SALES & MARKETING
BY MARK EVANS

THE PRICE OF STABILITY

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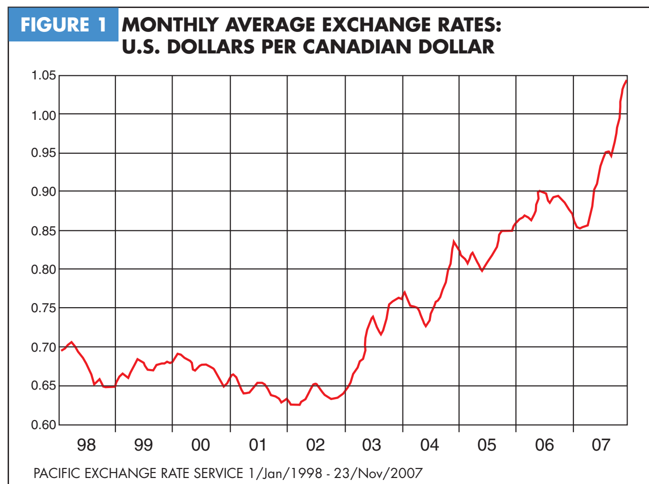
In 1972, my Aunt in California sent me $20 for my birthday. To my horror, it was only worth $19. Prior to that I had become accustomed to a little bonus – that was the exchange differential on the U.S. dollars she sent me every year. Now, fast-forward to 1998 when I was involved in the sale of products imported from the U.S. The Canadian dollar plunged to record low levels, with the exchange rate going from 1.32 to 1.59 in a period of what seemed like weeks, but was actually many months (see *Figure 1*).

FIGURE 1 **MONTHLY AVERAGE EXCHANGE RATES: U.S. DOLLARS PER CANADIAN DOLLAR**



PACIFIC EXCHANGE RATE SERVICE 1/Jan/1998 - 23/Nov/2007

What we are talking about is currency risk. If the goods are produced in Canada and all of the costs associated with the production, sale and consumption of those goods are generated and absorbed in Canada then there is no currency risk.

DODGING THE BULLET

For years, many American manufacturers dodged the bullet simply by invoicing all sales to Canada in U.S. dollars. That left the currency risk with their customers. When the loonie sank, some of those customers pleaded for price stability in the form of Canadian dollar price lists. Others bought U.S. dollar futures and speculated on the rise and fall of the U.S. Greenback relative to their anticipated purchase volume.

Our industry requires stability in order for everyone involved to make (and keep) the profit generated by sales. How has this desire shaped our actions?

1. Most manufacturers issue new price lists, sometimes with corresponding price increases, in January.
2. On projects with long construction cycles (the bigger they are the longer they are) sub-trades often ask for price protection for a specified period when bidding, or even after having secured a project.
3. Distributors buy-up larger than normal quantities of product prior to price increases to insulate the bottom line from margin erosion on quoted projects. Contractors often do the same.

However, the notion of how we dealt with things in the past seems to be less under scrutiny on many fronts. Some politicians are accusing automakers of gouging Canadians in light of the rise of the loonie. Consumers who have shopped online for many years now actively compare the selling prices of U.S.-based and Canadian-based retailers much more carefully. Book distributors and book sellers are under fire for suggesting differing prices for Canadian versus U.S. customers that are years behind the current rate of exchange. However, things are not always as simple as they seem.

THE RAW FACTS

Many products may flow to us from the United States, but a good number of them are imported as raw materials or even finished goods from other parts of the world. Much

Figures: Prof. Werner Antweiler, University of British Columbia, Vancouver

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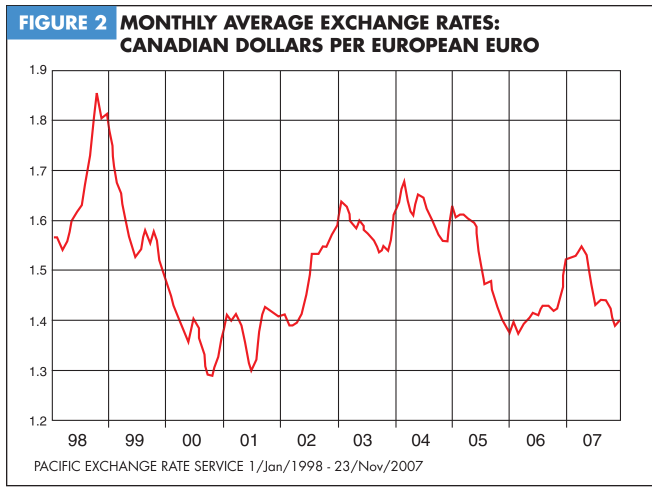

FIGURE 2 MONTHLY AVERAGE EXCHANGE RATES: CANADIAN DOLLARS PER EUROPEAN EURO

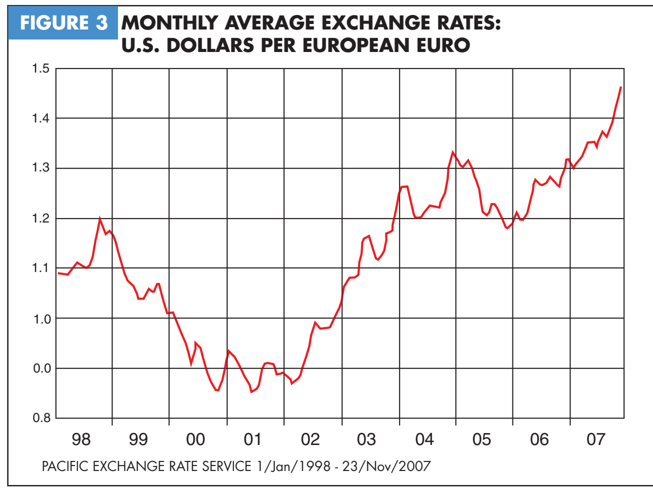

FIGURE 3 MONTHLY AVERAGE EXCHANGE RATES: U.S. DOLLARS PER EUROPEAN EURO

of the value of these products then has a foreign currency as its base and as such is subject to currency risk. If the foreign vendor does what many U.S. vendors selling into Canada have done for years, they are invoicing in their native currency. Countries like China, France, Italy, Germany, India, Malaysia and many others supply products that we use every day. While Chinese imports are mostly paid in U.S. dollars, products originating in Europe often have internal transfer prices or export sale prices based on euros.

How has the value of the U.S. dollar fared against the euro (see *Figure 2*)? The euro hit a 13-year high against the U.S. dollar on November 22, 2007 at $1.4873 U.S. to one euro. Thus, you can see the affect the native currency has on currency risk. It is somewhat simplistic to assume that, just because products we consume originate in the United States, the recent rise in the loonie should result in price reductions.

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MARKET FORCES – THE FLIPSIDE

It can be argued that just as playing the field with short-term, variable rates on a mortgage seems (at least on the surface) to save money, that the price of stability (what we pay in Canadian dollars for foreign goods) comes at some cost.

Imagine all transactions being priced subject to change, with confirmation at time of shipment. (Commodity buyers – does this sound familiar?) If all transactions were open to market forces, then January annual price increases, price protection for jobs and pre-increase buy-ups would become a thing of the past. This no doubt would create problems for everyone involved in the construction industry and cause profits to be negatively affected.

The best economic minds argue that the real value of the Canadian dollar ranges in the low nineties versus the U.S. dollar. Having read many projections from 2005, 2006 and even the start of 2007, the traditional wisdom then saw the Canadian dollar valued in the range of 87 cents U.S.

So, as we consider the issue of price stability versus currency risk and the current state of our dollar, it could be argued that this discussion will be somewhat short-lived in comparison to the long-term history of the value of the Canadian dollar. HPAC

■ *During the course of his 25-year career in the mechanical industry Mark Evans has worked on the wholesale and manufacturer side in sales and marketing positions. Contact him at writemarkevans@hotmail.com.*

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