



## Break with tradition — earn discounts and other benefits by paying foreign suppliers in their local currency

There's a very simple strategy that U.S. importers can employ to earn discounts on purchases, extend payment terms, fix payment amounts and settlement terms, and improve trading partner relationships: Ask foreign suppliers if they would rather be paid in their local currency than the usual U.S. dollars (USD).

For years, the vast majority of U.S. imports have been paid for in USD. “Many U.S. companies view making U.S. dollar payments as simple and easy — they’ve always paid that way, and they feel comfort in knowing exactly how much is coming out of their account,” explains Sheryl Wilhelmy, vice president and international product group manager at U.S. Bank. “They shy away from foreign exchange (FX) because it seems complex.”

Furthermore, most foreign suppliers invoice in USD and no one questions the practice. “But, as a U.S. buyer, you should,” advises Joshua Quiroz, senior vice president and head of electronic foreign exchange sales at U.S. Bank. “There are hidden costs associated with paying foreign suppliers in U.S. dollars,” Quiroz points out.

### Avoiding a USD premium

Although not all U.S. businesses realize it, they generally pay a premium on imports when they pay in USD. Foreign suppliers build that premium into the price of goods to protect against possible fluctuations in the dollar's value and offset bank fees for converting USD into local currency.

“If foreign suppliers are billing you in U.S. dollars, they are typically going to ‘pad’ the price of your goods by up to 2 percent or more,” Quiroz says. Instead, if you pay

*Continued on page 11...*

*Continued from page 10...*

in the supplier's local currency, you eliminate its foreign exchange risk and you can potentially negotiate a discount, he adds.

“When the foreign supplier is getting paid in U.S. dollars, it prefers shorter payment terms not only for cash flow reasons, but also to minimize the time during which adverse currency-value fluctuations can occur,” he says. “If the U.S. buyer agrees to pay in the supplier's local currency, and assume the FX risk, the supplier will generally be more open to extending terms.”

## Other advantages

Cost savings in the form of discounts is probably the main reason to consider this strategy. However, U.S. importers paying in their foreign supplier's local currency also can often negotiate extended payment terms, Quiroz says.

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When the U.S. buyer pays in a foreign currency and assumes the FX risk, a common risk-mitigation strategy is for the buyer to use some sort of bank hedging instrument, such as a forward contract, to lock in the USD value of the payment between the time of billing and the time of payment. Fixing exchange rates through hedging is typically less expensive for the U.S. importer than paying the premium the foreign supplier would add to the cost of goods if it was being paid in USD.

FX hedging provides the buyer with certainty regarding the amount of the payment and also provides fixed settlement terms, Quiroz says.

What's more, offering to pay your foreign suppliers in their local currency can engender loyalty and goodwill. “Many suppliers will consider it a huge benefit,” Quiroz says. “They know exactly how much they will be paid for each transaction, they no longer need to manage the foreign exchange risk and they can price their products more competitively.”

## How U.S. Bank can help

U.S. Bank has FX experts available to explain FX risk mitigation instruments and show how easy they are to use. In addition, the bank offers online tools that put each user in command of the process: the SinglePoint® treasury management platform for initiating foreign currency payments and the U.S. Bank Foreign Exchange Web (FX Web) platform for secure, Internet-based execution of FX transactions, transmission of settlement instructions, online confirmations, and reports on historical and outstanding contracts.

Contact your U.S. Bank Treasury Management Consultant to learn more about paying foreign suppliers in their local currency. Your consultant can introduce you to one of our Foreign Exchange experts for further guidance.

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