

Would bmw benefit if
the uk government
took us into the euro
by january 2004?
ess...

[Government](#)



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Introduction

In this piece of coursework, I have been asked to research a business, in this case I have chosen BMW and see if they would benefit if the UK government took us into the euro by January 2004. To answer this question, I am going to use various sources (e. g. the Internet, newspaper articles, etc.) to research the British part of the BMW company, their finance system to see if they can cope with a change of currency and send a survey through e-mail to see what the managers and employees think about the situation. If BMW is a successful firm I can't see a change of currency affecting them in any way.

Hypothesis

When this piece of coursework is complete, I expect to find that BMW would benefit from the government's decision to take us into the euro by 2004. Because BMW is a successful business, with a more than capable financial system, I think that BMW will either not be affected or they will see an improvement in sales because of the conversion rate from the pound against the euro.

Desk Research

The euro is popular with some businesses because it:

- * creates stability, so levels of uncertainty are reduced,
- * reduces transaction costs because all deals are carried out in one currency, so there are no costs involved in changing currencies,
- * increases the probability of economic stability.

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Other businesses consider it to be a threat because:

- * exchange rate flexibility has been the way economies adjusted to meet changing price levels,
- * a single interest rate is unlikely to suit all countries at one moment,
- * Britain is more sensitive to interest rate changes than the rest of Europe as it has more mortgages, for example,
- * it will increase bureaucracy resulting from European legislation.

Exchange rates obviously have an important role to play in the competitiveness of a country. The euro will assist competitiveness for some businesses in their trade with Europe. With all prices given in one currency across the euro zone, it will be easy to identify the most competitive products. This transparency will remove many uncertainties.

The creation of the euro has generally been welcomed by many big businesses because of the opportunity to work in a stable currency area. The combination of stability and reduced transactions costs has made the idea of one currency appealing to many. As Europe has become the focus for a high proportion of the UK's trade, this is a strong argument for businesses that seek stability. The knowledge that prices in Europe will not change is attractive.

The value of the euro beyond the euro zone is, however, subject to the fluctuations in foreign exchange markets. These fluctuations will reflect conditions in the euro zone as a whole rather than in individual countries.

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There is thus a trade-off between stability and flexibility. Price stability can be expected within the euro zone, but if businesses lose competitiveness exchange rates will not be able to adjust to reflect this.

It is quite likely that individual regions within the euro zone will from time to time find themselves losing competitiveness. With no exchange rate flexibility they will be forced to find ways of cutting costs and money wages may have to fall if employment is to be maintained.

The second trade-off is the constraint on economic policy. Once in the euro zone, a country must conform to certain macro-economic objectives. This may create difficulties for countries which are out of line with the rest.

The political agenda may prove to be a stronger driving force than the economic one. Until the currency is more firmly established, it is difficult to tell whether the gains will outweigh the losses for any particular country.

Field Research

BMW is a major UK employer, with its UK sales and marketing operations at Bracknell, Berkshire, production plants at Hams Hall, Warwickshire, Swindon, Wiltshire and Oxford and Financial Services company in Hook, Hampshire.

In January 1994 BMW acquired the Rover Group from British Aerospace.

The two companies retained their separate identities, whilst reinforcing the integrated global nature of the BMW Group's presence the world over.

Between them, the two companies produced over one million vehicles a year.

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Despite enormous investment of 3 billion in the Rover Group, its people, production facilities and new models, a combination of downward price pressure, the strength of the pound and lack of consumer confidence in the Rover brand led to continued losses – over 2 million a day in early 2000.

With mounting losses and no likelihood of change in the situation it became clear that alternative courses of action to secure the future of BMW were required. Accordingly, Rover Cars was sold to The Phoenix Consortium and Land Rover to Ford in May 2000.

The new MINI, launched in summer 2001 is produced by BMW and is built at its Oxford Plant. Equipped with advanced and sophisticated production facilities for the production of all MINI models, the facility represents a significant investment in the UK.

The modern production facility at Hams Hall opened in February 2001, for the production of a new generation of BMW 4-cylinder petrol engines.

In 2003 a brand new plant will start production of an all-new Rolls-Royce, with further employment opportunities.

In all, BMW employ over 9000 people in the UK at these locations.

BMW buys around 30 million worth of components from UK manufacturers each year – a significant inward investment in the UK.

Below is a summary of the BMW Group figures:

* includes Rover Cars until 9 May 2000 and Land Rover until 30 June 2000

includes assembly of the F650 at Aprilla S. p. A. until June 1999

The UK Economy

Insofar as the ups and downs of the economy are the result of government policy and international economic interaction BMW is affected both by the demand for cars and the exchange rate. In a recession, demand for cars declines which affects all manufacturers, including BMW.

BMW Great Britain, as a company buying in deutschmarks and selling in pounds sterling, is affected (in profitability terms) by the exchange rate. A strong means car prices are higher than surrounding European countries whilst the reverse is true when the pound is weak.

Results

BMW Great Britain Ltd set up a project team in 1998 in advance of the introduction of the euro in 1999, to ensure the company would be prepared for all the implications arising from its introduction.

Although the company is now fully prepared to deal with the euro and financial information for the company is now published in euros, it is BMW's policy at this stage not to offer dual pricing. Dealerships in the UK will only switch direct to euro pricing when and if the Government make the formal decision to join. BMW (GB) Ltd will then switch to handling all transactions in euros at the same time.

However, any customer can pay in euros in the same way as they have been able to pay in any currency in the past. The invoice value would be

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converted using the daily exchange rate. The euro has no influence whatsoever on BMW pricing policy – so the introduction of the new currency will not make BMW products or services either cheaper or more expensive.

Conclusion

From the research and the results I have collected, I have come to the conclusion that the introduction of the euro will have no effect on BMW whatsoever, the prices of their products and services will not be cheaper or more expensive, therefore the company will not benefit and will continue to run the business as it was run before the introduction of the single currency. Because the company is financially prepared for the introduction of the euro, it is the company policy not to offer a dual pricing system in the UK because they have not joined the euro currency. Dealerships in the UK will only make the switch to euros when the government decides to join.

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