



Prifysgol Cymru
Y Drindod Dewi Sant
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Student name: Miroslava Georgieva

Student ID: 2112588

Professor: Dr. Thomas Adeyemi

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Introduction

International Financial Management is the international management of financial activities, including foreign exchange and global investment strategies and risk management. It tackles issues including exchange rate fluctuations, political risk and cultural differences (Brigham & Daves, 2019). It provides an international trading point of reference for businesses to use in dealing with complexity on the global business scale while raising profit margins and reducing transactional risks. This report aims to evaluate different strategies that multinational corporations often adopt in managing their exposure to foreign exchange risks using Coca-Cola as the chosen company. This will be supported with knowledge from the International Financial Management (IFM) theories.

Overview of Coca-Cola

Coca-Cola Limited Company was established in 1886. It is a renowned beverage company headquartered in Atlanta, USA. It also has various leading brands, including Diet Coke, Fanta and Sprite (Brondoni, 2019). With operations in more than 200 countries, Coca-Cola's impact on the international soft drink market is considerable. In addition to beverages, it sells syrups non-alcoholic drinks and participates in joint ventures, marketing and social activities. With a rich history and especially a famous brand trademark, Coca-Cola is recognised as one of the world's largest drinks companies. The financial market fluctuations affect the value of the company as shown in the past month below:

Market Summary > Coca-Cola Co

58.56 USD

+0.10 (0.17%) ↑ past month

Closed: 26 Dec, 19:16 GMT-5 • Disclaimer

After hours 58.65 +0.090 (0.15%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	58.06	Mkt cap	253.18B	CDP score	A-
High	58.70	P/E ratio	23.61	52-wk high	64.99
Low	58.06	Div yield	3.14%	52-wk low	51.55

Exchange rate

The exchange rates affect the valuation of currency. An exchange rate measures the value of one currency in units of another currency. Its depreciation and appreciation cause risk for multinational corporations. It is influenced by factors such as Relative Interest Rates, Relative Income Levels, Government Controls, Expectations, and Interaction of Factors. To manage such risks, multinational corporations use the following strategies: Coca-Cola.

Strategies used by multinational corporations in managing their exposure to foreign exchange risks (Coca-Cola)

Natural Hedging

Hedging is a risk management strategy the multinational corporation uses to offset loss in investment and risk risks by taking an opposite position about assets. As a risk management strategy, Coca-Cola uses natural hedging to reduce foreign exchange risks (Block et al., 2019).

Coca-Cola does business in the local currency of each market, balancing inflows and outflows of currencies; this helps manage risks. Denominating transactions in the local currency naturally reduces their greater exposure to currency fluctuations. For example, Coca-Cola, a U.S.-based multinational running operations in Europe and Africa, then doing business in euros and African countries' currencies, naturally balances both sides of the ledger; it is an internal hedge (Xiao & Zhang, 2020). Eliminating the need for complicated external hedging instruments simplifies financial management.

Moreover, this strategy takes advantage of the stability of local currencies, giving some protection from international economic uncertainty. However, natural hedging may not be practical everywhere, especially in volatile markets like the current foreign exchange markets. Natural hedging provides Coca-Cola with a simple and cost-efficient way to keep currency risk under control. It adopts a practical approach and fits well with the principle of most minor exposure, reflected in its operating decisions.

Forward Contracts

This financial risk management involves a contract agreement to buy or sell an asset at a specific price on a specified date. With this approach, Coca-Cola enters contracts to purchase or sell a fixed currency at a specified exchange rate on a future date. Through forward contracts, the financial stability created the multinational companies (Knežević et al., 2020). Coca-Cola uses this in response to the problem of uncertain currency exchange rate fluctuations (Knežević et al., 2020). Through buying at a specified future date, the cash flows can be guaranteed and minimise the effect of adverse currency movements on profitability. A fixed exchange rate is guaranteed, allowing firms to budget and plan for future trade. This reduces the risk of unexpected currency losses. This is especially important for international trading firms like Coca-Cola, where volatile exchange rates can make or break profit margins. Although forward contracts protect against currency risk, foreign exchange upside opportunities are also limited.

Currency Swaps

Coca-Cola also employs this to manage foreign exchange risk; currency swaps are transactions (Xiao & Zhang, 2020). A currency swap involves exchanging cash flows denominated in different currencies for a given period between two companies. It allows them to coordinate their currency positions without affecting balance sheets directly. As a US firm operating in Japan, Coca-Cola swaps its US dollars for Japanese yen with Japanese companies. For one, both sides have the currency they need to do business. On the other hand, neither side is exposed to fluctuations in exchange rates. The advantage of currency swaps is their flexibility. Unlike forward contracts, which are traditional hedging instruments, currency swaps do not need an upfront exchange of principal amounts (Xiao & Zhang, 2020). With this, they are very flexible in managing cash flows and fine-tuning financial structures. Additionally, currency swaps allow for economically exploiting favourable interest rates in different markets. However, foreign exchange risk involves counterparty risk and requires careful consideration of the financial health of the swap partner.

Options Contracts

An options contract is an agreement between two parties to facilitate a potential transaction on an underlying security at a present price, referred to as the strike price, before or on the expiration date (Geng et al., 2021). Options contracts are financial instruments that allow multinational corporations to deal with currency exposure more sensitively. When buying options, Coca-Cola acquires the right to purchase (call) or sell (put) currencies at specified rates within a fixed period (Finkler et al., 2022). This allows Coca-Cola to respond quickly to changes in market conditions and minimise the potential impact of adverse currency fluctuations. The significant advantage of options is their flexibility and limited exposure. They pay a premium to obtain the option, and if market conditions are not favourable, they can freely decide not to exercise it, with only the initial premium as cost. It gives them a degree of

downside protection while letting them take advantage of favourable movements in the exchange rate. Options contracts are especially effective for uncertain situations over future currency movements. While the company uses it, it is equally important to carefully assess the costs of options relative to benefits and use them in tandem with overall risk management strategies.

Leading and Lagging

Dynamic approaches to foreign exchange risk for multinational corporations employ leading and lagging strategies. Leading means making payments or receipts to take appreciated currencies (Eun et al., 2021). For example, Coca-Cola accelerates its settlement with a foreign supplier if the domestic currency is expected to depreciate. Lagging means delaying payments or receipts to shelter against unfavourable currency movements. These strategies enable companies to profit from their insight into future currency movements, giving them an edge in handling international transactions or financial risks (Fritz-Morgenthal et al., 2022). Although these aggressive strategies have benefits, they require a clear grasp of market trends and an ability to assess risk. Manipulating currency positions has advantages, but altering payment timing entails operation and relationship considerations.

Diversification

As a Multinational corporation, Coca-Cola creates a diversified portfolio of countries, each with its currency. Diversification is, therefore, the pillar strategy for handling foreign currency risk (Cornwall et al., 2019). Having a diversified product portfolio worldwide helps companies spread their risks and minimise adverse effects of movement in exchange rates. Coca-Cola has acquired other businesses and developed new products with the company's products now, including juices, water, sports drinks, milk and soy-based beverages, coffee and tea. It has more than 3,900 beverages across different countries. The advantages of diversification are not restricted to reducing currency risk (Shapiro & Hanouna, 2019). It also helps firms cope with

geopolitical uncertainties, differences in regulatory regimes, and economic fluctuations in different markets. Although diversification can act as a risk-reducing factor, it is necessary to have overall strategic planning in place to ensure that operations are well-balanced and keep current with business objectives.

Netting

It is a strategic financial method multinational corporations use to control foreign exchange risk better. In this approach, Coca-Cola pool offsets trades within the same currency, reducing their overall risk (Shim, 2022). Netting allows Coca-Cola to balance payable and receivable positions, simplifying the financial structure. This eliminates the need for external hedging and reduces the risk that fluctuations in currency will have on financial results (Chiu et al., 2019). Besides increasing operating efficiency, Netting offers a low-cost way to limit currency risk. Through this, Coca-Cola concentrates on what they are good at (9 in the country where the market is not very volatile) and does not have to worry about hedging instruments that are difficult to design. While Coca-Cola uses Netting, it requires firms to have solid internal systems and communications channels to accurately identify and counter the appropriate transactions.

Conclusion

Multinational corporations like Coca-Cola have many options for dealing with foreign exchange risks in an ever-changing global financial environment. Naturally, hedging relies on local currencies to achieve internal balancing and is pragmatic and convenient. Forward contracts provide stability with fixed exchange rates. Currency swaps offer flexibility to manage cash flows and advantage of favourable interest rates. Options contracts enable sensitivity to the movement of markets for hedging against a fall and taking advantage of positive currency movements. These strategies call for a differentiated understanding of market trends. Diversification involves spreading risks across countries, reducing currency risk and

geopolitical uncertainties. Netting reduces the complexity of financial structures, improving efficiency and reducing outside hedging. These strategies need to be used strategically in the changing global environment.

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