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Currency fluctuations a danger for firms operating globally

The Business Journal of Phoenix - by [Chris Casacchia](#) Phoenix Business Journal

As Arizona companies continue to expand overseas, exposure to foreign exchange fluctuations has never been greater.

Experts say most companies operating in a global marketplace are not doing enough to mitigate the risk associated with currency fluctuations, and are unprepared for the pending financial hits to their quarterly or annual statements -- which could reach into the millions.

Foreign exchange risk and currency management impact the bottom lines of small importers and multinational manufacturers alike.

Greg Stott, senior portfolio manager of Scottsdale-based **Stoker Ostler Wealth Advisors**, said managing a company's foreign exchange exposure is as critical as cash and inventory management.

"In today's competitive environment, foreign exchange risk is one element of volatility that corporations can manage and diversify," Stott said.

Popular strategies include forward contracts, over-the-counter options, foreign-exchange swaps and multicurrency loans, he said.

In a forward contract, a commodity will be transferred in the future, but the price is determined on the initial trade date. OTC options give clients the right to buy or sell a foreign currency at a predetermined rate at a certain time in the future, if they pay an up-front premium.

One Scottsdale technology company created a software application to do most of that work. FiREapps last month launched a program that enables multinational corporations to predict, analyze and manage foreign-exchange exposures to balance sheets and cash-flow forecasts. In essence, the software allows businesses to protect margins, revenue and company value from foreign currency volatility.

"We present it to them in a matter of minutes," said Andy Gage, FiREapps" vice president of marketing.

Established in 2005, the company is a division of Rim-Tech Inc., a Scottsdale financial risk management solutions company. The FiREapps name stands for "financial risk exposed

applications."

Company officials claim FiREapps' services can reduce foreign exchange risk from the industry average of 10 percent of currency exposure to less than 1 percent.

For a midsize company with an average foreign exchange exposure of \$250 million, that can mean savings of \$2 million to \$8 million.

Jim Glassman, senior economist and managing director of **JPMorgan Chase & Co.** in New York, said political events and changing economic views can alter foreign business operations abruptly. He said most companies spend a lot of time trying to figure out how to hedge currency swings that have nothing to do with their business or operations.

Last week, the dollar crept to a new low against the euro. It has weakened against major currencies including the British pound since the Federal Reserve cut rates by 50 basis points in mid-September.

While a lower dollar certainly attracts tourists and spurs export sales in the U.S., American businesses pay more for imported goods. British and Canadian businesses lost millions in the second quarter because of foreign exchange rate differences, as their currency continued its escalation.

Scottsdale-based **JDA Software** Group Inc. manages monetary transactions in 24 currencies and has used FiREapps services for a year.

"These transactions and the volatility of the U.S. dollar and other currencies introduce a risk to our bottom line, positive or negative, if we do not properly hedge or take other actions necessary to mitigate those risks," said Dave Alberty, vice president, corporate controller and treasurer of JDA Software.

FiREapps services start at \$50,000 and can top \$250,000 a year, depending on size and complexity. The company targets businesses with more than \$250 million a year in revenue.

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