

# Business Strategies for Beyond the Looking Glass

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The novel coronavirus has pushed the world through Alice in Wonderland's looking glass. The blow to businesses is greater than imagined in most contingency and continuity planning. Moreover, the duration of the crisis is still not known. Despite the enormity of the challenge ahead, there are measures businesses can take to help minimize the hardship and prepare for the post-crisis period.

The reaction to the threat posed by the Covid-19 crisis, major economies may contract by 5-10% in the second quarter, but this is only a ballpark approximation. Governments and central banks have gone to war-footing. Previous ideological and practical barriers are overcome. The US government unleashing fiscal support that is larger than 10% of GDP, while the Federal Reserve has announced an open-ended commitment to buy Treasury bonds and mortgage-backed securities. Other G10 countries are doing effectively the same thing within their own institutional framework, though most begin with a higher and stronger social safety net than the US.

Protectionism, security, and lowering costs to serve have been a trend of global trade over the last years. From BREXIT to Huawei, the trade community has been in a tailspin to maintain competitiveness and agility of ever-changing regulations. While the China Trade War had many businesses already testing different interim and long-term value chain strategies, COVID had exacerbated all weak points in the chain.

There will be a new normal of what the US consumer behavior and value chain strategy will look like. As demonstrated through the 301-tariff implementation, supply chain alterations aren't easy to uncouple and change in a short span. COVID has been able to show to the world the vulnerability of free trade and the supply chain.

In the short term, cash flow is necessary to operate. Companies are looking in the following areas for cash opportunities:

1. Inventory Surplus: Ensuring the lowest cost to import, such as activating a larger area of a foreign trade zone or working with off-site bonded facilities for temporary storage.
2. Duty Refund through 301 & 232 Exclusions: We have seen many clients eligible for upwards of \$17 million in refunds for 301 and 232 exclusions; however, this requires that all are handled based on time imported and under the appropriate method.
3. Duty Drawback: Under the new TFTEA Duty Drawback regulations, companies are looking back for 5 years to recover duties paid on imports that were subsequently exported.

4. Freight Pay & Broker Audits: Many companies do not audit freight nor broker invoices which can lead to a gross overpayment based on double payment on invoices and/or inaccurate charges.
5. Review Contract Terms: Can payment be deferred or lengthened to maintain cash on hand.
6. Payment Deferment: The Netherlands, US (Alcohol and Tobacco Tax and Trade Bureau), Canada and other countries are offering duty payment deferment.
7. Consumer Delivery: Direct from warehouse maybe a preferred measure as Amazon and other 3pl's are meeting demand, which may lead your product out to the end of April. Additionally, review shipping terms are free shipping, and returns still a viable option or needed for competitiveness.

In addition to these, businesses who import or export may consider these measures as well.

1. Review foreign exchange exposures: The disruption to businesses, including lower sales, and later revenues, delayed deal closings can materially change exposure and timeframes.
2. Be aware of the elevated volatility: The high volatility is expressed in the foreign exchange market in several ways, including dramatic swings in prices intraday as well as day-to-day, and wider spreads between bid and offers. Volatility is a key component of the cost of options.
3. Note that forward points have generally narrowed: Forward points are largely a function of interest rate short-term interest rate differentials that have converged as the major, and many developing countries have cut interest rates. Forward are credit-intensive and changing exposures can create opportunities to adjust forward positions accordingly. Shorter-dated forwards tie up less credit.
4. Opportunism may not be a bad word: Disciplined hedging programs pay off over time. However, the large swings in the prices may offer opportunities to lock-in prices that may be advantageous compared with budgeted rates.
5. Variety of FX products: There is a wide range of foreign exchange products that can help corporate treasurers manage their idiosyncratic currency needs. There are various kinds of forwards. They range from plain vanilla to ones that give the owners a window of time to exercise. Others can have optionality built-in that protects against a disadvantageous move while allowing participation in advantageous price developments.

With less imports and export volumes, the focus can be on short term cash recovery and long-term lowest cost to serve strategy. Without a doubt, the supply chain and consumer behavior will have a new normal. With e-commerce, food delivery, and door to door services (grocery, laundering, etc.), the world's population is focused on new market segments and new ways to purchase. It seems as though a shared economy for cars and houses is just the beginning of something much larger, as we know those who shop e-commerce have a tendency to continue to purchase in this manner. This will create opportunities and risks depending on the market.

Those in-home goods, toys, crafts, and groceries are faring well. The discretionary spending category markets are suffering. Supplier contracts, inventory management, distribution models, consumer demand, and trade program strategies will all change and be the focus of long-term planning. Spies, security, and fraud are also running rampant as supply and demand are unequal.

Long term strategy has two components: data and agility. The digitization of the supply chain and international trade data is key to long term success to ensure a stable, secure, and competitive market position. All of the short-term suggestions above are being utilized with automated solutions within companies to ensure they are maximizing their effort. Understanding where your assets are and the total cost to serve is the key to mitigating risks in the volatile climate.

There are no one-size-fits-all in coping with the challenges business face. The measures we suggest can form part of a checklist for businesses. Covid-19 will be a moment that separates the before from after. As it is always the darkest before dawn, so too at the heart of the most profound challenges lie opportunities.