

# Essay on international financial management

[Finance](#)



1. Why do you think Toyota waited so long to move much of its manufacturing for European sales to Europe? Automobile Manufacturing is a highly capital intensive industry and has a long gestation period. The Automobile market is extremely competitive and prices are market driven due to the increasing globalization of manufacturing operations. As new models hit the road almost everyday a manufacturing unit would have to be large and have multiple lines i. e. small car, mid size, large utility vehicles while balancing the fact that pricing at the consumer end needs to be competitive.

Therefore volumes of units manufactured are an important consideration. Toyota like most other producers, as given in the case resisted the move to setting up a manufacturing unit in Europe and only assembling there. Most of the manufacturing was done in its plant in Japan. This could be attributed to Toyota wanting to benefit from the economies of scale in manufacturing in Japan as well as the trained labor and established manufacturing lines. Also the European market 2. If Britain were to join the European Monetary Union, would the problem be resolved?

How likely do you think it is that Britain will join? The falling value of the Euro as against the yen or the weak exchange rate is attributed to be one of the causes of the operating losses being experienced by Toyota in Europe . As the manufacturing was carried out in Japan , the manufacturing costs were in Yen terms while the assembling and sales were in terms of Euro. Hence as the Yen gained against the euro costs increased significantly while at the consumer end prices in Euro had to be competitive.

The loss which was incurred on both completed cars and in the assembling units due to the exchange rate had to be absorbed by the company.

Therefore only when the Euro becomes significantly stronger against the Yen will there be margins gained for the company. The problem would not be resolved with the British Pound joining the European Monetary Union (EMU) as this would not eliminate the currency risk between Japan and Europe. The deviations in currency value between the British Pound and the Euro would be eliminated; this does not benefit the exchange rate between the Euro and the Yen.

The British Pound has been paramount in international trade for over 2 centuries and Britain enjoys a monetary policy which is greatly beneficial to itself. The euro on the other hand has just entered the market and has as its underlying purpose a unified currency to serve the interests of all the member states. Hence until the Euro gains dominance in the international trade market, surpassing the Pound, the chances of Britain joining the EMU does not seem bright in the near future. 3. If you were Mr.

Shuhei how would you categorize your problems and solutions? What are a short term and long term problem? There are basically three problems being faced by Mr. Shuhei in the case study • The problem in the exchange rate between the Yen and the Euro which is leading to negative margins. • This fluctuation in the exchange rate is causing the company to rethink its strategy to use the manufacturing base in Japan while assembling and selling in Europe. • The company's strategy to rationalize its manufacturing and reliance on economies of scale in manufacturing.

The solutions would short term and long term in nature . The short term solution is to continue to absorb the yen based cost increases in lower margins on European sales as the end consumer price is not friendly towards absorbing high prices. In the long term Toyota should rethink its strategy for the European market along the lines of its strategy for North America . The manufacturing units would need to be set up within the EU so that manufacturing costs would also be Euro based.

This would be a good strategy in the long run as the Euro a relatively new currency would take time to asset itself and therefore Toyota would not be required to bear the fluctuations in the exchange rate. (Yen is a strong currency). 4. What measures would you recommend Toyota Europe take to resolve the continuing operating losses. In the short term, keeping in mind that Toyota seems keen to capture the European Market and the company is willing to absorb the losses due to Yen based manufacturing; the only solution is to continue operating in the same fashion.

The company decision to decrease the number of components being imported from Toyota Japan is a step in the right direction. The current operating and pricing policy are in order in this scenario especially as the Euro seems to be on the road to recovery (gaining against the yen) As the likelihood of Britain joining the EMU in the near future is not very bright and the exchange rate between the Pound and the Euro is also not beneficial, the decision to source from the UK instead of Japan is a short term solution.

In the long term the company should look to setting up a manufacturing base within the EMU and perhaps even develop a strategy whereby Euro

based manufacturing caters to the UK market. This would give the company good revenues and market share as it would be extremely price competitive. As per the understanding gained from media reports , the EMU is encouraging automobile manufacturing through tax subsidies/ holidays and other benefits.