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Forward. For all.

Inside Automotive:

5 Scenarios on Entering a New Vehicle Market

There are many factors which play a role when entering a new market. The most important questions are: How much of the production process should be localized? When is it smarter to import and when is it smarter to establish local facilities?

At Magna, we group this process into five distinct scenarios, that are differentiated by how many production steps are established in a new market. We will describe these scenarios on the following pages.

This document is part of our Inside Automotive article “4 Essential Factors You Need to Consider Before Expanding Your Automotive Business into New Markets”. We recommend reading this article first to get a more complete picture.

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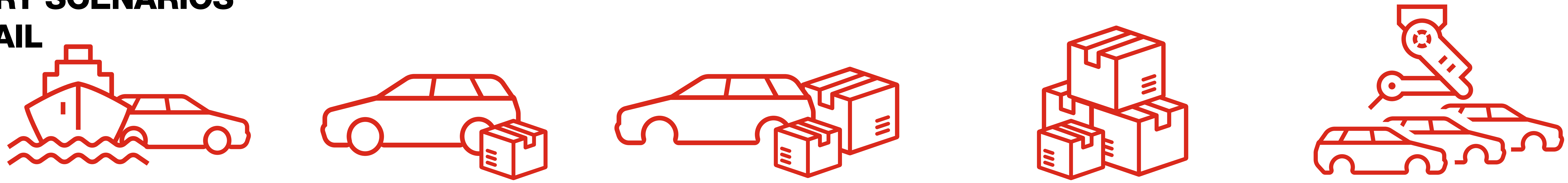
MARKET ENTRY SCENARIOS IN MORE DETAIL



IMPORT	SKD (Semi Knocked Down)	MKD (Medium Knocked Down)	CKD (Completely Knocked Down)	CBU (Completely Built Up)

Volume p.a.

0 | 1,000 | 5,000 | 10,000 | 15,000 | 20,000 | 25,000 | 50,000 | 100,000+

On-Site Tasks

IMPORT	SKD	MKD	CKD	CBU
Body in White, Paint, General Assembly, Certi-fication	Body in White, Paint, General Assembly, Certi-fication	Body in White, Paint, General Assembly, Certi-fication	Body in White, Paint, General Assembly, Certi-fication	Body in White, Paint, General Assembly, Certi-fication

Supplier Base	Origin Country		Target Country
Transporta-tion Costs	Low	High	Low
Customs	High		Low
Additional Investment	Low		High
Time to SOP	Short		Long

Explaining the Scenarios

The five scenarios described above are grouped depending on the vehicle volume per year to be brought into the new market. As a rule of thumb: Higher volumes prefer more localized production processes.

An **Import** strategy a vehicle simply means that a vehicle is produced and manufactured at the home site, and only the final serial product is sent to the new markets. This solution doesn't require involvement by Magna as a partner.

A **Semi Knocked Down (SKD)** strategy consists of taking a fully completed and certified vehicle supplied by the OEM and knocking it down into a limited number of parts. These parts are then re-assembled and inspected by Magna prior to their delivery. Keep in mind that Magna only covers the final steps of the assembly process.

A **Medium Knocked Down (MKD)** strategy consists of taking only the painted vehicle body from the OEM. Additionally, all components and modules by the origin supplier are forwarded to Magna, who is responsible for general assembly and certification.

A **Completely Knocked Down (CKD)** strategy consists of the OEM forwarding certain components and modules (mainly from origin suppliers) to Magna. The rest are locally sourced. Magna is responsible for Body in white, painting, assembly and certification.

A **Completely Built Up (CBU)** strategy consists of Magna fully completing and certifying the vehicle. Platform modules are derived from a local supplier or OEM, additional modules are globally sourced for local optimization.

The **ideal manufacturing scenario** has to consider five additional factors: the location of the vehicle's **supplier base** and which suppliers need to be newly sourced.

Transportation costs and **customs** have to be balanced with each other, as well as the total production volume. Higher volumes requires the **additional investment** in a local CBU production.

Finally, the **time to SOP (start of production)** increases the more that production is handled locally. This is due to the effort of establishing facilities, as well as the total production volume factor.

Magna offers the perfect manufacturing solution for all stages of a perfect market entry. A step-by-step market entry – scaled from SKD to CBU is also feasible. We will elaborate on this approach on the next page.

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MANUFACTURING OR IMPORTING? DECISION-DRIVING FACTORS

If you are focused on:

- Uncertainty of market acceptance and lower volumes
- Capacity available in origin plant
- Short term market entry or bridging for CBU localization
- Advantageous transportation costs
- Acceptance of higher vehicle sales price

we recommend

If you are focused on:

- Higher volumes and market certainty
- Requiring additional capacity
- Sustainable market entry with additional capacity
- Advantageous customs costs
- CBU: Localized supplier network with minimized transport costs and tolerable investment

we recommend

IMPORT → **SKD** (Semi Knocked Down) → **MKD** (Medium Knocked Down) → **CKD** (Completely Knocked Down) → **CBU** (Completely Built Up)

MAGNA supports you with:
- **Experience** of SKD and CKD operations
- **Reduced costs and time** due to our facility
- **Knowledge** of local customs
- **Scaling possibility** to CBU

MAGNA supports you with:
- **Capacity** and resources of our facilities
- **Reduced investment** due to our on-site paint shop
- **An experienced** workforce
- **Local supplier network**

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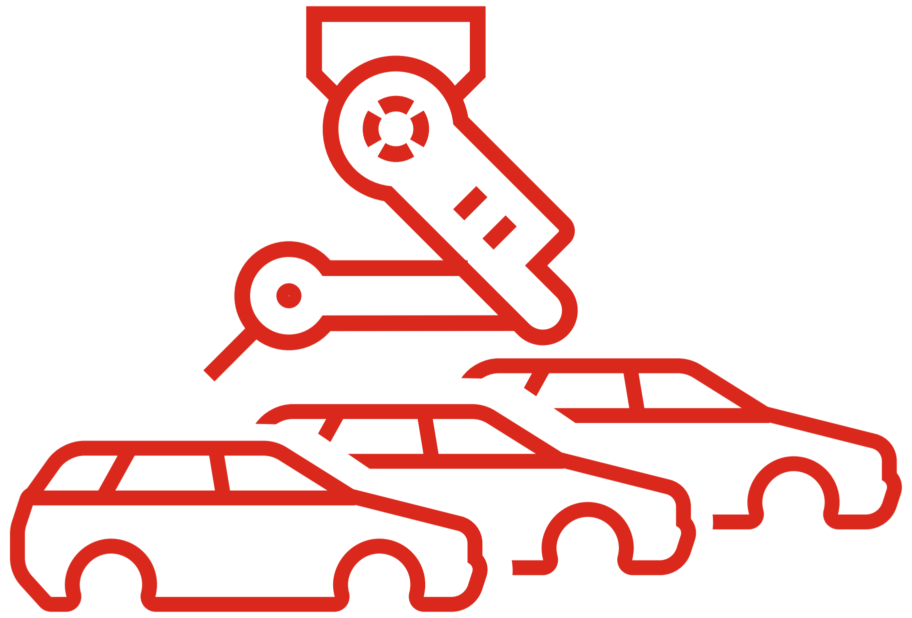

How Can We Support Your Automotive Vision?

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