Susan Groenwald.

A Look Back

(At The Barter Industry)

By Susan L. Groenwald

On January 6, 2004, I embarked upon a new career and said goodbye to 23 years in the commercial trade exchange industry. Several weeks prior to that Bob Meyer asked me to summarize my thoughts about why the events that took place in the U.S. barter industry during the last five years failed, and how I see the future of the barter industry in the U.S.

BarterNews wishes to sincerely thank Susan Groenwald for this indepth article. Her contributions over the years to the commercial barter industry have been substantial; her overview and insights herein once again show her regard for the betterment of the industry.

These final efforts are especially poignant as she was simultaneously dealing with a family tragedy.

At last year's IRTA convention Groenwald was acknowledged by her peers with the well-deserved and first-ever Lifetime Achievement Award.

Any real or imagined relationship between what I have to say and actual people and events is strictly intentional.

How We Got To Where We Are

I entered the commercial trade exchange industry in 1980 when my family purchased a franchise from Barter Systems International. The industry was just beginning a boom. IRTA was a new organization, concerned with regulatory and tax issues, trying to gather together the factions that comprised the U.S. barter industry at that time.

The year we started our Chicago business, Barter Systems sold 91 franchises. The U.S. was in a major recession and barter was growing quickly. However, because the industry had a low barrier to entry, it attracted many individuals who had neither adequate capital nor other resources and who were unable to sustain a growing barter business.

In addition, many of these companies, including Barter Systems International, had a flawed business model. The model was a franchise network where the franchisee did not own the clients, where transaction fees were charged in trade dollars rather than cash, and where deficit spending was encouraged as a way to "prime the pump."

There were many barter exchange failures, a number of well-meaning exchange owners (and some not so innocent) who defrauded their customers in the process of trying to survive, and many small businesses hurt in the process.

By the end of 1985, most of the Barter Systems franchises were out of business as were many others who entered the business during that period of time. The media conducted a major exposé on the business in the early '80s as a result of these problems and abuses.

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The Tax Equity and Fiscal Responsibility Act of 1982 enabled IRTA to shift its focus from government and reporting issues to catering to the educational and financial needs of barter exchanges. (A second industry association, NATE, was started and split from IRTA over debate about some of these issues.)

Trade exchange owners started working together, trading information, trading products and services among each other, and striving to improve their currencies and customer service.

As the trade exchange industry matured, several realities became apparent:

◆ The trade exchange industry can be likened to puppies climbing into a basket: easy to get into and hard to get out of. There are few buyers of exchanges, and where there is a desire to buy and/or sell an exchange, valuation of the exchange is a slippery slope.

◆ When an exchange reaches a certain size, it is difficult to get to the next level because of lack of capital and talent to support adequate sales, marketing and trading efforts to grow the exchange.

◆ Most exchanges are local or regional with a currency that lacks liquidity, especially for larger clients.

◆ Reciprocal trading among trade exchanges is cumbersome, inefficient and ineffective in meeting the sales and purchasing needs of clients who want to buy and/or sell outside of the geographic reach of the trade exchange.

◆ There exists vast waste and duplication of resources among trade exchanges; each exchange has its own currency, software, marketing materials, etc.

◆ Successful trading requires timely dissemination of relevant and up-to-date information to clients.

These realities made the industry ripe for the primary movements that took place at the end of the 20th and beginning of the 21st century:

◆ Interest by investors in what they saw as incredible opportunity in the barter industry.

◆ Excitement by trade exchange owners in several possibilities that had not before existed:

- The possibility of an exit opportunity.
- A way to decrease costs and improve profit in their businesses.
- A way to take the industry to the next level and create the ideal trade exchange.
- A way to improve trading for clients and attract larger clients.

◆ Attempts to consolidate the industry to create national and international currencies.

◆ Employment of the Internet to improve dissemination of information, bring on new customers, and create trade volume.

What the Industry Gained From The Last Five Years

There exists a great deal of bitterness and animosity over events of the past five years. The hopes that filled the air at the turn of the century became shattered dreams within a few years.

A number of trade exchange owners put their businesses on hold while attempting to get paid for their businesses and affiliating with a bigger entity. Many were left hanging and had to go back to their businesses, pick up the pieces and refocus their energies on growing the business on their own.

Again, the business model was faulty, trade exchange owners over-inflated the value of their exchanges, money ran out and the business climate changed.

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Despite the fact that the overall objectives of creating an international currency, consolidating the industry, and finding more cost effective sales, marketing and trading tools were for the most part not reached, some benefits were realized:

▲ The tens of millions of dollars invested in the industry enabled us to adequately test some programs to determine their efficacy. Large-scale direct marketing and promotional programs were undertaken by BarterTrust/Tradaq, BigVine, and BarterNet/Intagio.

For example, BigVine spent millions of dollars on direct marketing with the assumption that thousands of clients would sign up and trade over the Internet. They proved that direct marketing to sign up new clients is unsustainable, because it is too expensive and does not bring on high quality traders. BigVine also learned that trading over the Internet without the support and expertise of skilled brokers did not work in their business model.

▲ There was a sincere effort to improve currency strength and liquidity, decrease deficits, and institute better financial controls than were commonplace in the industry. This effort will continue to have a positive impact on the industry.

▲ A number of smart and talented new people gave focused thought and energy to improving the industry. New programs such as customer segmentation, targeted marketing programs, web-based trading programs, better back-office software, improved collection procedures, and sales aides were developed that will have a sustained positive impact on the industry.

What Went Wrong?

With the estimated $200 million invested into three U.S. companies since 1999, and the number of smart and educated people who gave significant effort to the barter industry over the past five years, why is the industry even further behind than it was in 1999?

I believe that there are four primary reasons why the barter industry has thus far failed to reach its significant potential:

A. Lack of leadership and management
B. Flawed business model
C. Devoting too many resources to the wrong solutions
D. Lack of resolution of the primary problems with barter

A. Lack of leadership and management.

In the end, companies fail because of lack of leadership. Even the best idea that has attracted significant financial backing will fail if it lacks a strong individual leading a talented and motivated team to bring that idea to fruition.

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Some trade exchange owners have failed or will fail because they are unwilling or unable to commit resources to growing their business. They cling to the old and refuse to adopt new ideas, new technology or new methods of barter.

They refuse to spend the money to hire quality staff. They over-value their businesses, and undervalue the analysis and tracking of metrics and the financial rigors that will make their businesses more valuable.

Some of these people refuse to attend industry conventions where certain other companies are in attendance. This small-mindedness has the potential of keeping the industry stuck in its current place: an insignificant force in the economy.

The leaders of companies that emerged from the consolidations and investment by venture capitalists failed because they were unable to lead and communicate a vision. They lacked passion for the industry, commitment to the customer, ability to create cohesive teams, respect for a dollar, and delivery of quality service.

Many were unwilling to listen to the ideas and experiences of industry veterans. While these leaders were smart, motivated, and had access to the money to do great things, they lacked the passion and leadership to make it happen. Not one of the well-funded barter companies reached its potential, despite millions invested.

There are a handful of committed, energetic trade exchange owners who continually invest in building and growing their businesses. They are open to new ideas and regularly evaluate and make improvements in their business. These are leaders who value their clients and employees and whose businesses are growing and developing.

They will be the real winners because they will be able to sell their companies when the next wave of money is attracted to the industry, and/or because they will continue to grow their businesses, provide significant benefit to their clients, and thereby reap financial rewards.

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B. Flawed business model.

The investors and management of companies such as BarterTrust, Tradaq, Big Vine, BarterNet, uBarter, Network Commerce and Intagio believed that new accounts could be brought into the network in massive quantities through the Internet, and that clients would trade over the Internet unassisted by brokers.

In addition, they believed that investment in a direct sales force was a waste of money—that there must be another solution for bringing on larger numbers of accounts in a more cost effective manner. These individuals believed that the networks could be run like credit card companies and set about to change the back office processes to mimic credit card companies.

What has been reinforced to date is that brokers make a significant difference in the trading activity of clients, that bringing on a new client, particularly a high volume trader, requires a customized presentation by a qualified sales professional, and that credit card processes are not entirely appropriate for barter network transactions.

Someday we may learn that the way we think about and run our barter networks is essentially flawed and solutions may be developed that change the fundamentals of the business. Until then, the fundamentals remain necessary for a healthy, growing trade exchange.

C. Devoting too many resources to the wrong solutions.

There are a few programs into which a great deal of money and effort has been poured with less than favorable results.

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I. ***Swipe card technology.***

Many believe that using a swipe card to process a barter transaction holds great promise for revolutionizing the barter industry. While the technology does hold promise for the future, there are several problems that need to be addressed before it can offer much to the barter industry.

The most important consideration is that the majority of barter transactions are not person-to-person. Swipe card technology works best in retail establishments where the buyer is face-to-face with the seller with card in hand.

Most barter transactions are business

endeavors conducted over the phone. While technology enables card transactions to be processed via phone, the cost of the technology is currently too high for the low barter volume conducted by most clients.

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While swipe technology makes the processing less cumbersome and more efficient, it does not address the biggest problem with trading; that is, the problem of bad transactions that result from over-pricing, poor quality product or service, etc. Therefore, it is unlikely to be the panacea that some predict it will be.

II. ***Internet.***

The Internet is a marvelous tool for gaining and distributing information, selling goods and services across cities and continents, communications, and for the efficient processing of transactions. The notion that thousands of businesses would sign up for a barter program over the Internet and trade unaided did not materialize.

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The Internet has provided cost savings and improved revenue for companies that use it as a tool to improve information dissemination. As a sales and trading tool, it has thus far proven to be of limited value.

III. ***Inter-exchange trading systems.***

Trade exchanges have traded among each other since the industry first began. Many have attempted to make an inter-exchange trading system work. However, the laws of economics that determine the health of an inter-exchange trading network are the same economics that exist for a trade exchange network.

A strong currency depends on the financial strength, business ethics and commitment of the participants, a good mix of desirable and available products and services, a skilled trade broker to stimulate trading and consolidate and disseminate information, and willingness of participants to pay for the service provided.

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All inter-exchange trading networks that have existed over the years have had problems with one or more of the essential elements listed. The potential of inter-exchange networks is significant, but success will take strong leadership and management as well as commitment by all participants to make it work.

Both UC and Banc have made significant strides in the past year to improve the management and monitoring of the systems and the strength of the currencies.

D. Lack of resolution of the primary problems with barter.

Until the primary problems with commercial barter are fixed, the industry will not make a significant impact. The following are what I believe to be the main problems that will keep

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commercial barter from reaching its incredible potential:

1. A business ill defined.

What we call commercial barter has incredible power. It brings companies incremental sales and revenue, saves companies money, and improves their profits. But it is not barter in the typical definition of the word that means the exchange of goods and services.

Our use of the term "barter" to describe the proprietary currency that a commercial trade exchange manages has created great confusion in the business community.

> **My observation is that the vast majority of trade exchange operators do not understand the power of a new account.**

In addition, there is debate within the industry as to what we really are, how we should function (full trade versus cash and trade, retail barter exchange versus commercial barter exchange, barter versus a card payment system, and so on). If we cannot define our industry adequately, how can we expect the business community to understand what benefit we can provide?

To make matters more confusing, it is likely that there will be numerous types of barter companies offering unique services to various types of companies.

2. Insufficient new account sales.

My observation is that the vast majority of trade exchange operators do not understand the power of a new account to the trade exchange network and do not have a good understanding of the source of their transaction fee revenues. Otherwise, why would so many avoid hiring salespeople to generate new account sales?

They complain that managing a professional sales staff is too difficult, too expensive, or too time-consuming. However, without an adequate number of new accounts, trade volume will eventually erode as a result of the natural phenomenon of attrition.

In a service business, it is not unusual for at least 10% of a customer base to erode annually. For many trade exchanges, the percentage may be much higher. A certain number of new account sales are necessary just to keep up with attrition, let alone grow the revenue.

The "right" new account is key. By that I mean a company whose barter coordinator is a champion of barter.

For example, an exchange with 1000 accounts, 20% annual attrition (200 clients lost annually), and average sales per salesperson of 8 new accounts per month has to employ at least 2 salespeople just to stay even unless lost accounts are replaced with higher trading accounts.

For a trade exchange owner to understand how the business is really doing, it is important to track both transaction fee revenue from prior existing accounts and revenue from new accounts to see how each segment contributes to overall revenue.

3. Inability to bring on and keep the "right" accounts.

However, just any new account is not sufficient. The "right" new account is key. By "right" account I mean a company whose barter coordinator is a champion of barter, a company that has a product in demand within the exchange network, that does not cause significant problems within the exchange, that has flexible spending opportunities, and that pays its fees in a timely manner.

Trade exchanges that can identify and customize service for these "right" accounts within their existing customer base, and can implement a successful sales effort that targets these types of accounts can significantly improve their profitability.

4. Lack of relevant and adequate supply.

The single biggest complaint of barter clients is that there are not enough of the right kinds of goods and services to buy for their businesses. Clients routinely say they would trade more if they had a regular supply of the things they would like to buy at competitive pricing.

Of course, this point is a vicious circle, because the reason there are not enough of the right kinds of things to buy is because companies with desirable products and services will not sell enough because they cannot buy enough of the right kinds of products and services… and so on.

Solving this piece of the puzzle is one key to unleashing the real potential of a commercial trade exchange.

5. Bad transactions.

One of the most difficult problems in the barter industry is the prevalence of bad transactions. Bad transactions are second only to lack of adequate supply of desirable products and services in customer complaints. Because barter tends to attract more marginal businesses, barter transactions are often fraught with quality, timing, pricing and delivery problems.

Barter transactions are too often not treated with the same respect as cash transactions. Barter clients may be considered "second class" and too often do not receive the same quality, timeliness, price or courtesy that cash customers receive.

This generates ill will among barter clients and the general opinion that barter transactions are inferior to cash transactions. In addition, bad transactions generally require significant broker time, which takes brokers away from more productive and profitable activities.

6. Over-pricing.

The best solution to over-pricing is a competitive marketplace wherein sufficient numbers of clients exist in each category to create competition and fair pricing.

Over-pricing is one form of a bad transaction, but is a problem inherent in a trade exchange because of differing gross margins and lack of liquidity of trade dollars. A company that has 100% gross margin may not care what trade dollar price it pays for a good or service—the trade price is still likely better than spending cash.

Business owners are too busy to spend time reading and reviewing information that is not relevant to their business.

This fact makes it hard to control pricing, as an over-priced good or service is sometimes in the best interest of the buyer and seller. However, even if the economics are beneficial, over-pricing creates ill will and frustration among barter clients and contributes to the bad reputation suffered by trade exchanges.

The best solution to bad transactions including over-pricing is a competitive marketplace wherein sufficient numbers of clients exist in each category to create competition and fair pricing. A less popular solution to over-pricing is to allow cash/trade transactions to keep pricing more competitive.

7. Marketing noise.

Most trade exchanges publish materials to notify clients of available products and services. These materials are shotgun in their approach; that is, offerings are presented to all clients, regardless of the clients' interests and needs.

How interested is a mid-sized manufacturer in a massage therapist? How interested is the massage therapist in the rag service for printers that was just signed up? Business owners are too busy to spend time reading and reviewing information that is not relevant to their business.

The barter industry needs...a simple, convenient, accurate, consistent and user-friendly method of clearing transactions that provides the customer with a "wow" experience.

Today's business climate calls for innovative marketing approaches that customize marketing materials to the specific needs of individual clients. The barter industry lags far behind on what is becoming standard practice for many industries: providing customized marketing materials that are relevant, timely and useful to target businesses.

8. Cumbersome and inefficient transaction processing.

Processing of barter transactions is cumbersome and inconvenient for many companies. Consider the use of scrip or restaurant certificates and how often barter clients are embarrassed at a barter restaurant that no longer accepts the scrip or the barter company's trade dollars.

Consider the frustration of the seller who attempts to authorize a transaction via an automated telephone authorization system only to be denied because the buyer has not paid his/her bill to the trade exchange or does not have sufficient trade dollars.

The vast majority of U.S. small- and mid-sized businesses is unaware of or has misconceptions about barter. We have done an inadequate job of educating the business community.

Consider the dismay of the seller that releases product or service to a buyer who does not have the trade dollars to pay for the purchase and is declined for the sale.

Swipe card technology and the Internet provide solutions for certain types of transactions, but do not solve the whole problem.

The barter industry needs what ATMs provided to the banking industry: a simple, convenient, accurate, consistent and user-friendly method of clearing transactions that provides the customer with a "wow" experience, and a way to prevent and anticipate some of the common problems that buyers and sellers in barter transactions experience.

9. Lack of awareness about barter.

BXI was founded over 50 years ago, and barter exploded in the early '80s, creating over 500 exchanges in the U.S., many of which have been operating for over 20 years. Yet, the vast majority of U.S. small- and mid-sized businesses is unaware of or has misconceptions about barter.

In most markets, barter exchanges have captured less than 1/2 of 1% of the market. We have done an inadequate job of educating the business community of the power and potential of barter to improve business profitability, and have done a poor job of capturing market share.

10. Lack of young, motivated newcomers.

Any industry needs new blood. Newcomers bring enthusiasm, new ideas, and a fresh perspective. There has been a consistent trickle of newcomers to the industry, but not enough to replace those that want out, have been disenfranchised, or lack vision to solve the industry problems and move it forward.

Where Do We Go From Here?

While my company and others made progress on solving some of the problems listed above, in the end, I did not have the necessary resources, skills and knowledge to reach my goals. Neither do I have a crystal ball to answer the question of where the industry goes from here.

Stretch yourself by setting challenging but realistic goals, track and measure your results, and reward your people for reaching them.

My 23 years in the industry only fueled my enthusiasm and belief in the incredible potential of barter. I remain optimistic that someone somewhere will figure out how to solve the problems, or come up with a new approach that makes the problems I have identified moot.

Whether that person or group of people are already in the industry, or are yet to get involved, they will most assuredly

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possess vision, passion and the ability to lead talented and committed people to achieve the dream that many of us have been trying to achieve for years.

If we make companies more profitable, we make ourselves indispensable.

In the meantime, I am being so bold as to give my unsolicited but passionate advice to those who intend to stay in or enter the business:

■ Stop blaming others; look at yourself for the answers to your company's problems.

■ Keep improving. If it ain't broke, fix it anyway. It can get better.

■ Keep thinking outside of the box—that is where the solutions to the problems will be found.

■ Stretch yourself by setting challenging but realistic goals, track and measure your results, and reward your people for reaching them.

■ Spend the money to surround yourself with talented people.

■ Put aside old animosities and grudges; everyone has something to offer to help you be more successful.

■ Work with others in the industry to come up with solutions to the industry's problems.

■ Do what you can to make sure that this small, undercapitalized industry has one strong, united organization that works on behalf of all members of the industry. Support that industry association by paying dues and giving your time and ideas to improving the industry. Your business and the industry will benefit.

■ Keep in mind the ultimate goal is NOT necessarily to have more companies use barter, but to help companies be more profitable. If we make companies more profitable, we make ourselves indispensable.

Thanks to those who taught me, inspired me, challenged me, or befriended me over the past 23 years. I wish everyone in the industry success in 2004 and beyond.

In the words of my past employee and dear friend Scott Thomas: "That's my two cents…keep the change."

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