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The Strong Dollar: How to Thrive, Not Just Survive

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For US businesses, a stronger dollar represents both a challenge and an opportunity, participants agreed during an April 29 panel discussion sponsored by HSBC and the San Francisco Business Times. The challenge is obvious—the dollar's recent 25 percent rise is undermining the competitive position of US companies by making their products more costly to foreign buyers and slashing the dollar value of the income those companies earn overseas. Still, there are benefits. The strong dollar is lowering costs for US producers by making imported components cheaper. Additionally, the stronger dollar allows US companies to invest internationally and obtain foreign assets at bargain-basement prices.

“It's an opportunity. The world is on sale," said Jon Haveman, principal at Marin Economic Consulting in San Rafael, CA.

Haveman and other panelists at “The Strengthening of the US Dollar's Impact on Businesses and Global Trade," held in Redwood City, CA, emphasized that US companies must be nimble to thrive now. The dollar is not likely to turn around soon, so it's vital that US businesses take steps to shore up their competitive position. “This is the third largest dollar appreciation cycle in history," noted Ivan Asensio, HSBC Senior Vice President and head of FX Risk Advisory for HSBC Americas. “And this move may have just begun."

The dollar is gaining because the United States is outperforming Europe and Japan economically, and US interest rates are higher than rates in other developed economies. Those factors are drawing investments to America, raising demand for dollars. Governments and businesses around the world are feeling the shock waves. In this country, the effects are contradictory. Businesses that earn significant income overseas are under pressure, but a higher dollar makes imports cheaper, lowering prices for everybody.

What can US businesses do? Jeff Deiss, Regional Export Finance manager with the United States Small Business Administration, urged managers to stay the course. “Don't panic, and be in it for the long game," he said. He cited a number of moves businesses can make to strengthen their position:

- Company managers should compete on the basis of quality and brand, not price. They should also be flexible on payment terms by selling on open account rather than demanding cash upfront.
- Businesses should work with their bankers to hedge some foreign currency exposure.
- With energy prices falling, companies should seek cost savings from shippers and suppliers.
- Businesses active overseas should view the dollar's rise as a signal to make their operations more efficient, both financially and operationally.

Still, no matter how lean a business might be, it is vulnerable when the dollar is soaring. A sound foreign currency strategy is critical. US companies may prefer to price their products in dollars, but, to keep market share, it's better to price in local currency. Companies should also avoid borrowing in dollars to finance operations that collect revenue in other currencies. “The idea is to be protected and have a risk management program in place," HSBC's Asensio emphasized.

The key point is that a rising dollar means companies operating overseas must pay closer attention to funding, hedging and treasury operations. As Deiss put it: “It's never been a more important time to be close partners with your bank foreign exchange manager."