

## Case Study 2:

# Samsung



It is difficult to summarise accurately and concisely everything that has gone wrong at Samsung, the huge South Korean electronics manufacturer, not least because the company's management themselves do not seem fully to have grasped the extent of the problems.

The paragraph below summarises the effect of a strengthening Korean Won ("KRW") on Samsung's exports (as goods priced in stronger currencies become more expensive to buy in foreign markets).

"Samsung Electronics has released its financial results for the second quarter of 2014, showing the first drop in net profit in three years for the Korean electronics giant, and a slowdown in its smartphone sales. The company also pointed to the appreciation of its home country's currency as a reason for the drop in its operating profits, pinning 500 billion won (\$488 million) in missed revenues on the foreign exchange market."

However, this is not a new phenomenon – the Won has been rising against most major currencies for some time, but tracking the path of the currency from 2012 to 2014 is instructive, particularly against the Japanese Yen ("JPY"), a currency in which many of the products of Samsung's key competitors are priced.

The JPY/KRW rate in mid-2012 was roughly 14.40 (i.e. 1 JPY was worth about 14.40 KRW). Two years later, in mid-2014, the rate had fallen to around 10.00. A move of this magnitude has enormous significance for a Korean company which has not hedged against the possibility of this happening. Samsung clearly falls into this category.

The situation facing, say, a US-based importer of electronic goods becomes dramatically clear – compared to two years earlier, a Japanese product in mid-2014 was about 30 per cent cheaper than its Korean equivalent, a change brought about purely by exchange rate movements alone.

Samsung's comment, lamenting the rise of the KRW and the nearly-half-a-billion US Dollars loss it caused, betrays the fact that one of the most crucial risks to which they were exposed – adverse exchange rate volatility – was completely ignored.

To discuss what happened to Samsung in more detail, or for advice about your own exchange rate exposures, please e-mail us by clicking [here](#).

*[Acknowledgement: An AFP agency report dated 31 July 2014 was the source of some of the material in this Case Study]*