

Proactive Barter: Gaining a Competitive Advantage

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Abstract

Anecdotal reports indicate that the use of barter and barter-like transactions is a growing phenomenon in almost every region of the world in both consumer and business markets. While large transactions involving major defense and infrastructure expenditures often capture the attention of governments and media outlets, this old-fashioned form of exchange appears to be growing in usage across all types of industries and sizes of businesses. Would companies, especially small and medium enterprises (SME's), be well-served to anticipate growth in demand for barter-based exchanges and develop a facility in conducting business in this manner? Could this knowledge become a competitive advantage as less knowledgeable competitors struggle to gain experience in the use of barter?

Introduction

It's not surprising to hear reports of increasing usage of consumer-based barter from recession-ravaged European Union countries such as Spain and Greece or developing African countries (e.g., Makkas 2012, Adams 2012). However, these anecdotal reports of the re-emergence of barter and barter-like exchanges are increasing in number in North American economies as well (e.g., Kouremetis 2012). Visiting the web site for classified ads called Craigslist leads one to find a category for "barter" under the general category of "For Sale." Anecdotal observation of the barter category for several major cities in the United States seems to indicate that postings to this category are rapidly increasing in number as owners of a wide range of products seem to be struggling to locate cash buyers for their items. For example, the number of postings in the "barter" section of Craigslist for the Los Angeles metropolitan area on November 14, 2012 was well over 300 (Craigslist 2012).

In terms of business markets (businesses selling to other businesses or to government and institutional buyers), there is also evidence of increasing usage of barter and barter-like exchange mechanisms. The United Department of Commerce's Bureau of Industry and Security even produces an annual report regarding the use of barter-like trade requirements (referred to as offsets) in transactions in the defense industry (U.S. Department of Commerce 2012). Epicos (2010) reports that, "Offset demands as a percentage of export contracts are increasing as the supply of defence systems greatly exceeds demand, the worldwide defence expenditures are shrinking and the competition for defence sales becomes more intense." This general global economic trend of supply exceeding demand has become problematic in almost every market, ranging from consumer to business markets.

These market conditions have caused some to argue that for smaller businesses, especially startups, barter can be useful not only for conducting transactions with consumers and

end-users but for transactions involving other businesses (B2B). These B2B transactions can be especially useful for accessing needed business equipment and supplies when cash flow is problematic for a business (Kouremetis).

If we assume that the anecdotal reports of increasing usage of barter and barter-like transactions are an accurate indicator of a trend and further assume that there will be some sort of learning curve effect in terms of becoming facile in the use of barter, a logical question to ask is whether it would be possible for businesses to achieve a competitive advantage by proactively developing this facility earlier than their competitors. If a business becomes known as the “best” barterer in its industry or geographic area, would they attract customers that might have otherwise approached one of its competitors?

Discussion and Hypotheses

"Firms are not only selling less, but also facing a liquidity crisis so they cannot buy." This statement from the marketing head at BexB, Italy's leading bartering intermediary, is indicative of the fact that the conditions encouraging the use of barter affect not only the customers of business but also their suppliers (Ciancio and Bianchi 2012). One can infer from this that the use of barter presents a potentially viable method for addressing the devastating impact of a multiplier effect when an economy experiences a precipitous and possibly rapid slowdown.

Ciancio and Bianchi (2012) also provide a glimpse into the life of an Italian entrepreneur who saw the possibility of the use of barter as a competitive tool that would be helpful in gaining a foothold in a market with larger, entrenched competitors. "We decided to open a restaurant, a gathering place for those who like to go out despite the crisis," said co-owner Donella Faggioli. She continued by stating that, "Many cannot afford to go out to dinner in the evening and don't have enough money to last to the end of the month. So we decided to go back to the old barter system." The *Reuters* article by Ciancio and Bianchi further explains that the new restaurant was, "Named 'L'e' Maiala' after a Tuscan saying for "hard times" which derives from the word for tough female pork meat. The trattoria revives a tradition that the owners remember hearing about from their grandparents when barter was a common currency in Florence at the end of World War Two." This article definitely hints that the new restaurant would not have been as successful as it has become had it not been for the owners' willingness to utilize barter as a foundational element of their business model.

With the above discussion and thoughts in mind, the following hypotheses are advanced:

1. Businesses that are early adopters of barter and barter-like exchange will experience an increase in customer counts.
2. Businesses that are early adopters of barter exchanges will experience overall increases in revenues.
3. Businesses that are early adopters of barter exchanges will experience higher levels of customer satisfaction.
4. Businesses that are early adopters of barter exchanges will experience higher levels of customer loyalty.
5. Businesses that are early adopters of barter exchanges will experience overall reductions in expenses.

6. As barter-like activities lead to the increasing use of non-currency (script) media for transacting business, large producers and intermediaries in the marketing of both goods and services will begin to accept these alternatives in payment for their products.
7. As barter-like activities grow in importance to an economy, marketing communication (promotion) involving word-of-mouth and other social approaches will increase in importance as more traditional approaches such as advertising decrease in usage.
8. As barter-like activities grow in importance to an economy, facilitators of transactions such as financial institutions (financing), intermediaries such as wholesalers and retailers (financing and risk taking), transportation and storage providers (physical distribution), and market research firms (providing market information) will recognize the necessity of becoming involved in these activities to ensure their continued viability.

Future work will attempt to look at these hypotheses through the lens of empirical rather than anecdotal information. It is also hoped that other researchers will be inspired to do some empirical work in this arena.

Conclusions

There is no doubt that many individual economies as well as the global economy are facing serious and mounting challenges and that these debt-related problems are very long-term in nature. There is ample early evidence that one response to these challenges is for individuals to resort to non-traditional approaches to exchange in order to ensure that they and their families and friends will continue to have access to the necessities of life. Those individuals and organizations who take the time to plan for how they will respond to a world in which barter-like approaches to exchange become the norm will be well placed to take advantage of this changed reality.

International and Managerial Implications

What are some of the managerial implications of increasing usage of barter and related forms of exchange? At a strategic level, a manager considering such an environment should encourage his organization to begin proactively engaging in scenario planning that would facilitate a timely response to these increases in importance barter. An organization that has not considered how it would respond is more likely to be paralyzed long enough to allow competitors to fill the void left by their inaction.

At a more tactical level, one message could be that managers should be training their functional areas such as finance, sourcing, marketing and sales in the methods of cashless (or hybrid) transactions. Having this training in place will allow for a rapid response and create a competitive advantage in the marketplace.

Finally, there are business opportunities that could arise in the area of training businesses in utilizing these approaches to transacting in this changed environment. These kinds of consulting activities would offer smaller and startup firms the opportunity gain a foothold in a potentially lucrative market prior to the entry from much larger firms with access to greater human and financial resources. This could include providing opportunities to firms with roots in places such as Spain, Greece and other areas that are rapidly moving to the use of barter ahead of larger economies such as the United States.

There will also be business opportunities develop for engaging in activities related to facilitating barter and barter-like transactions. For example, there is already an increasing number of so-called barter exchanges around the world. Some of these exchanges have even set up a system of script to replace governmental currencies such as the Euro and U.S. dollar. It will be interesting to observe how the use of non-currency alternatives as a store of value will grow or be resisted in various economies. It also seems possible that various forms of social media will increasingly supplant more traditional forms of promotion as economies see increasing levels of barter-based transactions. This will also present some business opportunities.

If we begin to see barter and barter-like transactions involving traditional institutions such as banks we can anticipate that the speed with which barter becomes more prevalent will increase. Becoming prepared for these possibilities seems to be prudent for businesses, large and small, governments, non-government institutions as well as individual consumers around the globe.

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