



Business by Trade

StartupNation

19 Feb 2007

Michael Frenkel was sitting in the midtown Manhattan office of a non-profit he hoped to snare as his second client when they dropped the bomb: His PR skills were just what they needed, but ... they had no money.

Out of the corner of his eye, Frenkel saw an unused space. He turned to the executive director and said, "You do have something I could really use:" Office space. To Frenkel, if you're in PR you have to be in New York, in the thick of the action. But as a nascent startup in 1999, he couldn't afford the cost of midtown real estate.

The non-profit agency gave him a chi-chi address to legitimately print on business cards, and in return Frenkel did their PR and marketing. It was a mutually beneficial swap, and it happens in business all the time, even when cash isn't an issue.

A Modern Method for an Ancient Practice

"Tons of people barter," says Krista Vardabash, executive director of the International Reciprocal Trade Association in Rochester, N.Y. IRTA is a commercial trade exchange that connects businesses looking to barter goods and services.

Commercial arrangements across the country involve as many as 450,000 mid-sized businesses, she says, with 10 percent growth over the past two years.

The World Trade Organization estimates that 15 percent of the \$5.62 trillion made in international trade is conducted on a non-cash basis.

The way commercial exchanges work, a company signs up and pays a membership fee, a couple of hundred dollars or so. Member businesses then make their offers, and the exchange keeps track of match-ups, claiming 10-12 percent of each trade in a cash fee.

“A new business, really trying to startup, they need customers, they need exposure, they need people to use their products or service,” Vardabash says. Joining an exchange links startups up with thousands of potential customers.

Bartering’s Limits – Your Imagination ... and Taxes

As a new business owner, for no out-of-pocket, you can get the supplies, equipment, services you need – like printing, technology and support, design work, even a regular place or two for business meals or to entertain clients.

But be aware that there’s no tax loophole here. You have to claim trade exchanges on your taxes, and if you owe, the government doesn’t barter. Have a talk with an accountant.

Dana Abramson’s two companies have trade accounts. For 11 years, the Rochester, N.Y., entrepreneur has gotten business cards, brochures and promotional materials by trade – offering computer hardware, software and technological expertise as barter.

“It’s a phenomenal sales and marketing tool for a startup that doesn’t have cash flow,” says Abramson, whose Corbi Systems sells computer and tech products, while his other company, Achieve Results, trains professionals in speech recognition software. “You can’t beat it. They bring the business right to you.”

Your Trade Doesn’t Need to be Formal ...

Donna Maria Coles Johnson prefers the informal kind of barter, the sort that happens naturally. President of the Indie Beauty Network, a trade organization with 500 members, Johnson used trade to get her magazine’s cover redesigned; the artist got free ad space.

“You get something of value and exchange something for it without it being money,” she says. “Everybody benefits. You’re not just calling them up and saying, ‘Hey, you’re so talented. I want your service, but I don’t want to pay for it.’”

... and Barter Can Fatten the Bottom Line

Barter can boost sales – mainly because it’s a way to get rid of excess inventory at full cost instead of offering deep discounts to clear shelves, says Don Mardak, who runs International Monetary Systems Ltd., another barter organization.

And it can often last as long as you need or want it to. Frenkel stayed in his first midtown office for 16 months. The non-profit is still a client. But now he’s annually billing almost \$1 million and can afford his own digs – on Park Avenue.

“As long as you see eye-to-eye, and have the same expectations,” Frenkel says, “it can make a whole lot of sense.”

Lynne Meredith Schreiber is a StartupNation contributing writer.