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PATHWAYS TO PROFIT

Bartering could benefit your business

Bartering, the exchange of goods and services for other goods and services, has been around since the earliest recorded history. The World Trade Organization estimates that 15 percent - or $8.43 billion of the $5.62 trillion in international trade - is conducted on a non-cash basis, according to 2004 statistics.

BY LEAH THISS

While less than 1 percent of businesses report using bartering as a means of conducting business, there are many reasons you may find bartering a good option for you and your business.

If you have excess inventory or idle production capacity, bartering can help you move excess goods or keep your employees and production lines engaged in productive work. Accepting a barter exchange allows you to record revenue from a customer who may not otherwise be able to pay for your goods and services. It's a win-win for everyone.

Likewise, if you are facing a period of slow cash flow or limited capital, bartering is a means for you to acquire the goods and services you need to run your business. Even companies that are successful and growing may find themselves struggling to find the capital to expand their business. Bartering can be a strategic tool to fund growth.

For Yuma businesses, the seasonality of many of our operations creates similar challenges with excess inventory, idle production capacity and a reduction in cash flow. When the summer heat arrives and your business slows, bartering may allow you to strengthen your financial position.

Look to your neighboring businesses, they may be in a similar situation and this may be an ideal time to build a new relationship. Supporting each other will also boost the local economy.

There are a few things to keep in mind as you consider the bartering option. First, be aware that bartering is not a tax loophole. The value of the goods and services you receive in trade are considered income and need to be recorded on your profit and loss statement and reported to the IRS on your Schedule C.

Be sure you clearly define the value of the goods and services to be traded. This will ensure that both parties receive fair compensation for their end of the trade and avoid any disappointments with the outcome of the barter. Even though cash is not being exchanged, the agreement should be carried out with the same level of due diligence and professionalism.

Your bartering partner may be in a slow period, but be sure they are not in financial trouble. If they file bankruptcy, you may not receive your end of the barter agreement. You may not be out cash, but you will lose the investment in the resources that were used to produce the goods and services that you delivered.

You may want to look into joining one of the hundreds of barter exchange groups operating across the country. These groups issue trade credits so member companies can buy goods and services from other members without requiring a direct exchange.

For example, let's say I need graphic design services, the graphic designer needs printing services and the printer needs bookkeeping services. As members, I can use my trade credits for graphic design, the designer can use its trade credits for printing and the printer can buy my bookkeeping services with its trade credits.

Bartering can reduce your out-of-pocket expenses, conserve cash, build new relationships and grow your business. Consider this option as you pave that pathway to profitability.

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