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BARTER COMPANIES FORGE PATH TOWARD ALTERNATIVE CURRENCIES

by Clarence Lee

The number of alternative currencies being used as mechanisms for the exchange of goods and services has grown in volume and acceptance since the mid-1980s. The growth of alternative currencies coincided with the increasing focus by investors and corporate managers on asset utilization and cash flow as important measures of business strength and performance.

It was at this time that most major corporate barter companies in existence today were founded. Each barter company uses its own alternative currency—trade credits—to facilitate barter transactions. However, the value of this currency relies on the strength and capitalization of the issuing company, and in the ability of the barter firm to ensure its cash equivalency.

Alternative Currencies Surround Us Everyday

While barter companies continue to promote their financial services using trade credits as a solution to non-performing or surplus assets, the concept—and practice—of using alternative currencies is already entrenched in our daily lives.

Airlines, hotels, cruise lines, casinos, magazine publishers, department stores, oil companies, grocery stores, banks, telecommunications and mortgage companies, and many other sales and percentage-of-market volume-oriented businesses are using reward points, coupons, and other promotional means to differentiate themselves from their competitors. These alternative currencies are backed by the corporations that offer them and represent a form of barter.

Trade Currency at Work

In its simplest form, corporate barter involves the purchase of non-performing or surplus assets by a corporate barter company in exchange for trade credits. Barter firms act as principal in the purchase and specialize in structuring transactions that enable companies to maximize the recovery value of these assets. Trade credits represent the seller’s right to obtain future services from the barter firm.

The types of consumer products usually purchased with trade credits by barter firms span all industries and asset categories. They include

- consumer products, such as computers and computer equipment, frozen food, beverages, apparel, furniture, automobiles and auto parts, sporting equipment, and televisions;
- real estate of all types (raw land, manufacturing, warehouse and office facilities, and agricultural production farms); and locations throughout the world both fee simple and leases; and
- inadequately performing financial assets.

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Often, these assets were

- returned (including dot com retailers returned merchandise),
- manufactured in a color or style that has not met sales expectations,
- obsolete owing to product enhancement,
- subject to new packaging, or
- overstock.

The goods and services that a client generally purchases from the barter firm for a combination of cash and trade credits tend to have a low marginal cost, be a perishable product, have a short life span, or involve an industry that is focused on market share. Commercial advertising, travel, and printing and packaging are examples of goods and services typical of trade credit transactions.

However, several new-generation corporate barter companies have moved beyond simply offering traditional commercial advertising time and have expanded trade credit redemption opportunities into areas such as freight, telecommunications, and energy. These corporate barter companies have also created new applications for barter, such as real estate and financial assets, and have forayed into venture capital financing. For example, a barter firm invests capital in a new company, but instead of investing in cash, the barter firm invests using capacity (e.g., advertising time, hotel rooms). Each new avenue has enabled corporate barter companies to significantly diversify the scope of their activities and range of customers.

The Trade Credit Gold Standard

All corporate barter companies offer trade credits as payment. As such, one of the most important aspects of a successful corporate barter company is the general acceptance of trade credits as a cash equivalent. But not all trade credits have adequate financial strength to act like U.S. federal banknotes. The intrinsic value of trade credits is related to the quantity, type, and nature of the goods and services that the corporate barter company can offer. Many factors influence the value of a corporate barter company's trade credits, including financial credit worthiness, historical performance, industry-specific competence, diversification of fulfillment opportunities, level of fulfillment inventory or ability to purchase fulfillment inventory at proper cost levels, management experience, and strong client references and reputation.

Trade credits are only equivalent to cash if they are accepted as a cash substitute for the purchase of goods and services that the trade credit holder would otherwise purchase for the same amount of cash. The corporate barter company must have sufficient capital to provide trade credit holders with the goods and services they demand at market price.

Credit enhancements, such as trade credit performance bonds or insurance, provide third-party verification that the corporate barter company's trade currency is cash equivalent or meets the "gold standard." Long-term strategic relationships with media companies, hotel owners, freight carriers, printing companies, and other suppliers of fulfillment goods and services are critical to the capital standing behind the corporate barter company's trade credit. References from satisfied clients provide verification that the corporate barter company's reputation is strong and stable.

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Vendorization—Expanding the Reach of Trade Currency

"Vendorization"—the option a barter client has to use trade credits as partial payment toward goods and services provided by one of its *existing* vendors or suppliers—further demonstrates the ability of trade credits to act as cash. Many barter advocates believe that the ability to offer a vendorization program is critical to the long-term value of a corporate barter company's trade currency.

Interestingly, the success of a corporate barter firm's vendorization program often has little to do with what the corporate barter company brings to the vendorization process. It is often determined by how aggressive a negotiator the barter client's purchasing department is willing to be; how competitive vendors are for their clients' business; and the relative importance placed on intangible services compared with price. Its ultimate success relies on the ability of the vendor company to use trade credits to purchase goods and services it, too, would normally buy with cash.

Unfortunately, vendorization transactions to date have resulted in more disappointment than success. The disappointment occurs when companies (such as wholesale and non-consumer-related businesses), which do not routinely purchase the types of goods and services offered by corporate barter companies, enter into a vendorization transaction and then realize that they have no use for the trade credits they have accepted as payment from their client. Before introducing the concept of vendorization, barter companies and their clients alike must ascertain whether the vendor can actually use this currency.

Charting the Future

The use of trade credits as an alternative currency to help companies save cash and buy the goods and services they need has already proven to be successful in the global marketplace. In the meantime, the future of corporate barter lies in the hands of those progressive corporate barter companies that make the cash equivalency of trade credits their primary objective.

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