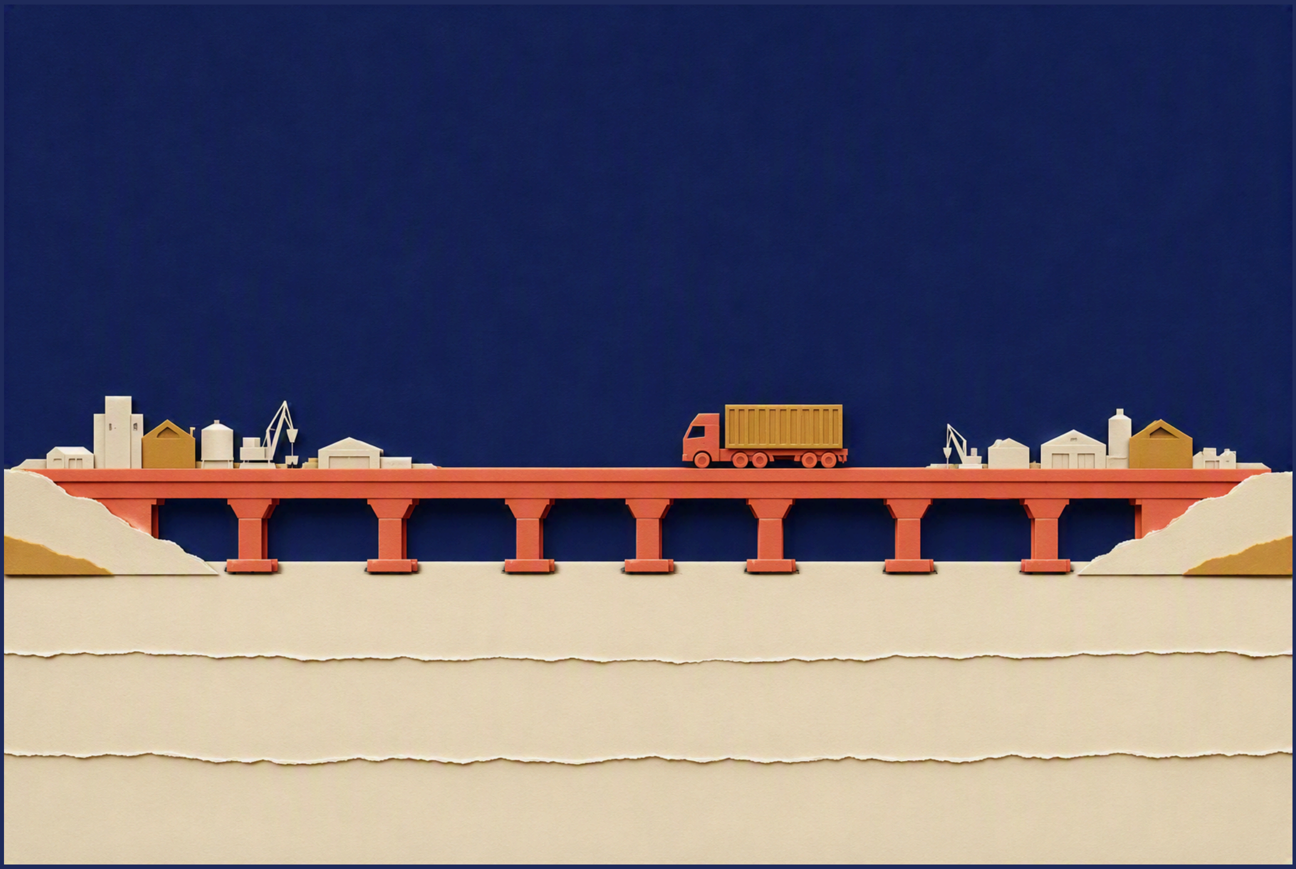


RAHIM MADHAVJI

Paid in America

The Canadian business owner's guide to cross-border money

A LEARN WITH RAHIM GUIDE FROM KNIGHTSBRIDGE FOREIGN EXCHANGE

Paid in America

The Canadian business owner's guide to cross-border money

Rahim Madhavji

PRESIDENT, KNIGHTSBRIDGE FOREIGN EXCHANGE INC.

This guide is general information, not financial, tax, or legal advice. Every figure in it comes from your own records, not from mine. The businesses described are composites drawn from conversations since 2009; none is a single identifiable client. Talk to your accountant about your own situation.

Knightsbridge Foreign Exchange Inc. is a money services business registered with FINTRAC (M09819788) and regulated by the Autorité des marchés financiers in Quebec. The author is its president and has a financial interest in the currency exchange services described in Part Four.

INTRODUCTION

The most expensive expense nobody tracks

Three owners. Three different businesses. The same afternoon.

The manufacturer

She runs a plant outside Toronto that imports components from Ohio, and ships finished goods to Michigan. She has been in business eleven years. She negotiates freight. She shops insurance every renewal. She reads her bank statements line by line. Last spring her new controller asked a simple question: what rate did we get on the March supplier payment? Nobody knew. It took an hour to work out, and when they did, she asked him to do the whole year. He came back with a number bigger than the plant's annual insurance premium.

The online retailer

He sells outdoor gear to American customers through his own site. Revenue comes in US dollars, seven days a week, in hundreds of small payments. His platform deposits it into his Canadian dollar account automatically. He had never thought about it, because he had never had to do anything. Then a supplier in Colorado asked to be paid in US dollars, and he bought US dollars to do it. His bookkeeper pointed out that he had sold US dollars on Tuesday and bought them back on Friday, and paid a margin both times, on money that could have stayed exactly where it was.

The trucking company

She runs forty trucks across the border and gets paid by US shippers in US dollars. Her competitor down the highway is slightly cheaper on every lane, and she could never understand how, because their equipment and their drivers cost the same as hers. Then she sat next to him at an industry dinner, and he mentioned, in passing, that he had not converted a US dollar at his bank in six years.

None of these people were careless. None of them were cheated. They were each losing money in the one place a business owner is never trained to look.

This guide is the conversation I have had with owners like them, two or three times a day, since 2009. In that time, my company has moved more than $30 billion across the border for Canadians, a large share of it for businesses paying US suppliers and getting paid by US customers. I have watched the same discovery happen thousands of times, and it almost always happens by accident.

I would rather it happened on purpose.

You will need a year of bank statements and one afternoon: no software, no consultant, no call with me. At the end, you will know what the exchange rate cost your business last year, in dollars. You will know the seven ways that cost gets in. And you will know the three decisions that control it.

That is the whole guide. It is short because the work is yours, not mine.

> *The market rate is weather. The margin is a price. You can shop a price.*

PART ONE

The cost nobody can see

It is not a fee. It was never written down.

Four sections of explanation, and then you can stop reading theory and start reading your own statements, knowing exactly what you are looking for.

QUICK ANSWER

Every time your business buys or sells US dollars, whoever converts the money keeps a slice of the exchange rate. It is not a fee. It never shows up as a line item. It is quietly built into the rate you were given. For a business moving US$500,000 a year in both directions, it is usually a five-figure number. For a business moving US$30 million, it is large enough to change what the company is worth.

Why smart owners miss it

Think about what you track.

Payroll. You see every cent, twice a month. Rent. One line, once a month, and you negotiated it: fuel, freight, insurance, software, marketing. Each one arrives as an invoice, gets approved by someone, and lands in a budget line where you can watch it grow.

The exchange rate does none of that.

Nobody sends you a bill for it. Nobody approves it. There is no line in the budget, because there is nothing to put in the line. The money arrives slightly smaller than it should have, or leaves slightly larger, and the difference vanishes into the rate before anyone sees it.

That is not a flaw in your bookkeeping. It is how the product is designed. A margin buried in a rate is invisible in a way that a fee on a statement never is, and the people who design bank pricing know it.

WHAT YOU TRACK

Arrives as an invoice. Approved by someone. Sits in a budget line. Compared year over year. Negotiated at renewal.

WHAT THE RATE DOES

No invoice. No approval. No budget line. No comparison. No renewal conversation. Nothing to negotiate, because nothing was ever quoted.

How the rate actually works

Every day, banks trade US dollars with each other at a wholesale rate. That is the number you see on the news. It is the number your accountant uses. Customs uses it when your goods cross the border. Call it the market rate.

Nobody gives you the market rate. Whoever converts your money adds a margin, and that margin is their revenue on the trade. If the market rate is 1.39 and you were given 1.43, the difference is roughly three percent, and three percent of every US dollar you moved last year left the business without ever being invoiced.

MARKET RATE	YOUR RATE	THE MARGIN
1.39	1.43	0.04
What banks pay each other. What your accountant and customs use.	What you were quoted. The only number on your statement.	Roughly three percent. Never invoiced, never approved, never in the budget.

> *The market rate is weather. The margin is a price. You can shop a price.*

The owner who negotiated everything except this

One more story, because it makes the point better than I can.

An importer brings in about a million US dollars of product a year. He is a serious negotiator. Every spring he sits down with his suppliers and grinds out another two or three percent. He is proud of it, and he should be. It is real money, and it takes real skill.

Then he converts the million dollars at whatever rate his bank gives him that day, without asking.

When we finally did the arithmetic together, the margin on the exchange was larger than everything he had won at the negotiating table that year. He had spent weeks fighting for three percent on the invoice and given back more than that on the currency, on the same shipments, without noticing.

He was not a bad operator. He was an excellent one. Nobody had ever told him where to look.

CURRENCY MYTH #1

"My bank gives me the market rate."

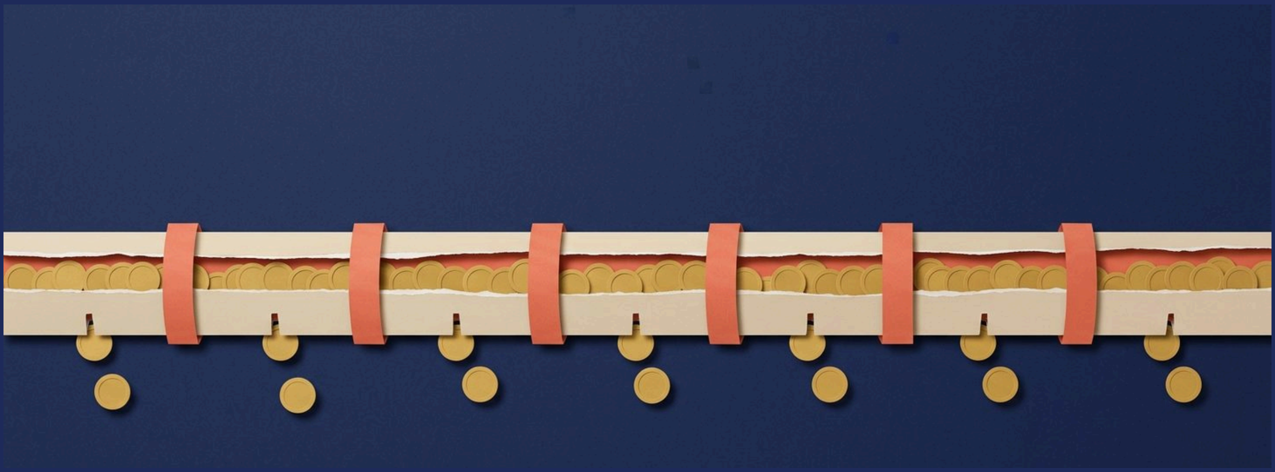
Almost nobody receives the true market rate. The rate you see on the news is what banks charge each other. What you are quoted is that rate plus a margin, and the margin is rarely stated. If you have never asked what it is, you have never been told.

PART TWO

The seven ways the money gets out

Most owners are making three or four of these at once.

Everything in Part One comes down to the margin. Here are the seven ways it gets into your business. Read them as a checklist, not as an indictment: every one of them is a process you can change this quarter.



THE SEVEN

1. Not knowing your number
2. Converting every payment on its own
3. Letting money convert automatically
4. Converting twice
5. Invoicing in the wrong currency
6. Waiting until the last minute
7. Treating currency like a bet

MISTAKE ONE

Not knowing your number

You cannot manage what you have never measured. Almost no business owner I meet can tell me, within a percentage point, what the exchange rate cost them last year. Part Three fixes this in an afternoon.

MISTAKE TWO

Converting every payment on its own

Four supplier payments a month, each converted separately, each at the rate for a small amount. Larger conversions get better rates almost everywhere. One consolidated conversion that funds four payments is nearly always cheaper than four small ones. The money is the same. The margin is not.

MISTAKE THREE

Letting incoming US dollars convert automatically

Your US customer pays. The money lands in a Canadian dollar account. Your bank converts it on arrival, at whatever rate it chooses, before you have even seen it. You never made a decision, which means you never had a chance to make a better one. This is the retailer's mistake, and it is the most common one I see.

> *Mistakes one to three are all the same mistake: a conversion nobody decided.*

MISTAKE FOUR

Converting twice

US dollars come in and become Canadian dollars. Two weeks later you buy US dollars back to pay a supplier. You paid the margin in both directions on the same money, and the money never needed to leave US dollars at all. This is the single most expensive habit in cross-border business, and it is also the easiest one to stop.

MISTAKE FIVE

Invoicing in the wrong currency

Whoever's currency is on the invoice, the other party carries the currency risk. Invoice a US customer in Canadian dollars, and you have handed them a problem they will price back into what they are willing to pay, or solve by finding a US supplier. The currency on the invoice is a pricing decision, and most owners never make it deliberately.

MISTAKE SIX

Waiting until the last minute

The payment is due Friday. On Friday morning you convert, at Friday's rate, with Friday's margin, because there is no time to do anything else. Every conversion done under time pressure is a conversion done on someone else's terms. This is a planning problem, not a market problem.

Four, five, and six are decisions you can make once and never revisit.

MISTAKE SEVEN

Treating currency like a bet

This is the one that costs the most management time for the least return.

Owners spend hours reading forecasts. Where is the dollar going? Should I wait? Should I move now? They obsess over the direction of the rate, which nobody controls and nobody reliably predicts, and ignore the margin, which they control completely.

I have run a currency business since 2009. I read the market every morning. I do not know where the Canadian dollar will be next month, and neither does anyone who tells you they do. What I do know is that a business that shops its margin will almost always beat a business that guesses the direction, year after year.

> *Stop asking where the rate is going. Start asking what you are paying to get there.*

CURRENCY MYTH #2

"I should wait until the dollar comes back."

Comes back to what? The rate you remember from three years ago is not a fair price the market owes you. It is a number that happened once. Waiting for it is not a strategy. Pricing your business so that it works at today's rate is.

PART THREE

The afternoon audit

Your figure, from your own statements.

This is the part that matters. Everything before it was explanation. You are going to work out what the exchange rate cost your business over the last twelve months. Not an estimate, not an industry average.

WHAT YOU NEED

Set aside an afternoon. You need three things: twelve months of bank statements covering every account that touched US dollars, the invoices or receipts that go with them, and the daily market rate for each date, which the Bank of Canada publishes for free on its website for every business day.

Step one: list every conversion

One row per transaction. Every time US dollars became Canadian dollars or Canadian dollars became US dollars, in either direction, at any institution.

Do not filter. The small ones matter, because there are usually more of them than you think.

Step two: fill in six columns

COLUMN	WHAT GOES IN IT
Date	The date the conversion happened
US dollar amount	The amount in US dollars
Canadian dollar amount	What actually left or arrived in Canadian dollars
Your rate	Canadian amount divided by US amount
Market rate	The published market rate for that date
Cost, CAD	The gap multiplied by the US dollar amount, from step three

> The worksheet on the next page has all six columns ruled and ready. Print it, or rule the same columns in a spreadsheet.

THE WORKSHEET

What the rate cost you last year

One row per conversion, both directions, no exceptions. Your rate is the Canadian amount divided by the US amount. The cost on each row is the gap between your rate and the market rate, multiplied by the US dollar amount. Always record the gap as a positive number.

DATE	US$ AMOUNT	CAD AMOUNT	YOUR RATE	MARKET RATE	COST, CAD
Total	US$	$			$

The total in the last column is your number: what the exchange rate cost your business over twelve months.

Divide that total by the total US dollars you moved. That is your effective margin, as a percentage.

Step three: work out the gap

For each row, find the gap between your rate and the market rate. When you buy US dollars, your rate is above the market rate. When you sell US dollars, it is below. Either way, record the gap as a positive number. Multiply that difference by the US dollar amount. That is what the conversion cost you, in Canadian dollars, on that one transaction.

Here is one row, worked through, with made-up numbers.

US dollar amount	US$50,000
Canadian dollars that left the account	C$69,500
Your rate	69,500 ÷ 50,000 = 1.3900
Market rate that day	1.3700
Gap	1.3900 − 1.3700 = 0.0200
Cost of this conversion	50,000 × 0.0200 = C$1,000

One payment. One thousand dollars. Now do it for every row and add the column up.

That total is your number.

Step four: turn it into a percentage

Divide your total cost by the total US dollars you moved. That gives you your effective margin, as a percentage.

Write it on a sticky note and put it on your monitor. You will need it at the end.

DO THIS NOW

1. Pull twelve months of statements for every account that touched US dollars.
2. List every conversion, both directions, no exceptions.
3. Look up the market rate for each date.
4. Work out the gap on each row and add up the column.
5. Divide the total by the US dollars moved to get your percentage.

What the number usually looks like

I am not going to tell you what your percentage will be, because I do not know your bank, your volumes, or what you negotiated.

I will tell you three things I see over and over.

Nobody guesses it right.

Almost nobody has guessed correctly before doing the exercise. The number is nearly always higher than the owner expected, sometimes by a multiple.

Size changes the price.

Larger conversions almost always get a better rate than small ones. If you have a mix, your spreadsheet will show two different worlds inside the same company.

It outranks things you argue about.

Most owners find the total is bigger than at least one line item they spend real management time arguing about.

CURRENCY MYTH #3

"Foreign exchange only matters for big companies."

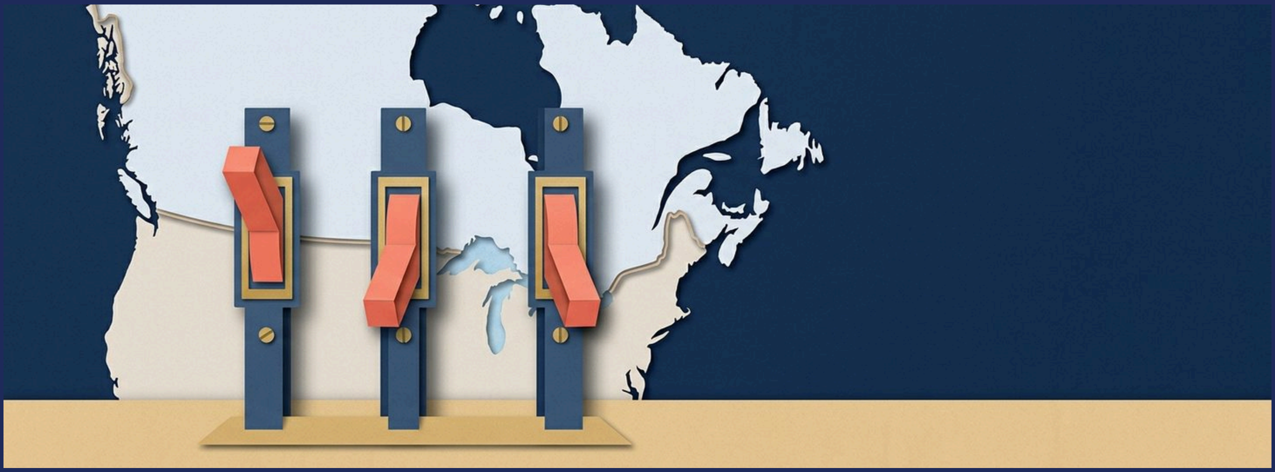
The margin is a percentage. It does not care how big you are. A business converting two hundred thousand dollars a year at a poor rate is losing the same share of every dollar as a business converting twenty million. The big company has someone whose job it is to notice.

PART FOUR

Three decisions that control it

You now have a number. Here is what moves it.

Invoice in the right currency. Stop converting the same money twice. Shop the rate on whatever is left. In that order, because each one shrinks the work the next one has to do.



FIRST, A DISCLOSURE

I own a currency exchange company, so read Part Four with that in mind. I have written it so it works whether you speak with us or not, and I have told you how to check each point against your own bank.

DECISION ONE

Invoice US customers in US dollars, with a cushion

Invoice in US dollars, and set the price a little above a straight conversion of your Canadian cost. Two or three percent covers a typical margin and a modest rate move. Your customer sees a US dollar price and compares it to other US dollar prices. Nobody sees your cushion.

For anything large, dated, and months away, ask your lawyer about a clause that adjusts the invoice if the rate moves past a stated band before the invoice date. Name a public rate source in the clause so there is nothing to argue about later.

This fixes mistake five, and it does something else. It turns the rate from a thing that happens to you into a thing you priced for.

> *The currency on the invoice is a pricing decision. Make it on purpose.*

WHAT TO CHECK

Look at your last ten invoices to US customers. Count how many are in Canadian dollars. If the answer is most of them, nobody made that decision.

DECISION TWO

Stop converting twice

If US dollars come in and US dollars go out, they should never both touch Canadian dollars.

Open a US dollar account at your Canadian bank. Your US customers pay into it. Your US suppliers get paid out of it. The matching money never gets converted, and you only buy or sell the difference.

Go back to your spreadsheet and find the rows where you sold US dollars in one month and bought them back in another. Those are the rows this removes entirely. For many businesses, that single change is the largest number on the page.

Ask your bank what the US dollar business account costs and whether the fee is waived above a balance. The answer varies by bank and plan, and it is usually small compared with what a round trip costs you.

This fixes mistakes three and four in one move. The trucking company's competitor from the introduction did exactly this, six years before she found out.

> WHAT TO CHECK
>
> Find one month where you both sold and bought US dollars. Add the two costs from your worksheet together. That pair of rows is what a round trip costs you, once.

DECISION THREE

Shop the rate on whatever is left

Some conversion is unavoidable. You have Canadian costs and US revenue, or the other way round, and the gap has to be bridged. Three habits.

Ask for the rate, not the fee.

"What is your fee?" gets you the wire charge. "What all-in rate will you give me on US$50,000 today?" gets you the number that actually matters. Ask it exactly that way, with the amount in it.

Ask on amount.

Larger conversions get better rates almost everywhere. If you are making four payments a month, ask what one consolidated payment would be worth. This is mistake two, solved.

Compare on the same day, at the same hour.

Rates move. A quote from Tuesday against a quote from Thursday tells you nothing.

Then use whoever wins. If that is your bank, use your bank. I mean that.

> *You cannot control the rate. You can control the margin, and the margin is what was costing you money.*

PART FIVE

Lessons from thirty billion dollars

Five observations.

I have watched a lot of money cross the border. Here is what it taught me that I could not have learned from a textbook.

WHAT THEY HAVE IN COMMON

None of these five lessons is about the market. Each one is about a process somebody either built or left alone. That is the whole difference between the businesses that keep the money and the businesses that hand it over.

The biggest companies are not the most sophisticated

I have seen ten-person shops with tighter currency discipline than firms a hundred times their size. Size buys you a treasury department. It does not buy you someone who actually looks. Some of the worst margins I have ever seen were being paid by companies that could easily have afforded better and never asked.

Small mistakes, repeated, become the largest number in the building

No single conversion ruins anyone. A quarter of a percent here, half a percent there. The damage is never in one transaction. It is in the same transaction done wrong four hundred times over five years. When owners finally add it up, the total is rarely what breaks them. It is the realization of how long it had been going on.

The best operators build a system, not a habit of heroics

The owners who keep the most money are not the ones who time the market brilliantly once. They are the ones who put the US dollar account's wire details on the invoice template and never thought about it again. Boring decisions, made once, compound. Clever decisions, made under pressure, do not.

Currency risk is a process problem, not a market problem

When an owner tells me the rate hurt them, the real story is almost always a process story. They converted twice. They converted on the due date. They let money auto-convert on arrival. The market did what markets do. The process is what turned a normal rate move into a loss.

The businesses that win think in margins, not in rates

Ask an average owner about currency, and they will tell you where they think the dollar is going. Ask a good one, and they will tell you what they paid over market on their last conversion, to the basis point. One of those numbers is a guess. The other is a fact you can act on tomorrow morning.

Boring decisions, made once, compound. Clever decisions, made under pressure, do not.

PART SIX

The routine, and the five questions

ONCE, AT SETUP

Open a US dollar account at your Canadian bank if you do not have one.

Put that account's wire details on your invoice template, not the Canadian dollar account's.

Pick a rate you will assume when you price and forecast for the year. Write it down.

Name a rate source in your quote template and add an expiry to quotes.

EVERY TIME YOU CONVERT

Ask for the all-in rate on the specific amount.

Get at least one competing quote on the same day.

Keep the trade confirmation with the invoice.

EVERY QUARTER

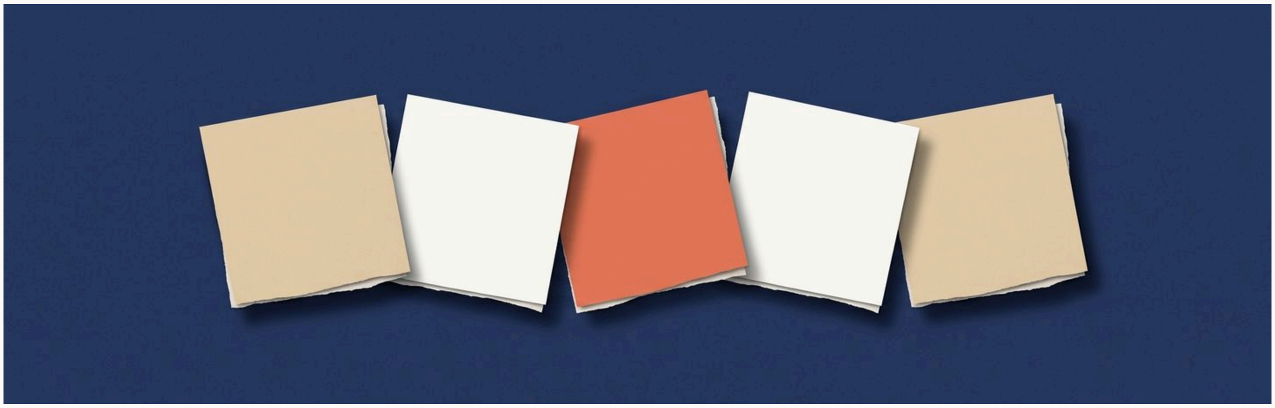
Compare the current market rate to the rate you assumed. If it has drifted badly, reprice.

Redo one month of the worksheet. It takes twenty minutes and tells you whether anything changed.

FIVE QUESTIONS FOR YOUR ACCOUNTANT

1. Which rate are we using to record US dollar transactions, and are we using the same method consistently?
2. Are our foreign exchange gains and losses landing in the right place, and do you need to know what each payment was for?
3. What records do you need us to keep for every US dollar transaction, and for how long?
4. If we sell to US customers, what proof do we need to keep that those sales are zero-rated?
5. Does anything about how we operate in the United States create a US filing obligation?

Five questions. Answer them without opening a spreadsheet.



If you can answer all five from memory, you are ahead of most owners I meet. If you cannot, you now know exactly where to start.

1 How many US dollars did we move last year, in and out?

2 What did the exchange rate cost us on that, in dollars?

3 What was our margin over market, as a percentage?

4 Did we convert the same money twice?

5 Who else quoted our last conversion?

> The first three are on the sticky note from Part Three. The fourth is in your worksheet. The fifth decides whether that number goes down next year or stays the same.

It is already your money

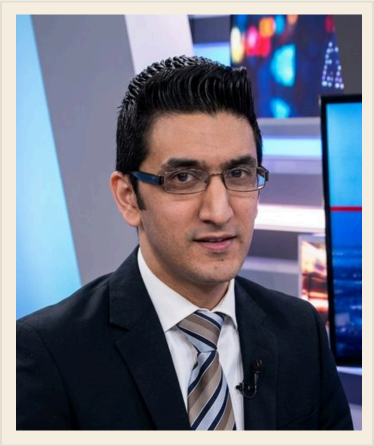
You have a number, you have seven mistakes to check yourself against, and you have three decisions.

Here is the only thing left worth saying. The gap between what you paid last year and what you could have paid is not a saving you have to chase. It is money that was already yours. Nobody has to approve it, nobody has to sell anything extra to earn it, and it does not require a single new customer.

Go and get one competing quote this week on whatever you convert next. Same day, same amount, all-in rate. Compare it to what you have been getting.

If your bank wins, you have lost nothing, and you now know your pricing is fair. If it does not, you have found the number on your sticky note, and you get to keep it from now on.

About the author



Rahim Madhavji is the President of Knightsbridge Foreign Exchange Inc., a Toronto currency exchange company he founded in 2009. Since then, the firm has helped more than 150,000 clients exchange over $30 billion, a large share of it for Canadian businesses paying US suppliers and getting paid by US customers. Knightsbridge is registered with FINTRAC as a money services business (registration M09819788) and is regulated by the AMF in Quebec.

Before Knightsbridge, Rahim worked in investment banking at RBC Capital Markets and in private equity at TorQuest Partners. He holds an HBA from the Ivey Business School.

Rahim created one of the fastest-growing companies in Canada, as ranked by the Globe and Mail and the Financial Times. He appeared on Dragons' Den in 2019 and received a $1 million offer on air from four Dragons. He is a regular commentator on currency for BNN Bloomberg, CTV News, the Globe and Mail and CBC, and is a former member of the Forbes Finance Council.

This is the third book in the Learn with Rahim series. The others are *The Snowbird's Money Book*, *Coming Home*, and *A Place in the Sun*.

You can find Rahim's writing at knightsbridgefx.com/author/rahim-madhavji.

You cannot fix the exchange rate. You can stop overpaying for it.

The margin is built into the rate you were given, so it never appears on a statement and nobody ever approves it. This guide is about what you can control: what currency you invoice in, how often you convert, and who you convert with.

Daily conversations since 2009 with Canadian business owners moving money across the border, in one short guide and one worksheet.

More at knightsbridgefx.com/author/rahim-madhavji

KNIGHTSBRIDGE
FOREIGN EXCHANGE INC.

RAHIM MADHAVJI
KNIGHTSBRIDGEFX.COM