EXECUTIVE SUMMARY

Global sales are becoming increasingly important in the growth of small and medium-sized businesses. Venturing into international trade, however, requires a business to establish policies and procedures that address a range of issues around foreign exchange (FX). Companies such as Poltron Corp., an engineering company that serves the automotive and machine tool industries, turned to Bank of America Merrill Lynch for an FX solution – as well as a growing portfolio of other products and services that helped the company streamline its operations and reposition itself for growth. Poltron’s experience speaks to the benefits a small business owner can derive from working with a bank that offers a personal touch, a breadth of services and some occasional “tough love” to help get a business back on track.
GLOBAL OPPORTUNITIES

Small and medium-sized businesses (SMBs) looking to expand into international markets are finding that the barriers to entry have fallen dramatically over the past decade. This trend may explain why global sales are becoming increasingly important in the growth of businesses of all sizes. A 2011 study by The Business Journals found that 23% of SMBs in the United States obtain some portion of their sales internationally. Nearly 800,000 businesses with fewer than 500 employees collectively attribute $1.7 trillion of their revenues to international sales, according to the survey.1

While extending a business into global markets brings additional growth opportunities, it also generates a new set of challenges, particularly for a company’s finance department. When foreign suppliers insist on payments in their local currency – an increasingly common request, considering the weakened state of the U.S. dollar – a small business faces an entirely new set of risks that must be managed. Fluctuations in foreign currency, for example, can affect cash flow.

“Amid ongoing economic uncertainty and financial market volatility, firms continue to look for opportunities to strengthen risk management controls and enhance the efficiency of their risk management programs,” says Angie Stewart, FX advisor with Bank of America Merrill Lynch.

Companies venturing into international trade need to establish policies and procedures for FX that address a range of issues, including: What’s the best way to handle transactions with foreign customers or suppliers? How do I manage cross-border payments and currency conversions? Do I need to set up foreign bank accounts? What types of risks or exposures need to be managed?

To answer these questions, many small business owners are turning to banks, FX brokers and other financial institutions. Choosing the right provider for a FX service is important because the FX rates, commission charges, fees and payment delivery times each one offers can vary widely. Choosing the wrong provider can have a significant, negative impact on profits.

Financial service providers such as Bank of America Merrill Lynch are ramping up the FX products and services they offer to small business owners. More than simply competing on exchange rates, Bank of America Merrill Lynch has developed a transaction platform, called CashPro FX, which is designed to provide a seamless FX experience for small business owners and their finance teams.

“As clients do more business globally, foreign currency payments are an important component of negotiating better supplier and client price points,” says David Solis, Region Executive, Client Development Group, Bank of America Merrill Lynch. “CashPro delivers the efficiency and peace of mind in the FX payments process that our clients have asked for.”

CASE STUDY: POLTRON CORP.

Companies such as Poltron Corp. have experienced the benefits of Bank of America Merrill Lynch’s CashPro FX solution first-hand. Poltron, based in Frederick, Md., is an engineering company specializing in services to the automotive and machine tool industries. The company purchases components and materials for its products from three suppliers in Poland, including its sister company, Limatherm, which makes die-cast aluminum products.

Businesses such as Poltron often get their first exposure to international trade by purchasing goods or raw materials from foreign trading partners. These companies primarily need FX or trade finance services to help manage these relationships.

“We transact hundreds of thousands of euros every month, so even a slightly lower rate makes a big difference,” says Voytek Fizyta, Poltron’s president and owner.

Because Poltron pays its Polish-based suppliers in both U.S. dollars and euros, a solution such as CashPro FX appealed to Fizyta because of its ability to process multiple currencies from a single interface. Poltron conducts approximately four-to-eight transactions per month with its foreign suppliers, with each transaction averaging between $50,000 and $60,000. Before switching to an online FX solution, Fizyta had to go to his bank in person to make those payments.

The first online broker Poltron used helped to streamline the process. However, during a review of Poltron’s business in 2010 as part of a loan application, a Bank of America Merrill Lynch underwriter turned up the brokerage agreement, which was being broken out as an expense for currency exchange. Bank of America account managers saw an opportunity for Fizyta to save money by switching to CashPro FX, which offered lower rates than Poltron’s existing broker.

Fizyta is pleased that he made the switch. “I can do all the transactions from my computer, and receive immediate confirmation that it has been approved or is pending,” he says. “It’s smooth, it’s fast, and it’s highly secure.”

A Web-based FX platform such as CashPro provides a single point of access to FX and other global treasury management services. Managing foreign transactions through an online portal can help a business increase operational efficiency and speed while reducing settlement risk. The portal also helps expedite the settlement and clearing of transactions by eliminating the need for paper-based confirmations. In addition, phone transactions can be verified via online access. Features of CashPro FX include local language import, smart...
payment routing and access to daily foreign exchange rates – all in a highly secure environment.

“With Cash Pro’s intuitive payments module, the extensive choice of currencies, settlement options and real time rates, our clients can act with confidence,” says Solis.

**ESTABLISHING FX POLICIES**

A key element of any business’s decision to begin invoicing in local currencies is the establishment of corporate FX policy and procedures, which establish basic guidelines for managing FX exposures. This type of document typically includes:

- **Definitions of risk types:** These include exposures resulting from changes in the value of foreign currency cash flows (transaction exposure), translation of financial statements from one currency to another (translation exposure), or changes in the value of the business as a result of exchange rate fluctuations (economic exposure). The corporation’s functional currency structure should also be defined.

- **Hedging objective:** The degree and the intent of foreign currency hedges (e.g., to minimize transactional exposures) need to be established.

- **Hedging instruments and techniques:** This policy section lists acceptable hedging products, which may include natural offsets (e.g., same currency expenses/revenues), forward contracts, options, or currency swaps.

- **Authorities, responsibilities, and controls:** It’s important to clearly define the internal structure, roles, responsibilities, and controls associated with the FX risk management function. Many companies also include detailed reporting requirements in this section of the policy.

By effectively managing cross-border payment flows, multi-currency intercompany payments, and the frequency of currency conversions, a company can reduce its FX costs as well as its transactional exposures. In-country cash management is another important element of FX policy, because it enables companies to take advantage of the natural hedges that occur when payments and receipts are made in the same currency and investments and borrowings are also made locally.

To help companies with little experience in managing FX exposures, global banks such as Bank of America Merrill Lynch can provide advice on what needs to be included in an FX policy and may also provide sample policies.
POLTRON: EXPANDING THE RELATIONSHIP

Poltron’s use of CashPro FX is the latest in a series of products and services Fizyta has received from Bank of America Merrill Lynch. In 2010, as Poltron began showing signs of growth after riding out the recession, Bank of America Merrill Lynch approved the company for a $300,000 working capital line of credit and a $200,000 term loan. The financing enabled Fizyta to replace the factoring service and pay off personal loans he had taken to keep the business afloat during the downturn. The new financing lowered Poltron’s interest expenses by nearly 50%.

“The money we’re saving on expenses has made a huge difference in our bottom line and helped us to stay profitable,” says Fizyta.

Over the past year, Poltron has moved the bulk of its financial management over to Bank of America Merrill Lynch, and Fizyta expects the relationship to grow as his business continues to expand. Eventually, he said, he’ll be looking at services such as succession planning for his family-owned business.

“Working with Poltron, we wanted to ensure that we took a very holistic approach to his business plan and needs to ensure the full breadth of products and services available were utilized,” says Ian A. Norkin, Market Manager, Client Development Group, Bank of America Merrill Lynch. “We focused on our ability to help Mr. Fizyta continue to grow his business and accomplish his short-term and long-term goals for the company.”

For Fizyta, the key to his relationship with Bank of America Merrill Lynch is convenience, combined with superior customer service from his account manager and the extended team of dedicated product specialists he can access as needed.

“It’s all business, but the level of personal involvement is important,” Fizyta says. “You like the person you work with and feel he understands your needs and is trying to help. I feel comfortable asking difficult questions when I know the person and know that he wants to help. That’s very reassuring.”