

A Guide to Barter Networks for Business

Business Information Factsheet
BIF468 · July 2015

Introduction

Barter, otherwise known as reciprocal trade, is a system of trading goods and services without using money. The recent economic downturn of 2008-2014 has led to the growth of barter marketplaces, as traders have tried to cut costs and improve their finances.

Barter is valued by traders as it offers a way to use up spare inventory or capacity, attract new customers and reduce pressure on cash flow. However, it suits some types of business better than others and is not risk free.

This factsheet focuses on barter networks for business, rather than the pure swap markets that have appeared online in recent years. It explains how barter networks operate, lists the advantages and disadvantages of barter and explains how small firms can get involved. It also covers the tax implications of barter transactions and lists examples of barter networks operating in the UK.

The general principles behind barter networks

Traditionally, barter has required a 'coincidence of wants'. A vehicle trader seeking building repairs, for example, would have to find a builder who needed a vehicle before a bartered trade could occur. Online networks have made this pairing of traders easier, since they can bring together thousands of traders from all over the country or further afield.

The more sophisticated barter marketplaces also operate units of account (sometimes called barter points), similar to money, which allow trades to be deferred. For example, a vehicle trader can provide a vehicle to a food shop, which then supplies catering to a builder, who can then repair the vehicle trader's garage. By introducing units of account, trades do not have to occur simultaneously.

Getting involved in a barter network

Traders wishing to barter goods or services can register with one of the barter networks operating in the UK. Many of them are subsidiaries of US or European organisations with branches in this country; examples of major networks are listed at the end of this factsheet.

Many networks are effectively brokers and are involved in arranging trades between members. This involvement ranges from simply putting two traders in touch to looking seriously at what each member can offer, determining fair value for their goods or services and ultimately trying to match them with other members for long-term contracts rather than one-off trades.

There is normally a cost for traders to become members of barter networks. In some cases there is a one-off joining fee of several hundred pounds and a monthly account fee. In other cases the

barter organisation buys goods from one supplier and then sells them to another supplier at a profit. Only some of the small online networks designed for personal one-to-one trading are free of charge.

In addition to registration and monthly payments, the commission on trades in some networks can be quite high, eliminating any profits made.

If trading is not simultaneous (as is the case with most organised business bartering) a trader will be subject to background checks before being accepted as a member of the barter network. This is likely to include a credit check and the trader may be required to produce accounts to show that their business is solvent. Such checks will also determine whether a member can run an 'overdraft' of barter points once they are accepted into the barter network. New members may be given a credit line of barter points to encourage them to start using the network immediately.

The cost of goods and services varies from one network to another. In some cases, they are valued at the fair market value of goods and services offered, expressed in the currency the network uses, such as trade pounds or barter points. Other networks buy goods and services from members at above market value, then sell them to other members in exchange for a combination of barter points and cash. Prospective members should always check the trading terms carefully before committing to a network.

Goods and services suitable for barter

In theory, all types of business can use barter, regardless of the goods and services they supply. However, traders in a specialist niche market may not find suitable customers or suppliers to barter with.

For example, a blacksmith may be interested in the many types of supplies available in a network, but unable to reciprocate with goods or services that other members need. Similarly, a small food producer supplying to supermarkets is unlikely to find their multinational customers willing to barter for food.

In broad terms, traders in the middle of a supply chain who produce a wide range of goods are likely to benefit most from the activity of a barter network. Some services, such as advertising and event management, are also well-suited, as these services are in high demand in a network and have reasonably diverse needs.

The advantages of barter

- The main advantages of joining a well-run network are financial. By paying for goods and services in kind, members are able to reduce their cash outgoings on essential needs and thereby reduce pressure on cash flow. The types of goods and services available through large networks are hugely varied, including vehicle repairs, advertising, office equipment such as PCs, stationery, accountancy advice and corporate entertainment. Avoiding cash payments is particularly useful for traders who face seasonal swings in the level of business they do or suffer from reduced turnover during difficult economic times. It is also useful for traders who have recently started up in business and are trying to make the most of limited financial resources at a time when their income may be low.
- Barter helps traders reduce inventory during periods when it is losing value, or when a poor economy has reduced sales. It uses excess capacity, including manpower, production

capacity, and even property. Hence barter can make a business more productive by using its capacity more efficiently to reduce the impact of overheads and bills in the long term.

- Barter expands the market and puts a business in touch with new customers. Well-run networks offer a membership of trusted partners with good credit histories and reputations to uphold. Large networks have a wide variety of business types from a broad geographical area, offering the potential for export trade with vetted customers and the opportunity to take advantage of favourable currency exchange rates.
- Barter gives sole traders and small firms a chance to acquire business equipment, vehicles, advertising or services such as accounting that they might otherwise be unable to afford to buy. Some small traders also redeem their barter points for consumer goods, relieving the pressure on household finances.
- Barter networks encourage trading rather than inactivity even during a recession. Traders may decide to reduce their cash expenditure, but network membership means it is still possible to invest in essential goods and services.

Disadvantages and limitations of barter

- The main limitation affecting some barter networks is that, regardless of the size of the membership, it may still not be possible for a trader to source what they need at a good price.
- If the network does not include enough traders offering certain types of goods or services, there will be a lack of competition between members. As a result, members may offer goods and services at values considerably higher than on the open market.
- Furthermore, if the network does not offer useful goods or services, it will be difficult to carry on trading without accumulating credits. A good example of this failure to match needs is that of restaurants, which typically enjoy high demand within barter networks. However, if other members are not suppliers of food, advertising or catering equipment, the restaurant may not be able to redeem its barter points.
- The costs of some schemes may have a negative impact on profits. The joining fee, account fee and sales commission combined make some schemes suitable only for traders that are likely to be involved in a substantial level of activity.
- There is no quality guarantee. Networks that match the needs of their members by actively putting them in touch with each other with a specific trade in mind cannot guarantee that the goods and services are worth the price asked or will be of the quality required.
- Finally, in small networks where barter is often carried out one-to-one (eg an IT firm repairs an accountant's computer in exchange for financial advice) there is no guarantee that the other business will uphold its part of the bargain. This is particularly true of traders that see the scheme as a solution to their financial problems and have joined in order to reduce cash outgoings urgently.

Barter, taxation and the law

Barter has become an increasingly popular method of trading in the UK. It has long been a normal way of doing business in rural areas, but online networks and brokers have encouraged large and small firms to participate across all sectors and geographic areas.

For the purpose of tax, bartered trade should be understood as equivalent to cash transactions. HM Revenue & Customs (HMRC) treats bartered transactions as subject to VAT, calculated according to the fair market value of the goods and services supplied (the money that would have changed hands if the transaction had been conducted using cash).

In practice, HMRC regards each trade as representing two transactions - the supply from business A to business B and the reciprocal supply from business B to business A. In both cases, VAT is payable by the buyer and deductible by the seller. Go to www.gov.uk/vat-part-exchanges-barthers-and-set-offs for more information.

Barter networks operating in the UK

Networks vary in size and the services they offer. Some of the better-known include:

- Astus (www.astusuk.co.uk), which is the UK's largest media barter network. It enables firms to part-pay for media campaigns with their goods or services.
- Bartercard (www.bartercard.co.uk), which has a network of 55,000 traders worldwide and arranges trades via its own trade co-ordinators, networking events, online services and mobile app.
- Miroma Group (www.miroma.com), which specialises in individually brokered media barthers, enabling firms from a range of sectors to part-pay for advertising and media campaigns with their goods or services.
- TBEx Marketplace (www.tbex.com), which enables members to exchange goods and services for trade credits to be spent with other members of the network.
- Barter Angels (www.barterangels.com), which enables members to trade goods and services online using a virtual currency.

The International Reciprocal Trade Association (IRTA) register of members also lists barter networks worldwide. Go to www.irta.com/index.php/connect/member-directory for more information.

Hints and tips

- Traders should establish the quality of a network before spending money on membership. It may be worth contacting current members to find out how useful they believe the network is and how much business it has given them.
- Traders should work out what goods and services they want before doing any business for others. It makes sense to run an overdraft of barter points if the system allows it, as this gives the network operators an incentive to find customers for the trader.

- Traders may be able to negotiate the joining fee. Many networks have a standard fee, but they need to recruit traders and this can put prospective members in a strong negotiating position. It may even be possible to join free of charge.
- Some barter marketplaces use commission-based salespeople and operate franchised sub-groups within the network. Traders should be prepared for high-pressure salesmanship.

Further information

Useful contacts

The International Reciprocal Trade Association (IRTA) is a trade association representing organisations in the commercial barter and alternative currency sectors worldwide.

Website: www.irta.com

DISCLAIMER While all reasonable efforts have been made, the publisher makes no warranties that this information is accurate and up-to-date and will not be responsible for any errors or omissions in the information nor any consequences of any errors or omissions. Professional advice should be sought where appropriate.

Cobweb Information Ltd, Unit 9 Bankside, The Watermark, Gateshead, NE11 9SY.

Tel: 0191 461 8000 Website: www.cobwebinfo.com