

Tactics To Deal With The Strong Dollar¹

In any tough economic environment, or industry, you can always find many companies who are struggling and a few companies who are thriving. You want to be among the thriving companies.

Here are some ways you might look at addressing the export problems associated with a strong dollar:

- **Reduce costs.** This is obvious, and most manufacturers have already squeezed as much cost out of the supply-chain and manufacturing processes as they can. But you never know what creative cost-savings ideas are yet to be discovered by your people. Give them the challenge. And talk to your Wisconsin Manufacturing Extension Partnership representative to gain access to their excellent tools.
- **Use appropriate cost accounting.** Make sure you are allocating expenses at the increment. Fundamentally, a sunk cost is any expense that you'll incur regardless of whether or not you make this international sale. Don't use that sunk cost in calculating margin and price. Additionally, understand how your cost of production (COP) changes based on material inputs. Generally, many inputs become cheaper as the dollar strengthens. Your suppliers may be benefiting from importing cheaper raw materials and cheaper parts. Thus, you may have some opportunity to renegotiate with your supply chain.
- **Price in local currency.** Some companies are now selling in local currencies and setting their prices competitively, even where that means giving up margin. Their bet is that when the FX rates normalize and the dollar weakens again, they will then make more money on those foreign currency receipts and recoup some of the margin lost now.
- **Find other financing models.** Look at all sorts of other pricing and financing models. The US exporter could mitigate some risk by using ExIm Bank credit insurance. This can help the exporter offer better terms than their competition. Be creative in thinking through buyer financing.
- **Use available resources.** Utilize IC-DISC and R&D Tax Credits; Duty Drawbacks and Foreign Trade Zones (if applicable); Free Trade Agreements, the EX-IM Bank, the US Commercial Service, the WEDC and ExporTech.

¹ Katie Henry, WTA Executive Director, Chad Hoffman, M7 Export Director, Bruce Glaub, Principal, Trade Acceptance Group, Ltd, and Damian Felton of the US Department of Commerce all contributed suggestions to this article.

- **Find new markets.** Identify markets where your foreign competitors are carving out opportunities. Go after those new customers. Look for opportunities to take a solution popular in one country and transport it to another country.
- **Create new products.** Increase the breadth of your product offerings to extend into new customer and deepen you wallet penetration with existing customers.
- **Let the rebels loose.** Rebels inside your company are looking for better solutions to existing problems and often have a gift for redefining the problem. New ways of looking at old problems usually creates opportunities. Be innovative.
- **Watch competitor action.** Look for competitors that do things that might give you a market opportunity. For example, Microsoft is increasing their pricing 22% on all products for sale in the UK starting January 1st due to the drop in the pound. That might cause other companies to follow suit and open new opportunities for you.
- **Look for currency rate changes.** Opportunities may open markets where the local currency has strengthened against the dollar. For example, since the start of 2016 the Japanese Yen has strengthened about 15% against the dollar. That means US goods are now more affordable in Japan than they were a year ago.
- **Track international markets.** Ask interested employees to volunteer to track your industry in a specific foreign country or region. Sometimes, by just paying attention opportunities emerge. The more employees paying attention the better.
- **Think about investing overseas.** The strong dollar makes purchasing international assets cheaper. If you have an opportunity to grow domestically by buying international capabilities, this is the time to do it.

If you have discovered other creative ways to compete internationally despite a strong dollar please send them to bburnett@mke7.com