# Achieve a Significantly Higher Value For Problematic Corporate Assets

Regardless of how well we run our companies, at some point we are bound to have an asset that has become a drain on the balance sheet. Anything tangible that is controlled to produce value and that is held to have positive economic benefit is considered an asset. Simply stated, assets represent value of ownership that can be converted into cash (or some form of currency).

For most retailers and direct marketers, one of the largest assets is inventory which can quickly become a liability if it can no longer generate the originally targeted full wholesale/full margin price point due to a wide array of market conditions. Assets can also be anything from used capital equipment to unneeded corporate jets to below water leases that become problematic when they need to be sold and the cash market value is significantly below book value resulting in negative accounting issues such as write offs and reserves .

When addressing these categories of problematic assets/inventories companies go through the usual methods of sales; markdowns, sale discounts etc. until the remaining asset has reached the point where cash sales results in below cost returns. At that point, most companies take the undesirable route of cash liquidation which generally results in negative impact to the company's Profit and Loss statement.

Alternatively, there is a strategy that allows companies to achieve 3-4 times the cash liquidation model and employ a tool that will further allow them to reduce the amount of cash needed to pay for logistics and other competitively purchased goods and services. That strategy is corporate barter or sometimes referred to as Corporate Trade and involves the issuance of multi-lateral, commercial Trade Credit in place of the much lower value cash liquidation pricing.

Previously, higher value trade solution options for direct marketers and retailers have been limited to Media/Advertising usage which may or may not have been relevant or of practical interest to either the retailer or the direct marketer. Recently however, innovative new Trade companies have partnered with key non Media suppliers to offer more varied areas for Trade usage which allows for broader opportunities and more efficient trade monetization.

**<u>What is Corporate Barter?</u>**
Corporate Barter is the exchange of goods and services for problematic corporate assets on a non-cash basis through the use of commercial trade credits (TC) in an effort to achieve much higher values and reduced cash needs.

**<u>Why choose a corporate barter strategy?</u>**
Companies use barter for four main reasons:

1. They achieve much higher value when compared to cash liquidation options.
2. The distribution of the problem assets are protected by moving them into non–competing channels.
3. As qualified suppliers agree to accept Trade Credit in place of the normally required cash, cash flow improves as less cash is needed to pay for goods and services.

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4. By decisively taking action rather than hoping that values will somehow improve, costly and unnecessary carrying costs are eliminated for non-performing assets.

**What are the Benefits of Trading (Barter) as opposed to cash liquidation?**

- Significantly higher value for problem assets of all types: typically 3-4 times the cash liquidation market value.
- Purchased assets are contractually agreed to be redistributed into non-competing markets.
- The sale is immediate; no "cherry picking" of higher value portions of the problem inventory. Trade Credit is immediately available for use upon signing.
- Cash requirements are reduced through supplier's willingness to accept Trade Credit in place of cash.

**What are the characteristics of the Trade Credit?**

- $1 in Trade Credit is always worth exactly $1 in cash.
- All goods and services are delivered at the client's preferred commercial terms: Price, Service, Delivery and Quality with approved and qualified suppliers.
- The trade credit is used in combination with cash to pay for planned and budgeted expenses.
- Trade credits provide a unique tool to further reduce cash needed in competitive purchases.

**Actual Case Study of a National Food Company:**

A national food company introduced a new line of products in order to extend its brand reach. The intro was well received initially and the production line was increased in order to be able to fill increased demand.

As time passed, sales did not meet expectations and by the time reality became apparent there was an overproduction leading to short code, "sell by dates". This proceeded to negatively impact the value of the product because mainline grocers were no longer willing to purchase these goods due to shelf life issues thereby forcing the food company to sell into the secondary market where values were only 25% of originally planned wholesale pricing.

Considering all their options and wanting to avoid the negative accounting issues of write downs and reserves, the company, instead of selling for heavily discounted cash liquidation value, traded the problem inventory receiving its full wholesale value in a multilateral, open purchase Trade Credit.

To utilize the Trade Credit, domestic and international logistics providers were identified and willing to accept Trade Credits as partial payment in order to gain new business opportunities. Additionally, several providers of raw materials participated in the Trade Credit program further reducing the amount of cash needed for the production of several lines of product.

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**What is the Process for Identifying and Utilization of a Barter Agreement?**

1. Identify the problem asset
2. Determine restrictions, if any, on where the asset may be redistributed.
3. Identify and quantify areas for Trade Usage.
4. Provide, bona fide, non-qualified Purchase Offer; typically 3-4 times higher value than cash.
5. Sell asset under mutually agreed to remarketing plan.
6. Utilize Trade Credit; improve cash flow through Trade Credit substitution for cash
7. Review, monitor and measure Trade usage plans.

Trade Credits typically have an expiration of 4 years from issuance; however the barter company, as part of step 3 above, works to have the trade credits of the client utilized generally within a 12-18 month or sooner timeframe.

**Why Do Suppliers or Potential Trade Partners Accept Trade Credits?**

- A new supplier stands to GAIN new business by meeting a prospect's needs and accepting Trade Credit in place of cash as partial payment
- The incumbent supplier RETAINS existing business in tight, competitive bids and helps to keep out aggressive competition by accepting trade credit and thus strengthens their relationship.
- A supplier with a minimum volume can EXPAND the relationships and percentages of total available business (e.g., a trade partner adds international logistics, where previously they only handled domestic).
- Trade Credit acceptance allows suppliers/trade partners to further differentiate themselves from the competition without sacrificing price or cutting margin.

**Why denote Logistics Services as one option for trade credit usage?**

Inbound logistics represents approximately 2-4% of revenue (outbound logistics, sometimes higher) for retailers and direct marketers and ranks among the top 8 operational expenses. Whether you're a manufacturer, distributor or retailer, one or more of the following apply to you:

- Receiving of raw materials for production
- Receiving of finished goods for distribution
- Drop shipping from suppliers to your customers
- Shipping from your location to your customers
- Shipping from your distribution center to your stores or between distribution centers

Innovative, specialized Trade companies have developed strong trading partnerships with key providers that allow companies to easily convert their Trade Credits (TC) into cash savings through a necessary logistics spend.

**Some of the logistics services provided are:**

- Domestic, Ocean and Air for both Import and Export
- Point-to-point Worldwide Delivery for FCL and LCL Cargo

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- Truckload and LTL Freight
- Small Parcel Negotiation and Auditing

It's always understood that all required service levels and commercial terms are agreed to in writing and in advance of any Trade agreements being finalized.

**Summary**

A Trade Credit (TC) strategy can positively address a number of bottom line corporate issues when it comes to problem asset sales and provides companies with a unique tool to improve returns avoid negative accounting issues and improve cash flow with all outcomes determined in advance of any sale taking place.

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*Detailed case studies and background information for this paper were supplied by Jim Parsons, Senior Vice President, Corporate Barter Advisors, LLC and DM Transportation Freight Management Services with whom George has strategic alliances to aid his clients in cost effective inventory management solutions.*


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