

Magna international inc. essay



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Magna International Inc. 1. 1 BACKGROUND INFORMATION Magna

International Inc. (Magna) is a manufacturer of automobile parts since its inception in 1957 (At the time was called Multimatic Investments Limited). Founded by Frank Stronach, Magna has since become Canada's largest automobile parts manufacturer.

Magna is the primary supplier of automobile parts to many car manufacturers, including General Motors, Chrysler, and Ford Motor Company. The following discussion will draw upon Magna's management strategy, its mission statement, where the company is currently, how the corporation is doing, and whether it is consistent with what Magna stated to do. A PEST analysis will take into consideration of the macro-environment that Magna is pressured in the future outlook of consistently maintaining its reputation of what it wishes to accomplish in its mission statement. 2. 1

CONTEXT OF MAGNA'S STRATEGY: THE MISSION STATEMENT In the abundance of my research conducted on Magna, the starting point would be its mission statement. Ironically, Magna does not follow a traditional mission statement.

Instead, Magna took upon a unique approach by laying out key principles in their responsibilities within their "Corporate Constitution" and "Magna Employee's Charter". Within these two statements of their purpose, Stronach developed a philosophy for Magna of which the company wants to be known as "a Fair Enterprise Corporation". Abiding that philosophy, Stronach stresses that this includes not only to the management, but also to shareholders and employees within the Corporate Constitution and Employee Charter. . 2 Magna's Employee Charter It appears that fairness and concern

to employees is more enunciated with Magna due to a separate charter exclusively made for employees about the principles and what they offer. Many of these principles related to the Employee Charter include: Job Security, A Safe and Healthful Workplace, Fair Treatment, Competitive Wages and Benefits, Profit Participation, Communication and Information, The Hotline, and Employee Relations.

1) In other words, the corporation aspires to cater to its employees. I find it very interesting that Magna did not make it to the Maclean's annual list of Canada's Top 100 Employers for 2007 and 2008. (2) However, Magna's philosophy is not limited by the scope of Maclean's opinions. It is whether Magna does deliver on the promises in the past, present, and future.

In the Employee Charter, it stated that every employee should share the financial success in the company. One source claims there is uniqueness in the corporation's culture, confirming that Magna does have profit sharing plans and puts 10 per cent of pretax earnings into employee deferred stock plans. (3) In addition to caring for the employees, Magna provides job counseling, training, and employee assistance programs to support the employees' needs of having an optimal fit with the corporation. Along with that, the fair treatment principle states that the company will only base equal opportunity on employees' performance and qualifications, no discrimination. To this date, there has been no breaking news that has tainted on Magna being prejudice within the workplace. To further strengthen the integrity of the employee charter, Magna has even implemented its own internal hotline open to any employee whom feels that the company is not doing its part in maintaining its loyalty to its employees.

This alone would provide a good indication that Magna is doing its part staying true to its philosophy, and to this day, there has been no news as to whether any employee is claiming that Magna has been breaking its promises. . 3 Magna's Corporate Constitution As Magna is treating its employees well within the company, there is also a need for the employees to contribute to the company in return. And just like every other business wanting in return is: profit. In the Corporate Constitution, Magna management is required to strive and maintain a minimum profit performance.

According to Magna's financial statements, for the years of 2005, 2006, and 2007, Magna's comprehensive incomes were in millions U. S\$488, U. S\$721, and U. S\$1, 202 respectively. This is consistent with the annual target of maintaining the minimum profits that Magna states that it plans to achieve.

Given the consistent target, it supersedes the other facets as to what Magna promises every year in the constitution of not only providing profit sharing to employees, but also a percentage out to shareholders and management.

Based upon Magna's performance over the past 2-3 years, Magna has remained faithful and consistent with what the company seeks to achieve under the principles as stated in the Corporate Constitution and the Employee Charter. Having implemented controls to reinforce the targets including minimum profit performance and employee hotlines for filing complaints, Magna does show a compelling commitment to stand up for the philosophy as to what Frank Stronach has quoted: Magna International is a Fair Enterprise Company. This may provide a good indication that the promises Magna have sought out to abide in make it a fair enterprise. What

limits this philosophy is the forces in the outside world that is beyond the company's control in continuing to realize its mission of persistently achieving its goals, the next discussion will consider the macro-environment and industry environment of Magna International. 3.

1 PEST ANALYSIS - MACRO-ENVIRONMENT INFLUENCES OF MAGNA Magna have been riding on the continuing success of meeting the company's missions and goals. However, unsystematic events can happen at any time that may impair Magna's future performances. Here we look at the factors and trends through a breakdown of four categories in the PEST analysis: political, economic, social, and technological. 3.

2 Political Factors and Trends One thing to recognize for Magna is that the company was non-unionized since its inception due to Frank Stronach's beliefs against having one. Stronach has been well-known as an individual who disagrees of the philosophies of union organizations for many years, but in recent times it has changed. On October 15, 2007, The Toronto Star broke news that Stronach has reached an agreement with the Canadian Auto Workers (CAW) in Toronto to join the union in a no-strike deal, completely reversing the non-union policy. (4) Stronach wanted to ensure stability for Magna in the auto industry as in recent times the auto industry has been taking some bumps which could greatly impact Magna financially. What I mean by the auto industry taking bumps is due to the indirect pressures of Magna's buyers including General Motors (GM), and Ford. GM, Ford and Chrysler LLC alone are one of Magna's few major customers to supplying its auto parts to these companies.

(5) GM, Ford and Chrysler alone are known as the Big 3 auto makers and are unionized with the Canadian Auto Workers. The National Post has brought up an interesting point as to the reasoning behind Stronach's decision to join the union, stating that Stronach is trying to cooperate and preserve the employees and their jobs in Canada which evidently places the people and the company in a win-win situation. 6) With the trend of globalization becoming a major factor as to having buyers consider outsourcing its work outside of Canada to other countries offering competitive labour, Stronach could potentially be unionizing Magna in order to not only ensure the employees do not walk out of Magna, but to also send an indirect message to the Big 3 auto makers that Magna is unionized in hopes that they do not go out of their ways and take away outsourced work from Magna and find a foreign company to do their work. Should any one of these companies walk out of Magna as its supplier, it would take a major blow to the corporation to lose a big customer which will produce adverse effects to producing minimum profits to satisfy the missions as stated in Magna's Corporate Constitution and Employee Charter.

Aside from the pressure groups of CAW and the Big 3 Auto Workers, Magna also has to worry about the pressures from an environmental standpoint. Industries in Canada are changing at a rapid pace and have been taking cautious measures shifting to a more eco-friendly environment. New emission standards and environmental regulations have become more inflexible in hopes to reduce greenhouse gas emissions produced by automobiles. (7) This may affect the continuing profit growth of Magna as its industry indirectly if consumers and the auto makers take action in terms of

shifting its focus to more eco-friendly automobiles in the foreseeable future. Magna would have to take into consideration of following the trend of making its auto parts supplies available for auto makers whom plan to produce more eco-friendly automobile if it wants to continue as a profitable business.

. 3 Economic Factors and Trends Consumer confidence has been becoming a major issue with primarily the Big 3 Auto Makers in terms of maintaining its good rapport of selling automobiles. In August 2008, overall auto sales have dropped 7. 2 percent. Primarily, for car sales of Chrysler, Ford, and GM, each had a sales decline of 24.

2 percent, 25. 3 percent, and 19 percent respectively. (8) All these declines include a bulk percentage of pickup trucks and SUVs. The reasoning behind these massive declines is the result of rising gas prices trigger consumers to either direct their focus to either hold off on purchasing an automobile, or shifting the focus to purchasing more fuel-efficient cars.

(9) Because of this lack of demand for vehicles that are massive gas-hogs, companies have been closing assembly plants of pickup trucks and SUVs in Canada, indirectly affecting Magna's ability to supply for that sector of automobiles. As a result, the future profit and continuous growth of Magna would fall short in the coming years if the corporation has lost a line of work for supplying auto parts to this line of cars to its buyers. In recent news, the United States have been suffering a massive financial crisis referred to as " the credit crisis" since the official collapse of the Lehman Bros. after declaring bankruptcy. This was dubbed as " the largest bankruptcy in U.

S. history” which has recently greatly affected not only the U. S. economy, but as well as the Canadian economy.

As a result of this, consumers are more likely affected by this credit crunch which will influence on their decisions to hold back on investing in automobiles and saving their liquid assets during this economic downturn. What this means is that not only Magna will be suffering from the lack of demand of auto parts supply for pickup trucks and SUVs, just about every other automobiles Magna supplies auto parts may also slow down as well. The massive slowdown of the Canadian economy could potentially take a hard hit on Magna’s minimum profitability set out to target every year in order to fulfill its principles as laid out in its Corporate Constitution. 3.

4 Social Factors and Trends As mentioned earlier in the political and economical factors, the rising gas prices and consumer conscientiousness of becoming environmentally friendly, it is no doubt that these pressures will cause people to look for more gas-efficient vehicles or even alternatives for modes of transportation. These environmentalist values may not completely oust the demand for purchasing automobiles for personal use, but it could hinder the demand for cars nonetheless. Magna may not have the ability to break into the market of creating alternative modes of transportation, but Magna could realize the shift in demand and create more automobiles that break into the environmentally-friendly market. The Globe and Mail have broke news that Magna has joined the race to investing research and development costs in producing plug-in hybrid cars to help reduce gas consumption.

10) This is a good indication that Magna is conscious of its outward looking over its competition over the next five years and assuring its position as Canada's largest automobile parts manufacturer. 3. 5 Technological Factors and Trends The rate of technological change in the auto industry has been making its shift in focus of producing vehicles from gas-hogs to gas-efficient. Product obsolescence of gas-consuming vehicles could also possibly be of concern during the next five years, and rising gas prices are not helping to stabilize demand for vehicles with gas consumption.

As previously stated, there has been a growing interest in the production of plug-in hybrid automobiles. Plug-in Hybrid automobiles run on an electrical battery which can be recharged from an electrical source. (11) Magna has been serving the auto industry for many years of creating cars for auto makers that consume gas. It is no surprise that Magna has taken notice about the shift in demand in the market of fuel-efficient cars, which means Magna has been diversifying the scope of car parts for new markets in order to try and secure potential profits in the next few years. If in the case that the demand for gas-consuming cars has diminished while plug-in hybrids become the new standard, this could mean not only the improvements of the fuel economy, but also lower costs of raw materials and the amount available.

Magna does not have to worry about always making the sales to make profits when the company could look at decreasing its costs side of things. This would help in consistently abiding with the mission statement. 4. 1 PORTER'S FIVE-FORCES MODEL ANALYSIS The five forces model produced by Michael Porter helps provide a framework for companies to analyzing the <https://assignbuster.com/magna-international-inc-essay/>

industry competitiveness and determine the level of attractiveness of the industry and its market. The relevance of this model for Magna is to help analyze the micro environment around the automotive industry it is competing in, in order to provide a point-in-reference as to the continuing development of a business strategy for the company to remain competitive. The purpose of the five forces model is like a checklist of the forces that may help or thwart Magna's business strategy to realizing its goals as laid out in the Corporate Constitution and Employee Charter.

The following will be a discussion of Magna based upon the analysis of the five forces model between at present until the end of 2013. 4. 2 Existing Competitors Existing competitors is a function of the product life cycle to determining where the stages of a product is in its life time. The North American auto industry operates in a oligopsony market structure, where there are very few auto maker buyers in a market of approximately 43 automobile parts suppliers. In considering where Magna positions itself against other competitors, according to Yahoo! Finance, Magna places second largest in terms of market share capitalization, covering 11.

4% percent ($\$4.9\text{B}$ Magna's share / $\$42.8\text{B}$ Industry share). (12) Relative to the product life cycle model, I believe the automobile parts industry is at its maturity stage.

The competitor pool is somewhat large, and buyers could defect over to another supplier given how volatile the automobile industry has been suffering recently. Magna has placed itself in a very good position considering the amount of diversification globally of its business with many

buyers under contract. However a large percentage of its sales are based solely from the Big Three automakers. (13) Should GM, Ford, or Chrysler make the move to break of its long-term contracts in search for another supplier, Magna would take a huge hit in terms of its profitability and growth. Indirectly, the promises laid out in the Corporate Constitution would be broken if Magna suffers negative profits, and anyone who is a shareholder of Magna would want out of this demise. Many other factors that also prevent Magna's include the new products lineup in the auto industry.

Competitors in the auto industry should be aware of the fact that hybrid cars are becoming an evolving trend in the market, of which auto parts suppliers could capitalize a large percentage of market share before it is too late.

Magna has taken into consideration and is currently on the race to developing and plug-in hybrids by the end of 2010. (14) 4. 3 Potential Competitors There are very few buyers in the auto industry due to its oligopoly market structure.

All these buyers have already been contracted to a supplier, and Magna holds a major market share. The automobile parts industry is a \$42. 8 billion dollar industry as of 2008. (15) This already can prevent new competitors to entering the market as there will be a large investment requirement to be able to even compete in the industry. The economies of scale for potential competitors must be high enough to be able to efficiently operate in the auto parts industry with foreseeable profits. As a result, the barriers to entry will be relatively high for potential entrants, which prove to be a good thing to Magna and its competition.

Regardless, Magna does hold one of the largest market shares in the industry, so even if new entrants do break barriers of entry, it will be very difficult for the company to compete with Magna. 4. Substitute Products In the auto parts industry, there is a lack of distinguished products out there that buyers would consider as alternatives from purchasing auto parts. Buyers sole purpose are to develop automobiles for consumers, and to be able to have the ability to do so, they would have to produce these parts themselves or go to an external supplier such as Magna and outsource their work to those companies.

4. 5 Customers Unfortunately in Magna's case, the company is operating in an oligopsony market. While Magna may supply auto parts to many customers, the Big Three auto makers GM, Ford, and Chrysler make up a large percentage of Magna's sales. This puts the buyers of greater power and influence because if one buyer decides to sever ties with Magna and find another supplier, Magna's market share will drop significantly and may slow down its growth and profitability. Magna's auto parts are relatively no different than any other auto parts suppliers. Customers such as the Big Three are most likely looking for reliable parts that could support the development of future automobiles.

The auto makers just need the parts to be supplied in order to make cars. With a saturated market of auto parts suppliers, it could be relatively easy enough for buyers to switch over to other suppliers if Magna does not provide quality service. Backwards integration is also possible with the auto makers. GM, Ford, and Chrysler definitely have the resources to produce auto parts instead of outsourcing it to external suppliers. In considering the <https://assignbuster.com/magna-international-inc-essay/>

decline in sales for the Big Three auto makers, it is unlikely that companies would consider this option.

4. 6 Suppliers As mentioned above, there are little to no substitutes for automobile parts which bodes well for Magna and other suppliers as buyers have no other alternative since these customers sole purpose are to acquire parts for making automobiles. The buyers must need to have these auto parts just so these companies can manufacture the automobiles. And considering how Magna holds a large market share, its reputation will have greater influence on buyers whom will need to find Magna or another supplier to outsource their work and focus more on the companies' core activities.

5. 1 Conclusion So many environmental forces could potentially impact Magna and its ability to fulfill its mission statement. While Magna has been successful at meeting minimum profits over time in order to carry out the promises laid out in the Corporate Constitution and Employee charter, it remains to be seen how Magna will survive within the coming years of the slowing automobile industry and the recent financial crisis. The automobile industry may not be attractive for newcomers due to the high degree of competitiveness, but Magna is definitely in a good place in the competition. The only major impact that Magna could suffer is the loss of suppliers of the Big Three auto makers.

However, Magna has continued to realize its profits thus realizing its ability to profit and satisfy the principles laid out in the Corporate Constitution and Employee Charter. I believe with all these factors taken from the PEST

analysis and Porters Five Forces analysis, Magna has been carrying out its mission and has been consistent on its promises. Magna does not have to worry about its competitors. Magna does however have to worry about losing buyers and the slowing economy. REFERENCES (1)Magna. (2008).

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