

Project Dissertation Report on

BARTERING: EXHIBITING RELEVANCE IN

TURBULENT TIMES

Submitted By

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CERTIFICATE FROM INSTITUTE

This is to certify that Ms. Harsheen Kaur, bonafide student of **Delhi School of Management, Delhi Technological University** has successfully completed the project work for the partial fulfillment of the requirement of Master in Business Administration program for the academic year 2019-2020.

The project work is titled as “Bartering: Exhibiting relevance in turbulent times”.

Dr. Archana Singh

Project Mentor

DECLARATION

I hereby declare that Major Research Report entitled “Bartering: Exhibiting Relevance in Turbulent times” submitted to Delhi School of Management, Delhi Technological University, is a report of original and authentic work and analysis performed by me under the guidance of Professor, Archana Singh, Delhi School of Management, Delhi Technological University. This report is submitted in the partial completion of requirements for the Major Research Project in fourth semester. The results furnished in this report were not submitted to any University or academic authority.

Harsheen Kaur

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EXECUTIVE SUMMARY

This study attempts to guide the corporates especially the small and medium-sized enterprises around the globe which are staggered by the turbulence caused by varied factors such as a pandemic, recession, hyperinflation, terror attack, national emergency, deflationary spiral, demonetization, etc by emphasizing on the potential of Barter trading which refers to buying and selling of goods/services without involving the use of money. This paper is presented in the form of case study which is backed by secondary research and it highlights the adoption of barter process by certain companies in an effective manner to survive the doom and gloom. Most crisis are unique in nature and in the era of great uncertainty, it is expected that age old method of bartering will surface to a level not seen in the past. For the said project, the qualitative research methodology along with the conceptual knowledge of barter trading was applied. The research is also aimed to address the inadequate research inputs in determining the time- specific relevance of barter system for weathering the contingencies. This is pursued first by way of identifying the challenges that businesses face during cash crunch circumstances and how barter can come to their rescue by reducing cash flow pain.

KEYWORDS: Barter trading, small and medium- sized enterprises, pandemic, era of uncertainty, contingencies.

TABLE OF CONTENTS

Certificate from Institute	i
Declaration	ii
Acknowledgement	iii
Executive Summary	iv
Table of Contents	
1. Introduction	1
1.1 Background	2
1.2 Problem Statement	10
1.3 Objectives of the Study	11
2. Literature Review	12
2.1 Research Papers	13
2.2 Reports from Industry and Government Organizations	15
3. Research Methodology	17
4. Case Study	19
4.1 Great Depression	20
4.2 Collapse of Trade (1930-1933)	21
4.3 Recession (2007-08)	21
4.4 Demonetization	22
5. Conclusion	24
References	26

LIST OF FIGURES

- Fig. 1.1 - Transformation of Barter over the period of time
- Fig 1.2 Barter thinking in money economy
- Fig 1.3 Classification of Barter System
- Fig 1.4 Working of Corporate Barter
- Fig 1.5 Interactive Trade Solutions Logo
- Fig 1.6 Barter India Logo
- Fig 1.7 Network 4Barter Logo
- Fig 4.1 Bartering in Great Depression
- Fig 4.2 Bartering in Recession (2007-08)
- Fig 4.3 Bartering during Demonetization In India

CHAPTER 1: INTRODUCTION

1.1 Background

What is Barter System?

Barter system is synonymous with Bartering, Barter trading, Barter process/scheme, Barter method, etc. It is a traditional method of trading of goods and services without using any medium of exchange like money. The system of barter was originated in 6000 BC and first adopted by Mesopotamians. Tea leaves, spices, arms, etc were traded for food. Bartering those times even involved selling of human skulls in exchange with the items of necessity. For the said time, salt was such a valuable commodity that salaries of Roman soldiers were paid by it. In earlier days of its invention, it was used by the people residing in the same geographical region but now a days its usage is global.

In the present era, Barter system has made a comeback by imbibing more sophisticated methods to support the trade sector, for example, via the Internet. According to the experts of Economics, there is a difference between barter and gift economies. Barter involves immediate reciprocal exchange of goods/services, not delayed in time. In times of monetary crisis such as the weak economy, business players use barter as a substitute for capital as a means of trade. Bartering can entail exchanging a service for an object. For instance, one can offer to work in the yard in return for a bushel of oranges in that yard. When individuals, businesses or governments resort to barter to fulfill their current need, they can save their money reserve for the anticipated upcoming more difficult times. Furthermore, it allows those businesses which lack “real currency” to purchase products and services. Bartering is usually performed jointly between the two parties; nevertheless, it may be achieved multilaterally via a trade exchange.



Fig 1.1 Transformation of Barter over the period of time

According to the statistics highlighted by Business Standard, around 30 percent of the world business comprises of barter trade. Nearly 60 percent of the fortune 500 firms are using barter tactic through sophisticated networks in a more nuanced way. Every year, around \$12 billion worth bartering takes place among

the businesses around the globe. The United States of America says that their 65% of the businesses invest in the barter in New York stock exchange.

Pros of Barter System

Bartering has proven to be a worthwhile modern feature, for many reasons, particularly for small market players.

1. Using the Idle Capacity: The biggest and crucial advantage of bartering is putting one's/company's/government's ideal resources to use.
2. Cash Conservation: The Barter method enables a firm to pay for their purchases in kind, i.e., via their own products or services. The cash reserve saved is cash earned
3. Enables Networking: It is in accordance with B2B (business- to- business) wherein introducing one's business facilitates the occurrence of business deals and engaging with the clients even without monetary basis; one can create awareness of their brand. The company can gain revenue in future from this exposure.
4. Increased Productivity: Barter facilitates businesses to allow more effective usage of materials, resources and staff, creating additional sales otherwise unlikely.
5. Working of Barter: Under any circumstances, the barter method operates, irrespective of the loss of services or facilities. Barter helps you to swap different variations for your requirements of utilities, products and materials. Bartering can surpass cultural and linguistic boundaries.

- Restaurants/eateries
- Housekeeping services

In the Indian economy context; several hotels, magazines, advertisement agencies and numerous segments of the private sector has embraced, responded and rapidly adopted to this framework for their mutual gain. Many corporate giants have started bartering to boost revenue, save cash and move their stock. The advertising agencies provide ad space to the businesses in exchange to their products or services or can trade currency/ credits that can be utilized later on during the time of need. Newspapers exhibiting ads about selling smart devices, apparels, electronic equipment, etc are eventually sold by newspaper companies in exchange for the advertisement space. Likewise, many hotel chains trade their room nights for shower gels, towels, toiletries, linens, etc.

Barter trading plays a critical role in corporate organizations in this era of demonetization and emergence of new digital currencies. In India there are numerous trading companies working in a closed loop network and turnovers are in crores. With the growing popularity of the barter method, private, as well as industrial barter companies are increasing at a rapid pace. Lots of businesses are becoming active in terms of embedding the smart barter approaches, with a high penetration of almost 40 percent. Although India is continually paving the way for a barter trading environment, the share still remains very small. India also has a long way to go with just 15% to 20% of businesses gaining from the barter framework.

Classification of Barter Exchange

The barter system can be broadly classified into two types namely Retail Barter and Corporate Barter.

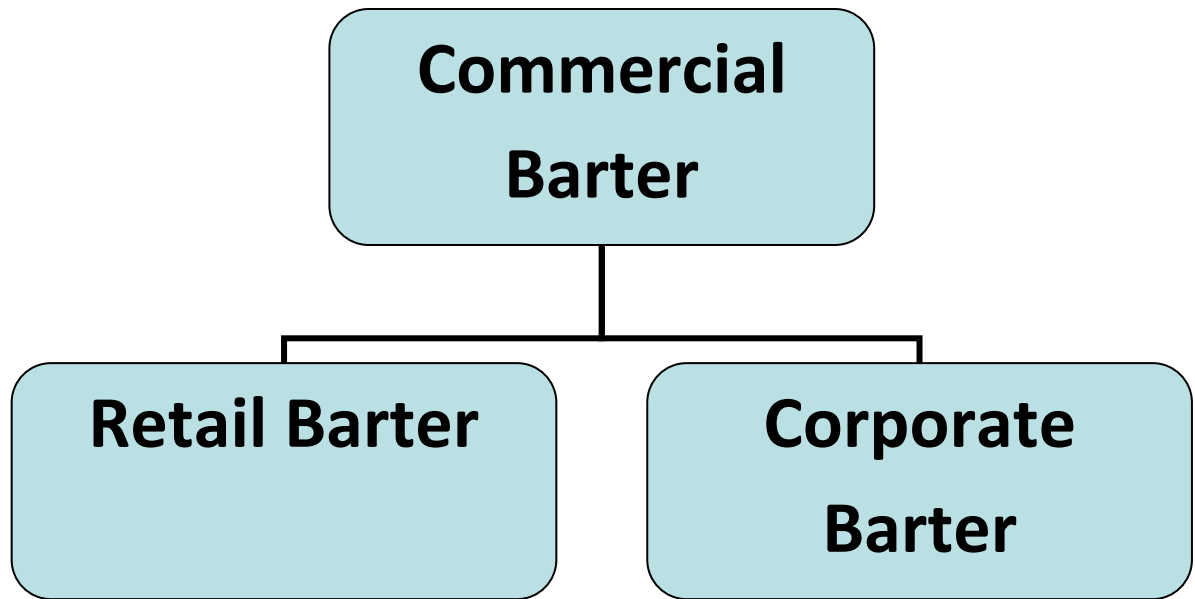


Fig 1.3 Classification of Barter System

Retail Barter: The retail barter exchanges include third party dimension. These third party are referred to as record keepers and act as facilitators to provide hassle free barter exchange between their member companies. Retail Barter is suitable for small to medium sized firms who have minimal amount of goods or services to offer. Trade brokers usually use retail barter to exchange details among members in order to promote trade.

For instance, a broker can contact a person looking to buy computer hardware and ask him to get in touch with the dealer of computer hardware.

Corporate Barter: The corporate barter refers to exchange of services or goods between the businesses without any money being involved. The members of corporate barter include corporate houses. Corporate barter dealing typically employs media / publicity channels. Usually corporate bartering is used to transfer overcapacity and properties. This emphasizes on bulk exchanges that varies from conventional, retail-oriented trade. The sales are valuable, for example the sale of broad business contracts and includes millions of dollar transactions.

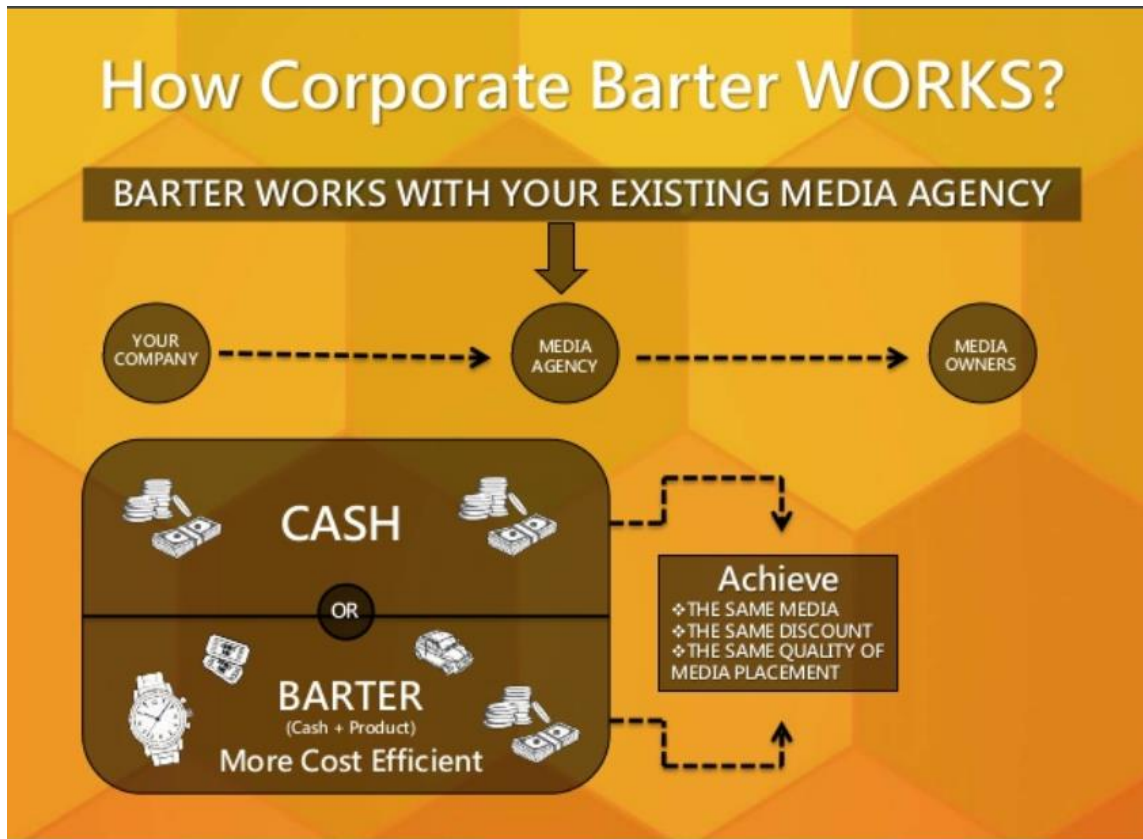


Fig 1.4 Working of Corporate Barter

Trending Barter companies in India:

1. Interactive Trade Solutions: It is a B2B bartering firm with 15 years of experience and 250+ clients which allows for the hassle-free trading of goods/services and catalyzes the barter process. They provided a platform and helped a real estate developer to barter his flats in exchange to the out- of- home (OOH) advertising. OOH's valuation is very expensive and property takes longer visibility, which ensures that the prices are quite large to offset them in currency. The experience of company says that one unit of barter is worth enough to create value of sanitary, tapware, etc that can be consumed for 100 units or even more.



Fig 1.5 Interactive Trade Solutions Logo

2. Barter India: Barter India provides the most creative and successful barter tactic to merge state-of-the-art technologies with a network of entrepreneurs to maximize the share of the markets. If professionals are part of the Barter India framework, they may purchase goods and services such as yellow pages advertisements, print cards or pamphlets, develop websites or something required for their job and even organizing a family vacation. In lieu of it, they would exchange their services to each of the participants of the Barter India in the same manner as when required by any of the members.



Fig 1.6 Barter India Logo

3. Network4Barter: Network4Barter is India's leading barter business company in the procurement of cutting-edge advertising & brand distribution services. Their innovative deals helped the brands save millions of dollars in annual advertising costs. They cracked a barter deal with a global sportswear company which desired to increase their footfalls and purchases in their newly opened stores. They created attractive, totally clubbable sportswear voucher and utilized its broad buyer network to purchase the coupons for employee rewards and voucher schemes. As a result, the sportswear brand observed a spike in their footfalls, publicity via word of mouth and sampling/trials of the goods contributing to regular sales.



Fig 1.7 Network 4Barter Logo

1.2 Problem Statement

The businesses especially the small and medium ones find it difficult to cope up with the crisis situation arising from recession, pandemic, economic depression, national emergency, terror activities, deflationary spiral which leads to weakening world economy. When global economy is shaken, it has

a drastic impact on national economy negatively affecting the businesses. The survival of these businesses becomes tough in the state of financial crisis. Due to the turbulence caused by above factors, the companies find it hard to carry on their business operations by only relying on traditional marketing and financing tactics. Relying on monetary medium or the methods like factoring, leasing and forfaiting (money based only) seemed ineffective and inefficient for smoothly carrying the trading activity.

1.3 Objectives of the Study

This research study will assist businesses to survive the financial turmoil caused during the economic crisis situation by completely or partially following the footpath of the companies which have survived it successfully and got profitable in long run by switching to barter trading method which further helped to boost the national economy rendering its positive effects on the global economy too. The objectives of this research include:

- To study the relevance of Barter during turbulent time of crisis
- To study the application of barter in various sectors in varied times for weathering the contingencies.
- To make a review of progress of bartering to survive doom and gloom using case study.

2. LITERATURE REVIEW

2.1 Research Papers

THE REINCARNATION OF BARTER TRADE AS A MARKETING TOOL: BARTER TRADE HAS BECOME ONE OF THE MOST RAPIDLY GROWING TOOLS OF INTERNATIONAL AND DOMESTIC MARKETING

The research paper aims to clarify the rationality behind the recent resurgence of the barter system in the present-day business by rendering the relevant details to the executives about the possibilities of bartering. Initially, it pinpoints the significant political, economic and cultural facts that support barter business at the national as well as international front. Further it discusses the major categorizations of the routinely negotiated international barter transactions and the corresponding difficulties based by the western managers in accomplishing the barter deals. Finally, it talks about application of this scheme in the domestic barter along with its legal implications.

VOYAGE OF MARKETING THOUGHT FROM A BARTER SYSTEM TO A CUSTOMER CENTRIC ONE

This paper observed that the marketing thoughts which were originated since the reception of the barter system gradually transformed into the manufacturing and sales orientations with more focus on the company's operation, qualitative attribute and selling of the goods. Customer loyalty as an integral part of the corporate decision-making phase therefore holds a prominent role across the different marketing operations.

BARTER SYSTEM AS AN INNOVATIVE AND ALTERNATIVE FINANCIAL AND TRADE MODEL DURING THE PERIODS OF ECONOMIC CRISIS AND RECESSION AND ITS IMPORTANCE FOR BUSINESSES

The paper talks about the current scenario in which expanding trade and financial convergence among globalizing countries today leads to cut throat

competition leading to universal economic crisis in local as well as international markets. Because of these advancements, the corporates are facing issues with the conventional marketing and financing approaches and thus resort to alternative techniques to carry out their business operations. Further it delves deeper into the aspect of using barter method by these companies as an alternative to extract maximum gains like conserving cash, using idle capacity, mobility of inventory, exploring new markets and much more.

BARTER BASED TRADE- THE ENGINE OF THE ECONOMIC RECESSION

This paper tries to find out the reasons which motivate the market players to go for barter trade and observe the products and services being bartered in the market. The author opines that a stronger economy should have a concrete currency system, but businesses should ponder on the aspect of barter scheme which can prove to be a win- win situation for both the trading parties by not paying cash and eliminating their overstock. It further concludes that the working theory/hypothesis is that respondents are mindful of the condition and allow 80 percent of barterers.

MONETARY DISRUPTIONS AND THE EMERGENCE OF BARTER IN FSU ECONOMIES

The above paper talks about the significance of pull and push barterisation. It concludes that pull bartering can be seen as a constructive response in the FSU countries pertaining to constraints regarding legal uncertainty. Barter serves as a supplementary buffer to the cash flow restrictions of the organization which would otherwise have catastrophic consequences. Practicing push bartering brings about an improvement within the companies that help them to thrive during the crisis.

BARTER: NEW DATA AND COMMENTS

This research study says that practically all manufacturing companies are engaged in bartering and to them, barter accounts for as much as 50 percent or more of their overall turnover. Also, it explains the disadvantages of barter paralleled with the success of market reforms. This article, however, claims that barter has helped and assisted the Russian economy to succeed in crucial post-communist years of transformation.

MONEY, BARTER, AND CONSUMPTION INTERDEPENDENCE

To explain the transition from using the monetary means to bartering, the author has implemented a quest model. The finding demonstrated that during hyperinflation an economy of greater interdependence on demand is still in a barter equilibrium. Conversely, the system with an exceedingly small degree of interdependence of trade is still in a fiscal balance. In addition, the model included a possibility of transition to bartering even in the situation of low rate of inflation.

2.2 Reports from Industry and Government Organizations

COVID-19 MANAGING CASH FLOW DURING A PERIOD OF CRISIS

This paper has proposed some ways in which companies in this unpredictable event of pandemic can minimize harm to their business operations.

BARTERING SYSTEM MAKES A COMEBACK DUE TO GREEK FINANCIAL CRISIS, PERMACULTURE RESEARCH INSTITUTE

During the financial crisis in Greece, the question of sustainability came into play. The idea of bartering helped their impoverished economy to combat the cash crunch problem.

TRANSPORTATION & LOGISTICS 2030, pwc

It talks about in correspondence to the rising significance of the emerging markets, what new spokes and hubs will flourish in the global logistics framework. It vents deeper by highlighting the strengths required by the industry leaders to thrive the competition in the global marketplace.

3. RESEARCH METHODOLOGY

3. RESEARCH METHODOLOGY

This research study firstly talks about the barter system and its types, then delves deeper into explaining the status of barter system in India and few major companies dealing as barter agents in various sectors of the economy. The significance of barter method to businesses in periods of economic crisis has been examined and exposed in order to achieve the objectives of this study on the relevance of barter trade during tumultuous times. This research reveals the major significance of bartering via case study methodology which talks about the reappearance and reincarnation of barter system during the times of economic distress like Great Depression, worldwide inflation, demonetization, recessionary scenario, etc.

For this project, overall, the mixed methodology pertaining to qualitative and quantitative research methodologies with the major part being qualitative and exploratory research was put to use for the corresponding time period exhibiting various times of distress from 1929 to 2008. For reference evidence and previous analysis and perspectives on potential approaches and current problems, accomplished research papers, related industrial and government reports, surveys, academic documents, business journals and public sources were reviewed. Also, one survey administered in Ukraine in 1997 including 165 barter deals was fruitful in highlighting information on bartering. In addition, the anthropological viewpoints and related discussions of renowned anthropologists were thoroughly considered while doing this research study.

4. CASE STUDY

4.1 GREAT DEPRESSION

Cashless sales became resurgent in the 1930s owing to the lack of capital during the Great Depression. The Great Depression remains one of the most crucial periods of bartering literature. Money was limited so it was hard for people to get what they wanted.



Fig 4.1 Bartering in Great Depression

The unemployed developed barter communities to alleviate the consequences of economic hardship. The Seattle Unemployed Citizens' League (UCL), for example, set up a model barter program that could trade jobs for food and other resources and released a newsletter encouraging the unemployed to do so. In several other towns, the Seattle System was so effective that in the Spring of 1933, the UCLs drew over 200,000 people around the world. Also, during that economic and financial turmoil, companies like Rich's departmental store, later acquired by Federated and then Macy, switched to cashless offers after the Great Depression. As cotton rates fell significantly in 1931 Rich's offered to

cover retail products with 5,000 cotton balls at a price of one penny over the prevailing price of the industry with a goal to support cotton farmers who could not afford to buy at the famous department store any more.

4.2 COLLAPSE OF TRADE (1930-1933)

There was a trade collapse between 1930- 1933. During this time period, many European countries entered into barter agreements. Particularly from the European and Latin American countries, Germany received food and raw material via barter trade. International barter, one of the counter-trade strategies, was introduced in those years because of the war and economic downturn. Meanwhile, barter system started evolving within the business houses. As the time passed, barter trading infrastructure got revamped, organized and innovated with the intervention of technological developments.

4.3 RECESSION (2007-08)

The worldwide recession rekindled the public's involvement in trade and increased awareness over how barter and market cycles connect.



Fig 4.2 Bartering in Recession (2007-08)

After the financial crisis that resulted in the Great Recession, barter trading became particularly common with small businesses. Barter exchanges registered double-digit growth in the number of members in 2008, according to New York Times. It is reported that the barter market touched \$3 million during the global financial crisis. The International Reciprocal Trade Association Executive Director Ron Whitney claimed that representatives of the organization made up from businesses promoting trade estimated that bartering transactions had risen by 15 percent to 35 percent in 2006 compared with 2007. Bob Meyer, editor of the Barter News trade journal has found out that there was increase in revenue of global barter trading markets such as the international monetary market in the final quarter of 2008, i.e., least 25 percent, relative to the third quarter.

4.4 DEMONETIZATION



Fig 4.3 Bartering during Demonetization

Demonetization done on 8th November, 2016 was a big shock to Indians. For some time, the common man was unable to grasp and comprehend this demonetized shocker and could not swallow the demonetization act of withdrawal of Rs. 500 and Rs. 1000 notes. Technically, demonetization was a monetary shake resulting in abrupt money supply stoppage. There was lack of currency in the economy for smooth trade, development and employment. As in 1930, the Great Depression brought back the barter method alive, so too do other small sized firms found an innovative and creative way to work with the barter mechanism during demonetization.

Also, to consider case of Russia, where re-demonetization took place in 1992; approximately 5 percent of corporate transactions were done via Barter system. By the year 1997, barter transactions in Russia accounted for 47 percent. Also, barter turnover figures range from 30% to 80% of transactions between companies. In addition, barter mechanism is used to cover state, national and federal taxes. The tremendous increase in the usage of bartering during re-demonetization phase has become one of the striking and noteworthy aspects of Russia's economic transformation.

CHAPTER 5. CONCLUSION

CONCLUSION

Companies are seeking new business strategies to thrive in today's markets under which financing is expensive, production is declining, the industry is stagnating, rivalry is increasing, global disasters happen. One of such approaches is a barter model that can economically transform capital and is not money-based. Barter has flourished in becoming industrial and funding approaches of all ages, and was utilized in many ways from prior to current age. Barter is also a network targeting hundreds of markets and thousands of businesses. In our country, the barter mechanism mostly is used by firms to cope with unused power, stock surplus, liquidity issues, debt creation, precarious loans, financial and marketing difficulties.

In order to maintain uniformity in barter transactions accounting, it is therefore necessary to enforce accounting requirements for the barter program. It will be helpful to unite and establish a barter labor union, to inform and train the staff, to identify the system's operational principles, to follow specific codes of ethics, to develop joint accounting. Member firms who are not selling real price products or services on the barter market ought to be subject to the required sanctions. The barter technology offers companies in all industries and at all rates, including every region, considerable opportunities throughout economic and welfare times, and is spreading today as an alternative model. Bartering would be one of the economically agreed trade and financial strategies by controlling the mechanism to ensure the proper operation in every region. Bartering would be fruitful for corporates and governments in trading goods and services during the times of economic and financial crisis. It is relevant in today's context where covid19 pandemic has hampered businesses and it can help business organizations to survive this situation.

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