

CORPORATE TRADE OR BARTER—AN ONGOING PHENOMENON

The AAAA thanks MediaVest's Maribeth Papuga and Initiative's Janice Finkel-Greene for their help in developing this bulletin.

Over the past 20 years, the AAAA has been studying the growth of barter among clients and has offered several points of view to those interested in pursuing this type of deal. Corporate trade, also known as corporate barter, has been in use for about 40 years in one form or another. The practice tends to gain more favor during recessions as companies find themselves with an excess of inventory.

It's estimated that eight out of 10 corporations now utilize some form of barter and may actually be building it into their plans. Companies generally use corporate trade to acquire all or part of their electronic (i.e., national cable, interactive, spot radio, TV, network), print, newspaper, or out-of-home media, or even other goods and services such as travel, sponsorships, printing, freight, and premium merchandise. Despite the recent accounting scandals and increased focus on accountability, barter companies continue to grow and have improved their accounting practices to ease concerns. Given the persistent interest in barter, we suggest that every agency media and marketing executive re-examine this issue with a fresh viewpoint to determine whether it can be applied effectively to assist present clients.

How Does Corporate Trade Work?

In a typical corporate trade media transaction, the client sells a portion of its inventory—usually excess or slow-moving inventories, receivables or real estate—to a corporate trading company in exchange for a trade or media credit. The goal of the transaction is to make sure there is an equitable exchange in value versus the cost the company could have obtained in an open-market sale. The credits then represent a portion of value that is often combined with cash to acquire media in accordance with the plan developed by the agency and the client.

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Route To:



The corporate trading company places the media buy just as though it were operating as the media buying department of the agency. No media is placed without client and agency approval. The client pays for the media at their benchmarked cost (i.e., what they would otherwise pay), with a combination of cash and trade credit. Thus, that portion of the payment represented by the trade credit creates the full economic value of the asset by providing a dollar-for-dollar cash savings on the purchase of media.

When to Recommend Corporate Trade

Five basic situations exist where the use of corporate trade media should be considered:

1. *The client has an asset representing an excess or slow-moving inventory, receivables, or real estate, that they would like to convert to an immediate sale or exchange (the products can be current, outdated, or even obsolete). The exchange should offer the client a greater than fair-market value versus any method they may otherwise use to move the inventory.*

The trading company will purchase the entire inventory and pay the client in the form of a trade credit, which is used to pay all or part of the cost of the media needs, a cost the client normally would pay entirely in cash.

For example, a large appliance company finds that it has 100,000 excess electric broilers on hand. Normally, the broilers carry a wholesale price of \$100 each, or a total value of \$10,000,000. However, a new, more energy-efficient line has superseded the model. As a result, although still new and in sealed cartons, the broilers are worth, at most, \$30 each on the market.

In this case, the corporate trading company agrees to purchase the entire inventory, and offers the corporation the full wholesale value of \$10,000,000 in trade credits toward a media budget of \$20,000,000, with the balance paid in cash. The media is based on gross cost to permit an agency commission to be included. As a result, the client books a sale at full wholesale value to maintain a profit margin, providing agency commission and reducing the amount of cash necessary to purchase the media.

2. *The client has distribution only in selected regions and would like to expand to other geographic areas not presently covered, with no additional sales or warehousing costs.*

For example, a large paper company manufactures packaged consumer tissue products that it markets only west of the Mississippi; the client provides the corporate company with the identical products for it to market solely east of the Mississippi.

In this case, the corporate trading company has access to distribution channels throughout the country, particularly among supermarket chains, mass merchandisers, discount drug stores, and outlet stores. The corporate trading company is thereby able to open new markets, while generating media credits that the client can use either in the new areas or in its present marketing regions.

3. *The client sells through limited channels of distribution and wants to open additional sales opportunities through other channels.*

For example, a manufacturer of packaged locks and hardware distributes its products primarily through hardware stores and home centers. The corporate trading company is able to help the client achieve distribution among mass merchandisers, drug and variety discount stores, and outlet chains.

4. *The client has excess or under-utilized production capacity that can be used to produce additional inventory, either carrying the major brand name or a secondary brand.*

For example, a regional processor of packaged meat products finds that it can produce substantially more products (in fact, add an entire shift) if it can be certain of selling off the products.

The trading company signs an agreement committing it to purchase all the additional inventory produced by the meat packer in return for media time. The products acquired are sold by the trading company outside of the client's present areas of distribution.

5. *The client's media budget is limited and it wants to generate additional media in order to support current or new sales areas to launch new products or to meet competitive pressure.*

For example, a regional manufacturer of traffic appliances finds that its competition is outspending it in advertising by a wide margin; the company is losing share of market.

The trading company enables the client to convert a portion of its inventory into media, thereby providing far more advertising weight and frequency than can otherwise have been bought on a straight cash basis. The agency benefits as well with an expanded budget.

A 12-Point Checklist for Selecting a Corporate Trading Media Service

Several agencies have worked with trading companies over the past 20 years and many have had favorable experiences. However, most agencies suggest that clients use the same diligence in selecting barter companies as they do for other vendors. As with any category, some companies will be better than others. For this reason, it's important that agencies involve themselves in the process early to help clients make the correct choices to fulfill their needs and encourage a successful partnership.

Here is a 12-point checklist to guide you in selecting a reputable service for your clients. Be sure that the corporate trading or barter media service you select can meet all of the following criteria and that it:

- ✓ Practices full transparency to insure proper accounting of all transactions and facilitate accurate financial reporting. Verify that they follow all guidelines currently set by the AICPA (American Institute for Certified Public Accountants).
- ✓ Has a complete, professional, in-house media buying staff with sufficient depth and scope to fulfill all potential buying requirements.
- ✓ Welcomes the participation of the client's agency in planning and reviewing media schedules and is accountable for any changes or revisions or refinements suggested.
- ✓ Has a track record of successful performance in retiring trade credits with major clients for at least five years and will furnish client, agency, and financial references.

- ✓ Provides agency and client with station affidavits and post-buy analyses based on standard audit sources for each media vehicle.
- ✓ Will buy in accordance with agency/client-approved plans rather than pushing pre-owned inventory or time bank inventory.
- ✓ Can deliver any required medium, market, or weight level.
- ✓ Tracks the media buy while the flight is in progress to assure full delivery of media weight. Any pre-emptions are made good during the flight with spots of equal value and in adherence to all guidelines.
- ✓ Can demonstrate the ability to buy and deliver required schedule in tight market conditions as well as soft.
- ✓ Can demonstrate the ability to buy and deliver the highest viewed networks/stations as well as the weakest, particularly in the top-50 markets.
- ✓ Calculates media costs based on negotiated rates (Media Market Guide, SQAD, or agency cost-per-point) rather than on standard rate (card rate of other arbitrary cost criteria).
- ✓ Is willing to commit in writing to full proof of performance and deliver the specific media schedule agreed upon, not merely to offer the best efforts.

In addition to the abovementioned points, the trade company should also have the demonstrated ability to market merchandise to end users, not merely to closeout companies. This is vital in controlling distribution of bartered products in order to prevent interference with a client's current distribution channels and partners. When reviewing trade proposals, it's important to understand the timeline associated with this sale and its release in the market.

Corporate trade has been gaining momentum over the last decade as more reputable companies set up shop and try to dispel some of the past stigma associated with barter. These firms feel they offer clients a solution to an unanticipated asset problem. Thus, a sensible approach to corporate trade media can play an important role in the marketing and media activities of some clients. When appropriate, a recommendation from the agency to include corporate trade in the marketing plan can be an effective way to solidify client relationships, create opportunities for the client, and to generate new business.

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