

# Aes case study

Business



What are GSM translation and transaction exposure to the yen? What IS Gem's competitive exposure to the yen? (Quantify how much could they lose? ); Steps to estimate Gem's loss from a 20% devaluation of the yen: 1 . Compute the percentage cost savings the Japanese automakers will pass on to consumers (how much will they lower prices) How many more cars will the Japanese sell per year at this lower price? 3. How many less cars will GM sell? How much profit will GM lose due to lost sales to the Japanese? B.

Alternatives: How could they hedge the competitive exposure? Should they? C. Neat should they do? Why? How? What are the effects? M's translation exposure refers to their balance sheet exposure; while, transaction exposure pertains to Gem's cash flows risk. Gem's current transaction exposure to the y en is \$400 million.

This number is calculated by taking Gem's accounts payable and subtracting them from accounts receivable. This number is given as \$900 million, who {o subtract long term debt from this (\$500 million) you find the exposure is equal to \$400 million.

Gem's competitive exposure is due to competitors possibly taking advantage of a devaluation of the yen to hurt Gem's market share. With a devaluation the yen, competitors could pass some of their savings on to the customers, in the for m of lower prices. MM could hedge against the competitive exposure by increasing their investments in Lebanese Automakers, specifically Suzuki. Currently, GM has ownership stake of 20% in Suzuki and is only exposed to \$.

09 billion. Their percentage ownership in Suzuki is tied for the fewest with Fuji and has the least exposure amongst the three Japanese auto manufacturers.

Increasing investments in Suzuki would assist Gem's hedge against SST Japanese competitors benefiting from a devaluing yen. MM should look to hedge by investing more in Suzuki and other Japanese auto manufacturers. Given the recent trend of yen per dollar, the yen is more than likely going to continue to devalue.

As the yen continues to devalue Gem's profit margin and market share will take a big hit. By increasing the investments in these Japanese companies would protect Gem's bottom line from the potential market share loss to competitors.