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Marelli's blow: the strategies implemented to survive the LBO of Magneti Marelli and the Chip Crunch

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ABSTRACT

In this dissertation it will be presented the business case study of the decisive internal and macroeconomic events that brought *Magneti Marelli*, a large automotive components manufacturer who was merged with another Japanese firm to become *Marelli*, to the point of showing highly leveraged financial condition at the end of 2020. After an introductory presentation of the industry and the firm, in the case study, written from an historical point of view throughout the use of in-dept interviews with Marelli's Senior Manager and secondary data, it will be illustrated what adaptive strategies and financial measures the management implemented to face the challenges brought in the last years to Marelli. The analysis of the sources shows that Marelli suffered from the LBO procedure to purchase Magneti Marelli and that the semiconductors crisis was a bad timed hard hit for the company. It will be reported the decisive factors that helped Marelli gain higher negotiating abilities and the company's management Long-term Strategic Plan designated at the beginning of 2022 to relieve the leverage and reorganize the firm's Positioning. In the Research note are presented empirical and theoretical knowledge with regards to the Strategic Management topics included in the case study. Whereas the teaching objectives, audience and approach for the case study, will be covered for a pedagogical purpose to focus the case's learning on the topics of Porter's Bargaining Power of Buyers and the Ansoff's Matrix.

Title: Marelli's Blow: the strategies implemented to survive the LBO of Magneti Marelli and the Chip Crunch

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RESUMO

Nesta dissertação será apresentado o estudo de caso empresarial dos eventos internos e macroeconómicos decisivos que levaram a Magneti Marelli, um grande fabricante de componentes automóveis que se fundiu com outra empresa japonesa para se tornar a Marelli, ao ponto de apresentar uma condição financeira altamente alavancada no final de 2020. Após uma apresentação introdutória do sector e da empresa, no estudo de caso, redigido de um ponto de vista histórico através da utilização de entrevistas em profundidade com o gestor sénior da Marelli e de dados secundários, serão ilustradas as estratégias adaptativas e as medidas financeiras que a gestão implementou para enfrentar os desafios que a Marelli enfrentou nos últimos anos. A análise das fontes mostra que a Marelli foi afetada pelo processo de aquisição da Magneti Marelli pela LBO e que a crise dos semicondutores foi um golpe duro e inoportuno para a empresa. Serão relatados os factores decisivos que ajudaram a Marelli a ganhar maior capacidade de negociação e o Plano Estratégico de Longo Prazo da gestão da empresa, designado no início de 2022, para aliviar a alavancagem e organizar o posicionamento das empresas. Na nota de investigação são apresentados os conhecimentos empíricos e teóricos relativos aos temas de Gestão Estratégica incluídos no estudo de caso. Considerando que os objectivos de ensino, audiência e abordagem para o estudo de caso, serão abordados com o propósito pedagógico de focar a aprendizagem do caso nos tópicos do Poder de Negociação dos Compradores de Porter e da Matriz de Ansoff

Título: O Golpe de Marelli: as estratégias implementadas para sobreviver ao LBO da Magneti Marelli e ao Chip Crunch

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Palavras-chave: Magneti Marelli, Leveraged Buy Out, Escassez de Semicondutores, 5 Forças de Porter, Poder de Negociação dos Compradores

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1. Introduction

Marelli Europe S.p.A., formerly known as “Magneti Marelli S.p.A.” (hereinafter referred to as “Magneti Marelli”, “Marelli”, “the company” or “the firm”), is a global designer and producer of automotive components, covering the production on a variety of highly technological products. This dissertation aims at presenting the most decisive internal and macroeconomic events – the merger with a Japanese components group and the semiconductors shortage - that have brought the company to show an exposed financial condition in the last few years. In addition, the research’s effort has been conducted with the goal to present and report Marelli’s short-term plans adopted by the firm to be more resilient during the periods of those disruptive event. Eventually, in the last chapter of the case study, Marelli’s long term Strategic plan, which shows what goals and actions the firm will undertake to position itself in inside the components’ industry. will be thoroughly showed and explained. What will be presented also include what challenges and transformation the group is expecting for the future of the automotive industry.

In the following sections, to give the reader a more comprehensive context to the case study, it will be provided an introductive overview of the typical business dynamics related to the automotive components industry, focussing, additionally, on the analysis of what factors can represent opportunities and threats for the firms operating inside of this industry. To introduce the recent events of Magneti Marelli, a brief historical introduction of the Italian firm will be presented, with the intention to deliver a general understanding of the firm’s business capabilities, which will be brought forward in the case study.

1.1 The automotive components industry: Overview, Opportunities and Threats analysis

Industry Overview: Magneti Marelli’s, now simply Marelli, main field of focus is the components’ and systems’ design and production for the automotive industry. Such components consist of the vehicle’s mechanical or electronic parts which are not produced by automotive manufacturers but are necessary for finalizing the production of an automobile. In 2021, the value of the components industry was –\$ 1,57 Trillion – equal to the sum of revenues of the firms who compete in the industry - and was expected to grow with a CAGR of 4,1% until the year 2028, reaching a value of 2,08 trillion (Business Research Insights, 2022). The industry’s segments consist of different products/systems that can be classified by the function or the service they provide to the vehicles. The main segments

in terms of revenues in 2022 were: Powertrain, Interior & Exterior and Electronics (Kingpin Market Research, 2023). The growth of the industry, given the nature of the products the companies sell, is highly subjected by the driver of the performance of the automotive components industry such as the general production of automobiles, from which the industry depends on the most part by revenues (60%). The remaining portion of customers, instead, consists of the Aftermarket industry.

The automotive industry presents one of the most intricated value chain globally. Within the automotive components industry, the firms are classified by the level of supply they provide to the automakers: the Tier-1, Tier-2 and Tier-3 suppliers. Tier-1 suppliers – such as *Robert Bosch*, *Denso Corp*, *Magna International*, *ZF Friedrichschafen* and *Marelli* - are undoubtedly the biggest players of the automotive components industry and they represent the companies that supply finished parts and systems directly to the automotive manufacturers. Tier-2 can be companies who work to produce components but do not sell directly to manufacturers, whereas the Tier-3 suppliers are the firms who produce of all levels of suppliers with raw or close-to-raw materials.

Opportunities analysis: The new global trends of the automotive industry, such as the EV (=Electric Vehicles) transition and the development of autonomous driving technologies, represent some potential profitable investments for the industry. The automotive manufacturers have increased their EV production significantly in the last years, and, furthermore, autonomous driving technologies (such as lidar, sensors and cameras) are more and more frequently inside the new vehicles, and they are expected to generate an increase in demand for components related with these technologies (Business Research Insights, 2022). As such, components producers can be part of the technological innovation of EV and self-driving vehicles and, therefore benefit from these new trends by increasing their differentiation entering these new, expanding market.

Recently, EU governments and regional institutions have presented and accepted long-term industrial plans which target at easing the semiconductors shortage (by increasing the production in countries outside East Asia, where currently 4 of the top 5 manufacturing countries are from - World Population Review, 2023). The increase of semiconductors production in areas such as U.S. and Europe is going to benefit the automotive manufacturers, as the geographical distance between the companies and the length of the supply channels will decrease significantly. Consequently, the components industry will likely enjoy from the increased semiconductors production capacity and be able to supply those semiconductors also for their internal production.

Threats analysis: As the environmental concerns of national governments are encouraging automakers to decrease their ICE (=Internal Combustion Engine) automobiles production in favour

of EV (=Electric Vehicles) , the components necessary to operate an ICE are expected to decrease in production in the future, especially in regions such as the EU, China and US (Statista, 2023). Firms who historically worked with the production of ICE components, need to focus on the EV transition by producing components for operating electric and hybrid motors. The industrial change of productions, however, may require the disinvestment on existing plants for ICE vehicles and, because of the fewer personnel needed to produce parts for EVs than for ICEs, the dismissal for redundancy of personnel.

With the use of part of Porter's 5 forces, we can conclude that the automotive components industry is characterized by an inherent high level of competition among closer peers, that can present a constant threat for any firm operating in it. The factors that contribute to increase the threat of the industry are (1) significant overhead costs for keeping of all the business operations active (designing, production, supply...) (2) a fierce pricing rivalry due to low switching costs for the customers, who furthermore generally have (3) higher negotiation possibility and Bargaining Power.

1.2 Introduction to Magneti Marelli

Established with an equally subscribed share capital by *Fiat Group* and the '*Società Anonima Ercole Marelli*' in 1919, Magneti Marelli was originally conceived to produce magnetic components solely for the Italian automotive industry. In the 20s and 30s, Magneti grew rapidly and started to diversify its production, entering the markets of motorcycles, industrial engines, car competition and aviation engines, and it furthermore begun the production of several electrical components (such as dynamos, windshield wipers, engine starter systems and spark plugs). During the 1950s, Magneti Marelli entered the radio and telecommunications market as well. In the early decades from its establishment, Magneti Marelli's continuous development is due for its innovation capabilities and manufacturing excellence. Marelli's remarkable achievement in the radio communication sector is the construction of RAI's (Italy's largest radio television company) entire national television network in 1954, which became the largest television in Europe at that time (*Storia di Magneti Marelli*, 2010).

In 1967 Fiat Group becomes the major shareholder of Magneti Marelli. Following the strategy to focus on its core business, throughout the 70s and 90s, the company's management decides to gradually disinvest on sectors that don't include automotive technological components. During the 80s, the company gradually becomes an industrial Holding headed by numerous prestigious European components manufacturers. This structural transformation allows the firm to incorporate the held

firms' technological expertise, expanding Magneti's components excellence. In 1978 the firm starts to establish itself globally opening a production plant in Brazil (*Storia di Magneti Marelli*, 2010).

The over said presence in the most prestigious motorsport categories (F1, MotoGP, WRC, SBK championships) always contributed to the development of the automotive components. As a matter of fact, Marelli has these extreme environments as a test field for advanced technologies looking for any possible application of those components in series production cars. Vice versa, Marelli also can provide their technical expertise to the racing teams it works with, helping them towards success. At the beginning of the 2000s, Magneti Marelli is committed to face the challenges of the future of the automotive mobility. For the Brazilian market, Magneti Marelli develops a combustion engine capable to run with either ethanol or gasoline in 2003. In 2009, Magneti designs a kinetic energy recovery system (named 'KERS') for Formula 1- which is later implemented in many sports and road cars – which will be used until the 2014 championship. Another recent achievement is when, in 2020, Marelli completed the development of Magneti Marelli's battery package for German famous automaker Porsche its first-ever full-electric vehicle, the *Taycan Turbo*,

2. Methodology

The main purpose of this thesis is to report the strategic decisions of Magneti Marelli's management in the recent years over the events of the horizontal merger with Calsonic Kansei and the semiconductors shortage. These events have led to radical changes within the corporate structure but also with regards to the company's sales, mainly affected by the consequent reduction in production volumes in the automotive industry. The case building was carried out through the search for qualitative information regarding the historical events of Magneti Marelli in recent years through the use of primary and of secondary sources.

The main primary sources of the research consisted of a structured interview with a Senior Engineer of Marelli Europe. The interviewee was asked to expand, to the best of his possibilities, on the company's strategic decisions made to address both the supply crisis of semiconductors and the highly leveraged financial structure of Marelli resulting from the LBO of Magneti Marelli. The questions were addressed in order to obtain as objectively information as possible for the case study. The

referencing to this source is reported in the case with the diction “Marelli Europe S.p.A.”. Other primary sources, in addition, included historical internal documents and reports published by Marelli or Magneti Marelli itself to implement the secondary sources information.

The additional analysis of secondary sources consisted of the use of online articles from trade journals, other information from specialized websites. In particular, two different transcribed interviews from Marelli’s Chairman (Dinesh Paliwal) and one interview from Marelli’s CEO (David Slump) were used as secondary source. Other secondary sources include historic balance sheets of Marelli Europe S.p.A provided by an Italian rating firm.

3. Case Study

3.1 Addressing the LBO in the merger of Magneti Marelli and Calsonic Kansei

In the recent evolution of the history of Magneti Marelli can be found all the reasons that explain why the firm has been in a hard financial situation from 2020 onwards. In this chapter, the process with which Magneti Marelli was purchased through a Leveraged Buy-Out acquisition by an American investments fund and merged into a new company will be described. Moreover, it will be shown how this merger burdened on the new company’s financials, increasing its exposure to the recent events that shocked the global automotive industry. Finally, it will be presented what were the actions decided by the management of Marelli to recover the company by making its structure more resilient and less susceptible to future disruptors of the industry.

3.1.1 Magneti Marelli’s merger with Calsonic Kansei

Fiat-Chrysler-Automotives N. V. (hereinafter “FCA”) was, after the horizontal merger between the Italian *Fiat Group Automobiles* and the American *Chrysler Group LLC* in late 2014, the seventh largest automotive group in the world, selling a total of 4.6 billion of cars in 2015 worldwide (FCA annual report, 2015). The long-lasting ownership of **Magneti Marelli** by the Fiat Group naturally converged inside the FCA group. However, just a few years later, Magneti Marelli seemed to be at the end of its historic ownership by FCA, when, in 2018, US-based private equity fund **Kohlberg Kravis Roberts Co. L.P.** (hereinafter “KKR”) begun showing interest for the firm and started negotiating the acquisition from the Italo-American automotive group.

For the American fund, the acquisition from FCA of Magneti Marelli represented the second step to create a new global car components group (*Automotive Business*, 2018), merging the Italian company with another Japanese automotive supplier, who, in 2017, also accounted for total revenues similar to Magneti Marelli – € 7.9 billion vs. € 8.2 billion – (*BeBeez International*, 2018). The strategic idea of KKR for the new global automotive components group was to combine the technological expertise of the two companies, taking advantage of their reputation as historical and innovative firms, in order to be ‘better positioned’ in the market of automotive components (*Marelli Press Release*, 2019). Because of that, following this idea, the American fund acquired from Nissan Motors Co, to gain total control, another large and established car components manufacturer., named **Calsonic Kansei Corporation** for € 4.5 billion (*BeBeez International*, 2018). It is interesting to notice that the Italian and Japanese firms had both a commercially and financially similar relationship with their corresponding parent firms – FCA and Nissan - and this factor surely contributed to the merger of the companies.

Hence, Magneti Marelli and Calsonic Kansei presented many structural similarities to the eyes of the American investments fund. Eventually, in October 2018 KKR accepted to purchase Magneti Marelli for € 6.2 billion from FCA (Marigia Mangano, *Il Sole24 Ore*, 2018) representing the equivalent of ‘x17 Magneti Marelli’s estimated earnings of 2019’ (Wakako Sato, *IFR Asia*, 2022). The acquisition of Magneti Marelli was financed by the American fund but conducted by Calsonic Kansei Corporation. When the acquisition of Magneti Marelli was finalized, the merger between the two companies gave birth to **Marelli**, a new, top-10 automotive components group in the world, worth € 15 billion in revenues in 2018 (*Marelli Press Release*).

3.1.2 The Leveraged Buy-Out and the crisis of the automotive industry

Without a doubt, the merger with Calsonic Kansei was meant also to provide Magneti Marelli even more international exposure than it had historically. However, It is crucial to underline the fact that the purchase of the Italian company by the Japanese firm was conducted through a process of a **Leveraged buy-out**. This Leveraged Buy-Out (=LBO) was an acquisition that happened on the major part in the form of debt. The acquiring company - Calsonic Kansei - borrowed loan to a third party (lenders consisted of several banks) and collected the amount to purchase Magneti Marelli (Lorenzo Vallecchi, *QualEnergia.it*, 2023). After the acquisition was completed, the Italian firm showed an obligation repay the over mentioned debt with either its net income or, alternatively, by selling part of its assets. However, in general terms, it’s important to underline that the LBO does not necessarily

imply bad news for the acquired firm. This procedure is generally preferred, in fact, for firms who show a strong financial situation and have therefore a solid guarantee to repay the debt under the accorded terms of the loan (Romain Lenglet, *Agicap*, 2022).

As it always happens after an LBO, the acquired company Magneti Marelli, (later rebranded Marelli Europe S.p.A., as a subordinate of Marelli Holdings) presented an important loan liability towards its controlling newborn company, Marelli Holdings (*Marelli Europe S.p.A.*). With its new highly leveraged structure, what Marelli did not need at all was a global crisis of its customers, the automotive producers, that would have undermined capability of selling its products, and therefore creating profits to repay the obligations of the LBO loan. Unfortunately, right after the restrictions of the COVID pandemic, when automobiles demand returned to normality, the worldwide supply of semiconductor microchips, vital elements for vehicles these days, could not respond as quickly (for reasons that will be better explained afterwards). To provide context of the financial status of the subsidiary Marelli Europe, as of December 31st, 2020, the debt towards its controlling companies – attributable to the LBO - represented 78% of its total liabilities and this amount stood at more than 300% of its consolidated revenues in 2020 (*Cribis Expert*, 2023). Revenues of Marelli Holdings, the group born with the merger, in fact, dropped roughly by 27% from FY2019 to FY2021 – € 15 billion vs € 11 billion (*Marelli Press Release*, 2022).

The LBO used by KKR via Calsonic Kansei to purchase Magneti Marelli in 2019 undoubtedly exposed Marelli to a higher financial risk when the macroeconomic setbacks of the following years irrupted in the automotive industry. As the revenues for the European branch experienced a significant drop, this crisis meant more difficulties to repay the debt of the LBO and to present the liabilities for much longer than expected at the time of the merger.

Although Marelli, especially Marelli Europe S.p.A., presented a high leveraged financial structure due to the chip crisis and the LBO, in those difficult years, the company kept its consolidated position with its important and long-established reputation as a supplier for the global automotive producers. A testament of the fidelity its customer kept on placing on Marelli, as reported by its chairman Dinesh Paliwal, is that the firm held a record number of orders in the year 2021 (Luca Ciferri, *Automotive News Europe*, Jan 2022). Moreover, Marelli's president claimed the value of **backlog orders**, equal to the value of orders still open for the firm, increased from 2021 to 2022 (Hormazd Sorabjee, *Autocar Professional*, Sep 2022). These numbers give proof of the Marelli's important relations with

automakers, and that its products continued to be demanded by automotive manufacturers during the difficult times of the crisis.

3.1.3 The financial debt and cost plan of Marelli

At the beginning of 2022, there were positive signs of a potential demand growth in emerging markets such as for the Powertrain (in India) underlined by Marelli's new CEO (Bhatia & Taumar, *Economic Times Auto*, Dec 2022). Furthermore, the number of backlog orders was still a factor of optimism for the future sales. This outlook encouraged the Corporate board to present an ADR (= Alternative Dispute Resolution) proposal for restructuring the long-term debt of the Holding. This decision was implemented by the fact that the non-current liabilities resulting from the LBO would have burdened on the company still for several years, at least 2027 (Wakako Sato, *IFR Asia*, 2022), rendering the company's investment in new Engineering and R&D more hampered. Due to transparency concerns raised by some Chinese banks, the ADR proposal was not accepted uniformly by all of the lenders of the LBO of Marelli (which consisted of a total of 26 entities), but the plan was then transferred under the control of the Tokyo District Court and was thereafter approved in March 2022 (*Nikkei Asia*, 2022). The debt restructuring proposed ultimately to relieve more than 60% of the Marelli's total debt outstanding, officially naming the controlling American fund KKR as the sponsor of the operation (*LegalOne*, 2023).

Along with the debt restructure, a cost- restructuring industrial plan was also presented and discussed with the Tokyo District Court (*Nikkei Asia*, 2022). What was aimed in this plan is the improvement of the corporate structure by reducing the costs of the firm (*Il Sole24 Ore*, Jan 2022)

More Specifically, the management identified cost-structures both in Italy and Japan that were still not properly streamlined as a consequence of the merger between the two companies. As reported by the President, in fact, before the chip shortage, the cost structure of Marelli was as if "effectively operating as two different companies" with a COO in Italy and in Japan (Luca Ciferri, *Automotive News Europe*, Jan 2022). As part of the costs reduction plan, Marelli proposed to disinvest in several production plants in Europe and to cut just over 5% of its workforce worldwide (John Irwin, *Automotive News*, 2023).

A further help given to Marelli by the controlling fund consisted in an all-equity capital injection (*Nikkei Asia*, 2022) to the group. By doing so, the American fund demonstrated its trust on the longterm plan to make Marelli a leaner and more efficient company. Following the cost reduction plan, Marelli is gradually studying the cost structures beneath its divisions, and identifying the company's branches that present a more inefficient business model. Closely related to the cost

restructure, Marelli went forward with disinvesting its capital on the branches of the Holding that saw the least positive forecasted growth.

3.2 The semiconductors crisis and price rise of energy and raw materials

From the beginning of 2021 until late 2023, all suppliers of the auto industry were faced with the scarcity of supply of semiconductors, and this phenomenon is also typically referred to as the “chip crunch”. In addition, energy and raw commodities such as iron and steel – which Marelli needed for the production of many of its components - saw a significant price increase as a result of the conflict in Ukraine. In this section, what actions were adopted by the firm regarding the semiconductors shortage and the energy and raw materials price rise will be presented.

3.2.1 The “chip crunch” of the automotive industry

The “chip crunch” refers to the supply difficulties of microelectronic semiconductors chips for the automotive industry that started at the end of 2020 and is still continuing at the present times – late 2023. The causal analysis of this crisis has identified the COVID pandemic as the main triggering reason for this shortage that affected the automotive market on a global scale (Kristin Dziejek, *Chicago FedLetter*, 2023). The restrictions imposed by governments during the lockdown periods in 2020, generated an increase in demand for technological products - such as computers and tablets - that were needed by those who had to arrange themselves working and attending online classes from their home. The demand for these technological devices eventually caused an exponential necessity of semiconductors chips, whose demand reached a high in 2020 and 2021. Global manufacturers of chips, who have historically satisfied the demand of these chips for a number of different industries, were virtually obliged to modify its production capacity to favour the demand for the technology industry (Kristin Dziejek, *Chicago FedLetter*, 2023). At the state of the art of the semiconductors industry in 2020, in fact, an increase in volumes of production of semiconductors was not realistically applicable for a number of reasons. Firstly, the manufacturing plants of semiconductors were already running at 90% of their capacity (*Semiconductor Industry Association*, 2021) when the shortage begun, and secondly, because of the prohibitive high-cost entry barriers - still present today - due to the strict technical requirements of the products and to the complexity of the manufacturing process (Xiling Wu, *J. Phys.* 2021)

The allocation of production capacity of chip manufacturers brought to a slump of the production of semiconductors destined to the automakers and Tier-1 automotive suppliers. The consequence

brought to a drastically slowed down supply channels of the automotive industry, and many plants in Europe and the US were forced to stop the production lines of cars (Frieske, Stieler, *W. Elect. Veh. J.*, 2022). It was estimated that, because of the semiconductors shortage, 9 million automobiles could not be produced and delivered worldwide in 2021 out of a total 80 million units produced (*Alix Partners*, Press Release, 2021).

3.2.2 Marelli's adaptation to the global semiconductors supply crisis

The volumes of components produced by Marelli during the shortage of semiconductors primarily decreased as a consequence of the global drop of automobiles production. Moreover, the choices of automakers made to contrast the chip shortage were to decrease the quantity of vehicles produced, focussing on fewer units with higher profit sales margins, for example, by prioritizing the production of luxury cars (Frieske, Stieler, *W. Elect. Veh. J.*, 2022). The demand of almost every component of Marelli was damaged by the shortage of semiconductors. Because of the reduced streams of semiconductors, Marelli's LED headlight system was the most affected by the chip shortage since it requires a chip inside to work with (to monitor the information around the vehicle). Headlights and sensing, as anticipated in the introduction, account for around 30% of revenues of Marelli (*Marelli Europe S.p.A.*), and therefore considerably impact the group's income statement.

Because Marelli supplies a variety of established (but, most importantly, differentiated) clients, the relationship between the company and its customers is drawn up with long-term supply contracts with many automobile producers all over the world. Inside the value chain of automotive suppliers, these contracts stand for as a two-party agreement of the price at which a component can be sold to the OEM (=Original Equipment Manufacturer), also given the fact that the average supplier is not as large as Marelli and usually sells a few types of components to the OEMs. With the information on these contracts, the selling prices of the automotive components can be often negotiated on a regular basis (usually between 2 or 3 months) to propose updates in the case of eventual increase/decrease of the prices of related commodities (*Marelli Europe S.p.A.*). Commercial relationships between OEM and Tier-1 suppliers are a direct consequence of the small sale margins that are characteristic to the automotive supply channels. For reference of these tiny margins, it was estimated that the average value of the pre-pandemic and pre-shortage EBIT-margin for auto Tier-1 suppliers was not higher than 8%. However, from 2021 until late 2023, this margin has narrowed at around 6% (Stricker, Correa, *Bain & Company*, 2023).

At the beginning stages of the crisis, in order to respond to the reduced streams of semiconductors, Marelli, as Tier-1 automotive suppliers did, was forced to fall back on the spot market to purchase

these microchips, buying them at a higher price (Luca Ciferri, *Automotive News Europe*, Jan 2022). As reported, this decision was made necessary in order to make the firm survive the initial shocks of the chip shortage- However, the lower margins resulting from the higher prices of input materials, understandably, meant that the firm needed to react. In the following phases of the shortage, Marelli saw the necessity to revise the contracts with its customers to renegotiate the specific indexes regarding the partitioning of the sale margins with the customers (*Marelli Europe S.p.A.*), who wanted the firm to keep its operations active to survive the shortage. The result Marelli successfully achieved was to ‘pass’ the costs of inputs – semiconductors – to the customer – the OEM. This crucial relief allowed Marelli to readjust the margins from the sales of its components, and gradually recover from the economic losses at the beginning of the shortage. On the other perspective of this mechanism, from the buyers’ point of view, the increased prices of Marelli’s components would be better-off, in their turn, passed to the prices of the vehicles (otherwise OEM would have experienced a profit loss). As a result of this mechanism, that, as mentioned earlier, interested Marelli and the majority of Tier1 suppliers, the average price of European automobiles, roughly 1 year after the start of the chips crunch, increased by 8,7%. Notably, of this percentage of price increase, more than half can be attributed to the semiconductors and raw materials crisis (*EU Central Bank*, 2022).

This renegotiation process by Marelli represented a success for the company during the toughest periods of the shortage. The reason why Marelli went through this success is because the firm, as mentioned earlier has a highly differentiated technological components production, and it works with as diverse customers as Fiat, Nissan, Porsche and Ferrari (not to mention F1 teams), and the result of this negotiation process is a sign that the OEM wanted Marelli to continue to support them in the value chain and to remain solid in the long term.

3.3 Marelli’s Long Term positioning vision and Strategic Plan

Marelli's strategic adaptations for the short term were intended to at, above all, address the challenges the company had to face in the preceding months. Magneti Marelli's merger with Calsonic Kansei and the materials and semiconductor supply crisis brought to a financial burden that was resolved with a debt restructuring by the parent fund KKR. Following the relatively easing of the challenges that affected Marelli and the automotive industry, in early 2022, a long-term industrial plan in which management defined Marelli’s long term strategies to position itself in the automotive suppliers industry was formulated.

The two main areas interested in the company's industrial plan (also referred to as the "strategic plan") consisted of: (1) providing capital investments in the technology of the components by prioritizing the firm's Innovation capabilities (2) defining a strategic plan for making Marelli more environmentally Sustainable.

Marelli's direction to provide **Innovation** to the firm was translated into deploying a 'technology focus vision' to position itself in 'the auto industry's megatrends' (Sustainability Report, *Marelli Hold.*, 2022) In this regard, Marelli stated that automobile producers and Tier-1 suppliers should actively collaborate to provide solutions for emerging automotive technologies, such as, for example, the creation of in-vehicle connectivity or the development of driving assistance systems. More specific commitments undertaken to contribute to Marelli's Innovation vision included investing in a new € 1.27 billion R&D centre in China (Sustainability Report, *Marelli Hold.*, 2022), where the firm can collaborate with automakers for the development of the over said technologies.

Regarding the anticipated importance of becoming more **Sustainable**, the company have recognized the factual growth of worldwide demand of EV as an inevitable revolution for the automotive industry. The firm also concluded that being committed to new investments towards this growing industry may be a decisive factor that to the point it could 'represent a competitive advantage' for Marelli. Marelli's intentions to become an important player in the electrification process of automobiles are therefore serious. However, Marelli's management admitted that the ICE vehicles to EV transition will be a process defined at a regional level, where regions such as Europe and China will likely present a higher pace of transition to EVs, compared to countries such as Brazil, India and the US ((Bhatia & Taumar, *Economic Times Auto*, Dec 2022). In view of this, Marelli will adapt to the different paces of the EV transition by concentrating its ICE and EV components production accordingly.

3.3.1 The company's new structure: the three pillars

As mentioned in the chapter dedicated to the Debt Restructure, Marelli Holdings maintained the corporate structure of both the merged firms until the beginning of 2022. The Italian and Japanese firms were excellent manufacturer of several types of components. In order of revenues percentage, Magneti Marelli's main segments were: Automotive Lighting (front and rear lighting), Powertrain systems (engine control systems for gasoline, diesel and other fuels), Electronic Systems (infotainment displays, lighting & body electronics), Suspensions systems, Exhaust Systems, After Market (spare parts) and Motorsports (electronic and electro-mechanical systems).

Included in the new Strategic plan of was an important move made to revitalise the company. David Slump, Marelli's new CEO who took office at the beginning of 2022, together with the group's management, identified a new classification of three macro *pillars* that represent the business of Marelli (Bhatia & Taumar, *Economic Times Auto*, Dec 2022). These new macro areas were meant to be reorganized and adapted to meet the challenges Marelli foresaw in the automotive industry. In the following paragraphs, what were the commitments Marelli intended to execute for the strategic readaptation of these new pillars will be discussed, along with the strategies intended by the company for aligning these segments to the goals of Innovation and Sustainability and, of course, to the new automotive industry's needs.

- As it was named by the management, the first '**lightning**' pillar of Marelli is the business unit with the highest contribution to the company's revenues, consisting of the front and rear headlamps (*Marelli Europe S.p.A.*). These components are furthermore what characterize Marelli the most on a brand level, and the firm is committed to work in synergy with car manufacturers in making these components suitable for OEMs growing fleet of electric vehicles. As it was reported by Marelli's CEO, car manufacturers are investing heavily not only in the production, but also in the differentiation of their electric vehicles (Bhatia & Taumar, *Economic Times Auto*, Dec 2022). The way that Marelli decided to collaborate with the automotive manufacturers is by providing innovative technologies of its lighting components to adapt them to the needs of the upcoming EV diversification.
- Marelli's second pillar is the set of segments that make up the '**electronics interiors**' of the vehicles (displays, cockpit lights, Human-Machine Interfaces). In this set of market segments, Marelli's is willing to invest in the growing softwares that can be found inside the vehicles' cockpit. Because of that, the firm published its intentions to become a forefront innovator regarding vehicle cloud systems, consisting of systems able to more efficiently elaborate large amount of data generated by the highly technological vehicles of today, as of 2023. A feasible application for these new cloud data elaborating systems concerns the autonomous driving technologies (ADAS). What was furthermore published in the strategic plan is that for the R&D of interior software electronics, a new plant will be built in India. As seen in the semiconductors crisis, which is still present as of late 2023, the company recognizes the importance to look for alternative architectures and designs. Marelli's readaptation of the 'electronic interiors' pillar, will also respond to the company's willingness to collaborate in

the EV transition, given that these advanced connectivity systems will be more likely installed on the interiors of electric vehicles (Bhatia & Taumar, *Economic Times Auto*, Dec 2022).

- The third cluster of the business identified by the company's management was the '**vehicle performance**'. This pillar encompasses all the more 'traditional' car components in which both Magneti Marelli and Calsonic Kansei have always distinguished themselves in the automotive world. The main components included in the new pillar include the Exhausts, Propulsion systems and Suspension systems. Clearly, these products will be maintained in production to be supplied for internal combustion vehicles. The ICE components are the ones that, at the moment, require the lowest investments on innovation according to Marelli (Hormazd Sorabjee, *Autocar Professional*, Sep 2022). Marelli's main strategic vision concerning this pillar involves the collaboration with automakers in the electrification of the vehicles, which will be achieved by providing new components more suited for EV rather than ICE. However, as anticipated, the company believes that this transition will not happen simultaneously worldwide, but the timing of it will be influenced on a regional scale. Marelli will aim at diversifying the production of the 'vehicle performance' components in areas where the production of fuel vehicles is expected to remain still over time or decrease more gradually. On the strategy implementation level, this decision, therefore, is to proceed to concentrate ICE components' production plants in the over mentioned regions – such as Brazil or India – to conveniently continue to supply the production of those vehicles.

4. Research Notes

In this chapter, literature on specific topics of Strategy will be presented, referring to the theory of the academic papers or articles related with the topics. The goal of this section is to provide the reader with an introduction to the theoretical knowledge on the topics of Corporate Strategy which can be identified in this case study. Those Strategic Management frameworks related to the company's managerial and strategic decisions when its financial crisis was addressed.

4.1 Porter's 5 Forces framework

Introduced by Michael E. Porter in his "*How Competitive Forces Shape Strategy*" article in 1979 published on *Harvard Business Review*. This famous theoretical model breaks down the complex

macroeconomic dynamics that may represent a threat for the survival of an industry, with the intention to determine the competition level at work in the said industry (M.E. Porter, Free Press NY, 1980). The model works by identifying the intensity of 5 so called ‘forces’ that take into consideration the interactions between subjects inside the industry: *Threat of New Entrants, Bargaining Power of Suppliers, Bargaining Power of Buyers, Threat of Substitutes and Rivalry Among Competitors*. More specifically, with regards of the topics that are included the most in this thesis, one of those forces, the ***Bargaining Power of Buyers***, is identified by Porter as a theoretical measurement for determining how much of the negotiation power lies in the hands of the industry’s Buyers. The higher the Bargaining Power of Buyers, the easier the industry’s customers can be assertive to capture value for themselves by lowering the prices of the suppliers, and therefore, as Porter defines it, present a ‘threat’ for the industry. Theoretical factors that positively affect the intensity of Bargaining Power of Buyers can be *consolidated buyers* who, in the long term, become larger than suppliers and increase their volumes of orders; the presence of *low or inexistent switching costs* for buyers, and if the industry presents relatively *undifferentiated products* (M.E. Porter, *Harvard Business Review*, 2008).

Despite Porter’s 5 Forces have become an incredibly popular framework, given also by its surprising simplicity, as happened in more recent years, the framework stimulated further research with the aim to improve the model’s potential to generate ‘important insights’ for the businesses’ management. In particular, it was proposed the necessity to implement the framework with the use of other tool such as growth drivers or PESTEL analysis and, furthermore, examining the existing dependence that are the connective skull between the forces (Tony Grundy, *Strategic Change*, 2006). These proposed reinterpretations of the model could potentially provide a ‘more developed’ analysis of the competitive forces and benefiting the model’s lifetime used within the businesses.

4.2 Strategic M&A

Mergers and acquisitions (hereinafter ‘M&A’) are financial transactions that are usually aimed at either (1) the acquisition of another company’s partial or entire assets or (2) the merger with another company to give birth to a larger **NewCo (=New Company)**. Among the theoretical structural classifications of M&As, an ‘Horizontal M&A’ is identified when the transaction involves companies who share the same product and market and therefore the firms are two competitors in the same industry (Adam Hayes, *CFI*, 2023).

Apart from the goal to create a larger business in terms of revenues, which could potentially benefit the company’s shareholders, M&A transactions can also represent a valid solution to contribute to a

firm's strategic vision by delivering a Competitive Advantage among its peers. However, when firms address an M&A process, it is observed that the majority of those transactions do not translate in the previously intended advantage, but instead they result to be a failure (Graham Kenny, *Harvard Business Review*, 2020). Expert M&A advisors observed that companies are more successful when they apply a high level of focus and strategy consistency during all phases of the transaction. In many M&A transactions happened in the past years, the focus level of a successful deal involves companies who have developed a detailed description of the target companies they intend to acquire, by defining the companies' features – size, geographical scope, product, industry - around the specific necessities of the acquiring firm's strategy. An M&A transaction consistency is crucial, and it can be achieved by implementing the typical financial due diligence process, made during the company's acquisition targeting, with a structured strategy due diligence of the targeted company. The strategy due diligence should explicitly confirm that the buyer's assets, capabilities and relationship make it the best owner of the target company and prove a confirmation of the synergy between the two companies' strategic vision (Graham Kenny, *Harvard Business Review*, 2020),

A horizontal merger can be a golden opportunity to improve the positioning of the NewCo with the formulation of a new brand equity to meet the needs of the consumers of both companies. In this regard, within an M&A process is recommended to carefully evaluate the various alternatives for the brand outcome of the NewCo, according to the brand equity of the firms. A few popular brand outcomes can be (1) creating an entirely new brand with limited connections to the two companies' brand equity, (2) maintaining one company's brand equity and integrating it into the NewCo's brand equity, or (3) combining the original brands in a new brand where the identity of both brands remains visible.

4.3 Ansoff's Matrix framework

The Ansoff Matrix is a strategic planning framework developed by Igor Ansoff in 1957 that supports the companies in the phase of evaluating different business's growth strategies considering the choice of the firm's products or markets (Kyle Peterdy, *CFI*, 2019). These strategies are furthermore sorted by their associated risk level. This framework consists of a 2x2 matrix with axes identified by 'new/existing product' and 'new/existing market'. As such, in the matrix there are four quadrants representing the four possible strategies the company can adopt to achieve its growth objectives (Gurcaylilar-Yenidogan, *Int. J. Of Inn. Manag.* 2017)

- Market Penetration: consists of incrementing the company's presence in *existing market* with *existing product*. This strategy is considered the least risky for a business as it may not require large investments and it rarely presents significant drawbacks. Market penetration can be achieve increasing the firm's market share with marketing campaigns, product improvements or pricing strategies.
- Market Development: involves the entrance in a *new market* with an *existing product*. This growth opportunity means differentiating the presence of a certain product in multiple markets. The approaches for market development may include catering to a different customer segment or expanding the company's presence into regional or international markets.
- Product Development: is the strategy of the development and introduction of *new products* in *existing markets*. It is considered riskier than market development since it generally requires larger capital investments in R&D and product launch campaigns and could also require the acquisition of sale rights of the new product.
- Diversification: it is the development of *new products* and *new markets* altogether, and it can be related and unrelated, depending by the new product's vicinity relation with the existing products. This strategy is the riskiest growth alternative for a business, requires a deep understanding of both the new product and the new market, and also the. However, diversification can lead to benefits for the business-like risk mitigation, competitive advantage and revenue growth.

5. Teaching Notes

In this section are presented the teaching notes made for the pedagogical purpose to provide the case study in a teaching environment. With the use of these notes, it is intended to provide the instructor a comprehensive understanding and the teaching objectives intended to be learned from the case study. In this chapter are also included the Teaching Audience and the suggested Teaching Approach with which the case study should be presented in the teaching environment. Following these instructions, the Case Analysis and the proposal of answers to the assignments/questions related to the case study will be addressed. Please note that, as for any usual Teaching Note, this section represents the

suggested form of teaching of the case in a educational environment, and the instructor has all the freedom to consider these instruction to the best of what it think of them,

5.1 Case Synopsis and Teaching Objectives

In the case study are reported Marelli's most relevant managerial and strategic decisions the firm decided to implement when dealing with the internal and external causes of its financial crisis. The main goal of the case study is to present students different real-life scenarios in which the company adapted its economic resources and strategic decision-making. This section aims at showing the theoretical relevance of different topics in the area of Strategic Management, which the students will be able to identify and to understand a real-life application of the theoretical frameworks. In particular, the most relevant Teaching Objectives identified in the case study are considered to be: (1) the student's ability to improve their general understanding of strategic M&A transaction and the subsequent importance of the definition the firm's positioning; (2) understanding the weight of Porter's Competitive Forces in an heavy industrial context, focussing on what factors determine the threat level given by the Bargaining Power of Buyers force; (3) introducing the students in the teaching environment to the Ansoff's Matrix theoretical framework, followed by a home-assignment on this and other theoretical topics

5.2 Teaching Audience

Given the Strategic Management topics students will be presented with, the recommended audience to whom introduce the case should be both 1st year Master or 3rd year Bachelor students in areas of study closely related to Business Management. Before the in-class discussion, a general Corporate Strategy knowledge, particularly of Porter's 5 Competitive Forces Framework should be recommended, to maximize the students' understanding of the covered topics. For this reason, it is highly suggested to include the teaching of this case study inside of a Strategic Management or a Corporate Strategy study plan.

5.3 Teaching Plan

As mentioned earlier, it is recommended for students to arrive to the class having already read the case study. It is also suggested to provide the students the possibility to consult the case study during the class. The teaching plan proposed consists of a two-phase approach:

- (1) A first *in-class group discussion* of the case, in which students will be able to prove their understanding of the specific key information on Marelli's strategy, asking only case-related questions. Afterwards, the professor/instructor will introduce the theoretical framework which will be deepened in the second part of the teaching plan.
- (2) A *home individual assignment* where students will be asked to generalize the educational topics on Strategy identified in the case on a theoretical level.

In-class discussion on the case study

The first part of the teaching approach serves the purpose to go through the case study's most relevant information of Marelli's strategic adaptation to the financial leverage and the semiconductors crisis. For this section of the teaching plan, it is preferred students address the questions in groups of maximum 5 students, to give the possibility to discuss and confront with a few colleagues. Students should be given no more than 30 minutes to answer these 4 questions.

- Q.1 What measurements have been adopted by the company's management in order to deal with the Leveraged Buy Out long-term debt and to improve the structure of the merged firm? How can these measures make a positive impact on the Marelli's long-term strategy?
- Q.2 What resulted to be the two main revenue disruptors - triggered by the semiconductors shortage - that Marelli was faced with?
- Q.3 What are the specific measure that Marelli adopted to as a response to the price rise of semiconductors, raw materials and energy? What factors made it possible for Marelli to successfully execute this strategic decision?
- Q.4 What is the major competitive advantage Marelli was committed to invest in, given the information on its long-term industrial plan? How can this advantage differentiate Marelli from other competitors in the automotive components industry?

At the end of the time dedicated to the group discussion, the instructor will go through the questions by asking one group a question at a time. This occasion can be a good moment to clarify any doubts or concerns the students may have on the story of the case. This process should not take more than 15 minutes.

The instructor will then start the theoretical introduction of the Ansoff Matrix. For this purpose, the instructor may refer to the previous chapter 'Research Notes' for a more detailed theoretical description of the framework. In this section, it is important to not refer to the case content, given that this is the topic that will be covered in the individual assignment. To conclude this 20-minute

theoretical introduction, the instructor should also review the framework of Porter's Competitive Forces, focusing in particular on the Bargaining Power of Suppliers and Buyers.

Individual home assignment on the case study

In the second phase of the proposed Teaching Plan, students will be asked to deliver a home assignment due three days after the day of the in-class discussion. In the assignment questions, students will be asked to link the real-life situations of the case study to the theory presented in the case discussion class. The preferred form of delivery for this document is a MS Word docx, delivered to the professor's email. There is no minimum length required for the answers, but students will be evaluated by the content of their reasoning and the relevance with which they draw into the theory when providing the answers.

A.1 Form the information in the case study, can you estimate the average Bargaining Power of Buyers (which are the OEMs) as high or low, in the automotive components industry? How would you evaluate this Competitive Force for Marelli instead? Please provide an explanation referring to the theoretical framework of Porter's 5 Forces.

A.2 Refer to the Ansoff's Matrix growth framework and to the case study's long-term strategic plan. Identify the most appropriate theoretical growth strategies Marelli implemented for four of its following components categories: Exhaust systems, Headlights Components, Powertrain Systems, Electronic Interiors.

5.4 Case Analysis and Discussion

Answers to the Case Discussion

Q1: What measurements have been adopted by the company's management when dealing with the Leveraged Buy Out liabilities and improving the cost structure of the merged firm? How can these measures impact the company's long-term strategy?

In 2022, Marelli's long-term debt was significantly reduced by 60% with a debt restructuring of the firms' liabilities standing towards the capital loaners used for the Magneti Marelli acquisition. On the other hand, corporate costs were improved with a cost restructuring, identifying the non-optimized operating cost structures still present after the three years from the merger. The debt and the cost restructuring released Marelli Europe from the obligation of using its upcoming-years net profits to repay the LBO debt. As a consequence, Marelli's restructure put the firm in a significantly improved financial position for investing in the commitment designed in the long-term Strategic plan.

Q2: What were the two main revenue disruptors triggered by the automotive semiconductors chip shortage that Marelli was faced with?

The first revenue disruptor were the profit-maximizing strategies adopted by automakers as a response to the chip crunch, which imposed to limit the production of vehicles as much as possible to prioritize higher end finished products. By almost halting the automobiles production, general demand for components decreased accordingly. The second direct consequence of the semiconductor crisis involves Marelli's production of the specific components, such as 'intelligent' LED headlights systems, who needed semiconductors to be assembled (the shortage disrupted the production of one of Marelli's main components in terms of sales).

Q3: What is the specific short-term measure Marelli adopted to address the chip crunch, and increase in raw materials and energy prices?

Marelli, like other Tier-1 suppliers, was forced to buy the semiconductors in the commodities market to satisfy the demand of its components in the early stages of the chip crunch, therefore having to purchase the necessary devices at a higher price.

Q4: What is the main strategy Marelli is committed in to develop a 'competitive advantage', after the release of the chip crunch, claimed in the long-term Strategic plan? How will Marelli implement this strategy and distinguish itself from its main competitors?

As it's reported in the long-term strategic plan of the company, Marelli's intentions to become an active player in the automotive industry's EV transition could represent an advantage from its competitors, given the increasing growth of electric vehicle production expected in the future. In the automotive EV transaction, Marelli can furthermore distinguish itself from its main competitors by benefiting from directly collaborating with the automotive OEMs. These collaborations might result in the development of specific products and components related to the electrification of the vehicles' (such as powertrain batteries and energy storage systems).

Answers to the Home Assignment:

A.1: From the information in the case study, would you estimate the average Bargaining Power of Buyers (which are the OEMs) as high or low, in the automotive components industry? How would you evaluate this Competitive Force for Marelli, instead? Please provide an explanation referring to the theoretical framework of Porter's 5 Forces.

According to Porter's framework of Competitive Forces, the theoretical Bargaining Power of Buyers increases mainly according to three characteristics of the industry: (1) when Buyers are larger than suppliers in size but fewer in quantity, (2) the industry's Buyers become consolidated customers, (3) and when the industry sell relatively undifferentiated products. As alluded in the case study, the significant size difference of OEMs generally favours the buyers of the automotive components industry. Furthermore, the commercial relationships between OEMs and Tier-1 suppliers consists of long terms contracts for high volumes of products per order, therefore making the OEMs as consolidated Buyers. These characteristics both increase the Buyers' negotiating position, and thus, their Bargaining Power. As also reported in the case study, the majority of smaller Tier-1 suppliers focus on the production of a few and undifferentiated components to offer to the OEMs. This nondiversified production, as a consequence, decreases the Buyers' switching costs of suppliers, in part of the fact that buyers have more viable choices for the same type of component. Low switching costs, according to Porter's theory, increase the industry Buyers' Bargaining Power.

To sum up, the combination of significantly larger, consolidated buyers and the relatively lower differentiation of products the firms offer, contribute to a high Bargaining Power of OEMs in the automotive components industry.

Despite the high Bargaining Power of Buyers, during the automotive chip crunch, Marelli was able to successfully negotiate better prices to sell its components to the OEMs. Hence, what are the factors that made Marelli more assertive in its Bargaining Power?

Marelli 'suffers' from the same consolidated relationship with its Buyers like any of its peers, mostly the former companies who previously owned Magneti Marelli and Calsonic Kansei (Fiat-Chrysler and Nissan, respectively). As anticipated in the first section of the case study (regarding the LBO), Marelli is larger than the vast majority of its peers and, as such, the group is able to allow the implementation of Economies of Scale to lower the production costs, which can then be transferred to the Buyers, increasing its Bargaining Power. In addition, what distinguished Marelli from its other competitors in the panorama of the global crisis of the semiconductors, was its highly differentiated offer of technical components (as anticipated – intelligent LED headlights, electronic interiors, powertrain, suspensions, exhaust systems), to its equally vast customer base. Marelli's differentiation factor is a crucial element that enabled the firm to increase their pricing offer, as the OEMs resulted to be willing to pay more for their technological products.

To wrap up, we can consider the negotiating ability of Marelli as relatively higher than its competitors, due to its larger size and highly differentiated production.

A2: Refer to the Ansoff's Matrix growth framework and to the case study's long-term strategic plan. Identify the most appropriate theoretical growth strategies Marelli decided to implement in its strategic plan for four of its following components categories: Exhaust systems, Headlights Components, Powertrain Systems, Electronic Interiors.

Exhaust systems: These components fall into the so called 'vehicle performance' pillar of Marelli. Because the demand for ICE exhaust systems is expected to develop with a considerably slower pace compared to other Marelli's components, the strategy implemented to manage this market's growth is concentrating the production resources in the geographical areas where the company is already present, expanding its market share in countries such as India, Brazil or USA. Furthermore, as reported in the plan, the company's management foresees to not allocate high capital for the development of ICE exhaust systems in the long term, dropping the components in the theoretical *existing products* category in the Ansoff's Matrix. To conclude, the most appropriate strategic decision Marelli should implement for its Exhaust systems is ***market penetration***.

Headlights Components: As mentioned in the long-term plan, Marelli's investments in its profitable 'lighting exteriors' pillar, will be by undertake the new markets of EV segments. These are the automotive segments that will arise as a consequence of the EV differentiation the firm has forecasted for the automotive future and should therefore be considered *new markets* according to the Ansoff Matrix. However, Marelli's theoretical growth strategy for its headlights components is not exactly a *new products* strategy, owing to the fact that the company is not investing in extremely significant R&D for developing new products (headlights are already one of Marelli's most profitable and diversified components in late 2023). Instead, Marelli is expanding its headlights offer entering the new EV segments expected to be developed by the automobiles producers. This is why, from a theoretical perspective, the most identifiable growth strategy for the headlights components falls into the ***market development*** in the Ansoff Matrix.

Propulsion Systems: This family of products is the one that includes the electronic systems and components designed to work with thermal and electric powertrains. The pillar where the propulsion systems belong to is the 'vehicle performance', and, as mentioned in the corresponding paragraph of the strategic long-term plan, this entire macro business sector is going to focus on the production of components demanded by the automotive EV transaction. In sight of the forecasts concerning the powertrain systems, Marelli is going to invest in the development of new components made for the electric batteries, rather than for the ICEs. According to the strategic concentration of EV components production, the group is intended to develop the market in the European and Chinese regions, where

it is long established and has already developed industrial collaborations with a number of OEMs, Considering the Ansoff Matrix, the group's growth forecasts on the Propulsion systems are more aligned, therefore, to the kind of *product development* strategy.

Electronic Interiors: This pillar represents one of the biggest investment areas expected by the holding, as it is published in long term strategic plan. What Marelli is committed to, is the development of new software architectures and designs to elaborate the large number of data generated inside of the latest vehicles. Moreover, the markets where those new components will be supplied to will also include the new EV segments. As such, the strategic growth approach Marelli will be considering for this large business area, according to the Ansoff Matrix, is the *diversification*, given that it combines the market development of EVs with the product development of the new interiors softwares electronics. If we look further in the *diversification* strategic approach, the Ansoff Matrix also distinguishes two types of *related* and *unrelated* diversification. Referring to the theory, related diversification can be achieved by businesses when between the existing and the new products there are synergies that can help the business develop the new products. For the development of new interiors software components, the firm could take advantage from its innovation capabilities and its background know-how of the electronic automotive components. In sight of this, it can be concluded that Marelli's most identifiable type of diversification is the *related diversification*.

6. Limitations

When analysing the information reported in the case study, it is relevant to consider its intrinsic limitations. One of those involves the unavailability to access the group's most recent Annual Report. As of December 2023, the company's 2022 Sustainability Report is the latest available directly from Marelli. Because of the fact that the firm is still busy with the implementation of its industrial plan and that the debt restructuring is expected to last until the end of 2024 (*Marelli Europe S.p.A.*) it is acknowledgeable that more updated information on the management's decisions might be useful to deepen the analysis of the group's long term Strategic plan.

During the analysis of the case study, it should be remembered that global shortage of semiconductors is still not completely over, as of December 2023. As seen in the case study and in the teaching note, this crisis is affecting Marelli's business on the side of two fronts: the shortage is halting some of its

particular components' production and making the firm supply lower volumes given by the OEMs adaptations to the chip crisis. In case further evolutions will occur, the chip shortage may burden on Marelli's business and future adaptive strategies (which are not included in this case study) could be adopted by Marelli in the future.

In addition to this, the current capacity of semiconductors production is still limited, and only in the last months European and American governments have engaged in actions to increase their respective market share of these technological components (for example, European Chips Act, September 2023). In sight of the expected increase in worldwide semiconductors production in the future years, the complex and delicate supply chain channels of the automotive industry may experience a beneficial effect due to the simplification of those channels, and the reduction of the industry's dependency from a few manufacturing countries. In conclusion, in a timeframe of 2 years, the thesis encourages to engage in the research on the beneficial effects that plans such as the overmentioned European Chips Act will provide to the automotive suppliers.

7. Conclusions

During the years 2020 to 2022, Marelli undergone tough and challenging difficulties arising from its dangerously leveraged financial position from the merger and LBO of Magneti Marelli in 2019 and breakout of the semiconductor crisis of the automotive industry.

The research conducted on the group's strategic responses to the semiconductors crunch showed that Marelli was able to impose its position as an established, but most importantly, differentiated Tier-1 automotive supplier. Together with being a large firm, it is proven that it was the diversification factor of Marelli that resulted to be the internal resource to enable more Bargaining Power during the shortage of semiconductors and raw material price rise. The better terms of prices negotiated made it possible for Marelli to achieve its intention to pass the higher costs of inputs (semiconductors, raw materials and energy) to its customers, therefore providing higher profit margins from its revenues.

In the case study it emerged that the 2022 Marelli's debt restructure and long-term Strategic plan, can be considered the Management's output to ease the firm from a worse financial position caused by the LBO. The Strategic plan also shows that the company is committing a lot of its capabilities to improve the firm's Positioning in the landscape of automotive suppliers, by aspiring to become a technology-focussed innovator for the automotive industry, also working closely with OEMs towards

the electrification of vehicles. In sight of the still ongoing execution of Marelli's long term strategic plan, this thesis encourages to expand on the firm's operational-level implementation of its goals, enriching future research with the information in the case study reported in this dissertation.

Last but not least, the case study also aims to present Marelli's corporate events with a pedagogical intent. The topics on Strategic Management that can be identified in Marelli's management decisions, explained in the teaching note, are presented to students with the intention to contribute to their understanding of the theoretical frameworks in a real-life application.

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