE:

NATE & IRTA

Barter Business Exchange, 1 Yorkdale Rd., #209, Toronto, Ont. M6A 3A1. (416) 782-3000, fax: (416) 782-7438.

BarterPlus Systems Inc., 2 Lansing Square, #804, North York, Ont. M2J 4P8. (416) 490-9599, fax: (416) 490-9377.

Caribbean Trade Exchange, 61 Tecumseth St., Toronto, Ont. M5V 2X6. (416) 504-8925, fax: (416) 504-7732.

IRTA

Barternet, 456 Notre Dame Avenue #2, Winnipeg, Man., R3B 1R5. (204) 943-3953, fax: (204) 943-3953.

COMTEX Trade Exchange Inc., 1000 De La Montagne, Montreal, Que. H3G 1Y7. (514) 938-1234, fax: (514) 938-4321.

ITEX-Canada Montreal-Metropolitain, 1141 René Lévesque West, #302, Montreal, Que. H3B 4M6. (514) 866-6944, fax: (514) 866-6985.

Nationwide Barter Corporation, 200 Ronson Dr., #102, Toronto, Ont. M9W 5Z9. (416) 249-8181, fax: (416) 242-6468.

Ontario Barter Exchange Inc., 100 Westmore Drive, #12E, Etobicoke, Ont. M9V 5C3. (416) 749-3600, fax: (416) 749-4798.

NATE

Barter Connection Inc., 3 Leeves St., RR#5, Gloucester/Ottawa, Ont. K1G 3N3. (613) 731-7337, fax: (613) 731-7339.

Genesis & Associates, P.O. Box 130/105 Garafraxa St. N., Durham, Ont. N0G 1R0. (519) 369-6950, fax: (519) 369-6961.

Système Troc Marché Corporatif Inc., 6765, Côte-de-Liesse, bureau 353, Ville Saint-Laurent, Que. H4T 1E5. (514) 343-9722, fax: (514) 343-9431.

• Note: addresses are for major offices only; branches of the exchange may be located in other cities.