Countertrade

Business, Marketing

Countertrade Countertrade is the kind of trade where goods and services are paid for, in whole or in part, with othergoods and services, rather than money. A monetary valuation may be used in countertrading for accounting purposes.

When PepsiCo wanted to enter the Indian market, the government demanded that part of PepsiCo’s local profits had to be used to purchase tomatoes. This requirement worked for PepsiCo, which also owned Pizza Hut and could export tomatoes for overseas consumption.

The invention of internet has had the effect of reducing the cost of conducting countertrade in that deals can be discussed and online and even technical support to buyers can be provided online without incurring travelling expenses.

Advantages of countertrade

1. Only option: Trade can be financed with counter-trade when other means are unavailable. Either supplier or buyer credit may be impossible to arrange. Performance or payment bank guarantees may be too costly. The project might call for longer term financing then government-supported export credit facilities allow. The political situation in host countries might preclude other government financial aid. The host country might not permit currency repatriation.

2. Foreign presence . Counter-trade provides a way to make a foreign direct investment without starting from scratch or going through the difficult process of buying a going business.

3. Non-trade benefits. Long-range management and technical benefits from joint venture partnerships can often be achieved through buyback counter-

trade arrangements, specifically coproduction transactions. In most cases a host-country partner brings to the partnership local management techniques and protocol that might take a foreign company years to develop on its own. In some cases, the partner brings technical or application techniques unique to the host-country cultural environment.

Disadvantages of countertrade

1. Disposal of goods: Counter-trade contracts involving the exchange of goods that cannot be consumed internally require the sale or trade of these goods on the open market. Even with an in-house trading specialist and assistance from an international consultant, the process is time-consuming and costly. Using a third-party broker increases the cost of disposing of the goods.

2. Internal expertise: To achieve long-term success in counter-trade transactions, a company must establish internal expertise. This means setting up a department dedicated to arranging and managing counter-trade deals. This can be costly addition for a smaller company, and unless it engages in several counter-trade deals, these personnel add unabsorbed overhead.

3. Length of time: Counter-trade deals require a long time to negotiate and close.

4. Results uncertain: The end results from counter-trade transactions are usually very uncertain. In most cases the final result-that is, the recognition of profits-won’t be realized for many years.

Reference

Cateora, Philip and John, G (2011), International Marketing, 15th edition, Irwin McGraw Hill. ISBN: 978-0-07-352994-3