Plymouth Meeting, Pa. -- THE FIRST THING Kim Reynolds does each morning is meet with his top factory-floor managers to see if all is well on the production line. The second thing he does is scan the latest intelligence from global currency markets to see if all's well on his bottom line.

It's a routine born of harsh experience: Two years ago, a skyrocketing dollar was one reason why Mr. Reynolds, president of family-owned tubing maker Markel Corp. here in suburban Philadelphia, took a 40% pay cut and had to dip into his savings to cover his two daughters' school tuition. These days when Mr. Reynolds flips through the daily currency report his secretary puts on his desk, he sees a weaker dollar -- and stronger euro -- that could add as much as a half-million dollars to his profit this year.

To traders, currency ups and downs are a way to make a quick buck. To heads of state, they are referendums on national economies. To corporate giants, they are a fact of life of international production. But for a small company with global aspirations, swings in the $1.2 trillion-a-day world-currency markets are very personal.

Markel, whose Teflon-like tubing and insulated lead wire is used in the automotive, appliance and water-purification industries, got into exporting in the mid-1980s when Mr. Reynolds received a call from a German parts maker asking about one of his best-selling tubes: "Was ist das AR500?"

Now the shipping department at Markel is crowded with cardboard barrels of AR500 destined for German automotive-parts company W.H. Kuster GmbH, in Ehringenhausen, boxes of automotive tubing for delivery to Fico Triad SA in Rubi, Spain, and wooden spools of insulated cables for Simco Japan Inc. in Kobe. Once a week the company sends a 40-foot shipping container to warehouses in Britain, Spain or Holland, and it expects 40% of its $26 million in sales this year will be overseas, mostly in Europe.

"We use a fixed [currency-price] conversion when we quote prices, and we assume the currency loss or gain," says Cheryl Jolly, Markel's export manager, as she supervises the weighing of boxes bound for Germany.

To protect himself and his company -- which is unrelated to the New York Stock Exchange-listed insurance company of the same name -- Markel's Mr. Reynolds has forged a business strategy that allows it to survive, and perhaps even prosper, when a key element of his profitability is far beyond his control.

Markel's is a four-part approach: charge customers relatively stable prices in their own currencies to build overseas market share; tap "forward" currency markets to provide revenue stability over the next few months; improve efficiency to make it through the times when currency trading turns ugly; and roll the dice and hope things get better.

"You can always change your strategy if it starts to become too painful," says Mr. Reynolds, who is 52 years old and has a Harvard M.B.A. "But I'm not willing to abandon my strategy. We're trying to develop niche businesses where we provide a unique product to customers world-wide."

Mr. Reynolds believes his policy of keeping the prices set in foreign currencies, mainly the euro, has helped him capture 70% of the global market in high-performance, Teflon-based cable-control liners, tubes that allow car accelerator or shift mechanisms to move smoothly.
But it also means that Markel signs contracts that lead to the delivery of wads of euros months or even years down the road, when the value of those euros in dollars may be much less than it was at signing.

To minimize the uncertainty over the span of a few months, Markel's chief financial officer, James A. Hoban, buys forward contracts through PNC Financial Services Group in Pittsburgh. Markel promises the bank say, 50,000 euros in four months, and the bank guarantees a certain number of dollars no matter what happens to the exchange rate.

When he thinks the dollar is on its way up, Mr. Hoban might hedge his entire expected euro revenue stream with a forward contract. When he thinks the dollar is heading down, he will hedge perhaps 50% and take a chance that he will make more dollars by remaining exposed to currency swings.

He doesn't always guess right. Sometime this month, for instance, Markel will have to provide PNC with 50,000 euros from a contract the company bought in early January. The bank will pay $1.05 per euro, or $52,500. Had Mr. Hoban waited, Markel could have sold at the going rate, $1.08 and made an additional $1,500. "We're not in the business of trying to make money on our foreign exchange," Mr. Hoban says. "We're just trying to manage our risks."

To make matters worse, Markel cut the supply deal with Germany's Kuster in 1998 and set the sales price assuming the euro would be at $1.18 by now, just a tad stronger than it traded at when introduced officially at the beginning of 1999. "Dumb us," Mr. Reynolds says. "At the time it was introduced, nobody thought it would immediately plunge."

In fact, the euro sank like a rock, bottoming out near 82 cents on Oct. 26, 2000, and that meant each euro Markel received for its products was worth far less in dollars than the company had expected. In 2001 and 2002 combined, Markel identified more than $625,000 in currency losses, and the company posted overall losses in both years.

The company's seven senior managers took 10% pay cuts in 2001. None of Mr. Reynolds's 63 salaried employees got raises. (His unionized hourly workers were on a five-year contract and were unaffected.) There were no year-end bonuses, which usually amount to two or three weeks' pay. And the owners, Mr. Reynolds, his brother-in-law and his father-in-law, received no dividends.

The looming dollar threat also forced Markel to become more efficient. That meant spending on new equipment even when the company was losing money. In 2001, the company paid $250,000 for a new extruder with less down-time, that generates 25% more footage per work shift. Managers cut waste material by 6% in production of high-temperature oxygen-sensor wires, another big seller for the car industry.

In essence, Mr. Reynolds and his team rode out the bad times as best they could. And now they are beginning to enjoy the good times.

Most of Markel's current deals were written assuming that the euro would be valued between 90 cents and 95 cents. But at the current $1.08, helped by worries about the U.S. trade deficit, jittery U.S. financial markets and a possible war in Iraq, it has been a currency windfall for Markel. Company executives figure that if the euro remains between $1.05 and $1.07, and the British pound remains at about $1.60, Markel will post $400,000 to $500,000 in currency gains this year.

"That's the best-case scenario, and it still doesn't get our nut back from the two previous years," Mr. Reynolds says.

The currency gamble goes both ways, however. Mr. Reynolds demands multiyear dollar contracts for his raw materials, meaning that his Japanese supplier takes home fewer yen as the dollar weakens.

"That," Mr. Reynolds says, "is his problem."