Samsung electronics usa’s financial mechanisms essay

Samsung Electronics Corporation is one of the world's leaders when it comes to semiconductors, media, telecommunications, digital technologies and other latest innovations. As one of the world's leading electronics company, Samsung Electronics holds on to their mission of bringing top quality high-end products in the world.

Samsung Electronics have increased its investments around the world having 337 offices and bases across 58 countries in the world. One of its major subsidiaries is the Samsung Electronics America located at Ridgefield Park, New Jersey. Today, Samsung Electronics USA continues to improve not only their innovations, but also, its growth as a company and a tough competitor in the electronics market. Samsung Electronics acquired $57.

4 billion as a parent company sale in 2005 and a total of $7. 5 billion as its net income. These improvements were acquired through their sales of products. Samsung Electronics sells almost everything needed and in the computer.

It is also into the sales of TV, VCR, MPEG Players, DVD and the world's top producer of the Dynamic RAM maker. Looking at the stocks of Samsung Electronics, its highest for 52 weeks is 743, 000 (KW) and low at 541, 000(KW), quite reasonable on Samsung Electronics' economic activities. Economic activities of Samsung Electronics America are quite affected by some external factors. One of these is the Sarbanes-Oxley act.

Upon the implementation of the Sarbanes-Oxley Act of 2002, many changes occurred. Sarbanes- Oxley Act was amended in order to protect investors from some financial problems. It aims for the companies to release to the public their real finances in order to set the appropriate prices for the products. Most of financial reports and expenses were hidden due to confidentiality.

With the implementation of the Sarbanes-Oxley Bill, records are made available to public. Before the Sarbanes-Oxley Act was implemented, Samsung Electronics America were allegedly caught to fix their prices from 1999-2002. Samsung was said to collude with three other companies to set uniform prices to keep their market share. This violates the antitrust law.

Recently, Samsung Electronics America pleads guilty on the case and is willing to pay $300 million for the DRAM price fixing act, a loss on the part of Samsung. With the implementation of Sarbanes-Oxley Act, cases of price fixing can be minimized but much to the disadvantage of some firms, including Samsung Electronics America. Table 1. Important Financial Aspects for 2002Sales$33. 8 billionOperating Profit$6.

0 billionNet Income$5. 9 billionSource: Samsung Electronics Financial Reports 2002After the controversy Samsung Electronics America was faced into, new financial schemes should be adapted. On the year 2003, growth rate of Samsung Electronics America reached 40% by the year's second quarter on the gross basis. Demand for DRAM is high, that is why, and expansion of production on top selling products was done. Relating the earnings of Samsung Electronics, revenue reached 43.

58 trillion (in Korean Won). Research and Development was one of their focuses. Investment in research and development can gain them more profit.

Upon new innovations to be introduced by Samsung Electronics will be much to their advantage.

Whatever new technology they will introduce to the market will increase their sales since they are the only company offering that technology. One good example is the Matrix Revolutionized Phones. It has many features unique of its kind making people buy these phones. This financing for researchers did help in increasing their sales.

Since the benefit of investing people for research and development of products somewhat exceeds the cost, relatively larger allotment were given to research and development. Table 2. Important Financial Aspects for 2003Sales$36. 4 billionOperating Profit$6. 0 billionR&D Expense$2.

9 billionSource: Samsung Electronics Financial Reports 2003This growth was sustained up to 2004 although; there was lesser compliance and leverage. Lending money to finance the company’s production was reduced by Samsung Electronics since its Debt-Equity Ratio reached to about 0%. Therefore, it is much risky to lend them. Their paying capacity is low as revealed by the Debt-Equity ratio. Finances were stretched to meet production expenses. Table 3.

Important Financial Aspects for 2004Sales$78. 5 billionOperating Profit$11. 3 billionNet Income$10. 3 billionEarning per Share$65 billionSource: Samsung Electronics Financial Reports 2004 As of the latest records regarding the Debt-Equity Ratio of Samsung Electronics in 2005, the Debt-Equity Ratio of is 0. 3%.

Looking at the table below, comparing 2005 to 2006’s 1st Quarter Debt-Equity Ratio, it decreased by 0. 1%. This means that the Samsung financial management implements a 0. 1% decrease in its financial borrowing or lending. This means that Samsung Electronics is now at low-risk.

This finance mechanism was maintained up to the 2nd Quarter of 2006, placing them as one of the 10 Top Holdings in America. Relating this to Samsung USA’s financial strategies, reduction of cost is the primary mechanism Samsung is adapting to. Table 3. Important Financial Aspects for 2005Sales$79.

5 billionOperating Profit$7. 5 billionNet Income$7. 5 billionEarning per Share$49 billionSource: Samsung Electronics Financial Reports 2005 Table 4. Key Ratios from 2002- 20062002200320042005 2006Debt/ Equity6%4%0%0.

3%0. 2%Net Debt/ Equity23%23%21%17%10. 8% (as of 2nd quarter)Source: Samsung Earning Release, 2006Looking at these Debt-Equity ratios, these ratios imply something on Samsung Electronics America as mildly mentioned earlier. Debt-Equity ratio is used as a measure of a firm’s ability or capacity of repaying debts or lent money.

If a firm’s debt-equity ratio is high, it means that its growth is financed greatly by borrowing. Looking at Samsung Electronics America, the Debt-Equity ratio is relatively high, slowly decreasing as time goes by. In 2002, its growth rate was primarily financed by borrowing. It decreased to 4% in 2003 because the earnings from DRAM were a bit sufficient to finance growth by 2003. The Debt-Equity decreased also to about 0% in 2004 because of the continuous increase in earnings.

Competition is inevitable and to sustain growth, some borrowings are needed vis-a-vis the stockholders equity. It is sustained up to the 2nd quarter of 2006. To have an increased growth due to extensive borrowing is not efficient. Those liabilities were still subject to payments and the capacity to pay is dictated by the owner’s equity. As we can evaluate, there was growth in 2002 but the debt-equity ratio is relatively high. Therefore, the growth of Samsung Electronics in 2002 is due to the certain amount the company is liable into.

The same is true with the year 2003. Borrowing was done by Samsung in order to sustain its development than incurring losses. On that sense, it is efficient to borrow money to sustain growth. Different adaptations were implemented by the financial managers.

It is either to minimize cost in order to fit the budget or expand production, though increases cost, so as to increase revenues through sales. Looking at what happened in the 2nd quarter of the year 2004, the continuous growth of Samsung Corporation through semi-conductors has surpassed the other top corporations’ growth. It ranked as the second highest growth rate when it comes to chip industry garnering a growth rate of about 84. 7 percent. They continue extensive production and took advantage of their lead and inculcated their DRAM products and the emerging flash memories that time. Samsung Electronics Americas have thought of ways of implementing both.

One good example is the partnerships Samsung Electronics America have engaged into. As to attain higher growth rate, Samsung USA tries to minimize its cost as a profit-maximizing scheme. Some of these measures were done by colluding with other related firms or by binding through partnership. One good example of which is the partnership Samsung made with Charter Communications for the further improvement of Two-Way Digital TV.

This is intended to have low-costing network interface unit and a two-way digital cable. In this sense, Charter can acquire a high level of digital cable. As a domino effect, demand for televisions by the market will increase so as to increase the sales of Samsung. They have minimized cost and increased sales. Financial scheme of Samsung USA was indeed effective then.

Table 5. Stocks2003200420052006Common Stocks150, 835, 636147, 299, 337147, 299, 337147, 299, 337Preferred Stocks23, 423, 42722, 833, 42722, 833, 42722, 833, 427Looking at the stocks, we can see that the amount of stocks in 2004, 2005 and 2006 are all the same. From 2003 to 2004, the common stocks were reduced from 150, 835, 636 down to 147, 299, 337. Looking at the revenues, we can say that the decrease in the number of stocks has made Samsung better-off.

Looking at the revenues of Samsung in 2003 as compared to 2004, net revenues improved. It implies that the stocks were invested and then earns, inducing an increase in the net revenue of the firm. Some stocks were used and were invested due to some losses incurred in the previous years. According to the Samsung Financial Highlights in 2003-2004, these investments then earned and helped in Samsung’s growth, increasing its revenues from 43. 58 trillion (KRW) in 2003 to 57.

63 trillion (KRW). The stocks were allocated by Samsung to other profit earning schemes such as investments. The results are then evaluated by the increase in the revenue of Samsung Electronics in the long run. The number of stocks were constant from 2004-2006. This is because the stocks were allocated well, that there is no need to use the stocks in the market. Since the reallocated stocks earned so far as 2004, reallocating more stocks is not needed.

The stocks were able to sustain growth. This aspect seems to be correct but analysis if it will be deeper looking into the revenue of Samsung Electronics in the year 2005 against the revenue Samsung Electronics earned in the previous year 2004. Having deeper analysis of the data from the Financial Highlights of Samsung for the years 2004 and 2005, the revenues earned in 2004 which is 57. 63 trillion (KRW), the revenues decreased minimally by 57. 46 trillion (KRW).

The decision is sound since there is a minimal loss, but still Samsung Electronics was a loser on that note. Finance mechanisms of Samsung Electronics are very adaptive of the situations faced by the firm. These strategies are able to help the growth of the firm. Tracing back, many adaptive measures were done by Samsung Electronics to cope up with problems, and the coping was not that easy as the firm faces the Sarbanes-Oxley Act. Looking at the figures, we can see that Samsung is coping- not necessarily a loser.

The financial managers have sought many other options that borrowing solely. The finance management implemented by Samsung Electronics was able to sustain its growth and regulate loses since the controversy they faced from controlling prices of chips; they have not experienced drastic losses