Currency Exchange – Tough Tactics for Tumultuous Times

Dramatic currency gyrations wreak havoc with retail pricing around the globe. Strong USA dollar, weaker Euro, devalued China RMB, and cratering pound. These lightning fast moves on currency exchange may require six months or more to wind their way through the supply chain. Some distributors devote more time to serving as f/x traders versus brand builders. Unfortunately, most export managers are distanced from the problem until receiving an urgent call from a distributor who faces passing on a 10-20 percent price increase to his customers. Listed below are Export Solutions' "tough tactics for tumultuous times."

Higher Prices Mean Lower Volume

Emerging market currencies usually move in a weaker direction. This translates to higher shelf prices. Citizens in these economies rarely experience wage increases in parallel with inflation. Most consumers tend to reduce purchases of overseas products as they become luxury items. Exporters need to calibrate "how much pain" they are willing to endure in terms of lower volume.

Prices Only Go Up, Never Down

Permanent price declines or rollbacks are extraordinarily difficult to execute. If your currency weakens, retailers and distributors don't pass on lower net cost. It is common practice for them to try to maintain retail shelf prices and capture extra margin. Savvy brand owners skip the price rollback and invest in heavier promotion levels or enjoy higher profits.

Conduct Monthly Price Surveys

In countries of extreme price fluctuation, best to schedule monthly price surveys of your brand and the competition. Request that distributors use the same store base every month to avoid regional differences. Online grocers allow us to monitor country pricing from our desktops, miles away from overseas markets.

Retailers: Once Per Year Price Increases

Many retailers accept price increases only one time per year. This may occur in conjunction with annual negotiations. Other retailers demand ninety days advance notice. Sometimes "borderline" brands encounter customers who simply refuse to accept price increases. Ultimately, this puts tremendous pressure on distributors who may be facing price increases from multiple suppliers

What's Fair? – Peg Rate

I advocate a model where currency is pegged to an exchange rate at the beginning of the year. Distributor and brand owner agree to "swallow" price swings of the five percent in either direction of the peg. If the currency breaches five percent threshold, then both parties review the formula and assess options.

Bank Rate Versus Distributor Rate

A key metric to investigate is the distributor exchange rate in his calculation versus the actual bank rate. Many distributors seek to insulate themselves by building in a five to ten percent protective cushion. Guess what? If the currency doesn't move, the distributor just made an extra five to ten percent on your brand, starting from the landed cost line!

Sell in Local Currency

This forces large manufacturers to accept the risk or benefit. This insulates smaller distributors who may not enjoy similar capital reserves as their larger principals. This approach works especially well with European brands selling to the USA or vice versa.

Competitive Activity

Frequently, all category players experience similar input cost increases such as raw materials. Competitors may use the window to hold prices low to gain market share. Others may eliminate promotional spending. Ultimately brands elect a certain price positioning in a country and should strive to stay within the desired range.

Document Price Change Rationale

Retailers provide strict challenges to those requesting price increases. Supply them with hard facts on costs of raw material, currency exchange, transportation and other factors. Retailers with substantial private label programs face similar pressures on their own private label, so they are not blind to the situation.

Watch Credit/Receivables

Distributors pay their suppliers in advance of receiving payment from local customers. Distributors invoice in local currency and wait for repayment. During periods of currency fluctuation, the typical sixty day float could result in a five percent reduction in receivables. Across a broad portfolio of brands, this could spell trouble for a distributor. Run credit reports and monitor days outstanding trends.

"Helpers" are Heroes

A trusted distributor who has delivered consistent results is worthy of your help! In the past year, I have witnessed the USA dollar appreciate more than fifteen percent versus the Mexican peso and Canadian dollar. Best approach is for both partners to "roll up their sleeves" and engage in an open discussion around transparent examination of the facts. Distributors are entitled to a reasonable profit. A manufacturer who helps absorb the pain during a "currency crisis" will be remembered as a true partner when the situation stabilizes.