Is barter better?

During downturns in the business cycle, the concept of barter emerges as an innovative means to cope with a struggling economy.

Is it?

In my time as a business coach, I have seen far too many barter deals go sideways. This can include problems that can go all the way up to the IRS level. Economists talk about three theoretical problems with barter - I'll put a practical spin on those and offer two more.

The theoretical problems with barter are:

- Non-standardized values
- Indivisibility
- Coincidence of want

What does this mean to a small business in today's economy?

Non-standardized values means that one or both parties can sometimes feel like the other side got the best of the bargain, especially when a time factor is involved.

Indivisibility means that while I can trade a webpage for ten haircuts, how does one make change and the other leave a tip?

Coincidence of want brings that time factor in again — who gets how much of what, when?

The other monsters hiding under the bed of barter are cash flow and tax consequences. It is very risky to trade inventory for anything. The cost of replacing inventory and the loss of gross profit from the transaction can result in business owners *shoplifting from themselves.*

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Tax consequences rear their ugly heads when one of the parties reports what was given up in barter as a business expense. Tax authorities will wonder where the other half of that transaction might be, perhaps resulting in a dreaded letter from the government.

I would also offer an anecdotal observation — having had the pleasure of living through the last seven recessions, I find myself wondering why no one ever proposes barter during an upswing — Hmmm...

Barter if you wish, but please do so with caution!