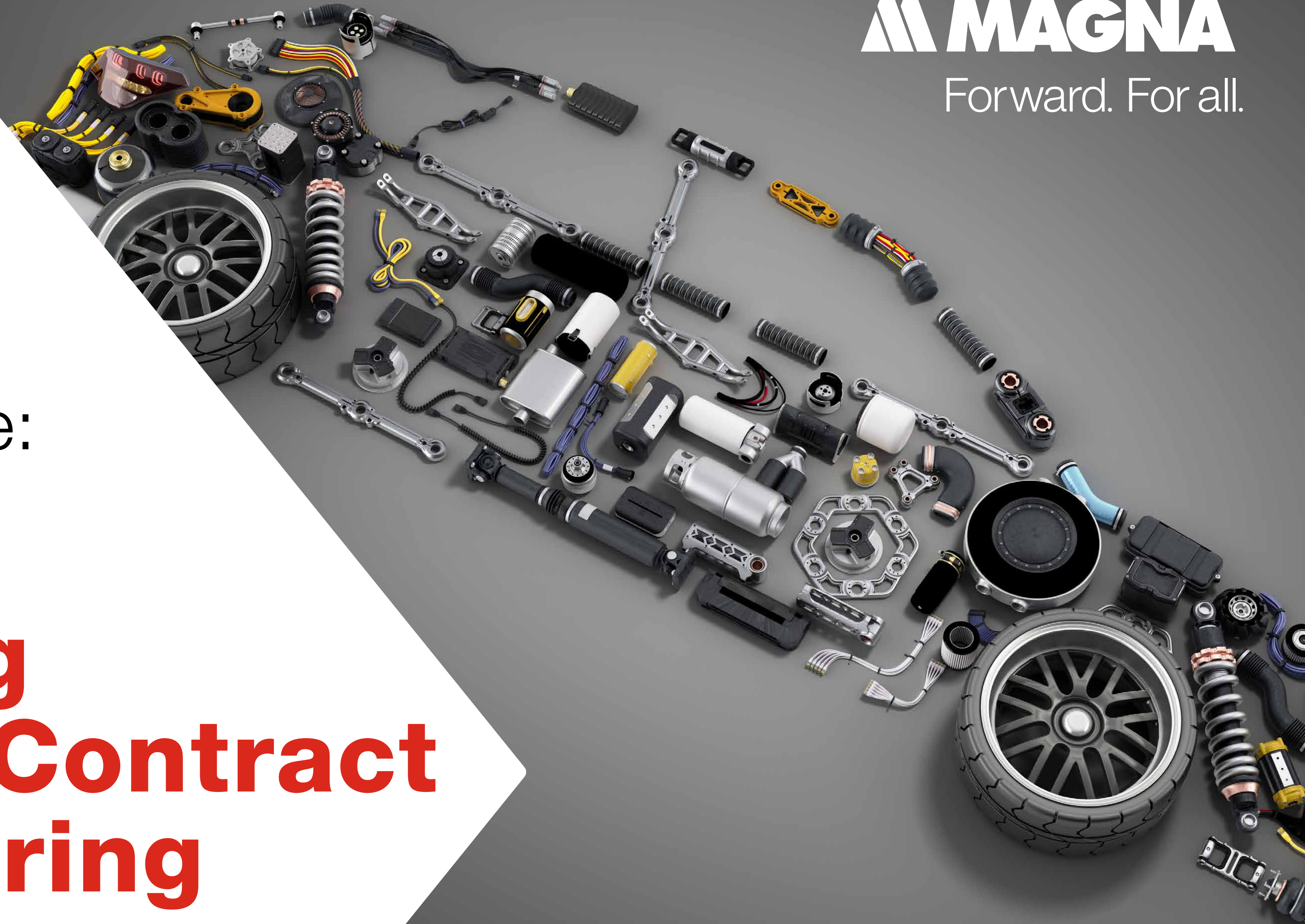


PURCHASING MODELS



Inside Automotive:

Four Purchasing Models in Contract Manufacturing



Finding Your Perfect Purchasing Partner

Obtaining all the necessary parts and selecting the right supplier to build a complete vehicle requires a multitude of complex processes. It also requires precise coordination with a whole network of involved parties. This task can be overwhelming for new entrants and inconvenient for established OEMs.

A suitable contract manufacturing partner can provide individualized degrees of support in purchasing management for any client – either to help them gain a footing in an yet unknown market or free up precious resources for other projects.

Purchasing may be a challenge, but putting it in the hands of an experienced partner in the automotive industry will make it a lot easier, and allow you to benefit in the process!



Table of Contents

➤ Introduction	2
➤ Overview of Purchasing Models	4
➤ Model 1 – Risk & Opportunity	5
➤ Model 2 – Best Effort	6
➤ Model 3 – Contracting	7
➤ Model 4 – Consignment	8
➤ Customer Benefits of Purchasing with a Partner	9
➤ Flexibility & Additional Linkable Services	10
➤ Contact	11

Overview of Purchasing Models

Usually, contract manufacturers in the automotive industry offer customers four distinct models for purchasing – each with a different variety of involvement of their services.



MODEL 1: Risk & Opportunity

In this model, the partner can provide the biggest support with purchasing. In this case, they can negotiate and handle material costs and supplier investments.



MODEL 2: Best Effort

The partner assists with most purchasing processes, from recommending suppliers, sourcing and price negotiations to contracting – all in close cooperation with the OEM.



MODEL 3: Contracting

While the OEM selects and sources their supplier base themselves, the partner handles the legal matters in terms of contracting suppliers.



MODEL 4: Consignment

This model sees the least involvement from the partner. They are only able to execute call-offs for materials, which requires consignment to be free of charge for them.

Best suited for new entrants & market newcomers

Best suited for established OEMs with an existing supplier base



These 4 models of purchasing represent the basic possibilities that are available to customers when collaboration with a contract manufacturing partner in their vehicle project. Usually, any model can be further adjusted or mixed and matched in different project phases to meet the specific customers' requirements.

MODEL 1:

Risk & Opportunity

Model 1 is especially attractive for **new entrants** in the automotive market or for **OEMs moving into an unfamiliar market**, since they can rely on and profit from the partner's extensive network of suppliers and beneficial business relationships.

When applying this model to contract manufacturing, the partner is responsible for sourcing and contracting the supplier base, as well as the target costing (which includes part prices and development costs for tools and suppliers).

A basic requirement for this model to be applicable (and successful) is usually an early involvement of the manufacturing partner during the concept phase of a vehicle project. For example, if Magna acts as a purchasing partner, the R&O model can only be applied if the components were developed by Magna Engineering.



	Target costing	Partner
	Supplier base	Partner
	Sourcing	Partner
	Supplier contracting	Partner
	Responsibility for material costs & specific supplier investments	Partner

MODEL 2:

Best Effort

This model is designed for OEMs who already have an **established supplier base** and **vehicle models with platform applicability**. It is also suitable for OEMs who want to have more **involvement in the supplier selection process**. While the partner assists with target costing of individual parts, the responsibility for managing carry-over parts (COP) remains with the OEM.

The supplier base includes both the OEM's and the partner's network. When comparing inquiries and quotations, the best-effort principle is followed, taking into account the total cost of ownership (TCO), which includes project costs, launching costs, supplier investments, and give-backs, among others. Suitable suppliers, part prices, and other costs are selected and confirmed through a joint sourcing committee. After this stage, the partner takes care of all contracting matters, adhering to both their specific legal requirements, as well as those of the OEM.

While the partner provides active support and significant resource relief to the OEM during the purchasing process, the OEM retains the final responsibility for material costs and specific supplier investments.



	Target costing	OEM & Partner (single parts), OEM (COP)
	Supplier base	OEM & Partner
	Comparison of inquiry and quotation according to best-effort principle	Partner
	Sourcing	OEM & Partner
	Supplier contracting	Partner
	Responsibility for material costs & specific supplier investments	OEM

MODEL 3:

Contracting

This model is most suitable for OEMs that already have an **established supplier base, well-defined purchasing processes, and sufficient resources**. In this model, the OEMs take full responsibility for all purchasing matters throughout the entire development process and the serial production phase. They have the autonomy to select and source their own supplier base and negotiate prices.

In Model 3, the partner takes on a more significant role after the supply confirmation. For example, Magna is the perfect partner to handle the contracting of suppliers, leveraging our extensive legal expertise in the European region and market.



	Target costing & purchasing responsibility	OEM
	Supplier base	OEM
	Sourcing	OEM
	Supplier contracting	Partner
	Responsibility for material costs & specific supplier investments	OEM

MODEL 4:

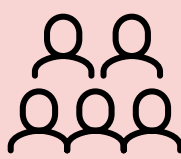
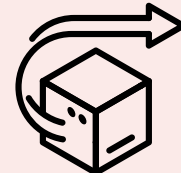
Consignment

This model is specifically designed for OEMs that already have **existing supplier contracts and a well-established history of cooperation** with their supplier base.

In Model 4, the OEM enables their partner to execute call-offs for materials and components based on the pre-existing contracts the suppliers have with the OEM. To facilitate this, Magna integrates all relevant information into our own systems, ensuring the smooth continuation of logistical processes.

Additionally, the consignment of parts will be provided free of charge to ensure a seamless collaboration between the partner, the OEM, and their suppliers. As a result, all financial risks, including transportation fees from the supplier to the manufacturing partner, will be assumed by the OEM.



	Target costing & purchasing responsibility	OEM
	Supplier base	OEM (set up in the partner's systems)
	Sourcing	OEM
	Supplier contracting	OEM
	Material call-offs based on OEM contracts	Partner
	Parts consigned free of charge	
	Responsibility for material costs & specific supplier investments	OEM

Customer Benefits of Purchasing with a Partner

Collaborating with a contract manufacturer like Magna on purchasing processes has many benefits for customers. Due to our long history of vehicle serial production, we have established good business relations with our extensive international supplier base.

We can also rely on the services of our various international purchasing locations in Europe and China, providing the perfect purchasing network for our clients.

Beyond purchasing, it is also a viable option for OEMs to transfer the complete project management and/or the complete support of serial production to Magna so they can take advantage of our vehicle production expertise.



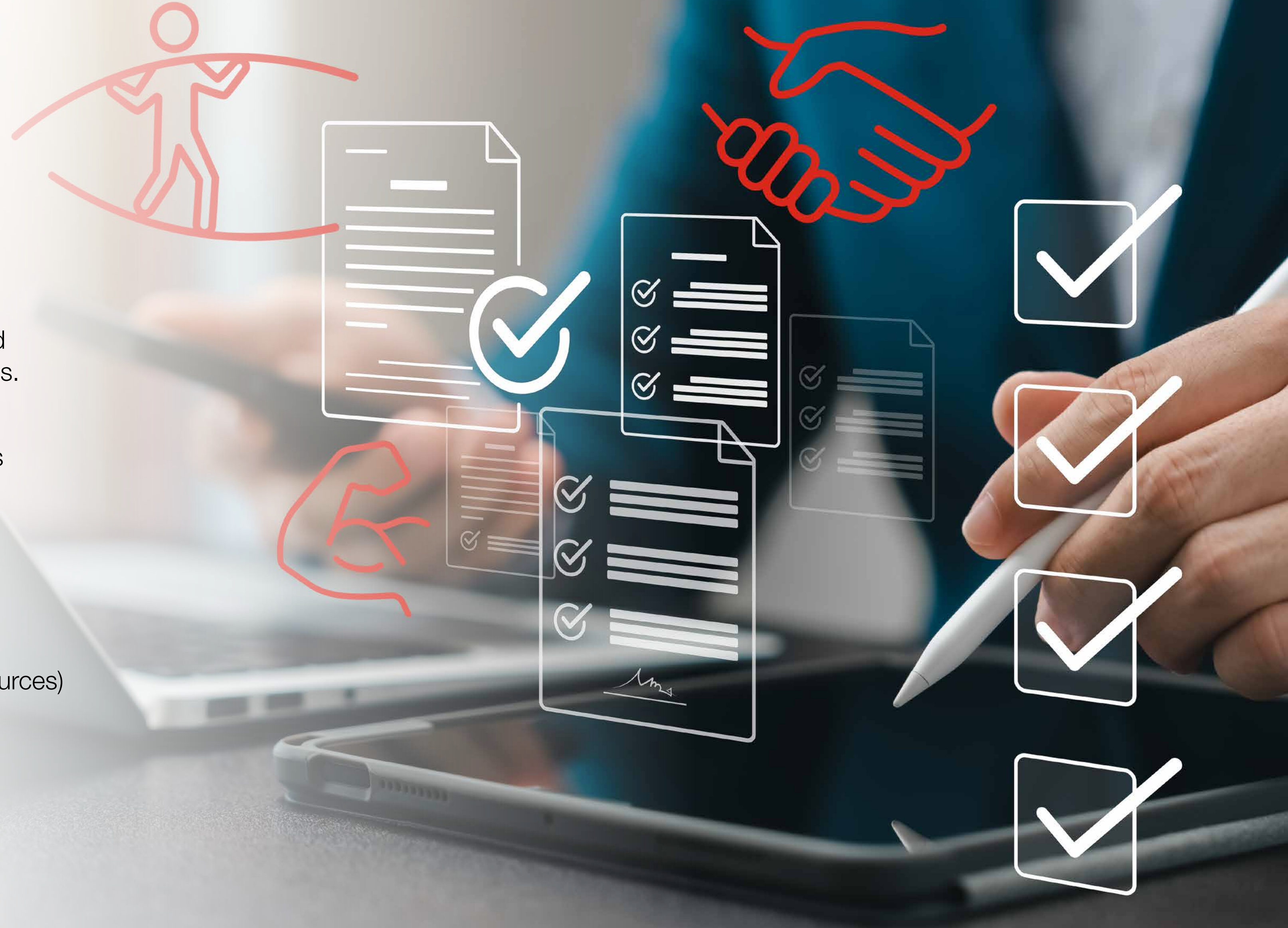
Flexibility & Additional Linkable Services

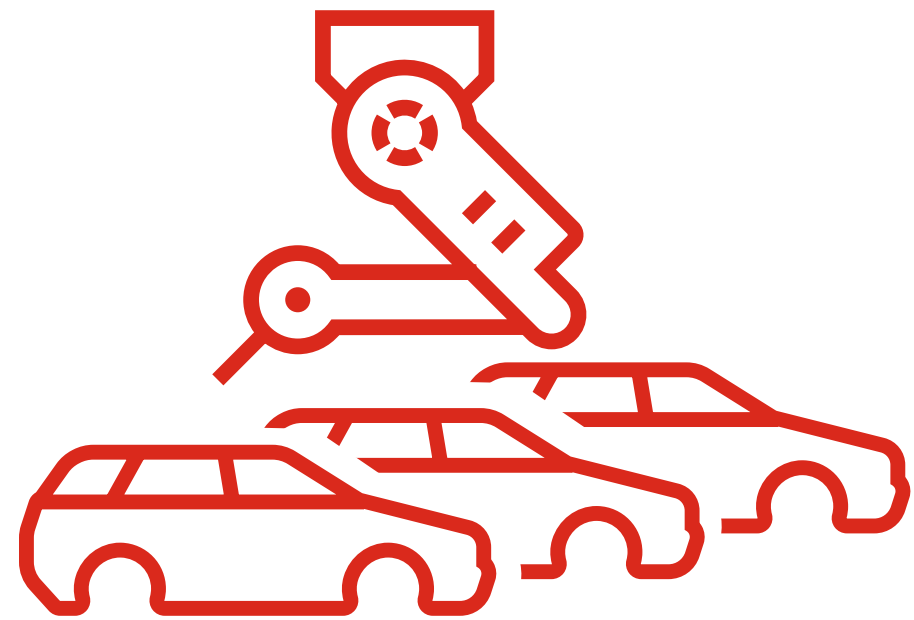
Any of the four purchasing models can be altered or combined for different project phases to perfectly fit the customers' needs.

As a complete vehicle manufacturer, Magna can assist OEMs as much as desired. This is accomplished by providing various additional linkable services within and beyond purchasing processes, including

- change management,
- cost analysis for components and tools,
- indirect procurement (facilities, load carriers, operating resources)
- and provision of all systems used by our purchasing department (supplier management, quality assurance, parts planning and management) for customer usage.

Contact us to find the best solution for your purchasing needs!





How Can We Support Your Automotive Vision?



Contact us at
discovermore.magnasteyr@magna.com

Get more Complete Vehicle Insights at:
magna.com/stories/inside-automotive

**MAGNA STEYR
FAHRZEUGTECHNIK
GMBH & CO KG**

Liebenauer Hauptstraße 317
8041 Graz
Austria

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