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Barter Can Play Critical Role In Funding Business Expansion

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Up until now, I have been reviewing the tried-and-true techniques for introducing barter into your business to preserve cash and still meet your needs for goods and services. I'd like to start the New Year off by talking about a more recent phenomenon that is sweeping the country — using barter as an important source of working capital for emerging or expanding businesses.

Capital for business expansion is hard to secure in any economy, but in a recessionary economy, the sources for venture capital often dry up. In America's earliest days, barter was the standard practice for pioneer farmers needing to purchase seeds for next year's crop. Today, it is once again helping to sow the seeds of business growth. Here is a powerful example of how barter can make a significant difference.

A start-up business in the services market was looking for additional funding. The company had a large and growing market, seasoned management with a strong track-record of success behind them and, because of its web-based infrastructure, the ability to be a low-cost producer in a highly competitive, but lucrative industry. In other words, it appeared to offer an attractive investment opportunity for any responsible investor.

In this case, the local trade exchange, acting as a cross between angel investor and merchant banker, took on a vested interest in the start-up. This arrangement provided the venture with barter credits that could then be used to purchase from a choice of literally thousands of goods and services.

In this particular scenario, it chose to acquire office furniture, a new phone system and copier, printing of sales collateral and other marketing-related expenses — all without touching its limited cash reserves.

"As the barter marketplace expands and the sophisticated use of this versatile tool for business capital grows, we're going to be seeing an increasing number of barter investors surfacing around the country," said Bob Meyer, publisher of

BARTER BASICS



STEPHEN E. WEBSTER

Barter News magazine.

Barter makes an excellent investment currency because there are hundreds of trusted vendor relations within the local trade exchange network offering a broad range of products and services. In addition to the many direct relationships that exist with barter vendors in the local markets, a trade exchange can use its national and global network of participating exchanges on behalf of the companies it invests in.

Exchanges can also co-invest with other groups or take a lead position with amounts as little as \$100,000 or up to \$1,000,000. Through reciprocal relationships in affiliated barter exchanges across the country, barter investors can help companies who operate down the street or across the country.

The local trade exchange and individual member companies looking to convert excess capacity into investments with potential for greater returns can use their barter credits to purchase a subordinated note, which then bears interest for the lender and is convertible into common stock.

Typically, the private placement offerings include a "Use of Proceeds" section where the company describes how they intend to spend funds from the completed offering. Investors usually want to see the lion's share of the proceeds focused on funding new initiatives, product sales and market growth as opposed to paying back old debt or buying out early investors.

Although barter exchanges are open to a variety of equity and/or debt structures with prospective companies, they often look for opportunities where barter can make a strategic difference. If you own a business that could benefit from additional financing or if you are a trade exchange member looking for a new investment vehicle, take a closer look at barter.

Stephen E. Webster is president and CEO of Alliance Barter, a 25-year-old Rochester-based company with offices in Toronto, Buffalo and Syracuse. Webster is past president of the International Reciprocal Trade Association (IRTA) and presently serves on the board of governors of its universal currency. He is a lifelong resident of the area.