Bartering to Small Business Success

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Just over a year ago, Ran Goel quit his job as a hedge fund lawyer, left New York City, and came home to Toronto. Now, he's the co-founder of Fresh City Farms, a service that drops fresh, organic produce grown in Downsview Park on the doorsteps of 350 homes in the city.

“If you can be part of the solution,” the 32-year-old says, “be part of the solution.”

But, like most entrepreneurs, Goel's hours are long, and—although the business is growing—he has limited capital. As a result, he's experimenting with bartering. It’s a trade system as old as time, and it’s enjoying a renaissance in the digital era.

Goel signed up to Swapsity.ca, a new website that connects barterers, and negotiated a deal. For one box of produce per week, he gets help upgrading his website from a professional web developer.

“We have a lot of stuff left over, and it’s a great way to use it,” he says. “That was our biggest success with barter.”

Though she originally started Swapsity for consumer trades, founder Marta Nowinska is expanding her site’s opportunities for small business owners, and providing ideas about what items are most suitable for swapping.

Excess inventory and downtime are particularly easy to trade. Jeremy Greer, for example, gets four hours of street-level marketing from a professional sales representative in exchange for one night at his bed and breakfast in east-end Toronto. The business is already seeing a boost thanks to small poster and networking campaigns—mostly targeted at other entrepreneurs— launched by the rep.

“I don't have the confidence to go into Ed's Real Scoop [ice cream parlour] to tell them who we are and what we do,” Greer says. “But I can get a sales rep who actually deals with that type of thing and those relationships all the time, and she gets way farther than I would.”

But while bartering may seem like a friendly, communal practice, it isn’t always straightforward. Barter transactions are subject to taxation, particularly for non-business expenses, where the value of goods or services one receives is considered income. Assessing the value of goods to negotiate fair trades is already a complex process, which this only complicates further.

Formal barter organizations try to make transactions as smooth as possible and mitigate potential problems.

Patti Falus, president and CEO of Toronto-based Barter Network, says her company keeps risks low by providing professional brokers, who connect clients with high quality vendors. In exchange, members pay a one-time fee of $399, plus five per cent on each purchase and sale. To give their customers more choice and streamline the barter process, the company also employs its own currency, which members earn by trading their goods and services and redeem wherever they see fit within the network.

Andrew Taranowski, a member of Barter Network and the owner of Marlowe Restaurant, in Richmond Hill, O.N., has traded gift certificates to his business for print marketing, carpeting, and repairs.

“One [barter] dollar essentially costs me just the cost of goods,” he says. A $27 entree still costs $27 in barter dollars, meaning the transaction earns him the same value in Barter Network’s currency as it would with normal cash.

But, regardless of how well the system works, the quality of a barter experience is still completely dependent on the people involved. To ensure trading goes smoothly,Sean Wise, assistant professor at Ryerson University's Ted Rogers School of Management, advises that entrepreneurs always check a potential partner's references before committing to an agreement.

Taranowski agrees.

“Like any cash vendor, you’ve got to pick and choose,” he says. “It’s just like cash—there's people that do business really well, and there's people who cut corners and don't deliver.”

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