Billabong

Billabong is a quintessential Australian company. The maker of "surf wear" from wet suits and board shorts to T-shirts and watches has a powerful brand name that is recognized by surfing enthusiasts around the globe. The company is a major exporter. Some 80 percent of its sales are generated outside of Australia through a network of 10,0000 outlets in more than 100 countries. Not surprisingly given the history of surfing, the largest foreign market for Billabong is the United States, which accounts for about 50 percent of the company's $800 million in annual sales. As a result, Billabong's fortunes are closely linked to the value of the Australian dollar against the U.S. dollar. When the Australian dollar falls against the U.S. dollar, Billabong's products become less expensive in U.S. dollars, and this can drive sales forward. Conversely, if the Australian dollar rises in value, this can raise the price of Billabong's products in terms of U.S. dollars, which impacts sales negatively. Billabong's CEO has stated that every 1 cent movement in the U.S. dollar/Australian dollar exchange rate means a 0.6 percent change in profit for Billabong.

During the second half of 2008 it looked as if things were going Billabong's way. The Australian dollar fell rapidly in value against the U.S. dollar. In June 2008 one Australian dollar was worth $0.97. By October 2008 it was worth only $0.60. The fall in the value of the Australian dollar was in part due to a fear among currency traders that as the world slipped into a recession, caused by the 2008–2009 global financial crisis, global demand for many of the raw materials produced in Australia would decline, exports would slump, and Australia's trade balance would deteriorate. In anticipation of this, institutions sold Australian dollars, driving down their value on foreign exchange markets. For Billabong, however, this was something of a blessing. The cheaper Australian dollar would give it a pricing advantage and help to promote sales in the United States and elsewhere. Also, when sales in U.S. dollars were translated back into Australian dollars, their value increased as the Australian dollar fell. Anticipating this, in February 2009 Billabong's CEO affirmed that he expected the company to increase its profits by as much as 10 percent in 2009, despite the weak global retail environment.

Currency markets, however, can be difficult to predict, and sharp reversals do occur. Between March and November 2009 the Australian dollar surged in value, rising all the way back to $0.94 to one Australian dollar. The cause was twofold. First, there was a global sell-off of the American dollar as the full impact of the global financial crisis became apparent, and as the scale of debt in the United States became clearer. Second, despite a recession in the United States and Europe, the emerging economies of China and India continued to grow, and this helped to support demand for many of the basic commodities that Australia exports, which led to a strengthening of the Australian dollar. For Billabong, the sharp reversal was an embarrassment. The strong Australian dollar eradicated any pricing advantage Billabong might have enjoyed. Now the amount of Australian dollars that the company received for every sale made in U.S. dollars was declining. In February 2009 every $1 earned in U.S. currency could be exchanged for $1.66 in Australian dollars. By October 2009 every $1 earned in U.S. currency could only be exchanged for $1.06 in Australian dollars. In May 2009, with the Australian dollar rising rapidly, the CEO was forced to revise his previously bullish forecast for sales and earnings. Now, he said, a combination of weaker than expected demand in the United States, plus a strengthening Australian dollar, would lead to a 10 percent decline in profits for 2009.[1]