ABSTRACT

General motors has been a leading global sales leader in motor vehicle sales and supply for the last 76year, since 1908, selling approximately 9.1million pieces of motor vehicle in 2006 alone and spreading to over 140 countries. It has its mother country in America but this is not its main market. Surprisingly the General motors company derives most of its profitability from sales that have been occurring from international operations occurring outside the country especially in the Asian continent. In 2006, General motors invested an interestingly $ 2 billion in the Chinese market to make a whooping 7.2 million vehicles sales in this new market. The company also has a large market share in the Latin America and west Europe. General motors prices it products in U.S dollars even in most of its foreign markets (Arthur, 2006).

The General Motors is a multi-national enterprise, and it is a company that has operations globally. It is a Company that has been termed as a global leader in motor vehicle sale for the last 100 years competing with other multinational companies such as Toyota and Volkswagen for the last century in the automobile global industry. Currently its competitors are fairing on much better in terms of sales and market share but that does not affect General motors strongholds in Asia and the Latin America, selling one out of every five vehicles sold in the United States.

General Motors solely, either directly or indirectly employs well over 3 million Americans, in Detroit alone. These vary largely from raw material suppliers to creditors, manufacturers and other components. It is a company that relies on a large scale employment of workers having well over three thousand skilled employees in the U.S alone and for that case G.M has a strategic method of ensuring that its cost and revenue pricing are harmoniously mitigated. It pays its employees in the United States using the dollar and those working in its international industries are paid in the local currency depending on their hierarchical standings. Revenue pricing by G.M Company is a one way ordeal where G.M insists on the use of the dollar as a means of exchange in the mother country, America. This is so because the dollar has been taken as a standard measure of value in the American economy especially after the seizing drop in the global economy, which saw the company go down financially. Cost pricing by the G.M Company has been a two way affair where the company tends to rely largely on the weakness of a foreign currency to the dollar and vice versa (Alfred, 2000).

The general motors company being one of the global leaders in the automobile production and distribution sector of the world’s economy has its major strongholds in the American and Asian continents. This therefore contributes to the profitability of the company in its mother country. In 2006 General motors invested $2 billions in china. This saw a good return on profits and sales. The company made 7.2 million sales in automobile (light trucks) sales all in gratification to a joint venture with a company, shanghai automobile industry corporation (SAIC) thereby offsetting its global deficits and maintaining a stronghold compared to Toyota.

In America alone, for every five automobile one is a G.M prototype. This is to say that the extent of cover by the company is way above 50% of the market share leaving the rest to companies such as Toyota and Chrysler. Statistics show that though Toyota and other companies tend to be gaining some foot in G.Ms territories, they still have an upper hand in terms of technology and market coverage (Chandler, & Salsbury, 2000).

General Motors faces a dire shortage and risk of an increasing cost of external financing due to an imperfect capital market. Incase of an external market that is perfect, then G.M can freely sell and expand without the fear of risks. The company therefore has ensured diversity in its operations globally, both in the products that it produces and the markets it penetrates. This is called hedging. Hedging is done for the purposes of investment and for that reduce the risks that are to be experienced due to an oversea operation and G.M has done this by optimizing and future contracting. When such a company prices its product, receives its revenues, denominates its costs, and pays its workers and suppliers in terms of US dollars, there is no effect on its revenues or costs when exchange rates change. The shift in currency use by the multinational enterprise has also worked to make it easier for the company to maintain its workability and hence hedge itself from the constant and unexpected influx in the world currencies (David, 2002).

An influx in the world currencies whether negative or positive usually has a diverse range of effects on the profitability of the company. When General Motors prices its product, and receives its revenues, denominates its costs, and pays its workers and suppliers in terms of US dollars, there is no effect on its revenues or costs when exchange rates change. But when prices and costs are in terms of foreign currencies, and General Motors revenues and costs are affected by exchange rate changes. Recently in 2005 General motors started experienced a major downfall due to the global financial crisis which has left the company looking for a bail out and a failure to that could lead to a devastating collapse of the company since it was loosing an estimated $2 billion a year having a revenue fall from $47.77billion to $45.83 in a year (Holstein, 2009).

G.M largely depends on the dollar for the purpose of its dealership in relation to the currency of the country it has established its merchandise or joint ventures. A substantial appreciation in the value of a foreign countries currency may have implications on the company. There is an expected increase in the revenue to be earned by G.M Company, and reduced spending on the costs to be incurred in the production process. These would happen in inverse ratios and proportions. Profit for this case will be increased. There is a scenario of the company spending less than what they earn from their sales. The G.M Company will get affected by the depreciation of a foreign currency; revenue earned from the sale of their automobile will be significantly reduced. This is because of the reduced value of currency. Costs will eventually increase since there will b the need to spend more money for the purpose of procuring the exact same amount of raw materials as before. Profits will therefore be reduced. General motors generally are a firmly placed company in the global market with over 100 stable franchises around the world. This makes it easy for the company to expand and reach out to more markets. This therefore advocates for the strict alienation on the policies to be use in the process of payments both to the suppliers and to the employees.

Lately the General Motors Company has not had a smooth sail, and its I.P.O sales in the American market failed to meet the expected bond value due to the global financial crisis which has affected the production and expansion efforts of the company. As the wall street journal stated, the U.S government is withdrawing its share from the 50% holdings it had to 35% in the company. The company is to sell their shares in the stocks exchange and maybe try to recover from the ongoing global financial crisis (Smith, 2004).