

Trade Barter, The Rimzi Chamber of Commerce and The Rimzi University of Economics

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Abstract

In times of recession buyers may need to make difficult decisions and to prioritize purchases. One of the more appealing strategies taken is trade barter, which enables the exchange of goods or services with a minimum need for cash. The case presented in this paper describes the challenges faced by a Turkish Chamber of Commerce and Rimzi University, when trying to maintain funding levels during lean economic times. The case's thought provoking questions encourage student thinking and provide the basis for stimulating class discussion.

Keywords: *barter membership, procurement, recession, and procurement priorities*

1. Introduction

It is February of 2009 in the president's office on the beautiful southwest coast of Turkey at the Rimzi Chamber of Commerce. The Chamber president, Ms. Aysha Marmaris, is reviewing the cash flow report of the Rimzi University of Economics (RUE), a private university funded by the Chamber and its members. She grimaces when she notices the monthly shortfall of operating funds – this could only mean the need for more cash infusion from the Chamber's membership rolls – an unpopular move for her office. Her organization had totally funded

the founding and the new building construction as well as the on-going support and sponsorship of this private educational facility. The reasoning for this was to have a ready source of highly-qualified technical student applicants for internships and subsequent employment opportunities upon graduation with the Chamber's 2,200 member companies. While this seemed to be working fairly well over the past three years since the university opened its doors, the cash flow requirements were over the current period's budget expectations and something needed to be done.

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This case was prepared solely to provide material for classroom discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors have disguised some names and other identifying information to protect confidentiality. The views presented here are those of the case authors and do not necessarily reflect the views of Operations and Supply Chain Management: An International Journal. Copyright © 2009 by Operations and Supply Chain Management: An International Journal and the authors. If you are an instructor and wish to adopt the case for your class, please contact the corresponding author or the special issue editor to obtain the teaching notes.

This was also coming at a time when the Chamber was entering several foreign student exchange programs and the support costs for these special needs students were beginning to present some operating challenges to the university. These challenges included the provision of additional boarding facilities, larger classrooms or additional smaller classes, special tutoring services, specially trained educators experienced in hi-tech disciplines, and increasing the extra-curricular activities.

Another consideration was the growth of advancing new technology. More hi-tech equipment was needed to meet new and growing technical frontiers. This equipment would be installed in the university's work laboratories to support computer graphics, virtual reality, artificial intelligence, intelligent fault locators and algorithm-based technologies. Ms. Marmaris also knew that she had to consider Turkey's current economic turmoil and recession; the Chamber members would not easily provide new funding and even if some additional funds were granted, they would require very solid reasoning and rationale, accompanied by creative alternatives for the equipment needed.

Ms. Marmaris recalls reading about a corporate trade barter agency and wonders if joining their membership might help alleviate the cash crunch from the university's operations. There seems to be advantages in becoming a member at the corporate trade barter agency (in effect, a brokerage exchange), which has actually saved some local businesses in the area—providing them a safe haven within the stormy global economy. She thought that the university might likewise benefit. She had read that other universities were offering their fellow trade barter exchange members tuition discounts for placement into degree programs (to help fill up almost empty classrooms) in exchange for supplying the university with such necessary items as insurance coverage, cleaning supply products, advertising media, air travel and car rental services. These purchases of and payments for operating items were collectively known as the 'spend' of the university.

Ms. Marmaris had also spoken with J.D. Office Supplies—a local office supplies retailer. The company began to experience difficulties due to the recent economic events which caused their customers to cut orders, leaving the store with excess inventory on hand. Joining the trade barter agency system enabled the store to offer some of the unsold surplus

goods in exchange for a new telephone system from one of the members, thus performing an exchange without the need for money. As Ms. Marmaris reviewed these activities, she envisioned possible changes to the supply chain as the spend levels of the organization were achieved with the utilization of the trade barter agency. She thought that the effect may be to compliment and to partially offset the traditional purchasing and payment of products and contract services with the inclusion of this trade barter agency to their supply network.

2. Corporate Trade Barter

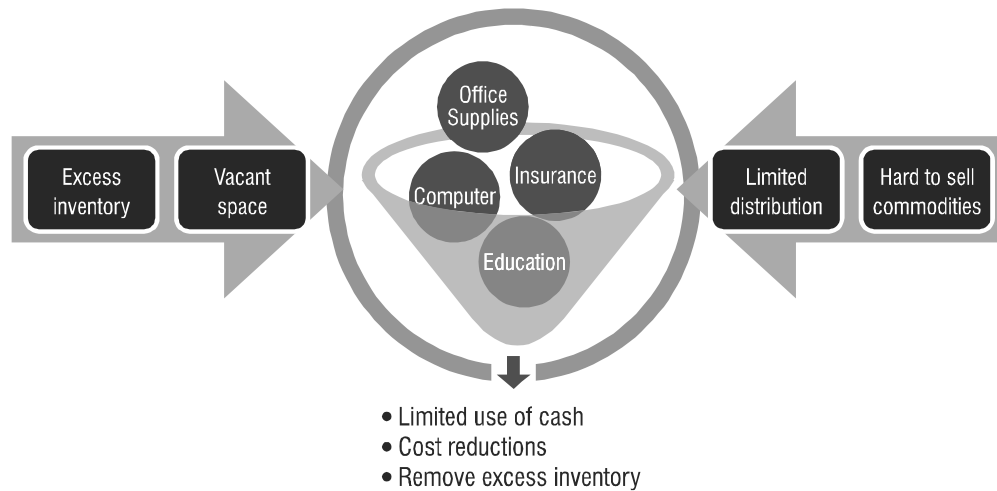
Enterprises must closely examine their operating costs, when there is the relative scarcity of operating funds owing to a continuing sluggishness in revenue levels. It is at this point that these businesses may be interested in studying the rationale for the use of barter and the trade barter agency system being offered by the international network of barter agency companies, as a possible alternative to traditional procurement. The prospect of trading goods and services in exchange for other goods and services is viewed as a worthwhile strategy within the field of procurement; it creates value along the supply chain. Managers tasked with a proactive posture to maximize 'spend' while optimizing available resources, might consider a corporate trade barter agency to achieve a competitive advantage within their industry.

3. Bartering Surplus Materials and Excess Capability

Academic education and training services might consider barter as a means to dispose of surplus materials and to utilize excess capacity in exchange for other materials and contract services such as media advertising time or long distance telephone services. The benefits of barter would include:

- Reduced cash expenditures for advertising, business travel expenses or other traditional services;
- Development of new markets for services and surplus assets;
- Better capacity and excess space utilization;
- Avoidance of loss or the need to incur costly write-downs of assets; and
- Removal of excess inventories.

Figure 1. Framework of trade barter



In Turkey, using the barter system is possible only when a firm becomes a member of a trade barter agency. The professional trade brokers offer support to members in evaluating their sales alternatives and options, such as the creation of brands and actively publicizing the member's facilities and determining the needs of the customer; the trade barter agency allows each member to get the full advantage of the system.

All of the conditions for trading goods for things like media time are determined by the buyer and seller. The trade barter agent may for instance, charge premium prices for the media time when exchanged for surplus goods. Alternatively, even if the media rates are competitive, the time slots offered may not coincide with the times required by the media buyer. Organizations must carefully evaluate all available alternatives, including the option of selling surplus goods at a loss and then buying the media time through regular channels. The savings in the purchase of media time (or other contract services) might however, offset losses in the sale of the surplus assets. Surplus material and excess capacity might be used to compete with material sold through the regular distribution channels of the company. Care must also be taken in drafting the contract to ensure that the trade barter agent represents the organization.

RUE's surplus capacity was an on-going problem situation. The problem was that the university had many of its classrooms equipped to seat and teach 40-50 students, but often had classes with students numbering in the 5-15 range. Recently

having learned of other universities' benefits with the use of barter, such as Bond University in Australia and Stanford University in the U.S., Ms. Marmaris and other professional educators in Turkey were realizing that while there were advantages in keeping student counts per class low, there was also a legitimate rationale for exploring ways to optimize headcount levels, considering the university's operating costs. As members of the trade barter agency, universities might schedule small enrollment classes in smaller classrooms, while offering the larger classrooms for other purposes, such as degree or certificate programs for employees of organizations which were also listed with the barter exchange system, in exchange for various kinds of goods such as office machines, computers and office equipment. Supplemental services from RUE's professors might include lectures and seminars away from the university that are given to the barter membership's professional association affiliates on the topics of work efficiencies, community, cultural, environmental and social programs – in exchange for discounted travel charges or other services for the university.

The university could take advantage of accommodations, organizational and seminar options in selected hotels and resorts throughout Turkey and all over the world in general to offset business travel costs. The university might also trade for insurance, security, health and catering services and cleaning materials such as disinfectants, or catering equipment such as conventional ovens. RUE might also benefit from trading its excess

classroom capacity for some of its required monthly advertising and sponsorships. RUE could also generate barter dollar credits within the system, whereby they could use these credits, for example, to buy construction goods and services for its new building project plans, as well as other periodically needed operational products, such as supplies and janitorial services.

Ms. Marmaris was thinking that certainly such foresight and management practices could lead to greater utilization of its under-utilized assets and excess capacity, as in the case of RUE, allowing the university to better manage cash flow in order to meet operating costs.

4. Conclusion

It is estimated that various industries have large sums of money tied up in non-working assets and in excess services capacity, but few businesses handle these materials and services in the most optimal way. The disposal of surplus assets and the utilization of excess capacities are key elements of a successful barter process. The need for and identification of asset recovery procedures and utilization of excess services capacity at universities is evolving and needs to address a variety of issues and challenges. In the case of the RUE, there is the challenge for the Rimzi Chamber of Commerce to exercise a more effective utilization of excess classroom and services capacity—something that all enterprises must address. With less than a month until the next membership review committee

meeting, the president works at her desk to decide how to handle this problem at RUE.

Discussion Questions

1. What are all the issues here that should be considered by the Chamber's president, Ms. Marmaris?
2. What kind of studies should the Chamber perform to assess the likelihood that RUE could benefit from use of the trade barter system?
3. Should the Chamber of Commerce president issue an invitation to a trade barter agency for a meeting to review the advantages to belonging to the membership? What specifically could the university offer in the order of excess classroom and service capacity?
4. Do you think there is a way to successfully trade classroom seats and professor services in exchange for discounted travel charges, media expenses, contract services and the like to the university?
5. Do you think Ms. Marmaris should use the barter system to eliminate the necessity of additional university funding? Why or why not?
6. Consider the case where a company has US\$100,000 worth of excess material for exchange, and explain the technicalities of the procedure.
7. Identify and describe a trade barter agency in your metropolitan area.

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