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The Importance of Corporate Barter

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By Deanne Gage

Want to improve the bottom line without affecting cash flow? Corporate barter is becoming an increasingly popular solution among Canadian companies.

Hubert Wat (above), vice-president of global marketing at Canadian tour operator Rocky Mountaineer in Vancouver, is always looking for ingenious ways to stretch his advertising dollars. In 2014, he really hit the jackpot by trading some of the company's train vouchers and travel packages for a week's worth of TV commercial airtime during the Winter Olympics.

"It's a win-win for everyone," says Wat."We got something we needed — visibility and ratings — by leveraging our own assets and inventory. I could have liquidated the assets and got less than the retail price. Instead I got full retail value and used media credits to buy something I wanted anyway."

But Wat's out-of-the-box transaction was not simply a direct swap of services. Rocky Mountaineer enlists the help of Active International, a corporate trade firm, to facilitate such deals. Corporate barter firms are growing in popularity as companies look for ways to improve the bottom line without affecting cash flow. Indeed, barter sales and purchases totalled about US$12 billion worldwide in 2011, according to the International Reciprocal Trade Association.

Here's how it works. Active International buys and sells a company's underperforming assets (e.g., train vouchers, manufacturing equipment) that have a risk of becoming obsolete or written off. It directly purchases those goods at the wholesale value, but adds a profit margin markup when selling the assets. Active works as a liaison between the company and its partners, negotiating all the arrangements.

A client company such as Rocky Mountaineer, for example, swaps its services for trade credits, which it can then spend on goodies such as media, travel and marketing promotions, says Andrew Bulmer, senior vice-president and managing director, Canada, at Active International."Deals are booked dollar for dollar as a prepaid expense on their books and they spend that currency back through us to reduce their normal business operating expenses," says Bulmer."We work closely with our clients to build a plan to use their trade credits based upon their existing normal operating expenses." Trade credits typically expire after a three-year time frame.

As a global company, Active can offer customers international media representation, including broadcast, digital, radio, billboards and print. The corporate barter firm has 35 national and international customers and trades more than $7 million in credits each year.

Other corporate barter firms take a slightly different approach. Barter Network Ltd., for example, works in a similar way as a merchant bank. According to the firm's president, Patti Falus, companies are assigned to a broker who specializes in the organization's area of goods or services, and finds out what goods or services it requires in return. In the pre-dot-com days, buyers and sellers would pore over a printed directory to learn about what was on offer. Today, Barter Network sends out daily email blasts to all members. And in March, it started using an eBay-style system called Nextrade that also allows members to browse or do a direct search on offerings.

Clients do their own estimation of the costs of their products and services based on market rates. Once they have an interested buyer, specific barter fees are negotiated with the buyer based on their needs. Do a barter job and the company gets paid — dollar for dollar — in trade dollars deposited in its barter account. The company then uses those trade dollars for something it wants."No business has too much cash in the bank," Falus says."So, of course companies want to take the trade and spend the trade because that means there's more cash to operate."

Bartering benefits

Let's face it: businesses don't need to pay a middleman to conduct barter deals. The lure of a bartering firm lies in the marketing opportunities."We bring vendors new business that they never would have had," notes Falus."Are vendors going to set up 180 different relationships to try to get something on trade? No, that doesn't make any sense. Time is money."

Put another way, barter with another company and that company can turn into a long-term cash client. After Spence Walker, managing partner at Markham, Ont.-based accounting firm Kreston GTA, finished a bookkeeping job on barter, the client was so impressed that it led to a more lucrative audit contract.

Here's another perk. Bartered services are an ingenious way to fill business gaps and downtime. During nonaudit season, Kreston GTA will barter bookkeeping and tax preparation for services such as window cleaning and lawn maintenance."If the staff costs are fixed, then you might as well make use of them," Walker reasons."There's no additional cost to us in doing that."

That's not to say bartering pitfalls don't occur. For instance, Barter Network charges a 5% to 7% fee on both the purchase and the sale, which needs to be paid in cash. If you have cash flow issues, that could pose a problem, Walker notes. (See"Don't Forget the Taxman" below for more details.)

Cesario Ginjo, CEO of What A Bloom Canada, finds that sometimes barter clients may not provide you with the same due diligence as they would if you were a cash-paying customer. Let's say you're a buyer who is unhappy with the seller's service. With cash customers, the seller might be more inclined to fix the problem right away, he notes."You're still dealing with products and humans, so everyone has a different perception of what value and good service is," Ginjo says.

And sometimes, bartering will only get you so far. Wat would love to do media promotion with Condé Nast publications, for instance, but it's not going to happen, at least in a bartering sense."Condé Nast won't touch bartering. There are some media partners who won't work with a trade company," Wat says."So you can't use your trade credit in every media you may want."

Which raises a good point. If you are a firm like Condé Nast that can command — and receive — your product at full margin, then corporate bartering may not be the best option."Bartering

works if you know there's inventory and assets that you would have trouble offsetting," says Wat.
Photo above: Spence Walker, managing partner of Kreston GTA, finds barter a boon during seasonal downtime.
How do you determine the most appropriate barter firm for your company? Ask around. A friend who runs a small law firm referred Walker, who was pleased that Barter Network featured professional services firms like his.
Bulmer suggests looking at firms with stability and deep trading relationships. The majority of Active's clients barter for media promotion, for example."We are independent of any other media organization," he says."Some firms are owned by media agencies, which limits their trade abilities, whereas we work with all media agencies across Canada."
Falus concurs that you need to find a firm that works well at giving your business what it needs."You don't want to barter $100,000 of your product or service and do nothing with it because you just gave away your goods for free. Our job is to make sure we educate the members and tell them what's available in the system that they could best use to run their business," he says.
Ginjo likes to investigate the barter firm's business practices."Do due diligence on the barter company," he suggests."I'm looking for someone who stands up for their beliefs, is fair, cares about their vendors and can settle disputes with buyers and sellers."
But don't neglect the vendors themselves. Wat recommends looking at their websites and finding out who trades with them."Call them up and ask about their experiences and how they got value out of their trade credits."

Don't forget the taxman

It sounds simple enough: trade a service for another without exchanging any cash. Well, except for a small, pesky fee to your barter firm. Since barter is not cash, does that mean you're off the hook when it comes to tax? No, quite the contrary.
The Canada Revenue Agency recognizes all corporate bartering transactions as dollar-for-dollar revenues for your business, says barter client Spence Walker, managing partner at Markham, Ont.-based accounting firm Kreston GTA."If I'm billing a client $1,500 of barter, the CRA is going to assume that's worth $1,500," he says."So it would want you to pay the applicable tax on that."
Walker notes that a typical barter transaction is only taxable when it is related to that person's business or profession. So, if your neighbour trades you homemade pies in exchange for shovelling her driveway, the transaction is not taxable — unless she is a professional baker or you operate a snow-clearing service.
For accounting purposes, Walker recommends keeping all your barter statements, just like you would for any bank account. He is often educating new barter clients about tax implications, since many have the opinion that there aren't any if they don't record it.
HST is another tax consideration. Although you might be charging your barter partner HST, the CRA wants you to remit that tax, which can create a cash flow issue. If cash flow is a problem, Walker recommends charging the buyer HST in cash and the rest in barter. That way you'll have the cash readily available to pay the CRA. Barter exchanges generally make room for this type of agreement.
Now for some good news: those barter firm fees are tax-deductible.

Deanne Gage is a Toronto-based writer and editor.

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