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BUSINESS

Dollar's Rise Squeezes U.S.Firms

Avon,Expedia,P&G Face Challenges as Currency Strengthens

Avon,which books 88% of its sales outside the U.S.,can't raise prices on its makeup and wrinkle creams fast enough to offset the dollar's rise against the Brazilian real and other currencies.*BLOOMBERG NEWS*

By THEO FRANCIS
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The stronger dollar is often presented as an optical problem for U.S.companies-it makes their overseas sales look smaller.But it can do a lot of real damage, too.

Customers can disappear, competitors can get tougher and earnings can shrink-and it can be tough to adjust quickly. Together, they add up to a fast-evolving problem for corporate profits and U.S. growth.

Avon Products Inc., which books 88% of its sales outside the U.S., can't raise prices on its makeup and wrinkle creams fast enough to offset the dollar's rise against the Brazilian real and other currencies. The suddenly stiffer price of a U.S. holiday means fewer foreign travelers booking hotels through Expedia Inc.'s travel websites. European rivals to consumer-products makers like Procter & Gamble Co. now have an advantage in price wars for market share in the U.S.And utilities and steelmakers in Europe and Asia may buy less U.S.coal to fire their furnaces.

Myron Ullman, chief executive of J.C. Penney Co.and until last month chairman of the Federal Reserve Bank of Dallas, said in an interview a threat to U.S. growth, with consumers recovering, is a hit to exports as the strong dollar ratchets up the cost of American products and services overseas.

The effects are likely to become clearer as multinational companies report their end-of-year earnings over the coming weeks, and they could be significant. Johnson & Johnson said Tuesday that if exchange rates hold, the damage to its earnings would be two or three times what the company had projected in October.

Multinationals have spent decades shifting production closer to major markets, in part to avoid significant problems from currency fluctuations and leaving the U.S. less dependent on exports than any developed economy. Those efforts are imperfect, however, and the dollar's current rise comes as many companies are already wrestling with sluggish sales said Steven Winoker, an analyst at Sanford C. Bernstein & Co.

"If this were affecting 7% or 9% growth, we would not be so concerned," said Mr. Winoker, who estimates currency issues will reduce revenue growth for industrial and electrical equipment companies by 2.6 percentage points or more in 2015. "But with most companies at low/mid-single-digit underlying growth rates, this headwind becomes material."

For door-to-door beauty company Avon, the dollar is adding unwanted pressure on CEO Sheri McCoy's turnaround efforts. She has resolved an attention-draining foreign bribery probe and improved performance in some markets, but currencies have weighed heavily on the company's results and are likely to remain a problem.

Avon generates about a fifth of its sales in Brazil and significant amounts of the rest in countries like Russia, Argentina, Poland and South Africa. As a result of the stronger dollar, the company's sales fellS% in the third quarter. They were up 1% excluding currency effects.

The company's ability to adjust prices when local currencies fall is governed in part by the time it takes to print brochures. Avon also buys raw materials for sales in Europe, the Middle East and Africa using euros, dollars and other hard currencies, executives said. Local competitors that don't face those same pressures might be able to undercut any price increases Avon enacts, acting Chief Financial Officer Robert Loughran has said.

A company spokeswoman declined to comment ahead of Avon's fourth-quarter earnings report, scheduled for Feb.12.

Salesforce.com Inc.'s revenue has been growing quickly-up 29% for the three months ended Oct. 31-as the business-software company expands overseas, including a major effort in Europe.

Although more than a quarter of sales are outside the U.S., the company's research and development is at home, paid for in dollars, executives said earlier this month. Salesforce has held off raising prices overseas to avoid alienating customers. Currency shifts are likely to reduce revenue by $125 million to $150 million in the year ahead, the company said last fall.

"Our revenue is much more exposed than our expenses are internationally," Andrew Baer, a Salesforce senior vice president, told analysts on a conference call. "That will have a little bit of pressure."

A spokesman declined to comment.

Sometimes, the cost-revenue mismatch can work in U.S. companies' favor. Aluminum giant Alcoa Inc. mines the raw material bauxite in countries like Australia, Brazil, Suriname and Jamaica, and for the most part refines the ore into alumina at facilities near the mines. As currencies depreciate, Alcoa's local production costs fall.

Meantime, the company sells just over half its goods in the U.S. for dollars, based on 2013 figures. The result: Currency contributed $37 million to its $159 million in fourth-quarter earnings.

Not all minerals companies are that lucky. The strong dollar has made U.S. coal more expensive overseas, which means fewer shipments to European and Asian utilities and steelmakers there, said Fredrik Eliasson, chief financial officer of railway company CSX Corp. "If the U.S. dollar was weaker, we would most likely be shipping more export coal," he said. Mr. Eliasson said he expected shipments of coal for export to drop to 30 million tons from almost 40 million in 2014.

For tourist-dependent companies, the strong dollar chokes off business in much the same way that it does for U.S. companies seeking to export their goods.

Hotels in U.S. tourist destinations like New York have expressed worry about declining demand over the past few months, as the cost of an American vacation slides out of reach for many middle-class travelers from Europe and South America, said Dara Khosrowshahi, chief executive of Expedia. That is particularly disruptive because Brazilians and travelers from some other countries tend to spend more than domestic tourists and are generally less likely to cancel stays once they are booked, he said.

The dearth of foreign tourists is also weighing on Tiffany & Co., which gets 8% of its global sales from its flagship New York store that is popular with tourists. Shares dropped sharply last week after it warned fewer tourists and a stronger dollar contributed to disappointing holiday sales and would continue to pressure sales in the year ahead.

"When the dollar was weak, we saw loads of Europeans coming here to shop," said Mark Aaron, vice president of investor relations, adding that the company's expanding store base outside the U.S. is making it easier to weather downturns in tourism. "This is what happens when you're a global business."

U.S. companies also face the risk that foreign competitors will try to undercut them here, taking advantage of relatively cheaper production costs and the bigger bang for the buck from U.S. dollar sales to become more competitive on price or bump up their marketing spending.

"When the dollar gets stronger, they actually have more ammunition to go against you in your home turf," said Ali Dibadj, a consumer-sector analyst at Bernstein, drawing in part on proprietary data he said he has seen. "In the trenches, your non-U.S. competitors spend more back against you in the U.S."

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