

Unlock  
Financial  
Value  
*with*  
Corporate  
Barter

John P. Kramer and Clarence V. Lee III



# Unlock Financial Value with Corporate Barter

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UNLOCK FINANCIAL VALUE WITH CORPORATE BARTER

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# Introduction

BILLIONS OF DOLLARS of potential corporate wealth are lying fallow in American companies, within reach of executives who should know how to tap this resource but don't. The key is an underused and frequently misunderstood financial tool termed “corporate barter” or “corporate trade.”

Why corporate barter is neglected today stems partly from the industry's origins. Like other financial inventions that spawned industries—hedge funds and derivatives come to mind—corporate barter experienced a few youthful growing pains. Some of its early practitioners knew they had a powerful, versatile financial tool in hand, but tools require skillful management to perform well. And the recipients of corporate barter—clients—were not always engaged enough at first to look after their own best interests.

If this book does nothing more than help companies involved in corporate-barter transactions better

see to their own interests, it will have done its job.

The point is, corporate barter today is a mature, successful industry with numerous satisfied clients, including many of the most respected organizations in the country. The industry is growing briskly, through repeat business with established clients, new products and services and new clients willing to try an unfamiliar solution to an all-too-familiar challenge.

Indeed, we believe that lack of familiarity is the primary reason corporate barter is underused today. The chance to make corporate barter not only familiar but also appealing is the main reason this small volume came into existence.

Not all organizations can benefit from corporate barter, as this book makes clear. But we estimate that as many as four of five Fortune 1000 companies can occasionally employ the services of a corporate-barter firm to good effect, for strategic as well as tactical purposes.

Having put together and executed several thousand successful corporate-barter transactions over

the past 20 years, we have a pretty good sense of what works and what doesn't. We know the questions clients ask—and the questions they don't ask but should. We know the obstacles they typically encounter and how to overcome them. And we know the experience of seeing a skeptical client watch a transaction unfold exactly as it should, with benefits to all concerned, and then hear that client say, "I'm totally convinced—corporate barter is the only way to do business. Why haven't I been doing it all along?"

With this book in circulation, we hope, far fewer business people will ask that question.

As industries mature, they improve capabilities. You will also find in these pages the basic elements of our business employed in new ways. Perhaps they will inspire you to think differently, and more broadly, about corporate barter.

*John P. Kramer and Clarence V. Lee, III*  
*Stamford, Connecticut*  
*December 2004*



# WHAT IS CORPORATE BARTER?

AS A CHILD you probably traded baseball cards or comic books without knowing you were practicing barter. Corporate barter is an animal of the same species but a more highly evolved variety. In the next five brief chapters you'll learn what corporate barter is, why it works and several helpful ways to think about it.



*Corporate barter creates value—beyond what's traded.*

1.

Barter is not  
*corporate* barter;  
corporate barter  
is not *barter*.



BARTER PREDATES modern society. Arguably, it gave rise to civilized behavior. Long before currency or any other medium of exchange, barter mutually fulfilled the needs of two traders—a goatherd and a hunter, a potter and a farmer. Similar transactions continue unabated today in tribal societies such as the nomadic Tuareg, the so-called Blue People of the Sahara, whose survival depends on a weekly barter marketplace for animals, goods and foodstuffs. In urban Argentina, after banking restrictions were imposed in December 2001, barter clubs sprang into being so citizens could trade basic goods and services in their temporarily cash-poor society.

Barter also exists in industrialized societies when two companies trade production or surpluses with each other—steel billets for rail transportation, legal counsel for accounting work. This is sometimes called “reciprocal trade.”

More complexly, barter aids diplomacy. Two governments agree to sign a treaty, but only if certain concessions of a financial or economic nature are included: One government promises to subsidize

certain exports the other wants but can't afford, while the other government pledges to protect the first government's relief workers who are providing health services and education to the poorer country—and ultimately creating prosperity that both countries can enjoy.

In recent years, several other forms of barter have emerged. The most widespread is the *trade exchange*, a membership organization typically of individuals and small businesses that buy and sell surplus goods and services through the medium of trade dollars administered by the exchange.

None of the above examples of barter constitutes *corporate barter*, a highly specialized form of transaction provided by corporate-barter firms to large, well-capitalized public and private organizations. The essential corporate-barter transaction is a trade. But it is also a cash purchase, and in addition it involves two third parties, one nominally important, one absolutely so.

Put simply, in conventional *cashless barter*, participants trade something they have for something

they need. A hotel chain, say, gives a shower-goods company room nights in exchange for shower caps and curtains of equal value. Nothing is created: Two commodities—room nights and shower goods—have been transformed in the nick of time into something useful, something the receivers of these commodities might otherwise have paid cash for. And even in this sense, a cashless barter transaction frees an allocated expenditure of cash to serve other business purposes.

A corporate-barter transaction doesn't just trade one commodity for another: It *creates value*. How this occurs and how companies can best take advantage of corporate barter are the heart and soul of this small volume.

2.

The transaction is simple: You receive something of value, you provide something of value in return.

FINANCIAL RESOURCES are locked away in companies in two places hardly anybody thinks of as “financial resources.” That’s the two-part premise of the corporate-barter transaction.

One part is a company investment, an asset that is underutilized, weakened or failing and in need of a write-down.

The other part is an expense a company budgets for regularly, spends routinely and manages through conventional, often well-designed channels. The underperforming asset and the planned expense are attractive to a corporate-barter firm, but *only in this combination*. Without both there can be no corporate-barter transaction. As the song says, they:

Go together like a horse and carriage . . .  
 This I tell you brother  
 You can’t have one without the other.

For the barter firm to pick up the sagging investment, pay the company a premium for it and

thus restore value to the company's asset, the barter firm must receive something from the company in return: the company's agreement to *make purchases through the barter firm* over time. The company buys what it ordinarily buys at the price it customarily pays. What it buys and what the barter firm provides is called "fulfillment."



*Presto: No presto!*

That's the plain idea. There is no "trick"—as one executive insisted with some exasperation, before

the beautiful simplicity of the proposition dawned. There is no smoke, no mirrors, no shenanigans behind a curtain. At its core, corporate barter is just a straightforward two-part transaction.

The key to understanding it, however, is an uncommon term with a fancy pronunciation: “(*arbitrage*).

3.

Corporate barter works because the barter firm bought futures contracts—that is, made forward investments in widely used goods and services.



THE FARTHER into the future you buy something, the less you have to pay for it—generally speaking. Corollary: The closer to the present you buy something, the more likely you will pay the going price, the fair market value. This, in a nutshell, is why corporate-barter firms can pay clients two to three times fair market value for an asset, provide them with fulfillment at a price they typically pay, and yet still turn a profit. Barter firms are literally making forward *investments*, buying futures in something they know will hold value and be of interest to their clients.

What is the “something” they buy? Products the common thread among which is *perishability*. Their industries have excess capacity from time to time, perhaps as the very nature of their business model. The amount of excess capacity ebbs and flows to the rhythms of commerce, cyclically or countercyclically or any arrhythmic beat that makes some businesses thrive. In all of these, excess capacity tends to be built in as a kind of cushion, because if companies in these industries ever lack capacity, the cost can be severe—particularly when it is in the form of

new competition. The families who ran resort motels around Kissimmee, Florida, thought a windfall was a dead certainty when the Mouse announced his plans for the area—only to be sidelined by the big chains that followed the Eared One.

To be specific, industries in which barter firms typically buy futures are broadcast media (radio and television time), publishing companies (magazine and newspaper ad pages), travel companies (rooms, plane seats, car rentals), printers (press time) and trucking firms (cargo space). Some other industries that routinely have excess capacity, including waste management, and a variety of corporate services, are also feasible for corporate barter. All of these industries have pliable inventories, and it is easy for the companies to accept that their products and services can be used as a financing tool. After all, once their costs are covered, the rest is profit.

Such businesses are often described as high fixed cost, low variable cost: a high fixed cost to enter as a bona fide player a business such as launching a media empire or hotel chain or printing plant;

a low variable cost such as radio spots, a room night or print run. Everything is in place to deliver the service. What these businesses are potentially short of is customers, up to their capacity to serve them.

What a corporate-barter firm does boils down to *arbitrage*—taking advantage of a *difference* in the price of a commodity that, in this case, occurs *over time*. The profit the barter firm makes when it later resells the commodity at current market price is the leverage it uses to buy underperforming assets. Why this all works is that, in effect, *the barter firm passes on much of its arbitrage profit to its clients*.

More specifically, barter firms establish this price advantage using several means. The most significant is the “trading” or “bartering” of desired goods and services with their major suppliers, the media companies, in exchange for future inventory commitments. Several typical situations: payment of a broadcaster’s travel and entertainment expenses in exchange for some of its broadcast advertising time, funding of a magazine publisher’s outdoor-advertising campaign in exchange for future ad pages and providing a

radio-station empire with hotel, airline and rental-car reservations for a large corporate sales event at a desirable resort in exchange for radio spots. In other words, barter firms allow suppliers to pay for certain expenses using their “excess capacity.”

Very important: Barter firms agree to resell their acquired inventory of excess capacity under certain strict conditions. They do not compete directly with a supplier’s own cash market, its source of revenue from paying advertisers. Barter-acquired inventory can be sold only at a client’s established rate, not at a discount. And it can be used only in conjunction with a barter client, not simply resold to a cash buyer on the open market. Because barter firms understand the needs of their suppliers and the impact barter can have on the very livelihoods of those companies, barter firms and their suppliers/partners have a symbiotic relationship.

How does a barter firm use its acquired inventory to help clients? For example, a barter firm holds an inventory of television time it bought for less than what it would eventually realize when it sold them

to a client. The firm is introduced to a company that has a factory it wants to sell. However, to its vexation, the company has learned that the market will yield only one-third of the factory's book value. The barter firm intervenes, buying the factory from the company and paying it the factory's *full book value*, three times the fair market value. The company then purchases from the barter firm the equivalent in cable spots of what it received for its factory, paying the going rate—that is, the price it would have paid its advertising agency.

That the company could and would buy such a volume of advertising determines the barter firm's ability to pay the company more than fair market value for its factory.

Simple, right? Yes, but keep reading.

4.

Corporate barter  
ain't about the  
stuff. It's about  
the *money*.

WHAT CORPORATE BARTER does is create *economic value*. It makes a positive out of nothing—or, more accurately, out of something unrealized, out of *potential funding*. Just like the potential energy of water that’s dammed above a generator, silent but ready to go, potential funding is hidden within the routine, day-to-day purchases many companies make. It’s not harming anything by being there. Nor are the million cubic-acre-feet of water poised above an idle water turbine. They are just an unfulfilled idea, a passive that could become active. This is what corporate barter is really all about.

It is, however, easy to get enchanted by what corporate barter is only *partly* about: the front end of the transaction, the “stuff” that has lost value. This stuff is critical to the overall transaction. But if dealing with this “stuff” were the overwhelming reason to enter into an agreement, corporate barter would be just another name for “liquidation” or “closeout.”

Corporate barter is a two-part transaction, with value being created in both parts: A company sells

something of reduced value to the barter firm for a higher price; the barter firm sells something to the company that *duplicates* what the company usually buys in quality and price. Thanks to the barter firm, the higher price of the “stuff” a company wants to sell often generates two to three times more than a liquidator can pay.

This seeming miracle—getting something for nothing, or, more accurately, getting a lot more for something than what it’s currently worth—is easy to get hung up on, like the disbelieving executive who exclaimed, “It’s a trick, it’s a trick!” And it’s conventional market economics employed to finance future business, using guaranteed capital.

Nor is corporate barter, in the shorthand used by some practitioners, an “accounting fix.” While a barter transaction does indeed “recover value”—the stuff’s lowered market value is returned to book value through sale to a barter firm—U.S. law requires that the asset’s lost value be recorded when it is substantiated (see footnote on page 59). Until both parts of the barter transaction are completed, which can take



several years, the recovered value cannot appear on the company's income statement.

So, truly, “it's about the money”: the trade credit a company receives in a trade-credit transaction—which, in effect, frees budgeted (or projected) cash expenditures for other uses. (For a description of the cash-only barter transaction, see Chapter 9.) The “stuff” is just the leverage point, the initiator, the Point A necessary to get to Point B.

The “stuff” can be important in another way: It's a problem that has been recognized, confronted realistically and now can start to get fixed. No one likes to admit mistakes, but bad investments are inevitable in any business. (Some would say mistakes are essential to a healthy business. Otherwise, that business has become complacent and needs to take more risks to stay competitive.) So sometimes it's identifying a problem that gets the whole corporate-barter ball rolling. But what seals the transaction is that the barter firm has *found a way to create value* for its new client. This means selling it a quantity of something it ordinarily buys, at no extra cost or inconvenience.

That's the critical, essential piece of the barter equation, not just that you have "stuff" you no longer want to own.

A striking example: A large brokerage house had a portfolio of margin accounts that were in arrears. Equities markets had taken an unexpected beating and lots of margin traders suddenly found themselves with large obligations to the broker, who was, naturally, having trouble collecting. Our firm offered to buy the entire portfolio of obligations at book value, but only because we knew the brokerage house was able and willing to purchase sufficient advertising through us. In fact, we collected very few of the accounts in full but did a great job of serving the broker's advertising needs. It was a win-win.



5.

Corporate-barter  
firms make  
money the  
old-fashioned way:  
They earn it.

A BARTER FIRM acts a bit like a commodities trader. It invests capital—usually its own funds, sometimes money advanced by clients or investors—to amass an “inventory” of goods that will be available in the future. Because the barter firm buys this future “inventory” using cash (or its equivalent) today, the supplier of that “inventory” provides the firm with a fixed spread or discount to the goods’ future going price. (It’s not really inventory in the conventional sense, which is explained below.) Thus, when the barter firm resells the inventory, it is able to do so not at a premium to the then-current price but literally *at* the then-current price. In other words, its client buys it for exactly the price it would ordinarily pay, yet the barter firm is able to make a profit.

Essentially, a barter firm practices arbitrage by making forward investments. Other types of arbitrage seek to gain from same-time discrepancies market to market, to exploit gaps caused by inefficiencies in financial activity that often open and close unpredictably. All these gaps can be as small as a fraction of a unit of currency. By contrast,

corporate barter seeks advantage in price differences paid for identical commodities *over lengths of time* that often span several years.

How do barter firms avoid the same surplus their fulfillment partners continually have to deal with—unsold capacity? By forward purchase not of specific capacity—TV spots, airline seats, printing-plant time, cargo space—but of *credit* for unspecified, full-value (*not* remaindered) capacity at some time in the future. Thus, a barter firm pays a magazine publisher, say, \$600 thousand for \$1 million of ad space in its shelter magazines, to be exercised when the barter firm's client, a national homebuilder, wants to use the space. It does not really warehouse specific inventory, just stores credits for certain types of goods.

How do barter firms avoid the downside risk of their investments' losing value? Very simply: The credit for future capacity they purchase is *dollar-denominated*. In other words, the arbitrage spread is built in, is essential to the purchase agreement. In effect, what the barter firm buys is a quantity of that point spread in certain goods in the future. Thus,

if the price of those goods drops, the barter firm is still able to make a profit when it sells them to a client. Put simply, a barter firm's investments are *hedged* going forward. Its profit potential—which it largely intends to pass on to its clients—is very nearly guaranteed.

In practice, the barter firm receives the client's media order, then approaches media companies just as a media buyer would. Its credit for advertising space is treated by media companies just like cash from an agency or media-buying service, which means that barter firms vie on a level playing field with everyone else for coveted positions in a particular medium. Because media is elastic and usually flexible, the chances that all will get what they want, when they want it, are quite high. The same is true in other capacity-driven sources of fulfillment: airlines, hotels, conference centers, shippers, printers, business-services providers.

So barter firms earn their profits by being smart about *where* they invest their capital. They also earn their keep by simply being good business people—

by cultivating relationships with critical suppliers and building special trust among firms their clients rely on for counsel such as advertising agencies and media-buying services.

In addition, some barter firms make a point of investing in the future of their firms and the industry overall. When a barter firm has the financial strength to function as a principal to buy credit for future capacity, the suppliers of capacity such as television networks or publishing companies work directly with the barter firm—the barter firm is not simply an intermediary, a transit point for its client’s capital. This provides a significant savings in time and effort for all concerned—capacity suppliers, clients and the barter firm. And when both clients and capacity suppliers can rely on the financial strength of a barter firm, they can better focus on *their* core concerns.





# GETTING STARTED: HOW TO MAXIMIZE YOUR BENEFITS

MOST BIG COMPANIES can and should be doing corporate barter. In view of the benefits to be enjoyed, they ought to be maximizing the amount of corporate barter they execute every year. Who doesn't want extra cash to spend?

So who can and should participate? What does a company need to do to get involved? The next three chapters answer these and related questions.



*It's what you buy that gets you into  
the Corporate Barter Club.*

6.

Most big companies that provide added value can benefit from corporate barter.

THAT'S TRUE. The countertruth is, not all companies can be good barter partners.

The questions that must be answered are:

- What kind of routine purchases does your company make?
- Are any of them perishable commodities?
- If so, are any of these purchases substantial enough to support a significant corporate-barter transaction?

Quantity rule of thumb: Start with the book value of an underperforming asset your company wants to sell—that is, the price you want a barter firm to pay for it. For a trade-credit transaction, multiply that amount by five. For a cash transaction, multiply times six. The total is how much of a good or service you will need to purchase through the barter firm over two to three years. Realistically, a barter firm will not be able to supply *all* of a company's perishable-commodity needs, so the amount of routine purchases of a commodity a company makes should be somewhat larger than the total purchase anticipated to fulfill a barter transaction.

In this way, you ensure that the barter firm can give you exactly what you need, rather than just what it has on hand.

Several categories of business tend not to be good candidates for much corporate barter, though there are exceptions:

If a company itself is in a *commodity business*—extracting or processing raw materials for sale to manufacturers, for example—chances are that it cannot benefit from corporate barter directly. It may periodically own certain assets that fall in value, but it probably doesn't buy enough of the perishable goods and services fulfillment that a barter firm owns. But a commodity business can get involved in a barter transaction for some other business reason, such as to gain a new client.

If a company solely *distributes goods to other businesses*, chances are it cannot directly benefit from barter.

If a company largely *serves other businesses* and sells primarily at wholesale prices, it is unlikely to benefit much from corporate barter, unless it has a

substantial business-to-business advertising budget.

To be a good corporate-barter candidate, a company usually has to *add value*, such as an original-equipment manufacturer, processor or packager. One surefire candidate: a company that sells consumer goods. If it strives to differentiate itself in the marketplace of perceptions, and thus probably relies heavily on advertising, it almost always can gain a great deal from corporate barter.

In sum, a company must be able to purchase enough of a barter firm's perishable goods and services to *fulfill* the barter transaction. Hence, as was mentioned earlier, the barter firm's inventory is often termed "fulfillment."

7.

What can you  
use for fulfillment?  
(It should always  
live up to *what  
you always use.*)



RECALL THAT a corporate-barter transaction has two basic components: what the barter firm buys from or gives the client and what the client buys from the barter firm to fulfill the terms of the transaction.

Thinking about barter first in terms of this “fulfillment” is not usual for companies. It’s like using the wrong end of a telescope. But somehow it makes eminent sense. Instead of seeing the benefits of barter enlarged and emphasized through magnifying lenses, you see them small and distant, as if on the horizon. Even though the actual benefits can be immediate—this is the case in a cash-only barter transaction, when a company can receive the purchase price for an asset immediately, before the asset is even sold by the barter firm (see Chapter 9)—the perspective provided by seeing the transaction whole, over time, is more logical and makes for sounder business management.

The reason is simple: The corporate-barter transaction needs something the client can buy from the barter firm, usually over time. The menu of fulfillment goods and services is considerable

and growing, though by far the most common type remains some form of widely used advertising media—TV and cable time, radio time, magazine and newspaper space and outdoor-media space. So clients need to be sure they have a use for—and, more important, a *budget commitment* for—enough fulfillment over time to finance a barter transaction. Because this is, in fact, what the client is doing: financing the barter firm's purchase of some client asset at a price advantageous to the client. (Note that the fulfillment the client buys is *precisely equivalent* in quality, timing and price to whatever it ordinarily buys.)

This fulfillment need not be all of one kind. For example, it can consist of several types of media. Or it can be a mixture of commodities: TV spots, hotel rooms, print runs and long-haul cargo space—whatever the barter firm has available or can negotiate. What's critical is that the client has enough need, over time, for the type of fulfillment barter firms can use and provide.

Reliable fulfillment for a barter transaction shares several characteristics. It is:

- a widely used good or service
- competition for market share
- perishable
- price-leverageable when purchased

far in advance

In the process of providing fulfillment, a respectable barter firm will agree to work with whatever fulfillment arrangement a client prefers to use, under any reasonable terms the client and its partners customarily employ. The result should be *seamless duplication* of the buying experience the client has established. If the fulfillment is media, for example, the barter firm should defer to the client's advertising agency of record for research and media planning. And while the media purchase is managed by the barter firm, any commissions the agency or media-buying service would ordinarily be due would, of course, be awarded in full.

Reminder: Redemption of a corporate-barter obligation requires not only trade credit but some amount of cash, generally in a ratio of four or five to one for trade credit—exactly as if a one-dollar can

of soda is purchased with 80 cents in cash and a 20-cent coupon, the coupon being the trade credit. Redemption of a cash-acquisition obligation requires a higher proportion of cash paid to cash received from the barter firm because of the risk assumed by the barter firm and the cost of money. So as you think about how much fulfillment you need to buy through the barter firm, keep in mind that it must be four to five times what you will receive in trade credit for your asset or roughly six times what you will receive in cash for your asset.

In neither transaction should a client pay *one cent more per unit of fulfillment* than it would in a nonbarter purchase. On the contrary, because part of the purchase is paid by the barter firm in the form of trade credit (or up-front cash), the client's overall expenditure is lowered by that amount.



8.

Identify  
underperforming  
assets.

ALL COMPANIES, whether they choose to admit it or not, have assets that are not living up to expectations.

The reasons are as numerous and varied as the human character: blurred strategic focus, determined competition, creative but irrelevant product design, regulatory miscues, bad credit, depreciation, lousy location—you name it.

It's understandable that people don't want to admit that a choice they made was wrong, a bet they placed failed to win, a place or show or a favorite investment took a turn for the worse. Our culture rewards success and tends to be hard on failure. But many outcomes cannot be predicted with accuracy. This is simply the nature of the complex, imperfect world we inhabit.

What corporate trade does is *help minimize the financial risk* of certain initiatives, from a new-product launch to acquisition of a business to a profit center that used to run on autopilot but suddenly starts to sputter. And while corporate barter can help a company rebound from a mistake, it also provides the energy to create future successes.

This is not to say all underperforming assets are ripe for rescue by a corporate-barter transaction. But if a company can buy sufficient fulfillment from a barter firm (see Chapter 7), virtually any asset can form the basis of a corporate-barter transaction. This point bears repeating: *Virtually any asset can form the basis of a corporate-barter transaction.*

In other words, if a company knows it needs to spend \$10 million on network cable television spots every spring and fall to sell its products, some of that media buy very likely can be satisfied by a reputable barter firm. What the barter firm can provide then determines how much it can give a company for an asset the company wants to sell.

But often companies don't think about barter by first assessing their potential to purchase barter fulfillment. They first turn to corporate barter because they have an asset that's gone bad.

What follows are three barter transactions based on three very different kinds of underperforming assets. Example one: A large confectionery company never considered corporate barter; in fact,



viewed it (incorrectly) as a cousin to those bad-news bears bankruptcy and liquidation—until with great fanfare it introduced a new product that almost instantly and very expensively flopped. The product was supposed to open up vast new markets for the company and propel it into a bright new future, or so the analysts and shareholders were told. But somebody forgot to query the consumer—more precisely, forgot to ask the right



*Somebody wasn't listening.*

questions and listen carefully to the answers. The result was tons of raw, unpackaged product stored in several warehouses that wasn't about to go away

on its own. Stymied, company executives summoned a corporate-barter firm, after considering and rejecting the alternative: paying to destroy the product.

Following a brief analysis of the company's media-spending habits, which turned out to be substantial and consistent year to year, the barter firm told the company it would take all of the (discredited) product off the company's hands, quietly, and pay the company full market value for it, exactly what the company would have earned if the product had been 100-percent successful and destroyed it. To be sure, the company's executives were leery of this startlingly positive news, but decided to take the chance.

As the transaction began to unfold, the executives were even more startled. They soon realized that what they had entered into was far more straightforward than they had imagined—so straightforward it seemed just like conducting business normally. And both sides benefited, a classic win-win. Then they discovered they could buy the barter

firm's fulfillment at a faster rate than they were obliged to, which further benefited both the company and the barter firm by accelerating the ability of both to recognize the economic benefit in their financial statements.\*

Example two: A consumer-products company had signed on for a ten-year sponsorship of a

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\*U.S. Generally Accepted Accounting Principles require that a loss be recorded when it is substantiated. Thus, the sale of an underperforming asset to a barter firm in the U.S. must be recorded in the fiscal year the company receives payment. However, the recovery of any value can be recorded only as the barter contract is retired. Similarly, a barter firm cannot record any profit from a transaction except as the contract is retired. Generally, accelerating the retirement of a barter contract benefits both parties.

Guidance generally applicable to corporate-barter transactions starts with Accounting Principles Board Opinion No. 29 (APB No. 29). The FASB specifically addressed accounting for barter transactions in 1993 with EITF Abstract 93-11. Recently, the Securities and Exchange Commission provided overall revenue recognition guidance with SAB 101. All three are recommended reading when considering the accounting requirements for recording a barter transaction.

NASCAR team, but after three years its priorities changed, due in no small part to a personnel upheaval in its marketing department. It contacted a barter firm, which offered to take over the sponsorship contract in return for providing the company with three years of various types of fulfillment, all of which the company was planning to purchase anyway.

Example three: A convenience-food company found itself with a large surplus of branded toys it had hoped to sell at nominal cost to increase traffic in its outlets. Prominently badged, the toys had no value on the open market and were headed for the incinerator when a barter firm offered to pay full price for them, then suggested giving away the toys at the company's own extensive charity events, packaged with a request for a modest donation to the very same charity. The company agreed, promising to place a specific amount of certain media buying through the barter firm over three years. This transaction turned out to be a win-win-win-win: the company, the barter firm, the charity and the

charity's beneficiaries.

What if a company doesn't want to sell anything to a barter firm but can potentially buy lots of corporate-barter fulfillment? Under limited circumstances, that is possible. In a relatively new and innovative barter transaction, a company receives cash earmarked for some strategic purpose—developing a new product, closing a factory, remaking a brand identity—in exchange for the all-cash purchase of a barter firm's fulfillment at specified intervals (see Chapter 9). Weighing heavily as it does on the credit-worthiness of both parties, barter firm and client, this transaction can be entered into only by entities with proven financial strength, long-term stability and strategic acuity.

To reiterate: What is common among the above examples? Enough need for barter fulfillment over time to pay for a barter firm's funding of a different client need, typically an underperforming (or undernourished) asset.

9.

Which  
transaction:  
trade credit  
or cash?

MUCH OF THE FOREGOING has concerned the classic corporate-barter transaction: trade credit. Several years ago our firm invented a new type of barter transaction. It dispensed with trade credit in favor of all cash. A few potential clients, we learned, were reluctant to turn over to a barter firm a large asset such as a building and receive what amounted to a coupon, even though guarantees were provided—including performance bonds assuring delivery of satisfactory fulfillment. Others just didn't feel comfortable carrying the risk of the trade-credit transaction, because the onus of spending the credit or losing out fell to them.

The way the cash-only transaction works is, the client sells an asset to a barter firm at the typical barter multiple-to-market value, receiving the proceeds in cash—before the barter firm has even remarketed the asset. Here, the risks are assumed by the barter firm and the rewards are received by the client at the beginning of the transaction. Meanwhile, the incentive for both to complete the transaction and retire all obligations is equal. Why? The barter firm

essentially becomes a financing entity for the client, assuming considerable lending and execution risk. The client, for its part, accepts a corresponding obligation to purchase the barter firm's fulfillment inventory at specified intervals over two to three years. As you might imagine, the cash-only barter contract is written in fine detail. The client's credit-worthiness must be first-rate. And given the client's obligation to purchase a sizable quantity of fulfillment, it must feel confident that the barter firm will deliver what the client needs and when.

Clearly, the two types of transactions might serve different types of customers.

At the cash-only extreme are companies that tend to be large, often multinationals or public institutions, with three things in common:

- An impeccable business credit rating
- High annual expenditures for perishable goods and services
- The ability to make two- to three-year *annual* purchase commitments

At the trade-credit extreme is a range of compa-



nies and organizations from very large to medium size with one primary thing in common: They need more flexibility. They can't commit to hard-and-fast fulfillment schedules. Their business might be irregularly cyclical. Their industry might be undergoing flux, as the automobile or oil sectors typically do. They might be interest-rate sensitive in a phase of significant rate movement. Other examples abound. The key difference between the two types is the degree to which a company can be forward-looking with budget assurance.

An even newer barter transaction, offered by only our firm at this writing, allows a qualified company to switch in midstream from a trade-credit to a cash-only transaction, swapping the flexibility of trade-credit decisions for a more stringent fulfillment schedule. Some companies experiencing temporary instability find this option appealing: Should their business regain equilibrium, they can retire their obligation more quickly by switching to a cash transaction. The new cash-only agreement they enter into unfolds just as such a transaction usually would.

# THE SMART WAY TO THINK ABOUT CORPORATE BARTER

THERE IS CONVENTIONAL corporate barter, then there is smart, well-informed, strategic corporate barter. While there is nothing wrong with the former, the latter can be a big help in an increasingly competitive and cost-conscious business world.

Following are some key considerations and insights for companies that might want to use corporate barter as more than an occasional tactic.



*Corporate barter can take you in whole new directions.*

10.

Corporate trade  
is about *creating  
value*—not getting  
something cheaper.

COMPANIES WITH little experience using corporate barter still tend to harbor suspicions that they are paying too much for the fulfillment they buy from a barter firm. After all, that's where the barter firm makes its money. So why not pay less? Isn't the company being cheated in some way?

Agencies and buying services exacerbate the situation when they say that no one could possibly buy the commodity in question any cheaper than they themselves do, considering the clout their volume brings to bear.

A related misperception: Barter firms sell fulfillment they get at discount—in other words, barter firms traffic in damaged goods. Since the company has sold the barter firm damaged goods, goes the reasoning, what can it expect in return but damaged goods?

These suspicions fail to recognize the value proposition of corporate barter: A company receives restoration of a fallen asset's value *at no cost*. Period.

The fact is that corporate-barter firms *buy*

*differently* from agencies and media services. They make forward investments in perishable goods and services that, in effect, appreciate over time. (In fact, they don't actually appreciate: They merely preserve the arbitrage spread the barter firm has purchased. See Chapter 5.) When these commodities are sold to clients, clients pay the current price—exactly what they would pay an agency or buying service directly. In brief, you buy the same commodity from a barter firm and an agency or buying service—it's identical in price, quality and (if applicable) timing.

There is an important further distinction: Barter firms tend to buy a credit for a future commodity that is flexible in terms of restrictions, and sometimes entirely free of them. Many suppliers of perishable commodities—broadcasters, magazine publishers, hotel chains and printing companies—are comfortable with this arrangement. They know they are likely to be able to deliver what a barter firm and its client need when they need it. Barter companies, in a way, *finance* their suppliers, literally improving their current cash flow in exchange

for a future, yet-to-be-specified obligation. As an important result, barter firms are typically held in high regard by their suppliers, and when the time comes for them to place an order on behalf of a client, the barter firm is treated as equably and respectfully as any agency or buying service (if not more so).

The corporate-barter industry succeeds only if its clients perceive that they have been successful in the barter transaction. This means barter firms have to live up to the *standards of the industries* they serve and depend on. The advertising industry, for example, observes a cancellation policy that spells out when a media order can be changed without charge. The barter industry adheres to this policy. There is no other way to serve clients responsibly.

11.

Today's corporate barter is a tool of corporate strategy.



TOOLS ARE USUALLY narrowly designed for a few discrete purposes, with built-in capabilities and limitations. We employ them well or poorly depending on our skill and experience.

But tools can be employed imaginatively. An artisan can make simple tools perform seeming miracles. The famous four-cylinder diesel engine General Motors built by the trainload during World War II was a simple machine, with all the usual complexity refined out of it. As a result, it was extremely versatile, powering everything from tanks and trucks to landing craft and generators. It ran forever and was easy for even green mechanics to fix. Why was it so successful? It was designed and built to do just a few things really well. As a result, it freed U.S. military commanders to be strategic when they needed motorized transport.

Similarly, corporate barter, when used correctly, can become a strategic tool. The only limits are the imaginations of its users, the corporate-barter firm and its client—taking into account the fulfillment limitations already discussed, of course. Corporate

barter can and should be seen by executives as a sturdy and elegant tool that readily improves operational efficiency.

What are some strategic uses of corporate barter? A few hypothetical examples:

***1. An asset suddenly becomes a liability, then almost just as suddenly is converted into a strategic opportunity for dramatic growth.***

A company has a long-term agreement to sponsor a professional curling league in the upper Midwest. The suburban and small-town, middle-class, middle-aged demographic is perfect for its line of outdoor products and offers an inexpensive, lighthearted way to reach this audience. Suddenly, curling becomes a fad among urban thirtysomethings, who soon dominate the league. They don't want the same kind of outdoor products. Instead of buying out the league contract, the company turns to a barter firm, which agrees to take over the contract once the company has settled on a new marketing plan.

The company's advertising agency suggests that it use the freed-up funds from the sold sponsorship

to expand beyond its native region via mail order. Fulfillment for the sponsorship assumption directly enables the new initiative—catalog development, printing and distribution, and also shipping to consumers. The freed-up funds pay for product placement and public relations. It's magic (almost): A hobbling obligation becomes an enabler for more business.

**2. A *strategic transformation is accelerated.***

In the wake of the Sarbanes-Oxley Act, a consulting company with offices in many major American cities wants to change its focus from broad-based management consulting to treasury, accounting and financial oversight. It needs to close offices, retire a third of its workforce and hire 100 senior accounting professionals. Someone suggests corporate barter to dispose of the real-estate leases and owned properties, in exchange for several years of image advertising in the business press. The company's advertising agency proposes instead that the consulting firm embark on a multipronged recruiting campaign involving print advertising,

radio spots and outdoor posters in corporate commuting corridors until recruiting goals are met, then switching to an image campaign. A barter firm with both real-estate expertise and the ability to obtain the right ad space, radio time and outdoor locations is engaged.

**3. A *strategic acquisition becomes much more digestible.*** One company purchases another that suffered manufacturing disruptions as global competition set in. It discovers a surprise in the acquired company's books: A relatively small and innocuous-seeming number in the loss column under long-term depreciation actually represents up to half the floor space in some factories, which were full of idle and obsolescent tooling. Familiar with corporate barter, the company looks in vain among its expenditures to find enough purchases of perishable commodities to afford a decent price for the machinery, until together the company and a barter firm identify a combination of commodities, including incentive travel for its sales, marketing and manufacturing staff, printing for its product

brochures and sales sheets and waste management for several locations. As a result, the company realizes three times what the machinery is worth on the open market simply by shifting the fulfillment of an array of its ongoing needs from its purchasing department to the barter firm.

**4. Inventory control becomes not just reactive but strategic.** A fashion house that sells through nationwide department stores is singled out by a trucking union for a two-week wildcat strike just as it starts to ship its spring line. Unable to pull its magazine ads, the brand disappoints



*Madame, la voulez-vous?*

thousands of potential customers and the season is a flop, despite critical raves from fashionistas and the press. How to salvage at least some of its investment in its biggest season of the year? With a major and consistent semiannual ad buy, the house can offer a barter firm the leverage it needs. But the brand has suffered more than enough damage already. A surge in remaindered branded clothing could inflict a mortal wound.

A barter firm known for discreetly selling high-end assets is hired. It recommends several under-the-radar sales channels, including chains of specialty shops it has used in northern Europe and Japan, invitation-only “overrun” sales in Manhattan and Beverly Hills and a two-minute, eco-slanted infomercial on an indie-film cable channel. The barter firm pays the fashion house book value for the clothing, in exchange for ad buys totaling five times that amount in fashion publications over three years. Crisis averted. And the fashion house looks at corporate barter with new eyes—as a tool to control excess inventory through out-of-channel sales.

The common thread in these examples is creative problem solving that turns seeming predicaments into positives. While hypothetical, they are feasible, practical, sensible and closely resemble real corporate-barter transactions that have successfully and happily unfolded. They combine tactical decisions with vital strategic considerations—forward-looking custodianship of a business' health and prospects for growth.

Corporate barter *is and should be* an instrument of corporate strategy.

12.

The more you know about your company's strengths and weaknesses, the more you stand to gain from corporate barter.



COMPANIES THAT REALIZE corporate barter can free up *unused financial potential* will start to examine their strengths for ways to fulfill a barter transaction—which transaction, of course, will help recover value from a temporary or periodic weakness.

**From strength:** If you know your company's strengths, you may be able to help shore up weaknesses—and this is important—*without sapping your strength* one iota.

A product line with real strength in the marketplace—loyal customers, favorable press, a durable competitive edge—is probably *surrounded* by potential fulfillment options for a barter transaction. As a core product, it gets regular and persistent advertising support. (If it doesn't, no matter how beloved the product is today, its ever-fickle consumer will start an affair with a rival and may never come home again.) It gets other support, too—a large travel budget for sales and marketing staff, an annual onslaught of sales brochures with this year's campaign wrinkle, new marketing initiatives to support aging variants before they can be relieved by the next iteration.

All of these can offer a corporate-barter firm an opportunity to *relieve a headache*—a surplus product run, an unused building, aging machinery depreciated on a drip-drip-drip schedule, even an entire brand with all of its assets, human and mechanical, tangible and intangible.

Such strengths can also offer a company, through corporate barter, the ability to *take an otherwise unfunded step*: supplement a marketing budget, modulate product inventory fluctuations, finance a distribution agreement—the business possibilities are limited only by your imagination.

So examine your strengths for opportunities to leverage weaknesses or shortfalls—not by using conventional business thinking, which counsels shifting resources from black to red or black to gray. No: by using unconventional *corporate-barter thinking*, which says an ability to budget the purchase of certain commodities over several years opens the door to recovering value and essentially creating cash for other needs. Valued assets stay in place. Resources remain where they do the most

good. Extra cash speaks for itself.

**From weakness:** An asset that has lost value, such as a struggling product line, is an obvious weakness. A real-estate gambit that missed. An unexpected surplus of inventory. Machinery that’s suddenly eclipsed by a technological advance. These are all excellent prospects for rescue (in terms of recovery of financial value) by means of corporate barter—given, as has been discussed, that the company can buy enough fulfillment. But what about other, less obvious weaknesses?

If business strength can conceal underlying financial opportunity, the same can be true for business weakness. Look for *opportunity weakness* in several obvious areas:

- Where a company spends large amounts routinely on ordinary-seeming purchases. These could be perishable commodities just right to fuel corporate barter.
- Long-term contracts to provide or do something. “Long-term” often means stable supply or reliable relationship, but a pretty sure thing can turn

out to be a certain liability when some important factor changes. A 30-year lease on a warehouse may be great for 20 years, then creeping gentrification causes values to shoot up and taxes to double. Renegotiating the lease may be best. Or it could be sold to the right corporate-barter firm.

- A pattern of seasonal or otherwise periodic product surpluses. Rather than manage these ad hoc, a barter firm could be engaged to buy the surplus whenever it occurs and remarket it with the sensitivity its own brand managers would apply. Then the financial dislocations of unforeseen inventory ebb and flow are mitigated with rational inventory management.

- A useful cooperative venture stalls because you need to supply more than you have planned. For example, our company helped a fruit-juice maker finance a distribution deal with an airline when the airline wouldn't pay what the juice maker needed. We supplied the difference in cost, and the juice maker placed advertising through us over three years.

Business strength and business weakness both

suggest an opportunity to make adjustments for financial advantage—if a company is savvy enough to seize the promise of corporate barter.

13.

Get your operating managers on board. Then share the wealth with them. (Perforate your silos.

Don't think you have them?

*Everybody* does.)

FOR MORE THAN a few companies, corporate trade has been a source of internal division. It should be no less than a pot of cultural glue—a source of harmony and comity, a unifying force behind overall corporate goals such as efficiency, profitability and strategic clarity. Why? Corporate trade delivers unmistakable benefits to the *organization*.

Barter firms sometimes find that a client's three major barter stakeholders inhabit separate fiefs, among which the communications revolution has had only fitful effect. They are the **CFO**, who understands the transaction because it is financial in nature; the **owner of the asset**, who reaps the benefit as it is sold at a multiple of its market value and thus tends to welcome the transaction; and, patrolling the fief across the river, hall or parking lot, the **payer**, the person through whom the transaction's form of payment is executed.

These third stakeholders, very possibly skeptical and reluctant participants, oversee marketing or print buying or travel services. They live on the spend side. Their big asset is a budget they have

to defend annually—and especially when belts must tighten. They are guardians of assets much less concrete than plant and equipment: corporate image, brand identity, company morale. Their calling—while perhaps undervalued by finance or operations—is nevertheless noble and essential. It is also protectionist. What can happen when the CFO drops by to impose a new and unanticipated obligation is as predictable as it is unfortunate.

Until very recently, the corporate-barter industry worsened this unhelpful scenario by working only with the financial participants of a corporate-trade transaction. And typically, two things have tended to happen: All trade credits were redeemed (by far the majority of transactions) or none at all were redeemed. When people say they have experienced or know about a corporate-trade transaction that did not pan out, very likely this latter situation was a contributing factor, if not the entire cause.

Clearly, the recipient of the company's repayment must be included early on in barter negotiations. Whatever the cultural divide—between making



and marketing, strategy and execution, budgeting and spending—it must be bridged. Barter firms are skilled at configuring their delivery of fulfillment to integrate seamlessly with a company's practices. But the barter firm must learn how a company does business in particular, up front, so it can truly meet its expectations.

The ideal situation: The barter transaction is blessed from the corner office and embraced throughout the company's top levels. The common impediments to successful corporate barter—old habits, comfortable loyalties, walls of inertia—can't be broken by an aloof, uninformed executive team. On the other hand, an engaged, supportive top management can quickly make most barriers insignificant.

One helpful trend: In some recent cases, a CFO has been willing to share the upside of a barter transaction with the fulfillment buyer such as the chief marketing officer, providing that executive with, in effect, an unallocated supplemental budget. Another is that, for the time being at least, marketing

people are starting to play a larger role in companies. Top executives realize that their marketing folks best understand the end user, the customer the entire enterprise depends on. As business becomes ever more customer-focused, such knowledge is critical if companies want to stay competitive. And as a result, marketing comes to the barter table as early as the barter firm's first presentation. They are, from the outset, an essential part of the transaction team—a team that, as a result, has excellent prospects for complete success.

Cultural divides within organizations are natural and often positive. Friction, after all, can produce useful heat. But not when the divides are grand canyons, equivalent to the age-old warring camps science and art, each side revealing a startling lack of sensitivity to the other's needs and concerns—indeed, even to the other's existence.

One unintended consequence of a barter transaction: It can reveal such a situation. The best solution? Sustained executive intervention until the canyon walls are bridged.



# IT'S THE CONTRACT...

CAVEAT EMPTOR - let the buyer beware. In the next four chapters, find good counsel on what to pay attention to as a proposed corporate-barter transaction unfolds.



*It's not a bad idea to know what you're getting into.*

14.

Where barter  
transactions  
go wrong and why.

LIKE ANY AGREEMENT, a corporate-barter transaction requires the right circumstances. Most important is that participants are committed to its success and invested in the right outcome. A seasoned barter firm can help make up for a client's lack of experience, but the client must still be a willing partner, ready to invest the necessary human and, in some cases, financial resources to bring the transaction home.

The most important components of a successful barter transaction are, first, that the goods or services provided by the barter firm as fulfillment *can be used* by the client and, second, that these goods or services be *competitively priced*—that is, priced at levels the client typically pays.

One of the first things a reputable barter company does, then, is determine if its inventory of goods or array of services is a comfortable fit for the client. The traffic in this process has to flow in both directions: A client should reliably assure itself that the barter firm can *deliver* the goods or services as specified.

A third critical component applies to trade-credit

transactions. A client is almost always required to spend some amount of cash when the credits are redeemed. If a client fails to negotiate the amount of cash required when trade credits are redeemed, chances are the fulfillment goods or services are not described with enforceable specificity. If so, the client may have difficulty obtaining goods or services it finds acceptable. Other challenges:

- ***The buyer—recipient of the fulfillment—becomes uncooperative.*** This problem was once fairly common. Typically, this “end user” was not involved in the transaction until he or she was needed and as a result felt circumvented, put upon and taken for granted—and rightly so. It is in the best interest of all involved to complete a barter transaction fully, retiring all obligations as expeditiously as possible. Otherwise, the benefits of the transaction languish off the books for both the barter firm and the client. (See Chapter 13.)

- ***The agency objects.*** In a transaction that involves media, the barter firm becomes, in effect, a conduit between the client and its advertising



agency of record. The same is true for most types of fulfillment: There is a center of responsibility, a department or outside supplier, that must be accommodated. Sometimes it opposes corporate barter. It believes, erroneously, that the quality, price or timing of the purchase will somehow suffer. In fact, reputable barter firms welcome the participation of a client's established experts. For example, they tend to lean heavily on the knowledge of a client's hired media planners, brand strategists and account managers. The goal of a barter firm precisely mirrors that of the client's agency: to further the client's best interests. However, a client may need to help a fiercely protective agency embrace this conclusion.

- ***The client's circumstances change:*** that is, a business unexpectedly turns soft, a merger or deconsolidation occurs or critical personnel move on. To avoid being whipsawed by events, both the barter firm and the client must remain committed to the transaction and be willing to make reasonable adjustments to see that it stays on track.

- ***An asset is badly remarketed.*** While uncommon, this can occur if a client has not clearly spelled out its wishes—if it has assumed the barter firm's remarketing arm understands its brand and business as well as *it* does. Good barter firms are not liquidators: They don't simply dump a company's assets on the open market. In fact, they tend to be highly skilled at disposing of a surplus with nary a ripple in a client's brand image. But again, a company must take the steps necessary to educate a barter firm, to brief the people involved about its cultural values, brand identity and business practices. Rest assured: Any barter firm that wants to stay in business will prove a quick study in this regard.

IT'S THE CONTRACT...|

15.

Always look  
before you leap.

IF YOU HAVEN'T WORKED with a particular barter firm before, don't expect the transaction to unfold in a day or two. This is a good thing: It will give everyone involved time to be reasonably sure of the following:

- A barter contract generally involves a series of purchases by the client over time. You want to be sure that the barter firm will be around and *solvent* through the span of the contract. Ask to see the firm's financial data for the past several years. And get a good sense of employee turnover.

- Avoid being the bull of the barnyard. You could break more than a few eggs. Small firms love big clients, but that doesn't mean they can easily provide the fulfillment you specify. Pick a barter firm with lots of experience serving *companies of your scale*.

- Ask for references and be sure to *check* them. At least two of the references should be companies that resemble yours.

- Dig deeper: Investigate your potential barter firm with the same diligence you would apply to

*analyzing a potential partner.* For example, if fulfillment is to be network cable spots, check the firm's reputation with media companies you hold in high regard.

*Who knows what you might find?*



- Make doubly sure the barter firm's inventory is something you can use. If you can't evaluate the inventory yourself, *bring in your buying service*—or hire one on a consulting basis.

- Ask that the contract be as *specific as possible*. It should spell out not only what the barter firm will provide and at what price but what you have to provide, such as cash, how much and when. And

make sure you understand any penalties!

- See if the barter firm offers a guarantee—ideally, a *performance bond* that assures you will receive the fulfillment the contract specifies or the firm's guarantors will pay you the equivalent in cash. Needless to say, verify that any guarantor is reputable.

16.

The three  
absolutely  
critical  
barter-contract  
clauses.



AFTER YOU MEET WITH a barter company, discuss the entire transaction and receive the contract, assure yourself that you are about to do the responsible, professional thing for your company and its employees. Ask and answer these questions in the affirmative or *redo the contract*:

**1.** Does the barter firm provide goods and services your company is able to use? Is there a *guarantee* the firm will deliver as specified?

**2.** Are the barter firm's goods and services *competitively priced*—does the contract require that the fulfillment goods and services it supplies match the quality your company typically uses at the price it pays?

**3. – Trade credit:** Is the portion of *cash* required to be blended with trade credit determined clearly? Will you be able to make that cash available? (Otherwise, your trade credit cannot be spent in full.)

**3. – Cash only:** Are your *cash obligations and recourses* spelled out in detail? Are there guarantees to compensate you for any additional expenses in case you have to buy needed fulfillment on your own?

17.

If a transaction  
sounds too  
good to be true,  
it probably is.

CORPORATE BARTER is rooted in checks and balances. It is not investment banking, where a special understanding of a business or clever negotiation can turn the tables sharply toward one participant. The basic corporate-barter transaction is straightforward. Valuations are clear and well understood by all parties. Obligations are spelled out.

A certain amount of cash is always required to satisfy a company's fulfillment obligations. If the ratio of cash needed to trade credit supplied falls below four to one, a company should double-check the quality, timing or price of the fulfillment—or all three. Remaindered or otherwise substandard product may be involved, with the result that the trade credit will be less than dollar-equivalent.

The same may be true if the barter firm pays an overly generous amount for an asset—say, full book value when the asset was worth only ten cents on the dollar. The trade credit received to (supposedly) bring such a severely depressed asset back to book value—well, give the fulfillment side of the transaction a hard, long sniff: Something's

probably fishy. What does the barter firm's inventory look like? What *will* it look like in two years or three years, when you still have trade credit to spend?

Another possible way to make you look great now but hurt you down the road: remarketing. Is the barter firm quietly planning to sell your distressed asset in a more profitable channel than it said it would—say, the same channel you have long nourished and cultivated for your best customers? Or a channel you don't occupy but would love to because it's brimming with potential new customers?

A transaction seems awfully good: Does the barter firm have any history of similar transactions? If so, speak to its clients' participants—particularly the users of the trade credit. If not and the transaction just doesn't seem right, pause about one second before you run, not walk, to the nearest exit.

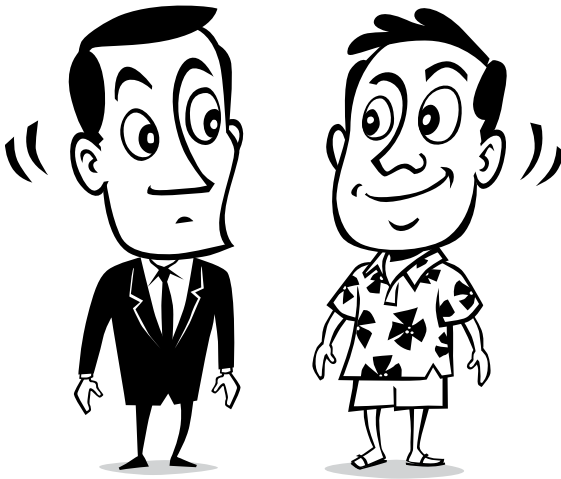
By the same token, a sound corporate-barter transaction is a win-win for all parties. The well-being of everyone involved is preserved. If a transaction starts out fine but somehow goes awry,

you are strongly advised to sit down with the barter firm and work out a new, equitable arrangement. Gaining and pushing an unfair advantage could end up harming the barter firm or its suppliers, which will make it difficult to deliver what you expect and need.

# WHO TO WORK WITH AND HOW

THE CORPORATE-barter industry has come a long way since its founding 40-some years ago. Most of the progress, in our view, has occurred in the past five years. The industry has matured, developed a considerable array of products and services, served a host of well-run organizations and joined the portfolio of resources clients view as essential to conducting business effectively.

Not all corporate-barter firms are the same, of course. In our concluding section find five rules that will help companies decide on the right firm for them.



*Despite appearances, not all corporate-barter firms are the same.*

18.

Hire a barter firm that uses media, not a media buyer that does (*tries to do*) barter.



BARTER FIRMS and their frequent compatriots, media companies, are different animals, engaged in different businesses for diverse purposes, but they often share the same goal: Provide the best possible media buy to a major corporation. As a result, clients sometimes confuse one with the other or assume that each can do the other's job equally well.

A plumber and an electrician are needed to finish a house, but can they do each other's jobs? Not by law in most places, and not by common sense.

The metaphor isn't perfect. To stick with the media example, many corporate-barter firms were founded by executives experienced in media buying. Because advertising media remains the leading form of barter fulfillment, barter firms tend to have considerable media-buying expertise. But they can't replace what a good advertising agency and media planning and buying function working together provide in terms of audience research, targeted media, brand building and other critical corporate-identity and marketing tasks. In these matters, alas, agencies and media buyers sometimes mistakenly

assume that barter firms are rivals. They are not, nor do reputable barter firms ever intend to be.

Put bluntly, a company's advertising agency and media buyer (if separate) are the proper and sensible sources of a company's strategic media planning in any corporate-barter transaction. The barter company is *simply there to fulfill* what the company, in consultation with its brand and media experts, decides must be purchased. Precisely the same is true for any other type of barter fulfillment—travel, printing, corporate services and so on. The company and its experts specify, the barter firm fulfills, then the company and its experts verify that the fulfillment process proceeded as specified by contract.

Could a barter firm ever do media planning? Perhaps, but you wouldn't want to hire it. With one hand, the firm advises you which media to buy; with the other, it sells media it owns. You'd end up using some of that media, at whatever premium your barter/media planner thought you should pay. Such a firm cannot possibly offer objective

advice. The temptation to reap unseemly profit selling its inventory directly to clients would be all but impossible to resist. Advertising and media agencies are *client representatives*. They make money through fees and commissions, not buying and selling. That's the fundamental nature of their trustworthiness.

Can a media-buying company or an advertising agency do good corporate barter? The answer, we firmly believe, is no, for two reasons. First, top-notch barter firms have vast experience disposing of underperforming assets in ways that produce maximum value with no deleterious effect on a client's brand reputation or sales channels. Very often a barter firm can do a better job than the company or its agents of selling, say, an overrun of a new product or a brand that has ceased to be a good strategic fit, because the barter firm is a specialist in such challenges. It creates solutions where a client or its ad agency might see only a formidable problem. Recall the surplus of branded toys owned by a convenience-food company mentioned in Chapter

8. The company, to its chagrin, had no recourse but to send them to a recycling plant—or so it thought. But a quick-witted barter firm found an appreciative audience for the toys—so appreciative, in fact, that they were willing to pay for them as a way to donate to the company’s charity. Three more examples:

- A company creates a surplus of products by **changing packaging** on the fly—because it has refreshed its graphic identity or maybe the packaging just does not work. An ad agency might have helped a company reach either conclusion, but it is not the right problem solver for all that good product housed in the wrong packaging. Time to call a barter firm.

- A baseball-crazed CEO signs a ten-year deal to put the **company name** on a stadium. That CEO is replaced by a naturalist who wants that budget to help fix Yosemite. The ad agency advises against roiling the hometown ball fans, then brings in a barter firm to pay for the sponsorship, effectively transferring that budget back to the company—where it helps refurbish a great national park.

- An agency enthusiastically endorses a client's plan to **lease** its flagship motorcycle model to a state's highway patrol. Problem is, when the two-wheelers come off lease, their market value has fallen well below the lease's contracted residual value. The motorcycle company has miscalculated. The state makes out like a bandit. But a barter firm swoops in and buys all the iron for its residual value. And the cycle maker enjoys enormous free publicity as its bikes motor up and down the state's roadways, snazzily uniformed officers astride.

The foregoing are disguised examples of transactions our firm has executed for real clients in the past few years.

The second reason media buyers and agencies are unlikely to do better corporate barter than a barter firm boils down to capital: A barter firm makes forward commitments to buy media, whereas agencies and media buyers pay for media only after the fact, once the TV spot has aired or the magazine has reached the newsstand. The barter firm *gains leverage*, most of which it passes on to its clients;

the agency or media buyer can only *hope to buy cheaper* than what the client expects to pay, which is by no means a sure thing.

Media companies don't do corporate-barter transactions with cash-paying media agencies for two main reasons. First, media companies view barter as a niche business, for which they have only so much appetite. More important, the big media-buying agencies that pay cash control the majority of the media placement needed by national advertisers. These agencies are the media industry's "market makers." If media companies did much corporate barter with these agencies, that would compromise their ability to maintain a rational cash marketplace for their products and services.

The scope of the corporate-barter industry is not infinite. Only a few barter firms can profitably exist. The most successful—this should come as no surprise—are solely dedicated to corporate barter. They operate with complete independence from any cash-paying media-placement agency.

In short, a client hoping to use its agency or media buyer to do barter risks putting that firm in the uncomfortable and possibly financially disastrous position of promising something it cannot deliver.

Advertising agencies and media-buying services do terrific work in their fields. They give their clients value in all kinds of ways. But modern football teams have totally separate offensive and defensive squads for sound reasons. Specialization serves up better performance. If you want to do corporate barter, hire a barter firm. Then make sure that your outside agencies come on board to ensure a great transaction.

19.

A corporate-barter transaction involves financing. Work with a firm that's well funded.



WHY YOU SHOULD follow this rule is as simple as it is compelling: In a typical corporate-barter trade-credit transaction, the client accepts the risk that the barter firm's credit is good. It is basically giving the barter firm something today without immediate payment. It's just like a store credit: You pay for a blue blazer and take it home, only to get the same blue blazer from your spouse as a gift that very night. So you return the merchandise. The store already has your money, but you willingly accept store credit. Why? You trust that the store will stay in business and stock something you will someday want to redeem the credit for.

If a corporate-barter firm is well financed, if it has a positive balance sheet and an unimpeachable record of performance, the risk to the client that the firm won't deliver is relatively small. If the barter firm provides a performance bond guaranteeing delivery, as our firm does, the client's risk approaches zero.

Moreover, if a barter firm has reserves of capital, it can more readily invest in commodities futures—

the stuff it will supply as fulfillment—which means it is more likely to have an array of goods and services in its inventory that you will be happy to use. Also, it can act as a principal throughout the fulfillment process, spending its own money to pay commodity suppliers when invoiced rather than having to depend on the client’s capital and remittance process. It’s the difference between paying a grateful supplier within 30 days and hearing from a disgruntled supplier about a bill unpaid for 70 days.

Which relationship would you rather rely on when you need a favor or some difficulty emerges?



20.

The more focused a corporate-barter firm is on barter, the more options it can provide.

IT SEEMS ALMOST TOO obvious to say you want a barter firm that's committed to your welfare. Unfortunately, some companies don't bother to ask if that's the case. These six considerations are, we think, critical:

- Start by asking what the barter firm does with its profits: *reinvest them in the firm*, enhancing its financial strength and spurring new products, or distribute the money to its owners? What is management bent on—a stronger, more vital company or personal wealth?

- Look for a firm that concentrates on *product development*, that employs creative resources to anticipate and develop what its clients will need.

- Is the firm one of the industry's *thought leaders*? Is it a firm companies turn to when they have to solve a knotty problem, or is it just a routine player?

- Ask if the firm's senior executives are *hands-on* deal makers. A corporate-barter transaction requires major commitments on both sides. You should be certain your barter firm fully understands your

needs, gives you the best possible counsel and has a verifiable history of standing by its commitments 100 percent.

- *Ask where the firm does business.* At present, corporate barter makes a lot more sense in the United States than in most other parts of the world, if for no other reason than the U.S. is home to the world's largest and most diverse marketplaces of perishable commodities such as media. Firms that try to offer



*Are foreign interests a distraction?*

American-style corporate barter in Europe or South America or Asia are likely to have trouble amassing enough inventory to fund transactions of any scale or in significant volume, meanwhile hampering their healthy U.S. operations with struggling foreign ventures. (For now, the best way to do corporate barter with foreign companies is to make sure they have a sizable U.S. presence—or they have U.S.-based suppliers or partners—that can use sufficient U.S. fulfillment. Recently, our firm purchased a large building in South America from a multinational company; it paid us back with schedules in U.S. media.)

- Make sure your barter firm is *operationally independent* from its owner. (We have what we refer to as a “Chinese wall” between our business and our parent.) If the barter firm has to rely on another resource within its family of companies for, say, media planning and buying, that resource is highly likely to put its clients and loyalties first. Why sit in steerage when you have a first-class ticket?

21.

Maximize your corporate-barter capacity. Incentivize your troops to help.



MANY COMPANIES that engage in corporate barter underutilize the opportunity it offers. If you make large purchases of perishable commodities (see Chapter 7), you have more leverage with a barter firm than you think. It may take a little extra work at first to set things up and get the process rolling, but the benefits to your company will be well worth the effort.

Archetypal example: A big consumer-products company, an end-to-end designer-manufacturer-distributor-retailer with lots of various properties on its books, was initially resistant to corporate barter despite the huge potential it offered to recover value in a panoply of depressed assets, from empty buildings to overstock to obsolete tooling. Its CFO had heard a story—a fellow CFO was left holding a bag of trade credit worth less than a bushel of Enron stock. But he listened. He learned. He perked up when he heard that this particular firm provided a performance bond—his transaction could simply *not* go bad. So he decided to try one. It worked as promised: He recovered value in a straightforward

media buy. He tried another in a different area of the company. It worked, too. Meanwhile, the division heads who benefited directly from the two transactions—they gave their bottom lines a nice and unexpected bounce—lobbied hard for another one.

You can't keep a good thing quiet for long. Other division heads started to demand that they, too, get to kill off their gone-bad assets with the “magic bullet” they'd heard about. It was only fair. Before long the CFO had maxed his corporate-barter potential and had to find the best way to spread the goodness around the enterprise.

What worked in this example (it happened, by the way) wasn't just corporate barter—it was word of mouth among managers eager to enjoy its benefits. They'd been sold: They just wanted in. This can happen naturally—“organically,” to use today's argot—or it can be stimulated.

Here's one way: The “gain” corporate barter provides can easily have more than one beneficiary. In that it frees committed cash from its commitment so it can be spent elsewhere, *parcel this free cash*

*to several managers.* They won't turn it down. And in the process they will become willing, thought-provoking participants in the corporate-trade empty-the-refrigerator game. The goal: Leave nothing tasty to eat. The means: Budget increases for participants, so they are stimulated to join in. Bring me your perishable-goods purchases, show me your distressed assets!

At year end an empty fridge is a happy fridge.

22.

Get your entire  
business culture  
to think of barter  
as a corporate  
multitool.

IF YOUR COMPANY weren't ready for corporate barter, you would not be reading this paragraph. Permit this thought, then: You have enough fulfillment options to entertain lots of types of barter exchange, traditional and nontraditional, throughout your organization.

Start thinking about opportunities.

The capital, ownership side needs to think harder about buildings, real-estate options, machinery—concrete assets not living up to expected value. These are the easy ones. Managers stuck with bad assets on their balance sheets will be delighted when they disappear. The other necessary participants can be a challenge: those who have to engage in barter for the corporate good. But in some ways, they have the most to gain.

There is a great divide in companies. The same gap traverses the world. It's almost as simple as the battle between science and art, logic and emotion, Apollo and Dionysus. These age-old dichotomies have been blurring at the edges, working against each other like ships against pilings. Somehow in companies today there is not enough of such

working, not enough of the heat of interaction that melts barriers and results in new connections, larger networks of internal human commerce and exchange.

“Only connect,” wrote the novelist E. M. Forster. For corporate barter to work to its fullest, a connection needs to spark between an asset buried in one part of the company and an opportunity unrealized or possibly undreamed of in another part. It needs an electrician who knows how the company is hardwired and can do a quick hot-zap, until a full rewiring can be made.

For starters, better corporate barter needs good, clear corporate communication that leaps over cubicles, races down corridors, flies across freeways, arcs back and forth between regions and just tells the story of the transaction, plain and simple. It’s nothing more or less than an exchange of one thing for another that in the process creates value. The differences are a piece of time and the barter firm’s capital, both of which live in the background.

What clients get is breathing room to think of something new—and money to spend on it.

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