Financial risks of global companies bmw

Business, Company

INTRODUCTION

Measuring and managing operating currency exposure is difficult at best. Prior research finds that this exposure depended on the characteristics of the industry, firm-specific operating activities, and the relative strength of the dollar vis-a-vis the relevant foreign currency. The valuation effects on a firm from corporate foreign investment decisions depend on accounting versus economic effects, and home versus foreign market effects. It has also been shown that the effects on firm value from foreign expansion or retraction are different by industry, by changes in exchange rates, and by the degree of foreign involvement before events.[1] Unlike transaction and accounting exposure, managing operating exposure involves all the aspects of a corporation, including financial, marketing, management, production, and others. Choi (1989) pointed out that international investment is one of the major instruments of managing operating exposure. Kim (1997), by analyzing stock price reaction of corporate expansion and retraction from the foreign operation, showed empirically that managing real exchange risk and gains from diversification are major motivations of corporate international investment[2]

We first show the competitive nature of the passenger car industry by showing the production distribution between home and foreign countries. Those measures are plant location, joint ventures, mergers and acquisitions, product sourcing and input mix, productivity improvements, pricing strategy, product strategy and market segmentation, and the incentive package given by the state of South Carolina to BMW. In 1994, BMW opened it's Greer, South Carolina plant, eventually produce 90, 000 vehicles annually, with more than half of them being exported to more than 100 countries, including Germany in order to cut on production costs. In 1992, the German Deutschmark had climbed to 88% seriously threatening the ability of BMW to compete in the United States. The company, after a careful study, found out that it could recoup its $400 million investment. The company forecasts that production costs in America will be about 30 percent below that of Germany. Each of the 1, 500 workers at the Greer plant costs BMW about $40, 000 a year, barely half of what an employee costs the company in Germany. Revenues increased by 6. 8%. This is due to a selling price that is

The BMW Group has continued its successful growth course in the financial year 2004 and achieved new record figures for sales volume and revenues. Despite adverse currency factors, Group revenues in 2004, at euro 44, 335 million, were 6. 8% higher than in the previous year (2003: euro 41, 525 million). Revenues of the Automobile segment rose by 11. 0% to euro 42, 544 million (2003: euro 38, 317 million). The Motorcycles segment recorded revenues of euro 1, 029 million (-2. 5%; 2003: euro 1, 055 million). Revenues of the Financial Services segment rose by 8. 5% to euro 8, 226 million (2003: euro 7, 582 million). With 1, 208, 732 BMW, MINI and Rolls-Royce brand cars sold in 2004, the BMW Group beat the sales volume record set in the previous year by 9. 4% (2003: 1, 104, 916 cars). According to Helmut Panke, Chairman of BMW AG, “ The Group has been able to expand both its product range and its international market presence and acquired new dimensions.”[3]

In 2004, the BMW Group invested euro 3, 226 million in property, plant and equipment, and intangible assets. In addition, development expenditure of euro 1, 121 million has been recognized as assets in accordance with IAS, so that total capital expenditure for 2004 amounted to euro 4, 347 million. This represents an increase of 2. 4% compared to the previous year (2003: euro 4, 245 million). The increase in production volume by 11. 7% was brought about by the introduction of more new models in the market, technological advancement, and recruitment of more workforce and apprentices. The BMW Group expanded its activities in the Financial Services business and was able to continue its growth course in 2004. The volume of new customer financing contracts rose by 19. 1% to euro 20, 749 million, and hence a new record level (2003: euro 17, 423 million). The proportion of new BMW and MINI cars financed by the Financial Services business in 2004 rose to 42. 0% (2003: 38. 3%).[4]

Prospects 2005

In the past few years, the BMW Group has significantly expanded the range of products it offers in all of the relevant premium segments. The various new products launched in 2004 will be available in full throughout 2005. In addition, from spring onwards, the dynamic four-wheel-drive system will be available for the first time in a BMW sedan, namely in the BMW 525xi and 530xi. The launch of the new BMW 3 Series Sedan in March will mark the start of the renewal of the core series. At the same time, series production will commence at the new BMW Leipzig plant.[5] The BMW Group, therefore, predicts a sales volume increase for all three brands and thus a new record sales volume level in 2005. [6]

Reference

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