Foreign Exchange in Online Businesses
- A Research on the Benefits of Dynamic Hedging

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In today’s connected world, businesses are increasingly going online. Additionally, the online industry is transforming into an international business arena, flourishing with opportunities to grow and expand. However, the internationalisation has also raised a number of challenging issues. One of these is foreign exchange, FX. Foreign exchange is costly, time consuming and it exposes companies to a great profitability risk. Kantox is a Barcelona based fintech company that aims to change this. In the report with the same name as this article, the benefits of their software solution Dynamic Hedging have been investigated. Here, the findings are shortly presented.

The risk with foreign exchange
Since having an international business means trading across country borders, most international companies must work with foreign exchange. If the trading countries do not share the same currency, currencies must be converted to pay or receive money for the trades. Due to time differences between receiving payments from customers and paying suppliers, these conversions are exposed to currency fluctuations. If the fluctuations take an unwanted direction, the profitability of a buy or sell fluctuates negatively as well. In case of low profitability margins, there is a great risk of making an unprofitable deal. This is FX risk and especially, it affects businesses online.

High volumes and low margins
Something common for online businesses is that volumes are high and margins are low. This is also the main reason to why they face specifically great challenges with foreign exchange. In the study leading up to this article, five FX challenges for businesses online were identified. Firstly, there is the pricing competition, which lowers margins. Secondly, there is the necessity of pricing locally. The third challenge is the time gap challenge. Fourthly, transactions online are often small and come in large amounts. This makes up for a manageability challenge. Another management challenge is the fifth issue, the large amount of currencies. Many companies exchange multiple currency pairs every day, resulting in complex transactions.

The lack of an efficient solution
Even in today’s high tech world, most companies trust old fashioned banks with their FX management. In many cases, the risk of currency fluctuations is not considered. Consequently, many businesses do not hedge against FX risk. Even if they do, the management is often manual. Hence, it is not efficient enough. With regard to the challenging situation and the apparent lack of an efficient solution, the study of this article
aimed to investigate if the modern fintech solution Dynamic Hedging manages the issue better. Is the solution suitable for online businesses? Does it improve their situation concerning foreign exchange? What are the benefits with the Dynamic Hedging solution? In order to answer these questions, a literature study and an empirical study was carried out. Previously written material on online businesses, foreign exchange and fintech was investigated and case studies on three online companies was conducted. The case companies were clients of Kantox, using the Dynamic Hedging solution. Both theory and case studies included several interviews and observations.

The benefits of Dynamic Hedging
The case companies were investigated regarding their characteristics, FX challenges and their situation before and after implementing Dynamic Hedging. After analysing similarities between the cases and between the theoretical and the empirical results, a number of benefits of using the solution could be identified. Even though the case companies were investigated separately, many similarities were found and several benefits were commonly experienced. Because of this, the benefits could be summed up to the four below.

1. The companies received a complete and efficient foreign exchange risk management solution
2. All their previously experienced foreign exchange challenges were managed and solved
3. The main issue each company was exposed to no longer existed
4. The companies could focus on achieving their expansion goals without distraction or risk.

The solution to the problem?
Undoubtedly, it seems like Dynamic Hedging might have come with an efficient solution to the growing issue of FX risk. However, when reading the benefits above, it should be taken into consideration that the solution was very personalised for each company to specifically meet their needs. Also, the result is built on case specific situations, which means that it is not fully generalizable. Nevertheless, due to the great similarities between the cases and the considerate choice of the case companies, the benefits seem to be quite general after all. Could Dynamic Hedging be what businesses today need? Well, to answer that question, more studies would have to be performed.

Complementary studies
Additional case studies, an investigation of shortages and possible improvements of the Dynamic Hedging solution and finally, a study covering more industries than online businesses would be of interest to strengthen the result of this study. If the benefits would still be as apparent, Dynamic Hedging might very well be considered an efficient solution to the problem. In today’s connected world, it would undoubtedly be more than welcome.