



The Other Side of the Coin

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Spare a thought for Germany's exporters. Just when global demand started picking up, the strong euro began making their products less competitive. The shift in the euro-dollar exchange rate is having a negative impact on both sales and margins. Now, even the best revenues in the United States translate into lackluster earnings on a euro-denominated balance sheet.

It's not hard to understand why the peppy euro is hurting German exporters. Just imagine you were an American purchasing agent with the task of buying, say, textiles machinery. That brilliantly engineered German loom that cost \$100,000 last year is now \$15,000 more expensive. Two years ago the same loom was selling for 30 percent less than today. And that's assuming the base price hasn't gone up in euros. The unfavorable exchange rate is making it easy for Americans to shun European products.

One company that's feeling the pinch is the engineering giant Siemens. Despite a sharp rise in global profits in the last fiscal quarter, the group's U.S. sales suffered. In announcing the results, Siemens CEO Heinrich von Pierer said he was "concerned that the continuing rise in the exchange rate against the dollar could have an adverse effect on the competitiveness of European industry." This is the reason companies like Siemens have been diversifying their asset base and moving production to the United States. It softens the impact of currency fluctuations.

Another example comes from German software giant SAP, which supplies back-office solutions to most of America's major corporations. Its latest quarterly results show revenues down 3 percent. But the announcement stressed that this was simply an effect of the euro-dollar exchange rate; "on a constant currency basis" revenues were actually up 3 percent. (Apparently, some CFOs dream of pegging the euro to the dollar.)

There's much discussion among German executives about how to cope with the strong euro. This is a refreshing change from their lamentations about the currency's initial weakness. Talk now is of monetary hedging, production relocation and price realignment—all helpful strategies, to be sure. But there's no ignoring the simple wisdom of Reinhard Kudiss from the German Industry Federation: "This is a dry patch that business will have to endure." And endure it will.