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Executive Summary

Magna International is a global automotive and truck parts supplier, whose products cover all parts of the car from engineers to car roofing. Although Magna's financial performance was unstable in past three years, it is of high expectation due to the increasing demand of automobiles. As for marketing approach, Magna is concentrated on decentralized market with a moderate amount of modification. With respect to logistics approach, Magna adapts personal selling policies through short channels. In terms of HR management approach, Magna has various positive staffing policies and incentive policies to attract employees. Although the introduction of Magna would influence existing automobile manufacturing companies, it could bring more benefit to host country including increasing overall income and living standards, benefiting local communities and developing infrastructure systems. Overall, it is recommended to allow the Magna to set up operations in the country.

Company Description

Background: Magna International is a Canadian global company in the automotive and truck parts industry with the headquarter in Aurora, Ontario, Canada. As of 2016, Magna International has 155,000 employees and 317 Manufacturing facilities in 29 countries like America, China, India, and Japan (Magna International 2016). It also achieved $ 36.4 Billion in annual revenue and was ranked as the third largest automotive manufacturing company in the world based on the analysis sponsored by PWC (Automatic News 2016).

Products: Magna International provides following products and services including vehicle engineering & contract manufacturing, electronics, roof systems, closures, vision systems, seating system, exteriors, powertrain and body & chassis (Magna International Capacity 2016) (see Appendix A). Besides above, Magna has gradually transferred its company role from a product-centric producer in the individual automotive components industry to an integrated product and service supplier (More 2013) (see Appendix B).

Financial Performance & Success: Since being listed in the TSE market with price of 22.85 from the January of 2003 (see Appendix C), the stock price was very stable from 2003 to 2008, which varied between 22.85 and 20.27. However, during 2008 and 2009, the value of stock was dropped to 6.50 Canadian dollars due to the global monetary crisis. After 2009, the price of shares rapidly increased to $72.10 till the beginning of 2015 but felled to $51.62 during 2015 due to the stock split-off. From 2016 to 2017, the price of stock was quite unstable and varied from $45.35 to $57.02 (Google Finance 2017).

In terms of the growth rate of Magna's annual revenue in the automotive industry, Magna achieved $36.4 billion annual revenue in the last year and reached a 5-year average growth rate of 8.42% (see Appendix D) (CSIMarket 2016). However, comparing with 2015, the revenue growth rate was reduced by 1.78% (CSIMarket 2016), which represented the development speed of Magna slowed down. With respect to market share, as of 2016, Magna was one of the top two automotive suppliers in the North America market and earned about 10 billion in automotive component sale (Magna International 2017). Considering the financial distress of Magna, it has a leverage ratio of 1.25 and working capital ratio of 1.17 (CSIMarket 2017). Since the average leverage ratio for major automakers was 1.66 (MoneyControl 2017), there is a room for Magna to take debts to accelerate its growth, which means Magna might achieve higher revenue next year. Thus, although the performance of Magna was unstable in the past three years, it still achieved success with $10 billion in revenue.

Latest Stories: The most important news about Magna International in the August of 2017 was the approval of Magna International project in Slovenia (Reuter 2017). Slovenia is a developing country with the needs to introduce foreign investment without the destruction of its environment. In terms of agreement, Magna International agreed to build an automobile factory and create at least 6,000 positions in Slovenia. The successful negotiation between Magna and Slovenia could set an example for those developing countries which plan to introduce foreign investment.

Community Involvement: Magna supports a various range of charitable and social causes in the communities where employees live, which is supposed to raise the standard of living of the local population and benefit the developing countries. Besides community involvement, it also offers various compensation policies to attract employees.

International Strategy

Current Strategy: Since automotive manufacturing industry is a moderate modification industry, Magna International focused on building a transnational company to quickly response to the local requirement. In the other words, it plans to have operations in each region including Asian, Europe, Australia, North America and South America, instead of a single region. But most of the operations were in North America, where is close to the home country, Canada (see Appendix F). Moreover, in recent years, Magna International increased it investment in South Asia through acquisition of local company and building joint venture with local investment. In terms of R&D, Magna spent $1.3 million in its research and development activities (Research Infosource 2017) and built R&D centres in Austria, United states, German and Russia. Recently, it expended new engineering centre in Shenzhen, China. When considering the reason why

Magna chose those locations, there are four facts including strong local demand, affluent consumers, intensive competition and capital spend in R&D. For example, Germany is a leading exporter of automobiles with highly skilled labor force (CIA 2017). The competition in Germany would push automobile manufacturing company in Germany to improve their product quality.

Competitors & Comparative Advantages: In terms of the competitors, as an international company which provide automotive bundling, Magna has different competitors in different region and various parts but the most important competitors include Lenze Americas, Servo2Go.com Ltd and Aerotech Inc (PowerElectronics 2016). They are all automotive suppliers in the global market and offering similar services as Magna. Thus, Magna needs its core strengths to win the business. Compared to other three competitors, Magna has been a substantial partner to the big 3 automobile firms including General Motors, Ford Motor Company and Chrysler (Marketline 2016) (see Appendix E). Moreover, it has high reputation among the various automobile firms due to more than a half century history in the automotive parts industry. In terms of production and distribution system, Magna could use the economies of scale and developed distribution network to reduce transaction costs and offer lower price to consumers (MbaSkool 2017). However, Magna also has its weakness in its production system. To be detailed, since the products and services of Magna covered all parts of the automotive industry, it would be difficult and costly for Magna to focus on a product line and improve the quality of the product.

Critics of Strategy: When evaluating the short-term and long-term strategy, it would be wise for Magna to expand its operations into developing countries to lower the labor and transaction costs in the short terms. However, for the long-term strategy, Magna tried to concentrate on all parts of the automotive industry, which is both time-consumed and capital-consumed. What Magna should do is either cut off the range of its products and services or give each subsidiary more autonomy to improve the quality of the products.

Marketing Approach

Sale Territory: Magna International has 102 sales centres spread all over the world. Based on its annual report in 2017, it has 26.5% of sales centres generating 62.16% of sales in Americas, 24.5% of sales centres earning 7.11% of sales in Asia and 49% of sales centres generating 29.32% in Europe (Magna International 2017) (See Appendix F). Moreover, 32.3% of sales centres were located in Germany. Magna decided to focus on those three regions, especially, the Germany, since there are close to some well-known automotive companies like General Motors, Ford Motor Company and Chrysler. Moreover, those famous automobile companies have advanced car assembly technology, and have a high demand of automotive parts. Magna could improve their technology system through the collaboration with those companies.

Customization: As an automotive parts supplier, Magna needs a moderate amount of modification due to the differences between technical standards, cultural differences and product preferences. To satisfy the requirement of different automobile companies, Magna might need to alter the color, sizes and strengths of the products. To be detailed, technical standards in Germany would be stricter than the standard in China. Meanwhile, the car sells in France might need French-based car system instead of English-based system.

Distribution Channels: Magna International a company known as B2B sale. The products of Magna would be directly sold to the wholesale distributor like the General Motor or go to the other factories for further process. At the same time, since there are only a few large retailer suppliers in the automotive parts industry, Magna could take advantage of the concentrated retail system to lower its costs. For example, the channel length of Magna would be short since Magna sells directly to the automotive companies like the General Motor, which means Magna would offer lower price to other automotive companies. In terms of the channel exclusivity of Magna, since Magna already signed long-term agreements with the big 3 automotive companies (Marketline 2016), there is less possible for outsiders to access and take away Magna’s market shares. As for channel quality, Magna try to maintain the high quality of channels through building its developed warranty system and error back-tracking system, which means Magna would find the resources of error when mistakes happened. Thus, Magna has a short channel with high exclusivity and high quality.

Communication Method: Magna’s main methodologies of communication is to directly contact automobile companies to find if they need new automotive parts. Therefore, Magna prefers to use push strategies like personal selling rather than the mass media advertising, which could take advantage of the short channel to lower costs. In terms of signing contracts, Magna would directly communicate with automobile companies to earn the contracts instead of waiting the automobile companies to contact with Magna. At the same, Magna also collaborates with other automobile companies to adopt just-in time inventory system to satisfy the contact. However, the communication method would be a little bit difference between countries. For example, in a long power distance country like Japan, it would be more efficient for Magna to directly communicate with the CEO of the companies instead of executives. However, in a short power distance country like Denmark, Magna might contact executive to sign the agreement, since executives have more power than the executives in Japan.

Logistics Approach

Production Location: Magna has 317 manufactories in total including 135 plants in North America, 114 plants in Europe, 54 plants in Asia, and 14 plants in the rest of world. (Magna2017) (See Appendix F) Almost half of the plants located in the North America. To be mentioned, Magna also plans to build or acquire more facilities in South Asia due to the increasing market demand.

Country Factors: In terms of country factors, two third of manufacturing centres were in North America and Europe where have the similar social and economic environment with Canada, the home country of Magna. Given the similar social and economic environment, there would be less cultural barriers like language barriers between local employees and foreign executives. Besides that, the politic environment in those countries is also stable, which means there would be less unpredictable losses like losses due to the strike movement.

Technological Factors: As for technological factors, lots of manufactories in Europe were built within Germany (Magna International 2016), since Germany was well-known as its advanced automotive technology and strict attitude. By learning from Germany's manufacturing factory, Magna could improve its product quality and manufacturing efficiency. Besides that, because those regions have already developed automotive parts factories and infrastructures, Magna could lease them to reduce the fixed costs on setting new factories, buying new equipment and building infrastructures. Moreover, 29% of facilities was leased from third party like Granite Real Estate Investment trust (Magna International 2016).

Products Factors: Since the production of Magna needs a moderate amount of customization instead of mass production, it is better for Magna to build manufacturing facilities near the market to quickly response to consumers' requirement. Considering value-weight ratio of Magna, the value-weight ratio is so low that the transportation costs would significantly influence the revenue of Magna. Moreover, Magna often chooses to build their manufacturing factories near the automobile company's assembly factories to reduce the transportation costs.

Human Resource Management (HMR) Approach

International Employees: Magna hired 155,450 employees globally, including 74,150 employees in North America, 55,575 employees in Europe, 22,125 employees in Asia and 3,600 employees in the rest of world. Almost half of employees were hired in North America. (See Appendix G)

Staffing Policy: From Magna's annual report about HR management, it is obvious that Magna applied geocentric staffing policy, which represents that they fill key management positions with the best people, regardless of nationality, which is efficient but costly (Martin 2010).

Incentive Policy: To raise the incentive of employees, Magna adopted a decentralized operating structure, which gives high operational autonomy to managers at each of three primary levels of managements. At the same time, there are compensation plans for employees including minimal fixed cash compensation, annual profit-based incentive bonuses, long-term equity incentives and the retirement benefits.

HR Philosophy: Magna also built a culture of fair enterprise, in which employees and management grow together and share the responsibility of company (Martin 2010). Components of Magna's philosophy consist of job security, a safe and healthful workplace, fair treatment, competitive wages and benefit, employee's equity and profit participation, communication and information, and employee hotline.

Impact on Host Country: Given the geocentric staffing policy and various incentive policies, Magna could provide more positions to host country, help host country increase the living standards of employees, benefit the local communities, and assist improving management system of our countries.

Analysis

Benefits: A developing country would benefit from the investment of Magna due to its staffing policy, employment incentive policy and infrastructure construction. In terms of staffing policy, Magna prefers to adopt geocentric policy through employing local people, which might bring 6,000 potential positions to local people according to the latest news from Slovenia (Reuter 2017). With respect to incentive policy, Magna invested in employees' career life and shared the success of company with employees through compensation program, which could benefit employees' further career paths and help rise the overall income and living standards of local employees. Moreover, our country could improve our management system by learning from Magna's company culture. In terms of its infrastructure construction, Magna would invest a lot in our countries to build facilities and infrastructure, which would benefit the local transportation system. Besides that, the introduction of Magna might attract its automobile partners to invest in our country as well to reduce their transportation cost.

Costs/Risks: In terms of costs and risks, Magna is a top 3 automobile parts company with high channel exclusivity, which would increase the barriers for local business to entre the market. The new-born business might be destroyed by introducing Magna. It is necessary to setting relevant policies to protect local business. Magna's financial performance might also need to be considered, since the performance was unstable in the past three years. Environmental pollution might be another critical issue due to industrial manufacturing. Since Magna is an automobile parts company, the manufacturing process would consume oil and cause air pollution. In some way, the building of facilities and infrastructure would also destroy the environment. Besides the air pollution, developing nation might also need to offer 5 or more years tax deduction policy to attract Magna to invest and burden the risk that Magna might leave our country in 5 years if there is lower manufacturing cost in other countries.

Recommendation and Conclusion

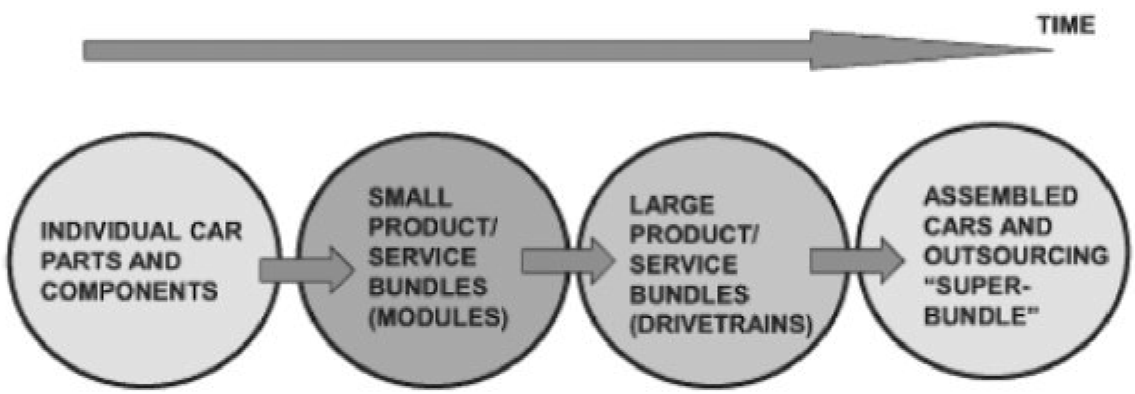
In conclusion, there are more benefit over risks to allow Magna International to set up operations in the country. The foreign investment from Magna could bring more potential job positions to host countries, therefore improve overall income and living standards, rise national gross income and develop local transportation system. The local automotive assembly factories might also benefit from the collaboration with Magna. Despite the unstable performance of Magna, it is expected to achieve high revenue due to the increasing demand of automobile market. However, host country might need to take measures to protect local automotive parts manufacturing industry from the introduction of Magna and to attract Magna to stay in the country.

Appendices

Appendix A-Service Range

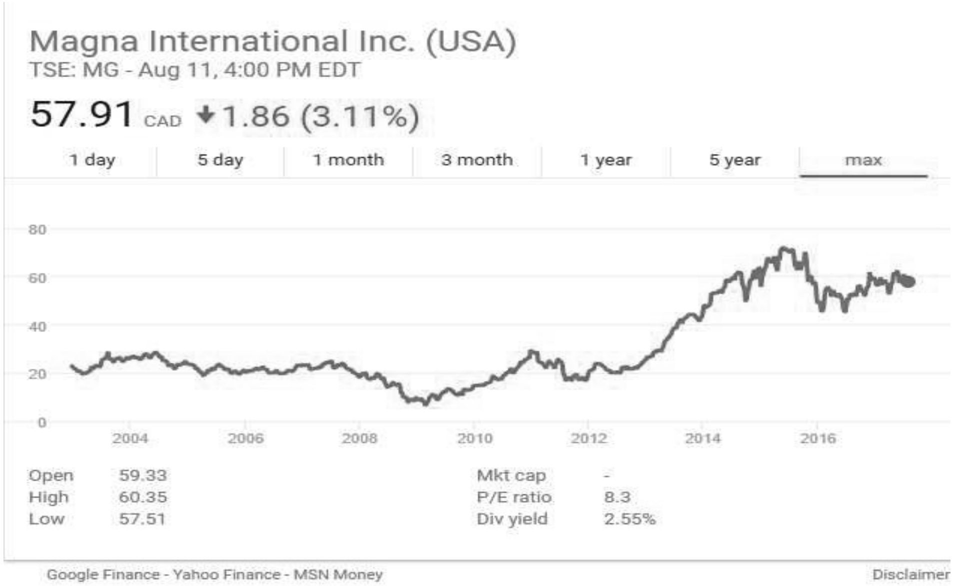
Source: Magna International Inc.

Appendix B-4 Steps Strategic Change



Source: Magna: Market focus transformation process in product/service bundles

Appendix C-Trend of share price



Source: Google Finance

Appendix D-Annual Growth Rate

Magna International Inc Growth Comparisons

Select each growth Category to receive further Information

Select the Comparisons : **Growth Rates ▼**   Select the Ratio: **None▼**

MGA Revenue Growth Rate Comparisons	Company	Industry	Sector	S&P 500
Y / Y Revenue Growth (Q16 MRQ)	-	7.11 %	3.81 %	-1.81 %
Q / Q Revenue Growth (Q16 MRQ)	-	-5.23 %	-3.54 %	2.52 %
Y / Y Revenue Growth (for 12 months ending Q16 TTM)	-	-1.78 %	1.14 %	-2.77 %
Seq. Revenue Growth (for 12 months ending Q16 TTM)	-	0.24 %	0.36 %	0.32 %
Revenue 5 Year Average Growth	-	8.42 %	11.51 %	14.37 %
Expected Revenue Growth (Y/Y)	-	-	-	**2.71 %**

Source: CSI Market https://csimarket.com/stocks/growthrates.php?code=MGA

Appendix E-Customer Concentration

Customer Concentration

Worldwide sales to our six largest customers represented the following proportions of our consolidated sales in 2016 and 2015:

Customer	2016	2015
General Motors	20%	20%
Ford	16%	15%
Fiat Chrysler	15%	16%
Daimler	12%	12%
Volkswagen	10%	10%
BMW	10%	10%
Other	17%	17%
TOTAL	100%	100%

Appendix F-Manufacturing & Sale Centre

Facilities

As at December 31, 2016, we had the following manufacturing and product development, engineering and sales facilities:

Geographic Region	Manufacturing	Product Development, Engineering and Sales
North America	135	25
Europe	114	50
Asia	54	25
Rest of World	14	2
TOTAL	317	102

Source: Magna Annual Information Form

Appendix G- spread of employees

Human Resources

As at December 31, 2016, we employed over 155,000 people as follows:

Geographic Region	Number of Employees
North America	74,150
Europe	55,575
Asia	22,125
Rest of World	3,600
TOTAL	155,450

Source: Magna Annual Information Form

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