



# All Trade or Part Trade The Economic Realities of Barter

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Some barter exchanges have attempted to require their clients to sell all products and services 100% trade without exception. Such a rigid policy, though profitable for the exchange, does not consider certain economic realities. Clients of these exchanges will either follow the rule or will refuse to trade altogether.

A few other barter exchanges have attempted to set up 50% trade and 50% cash systems. These exchanges showed limited vision and also found limited acceptance in the business community. While everyone was happy to sell on that basis, not many were motivated to buy. What, then, is the answer?

At MBE we believe that full trade and part trade can co-exist within the same barter system under guidelines that are in harmony with the market place and monitored by the exchange for the benefit of everyone. Many products and services, of course, should always be sold for 100% trade at fair market prices. Here are some important examples:

1. Space and time should always be available for 100% trade. Legal and accounting services, hotel and resort accommodations, as well as most commercial and professional services are good examples.
2. Business with excess capacity such as printers, restaurants and advertising can be expected to sell their services for full trade.
3. Businesses with a GROSS profit margin of 40% or more should also sell their products for 100% trade.

If everything sold in the market place involved space, time, excess capacity, or good profit margin, then everything could be sold for full trade with no problem.

Unfortunately, this is not the case. A tire dealer, for example, has about an 18% margin on his average tire. Such a business would be foolish to sell tires for full trade at their advertised discount prices. This businesses limited profit margin is just not a sufficient incentive to barter when you consider that the tire dealer must pay retail prices for other items in the system when his trade dollars are spent.

The dilemma for the exchange should be obvious. Though we could theoretically do without low margin items, these are items that are always in demand. So what should we do to make such items available?

There are only two possibilities. First, we can allow the client selling such items to raise prices above regular discounted store prices. This practice, of course, will offend many of our other businesses who trade their own products at the same as their cash prices. The only other alternative, however, is to allow the client to charge

part cash and part trade. This situation, of course, will upset a group of traders who trade their own products and services for full trade. Traders must realize, however, that they can not have it both ways. More important, they must realize that their own margin must be considered when they make purchases with their trade dollars. It is often less expensive to pay more with trade dollars than it is to pay with cash dollars.

Here are some guidelines on what you can expect when you trade with various types of businesses. The guidelines are not arbitrary. They only reflect the realities of the marketplace.

- a. **RETAILERS, WHOLESALERS AND MANUFACTURERS** with a gross profit margin of 40% or more should sell their current inventory for 100% trade at their regular prices. If the margin is less, they should either add a cash component or negotiate a price higher than their current cash price.
- b. **PROFESSIONAL AND SERVICE BUSINESSES** should always sell their services for 100% trade at their regular cash prices.
- c. **CONTRACTORS** should charge cash for their materials, but are expected to trade labor 100%. A contractor doing his own labor on a job with minimal materials cost should do the entire job full trade.

Any time you feel a business does not operate within the general guidelines listed above, you should not buy. These guidelines are reasonable and, if you can wait, we can often find another business that will sell to you accordingly.

In any barter system, there will always be those who cannot accept these guidelines. There will always be someone in a very high margin business who will expect to buy tires and automobiles with trade dollars that may have cost him only 20 to 30 cents on the dollar and who will complain when these items are not available at regular cash prices. Such wishful thinking has no place in the real world of barter. Barter may be fun and offer some real advantages, but the system must remain fair and rooted firmly in the realities of the marketplace.