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KOREAN MOTOR COMPANIES (HYUNDAI AND DAEWOO) IN
THE U.S. MARKET: STRATEGIES AND MOTIVATIONS

By

Yong-Joo Lee

B.A., Sogang University, 1982

Presented in partial fulfillment of the requirements for
the degree of

Master of Business Administration

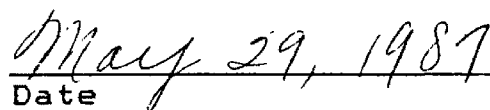
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CHAPTER I
INTRODUCTION

The Purpose of Study

Hyundai Motor Company, which is the biggest automobile company in South Korea, set up Hyundai Motor America as its marketing agent in Los Angeles in April, 1985, and sells its cars under its own brand name in the U.S. market. Daewoo Motor Company, the second largest automaker in South Korea, is preparing to ship to the U.S. as many as 100,000 units annually of a new GM subcompact known as LeMans to be sold as a Pontiac brand beginning in January 1987.

The major objective of this paper is to examine the motivations and the strategies of the two Korean motor companies in the U.S. auto market. The two big Korean motor companies have totally different strategies and different motivations in the U.S. market. Hyundai is very independent in marketing activity. For instance, it uses its own brand(Hyundai) in the U.S. market. Daewoo, however, sells its cars as a Pontiac brand. This company is heavily dependent upon General Motors in marketing and technology and is 50 percent owned by GM. Daewoo Motor Company enters the U.S. market under the control of General Motors.

The Scope of Study

This research discusses the strategies and the motivations of the two big Korean motor companies in the U.S. market. The paper also deals with the problems the Korean motor companies have in the United States as well as how the Korean automakers affect the U.S. auto market. Japanese motor companies have already conceded a share of the U.S. auto market to the Koreans, but retaliation from Japanese motor companies is expected. As a matter of fact, Hyundai Motor Company imports major components from Mitsubishi Motors. If Mitsubishi stops exporting the components to South Korea, Hyundai will not be able to survive in the U.S. auto market. Similarly, Daewoo is dependent upon GM in every aspect. Without the assistance of GM, Daewoo Motor Company cannot sell its cars in the United States. The future of the Korean motor companies is also studied. Potential problems and the future business environment are examined.

CHAPTER II

KOREAN CULTURE

Korean people share a common racial origin with other peoples of North Asia, and the Korean language belongs to the Altic language family of the region.

The Korean culture has been strongly affected by Chinese culture since the Three Kingdoms Period(57 BC - 668 AD). The early Korean people were in constant confrontation with Chinese people. China was antagonistic toward the northern peoples, with whom the Koreans were associated.¹ Korea's formation and development were nurtured in its struggles with China.

Manchuria and Mongolia came under successive control of the northern nomadic people and served as a basis for the invasion of Korea and China. In order to cope with this threat, Korea and China felt the need for a military alliance.

There is strong cultural homogeneity between Korea and China. Since the Iron Age, China and Korea have developed agricultural economies and thus shared many cultural similarities. Korea absorbed Chinese written characters, laws, and Confucianism. Korea, however, invented its own alphabet and its own language. Korea developed its own way of culture and adapted and improved upon all its borrowed culture to fit its own needs.

By the late 19th century, Japan took the leading position

¹Encyclopedia Britannica, Vol. 10, 1983, P. 506.

in North East Asia. Korea was annexed to Japan in 1910. Korea fell prey to Japanese imperialism, which took advantage of reform movements in Korea for its own benefit until Japan surrendered to the United States in 1945. After the liberation from Japanese rule, Korea was divided into two parts—North and South. (* In this paper "Korea" will be used to signify South Korea.)

The per capita income during the Korean war(1950–1953) in South Korea was \$57. The current per capita GNP is over \$2,000. There are several reasons for the rapid growth. First, Korea has strong centralized governmental control. The economic plan was executed by the strong government very efficiently. The real situation in the Korean economy demonstrates that the government has been able to control the private sector to a degree that would be tolerated in few capitalistic societies. The Korean government exercises that control by manipulating virtually all institutional credit for businesses and rural development, setting export and import quotas, encouraging monopolistic practices in certain industries, and maintaining the ability to hire and fire the leadership of critical private companies.

Second, Confucianism has played an important role in Korea's economic development. Only 30 years ago, the Confucian heritage was regarded in western academic circles as a deterrant to economic growth.² In 1970, President Park Chung-Hee stressed

²"The Universalist Myth," Foreign Service Journal, June, 1986, P. 39.

Confucian educational values and revived the concept of loyalty to the state. The primary benefit that Confucian tradition brought Korea was that, although it is sometimes simplistically characterized as pragmatic, it nevertheless effectively prevented the development of powerful, conservative religious groups that might have retarded developmental innovation.³

Third, Korea has created a highly literate labor force. Confucian society stressed the importance of education. Public demand for education in Korea exceeds all other priorities. Confucianism invented the meritocratic bureaucracy, based upon the concept of advancement through an examination system that rewarded competence as defined by the culture.

Fourth, the ethnic unity is the most distinct feature of Korea. Korea is the only developing country in Asia, and perhaps one of the few in the world, that has no significant minority group. Korea has not had to cope with problems such as those of overseas Chinese in Indonesia, the Tamils in Sri Lanka, or the myriad minorities of Burma.

Korea's success results from the complex combination of factors mentioned above. There is not only the Confucian ethic itself, but also ethnic unity and education.

³ Ibid.

CHAPTER III
GROWTH OF THE KOREAN ECONOMY

After World War II, Korea was liberated from Japan. As soon as the country became independent, it had to experience the Korean War(1950-1953). After the Korean War the Korean economy became an open dualistic economy of the labor surplus type. Traditional agriculture coexisted with the nonagricultural sectors without any contact between the two.⁴

Since Korea has limited land and few natural resources, international trade plays an important role in the national economy. Therefore, the Korean economy had to be opened internationally. In the agricultural sector, the ratio of land per person was very low and the population grew very quickly, thereby resulting in a rapid increase in unemployment. As a result, the Korean economy became a labor surplus type. In this situation, the task of the Korean economy was to transfer the unemployed labor force from the agricultural sector to the nonagricultural sector. To do so could increase the level of employment and the Gross National Income.

Actual economic growth began in 1955. The critical turning point was 1965. There are two periods in Korean economic development. The first one is the Import Substitution Growth period and the second one is the Export Substitution Growth

⁴Jo, Sung-Hwan, Introduction to Economics. Seoul: Bakyong Publishing Company, 1981, P. 399.

period.³

Import Substitution Growth Period(1955-1965)

After the armistice of the Korean War(1953), Korean economic development was led by the activity of the import substitution in consumer goods. Professor Jo, Sung-Hwan, who is a professor of Sogang University(Seoul, Korea), described major characteristics of the Korean economy during the Import Substitution Growth period.

All activities of manufacturing were domestic market oriented. Manufacturing activity was done through processing imported components. Therefore, manufacturing was heavily dependent upon imports. The items of export consisted of primary products. The rate of increase in export was very low. The traditional agricultural sector was still stagnant. The structure of manufacturing relied upon imports. Therefore, the growth of manufacturing resulted in the increase of imports. The link between the agricultural sector and manufacturing sector failed to increase the demand in manufacturing due to the stagnation of production in agriculture. The manufacturing sector obtained raw materials abroad rather than from the agricultural sector. During this period, the role of the manufacturers was to absorb the labor surplus in the agricultural sector. The supply of consumer goods reached the limit of the demand of the domestic

³Ibid.

market. Therefore, investment decreased markedly and production activity dropped rapidly.❧

During this period, the rate of economic annual growth was five percent. The growth rate of per capita income was 2.1 percent.⁷ The activity of import substitution did not contribute to the economic growth, but this period gave the opportunity to produce industrial labor and increase the ability of the industrial entrepreneur. Toward the end of the 1950's, production activity began to decrease gradually because of the limited size of the domestic market. The Korean government tried to overcome this stagnation by encouraging business firms to export their products. Exports began to have an important meaning in South Korea from that time and labor intensive products were exported. Since labor costs in Korea were low, Korean products could be sold very cheaply in the international market. Some business firms made products for exports only. Exports gave business firms opportunities for growth. Therefore, the exports in South Korea became indispensable to the business and the government.

Export Substitution Growth Period(1965-)

The year of 1965 was a turning point in the Korean

❧Ibid, P. 401.

⁷Annual Report of National Income, Bank of Korea, 1968-1975.

economy. After 1965 Korea experienced rapid economic growth. Through this period industrial entrepreneurs got more experienced. This fact could be a good resource for the economic growth in Korea.

By 1965 businessmen knew that Korean firms could produce labor intensive products. These products were sold very cheaply in foreign countries. Korean businessmen began to utilize exports in order to maximize profits rather than temporarily overcome a recession. After 1965, the GNP in Korea increased rapidly with the rapid growth of the exports. This means that the increase of exports contributed to the growth of Korean economy. From 1965 to 1975, the annual economic growth rate was 10.5 percent and the annual growth rate of per capita income was 8.6 percent.⁹ During this period the portion of the agricultural sector in the GNP decreased from 44.5 percent to 25.4 percent. But the portion of the manufacturing sector in the GNP increased from 28.1 percent to 30.8 percent. These data indicate that manufacturing in Korea became more important than agriculture.

Exports played an important role in the period of export substitution growth. According to Korea's 4th economic development plan(1977-1981), the exports were led by labor intensive products. Also the government tried to develop electronics and shipbuilding technology in that period.

⁹Korean Industry, Bank of Korea, 1975.

The Role of the Government in Economic Development

The government played an extremely important role in the rapid growth of the Korean economy. The government made Korean entrepreneurs participate in international trade and provided a critical momentum to modernize industry.⁹ As a result, Korea began to have the capacity to manufacture automobiles.

The government intervened and interfered in every area of economic activity such as planning and suggesting long-term economic policies, selecting firms and sites for a certain projects, financing, ensuring market shares and even sometimes determining wage guidelines for the private sector. The Korean government controls the economy more strongly than any other free economy country.

The government policy put its utmost emphasis on growth and export. It kept a relatively passive attitude toward the regulation of monopoly or oligopoly and the improvement of income distribution and of industrial relations. As a result, big business groups arose and the income gap between the rich and the poor increased.

The Korean government carried out an income policy against raising wages and salaries in order to maintain low costs in manufacturing. Especially, the government exercised an exclusive power on the rationing of bank loans, and this, some

⁹Seoul National University, Exported-Led Industrialization and Wages and Labor Conditions in Korea, Seoul, Korea, 1986, P. 10.

argue, became an obstacle to the sound development of the banking industry.¹⁰ Big business groups had always been treated as the core of economic policy objectives and many medium and small size firms, farmers, and industrial workers were neglected.

The role of government was thought to be positive at the beginning stage of economic development, but the negative aspects grew to be significant as time passed. Recently, the governmental economic policy began to change toward honoring opinions of lower classes. To reduce business concentration, the government strengthened enforcement of regulation against monopolistic and oligopolistic firms. Encouragement of business activities for medium and small firms has been a big concern of the government since 1980. This policy was due to the growth of skilled labor intensive industries like shipbuilding, automobiles, machinery, and electronics, and to the need for the integration of medium and small firms with large assembling firms.

However, the agricultural sector reserved lower priority in investment, and traditional farming declined with growing trends of dairy and vegetable farming. Real wages have been steadily increased, although there remains a wage differential among workers. It is noted that the improvement of industrial relations has unduely been delayed. In spite of the demands of workers and trade unions, the government hesitated to improve industrial relations, which ensures the equal footing of both

¹⁰Seoul National University, Export-Led Industrialization and Wages and Labor Conditions in Korea, Seoul, Korea, 1986, P. 11.

parties. With industrial welfare being continuously emphasized by the government and employers, collective activities by trade unions continuously have been discouraged. So the status of workers remains low. Thus, although the economic growth rate is high, the level of wages in Korea cannot be increased rapidly. The low labor cost gives Korean firms a competitive advantage when Korean products are sold in the foreign market.

The Current Status of the Korean Economy

South Korea has made enormous strides in economic growth. Its gross national output of \$81 billion is already larger than that of half the members of the Organization for Economic Cooperation & Development, the Paris-based club of 24 industrial democracies.¹¹ Korea's raw industrial muscle has pushed it ahead of such OECD members as Austria, Belgium, Greece, and Norway, and it is closing in on Sweden.

In Korea, there are big four business groups which are the core of the Korean economy. They are Hyundai, Daewoo, Lucky-Gold Star, and Samsung. Each business group owns several big companies. For example, Daewoo Motor Company belongs to Daewoo business group. A dozen of these companies control virtually every aspect of Korea's economy. Sales of the four

¹¹"The Koreans Are Coming," Business Week, Dec. 23, 1985, P.47.

largest business groups are equivalent to 45 percent of the nation's GNP, making them the motor of its export drive.¹²

Koreans cannot escape doing business with the Japanese. Despite deep antagonism toward the Japanese, Koreans respect the success of Japan. They have often looked to Japanese solutions. In the 1970's the government encouraged the development of the above mentioned Japanese style giant trading companies to boost exports. Korea has obvious similarities with Japan in its culture and export-led economy. But the size of the Korean economy is one-twentieth the size of Japan's.

Koreans have achieved their tremendous growth at a steep cost. Living standards remain generally low and there is a wide income gap between the elite and the workers whose sacrifices fuel Korea's export machine.¹³ These sacrifices might become a powerful resource for Korea when competing with Japan in the U.S. market. In other words, it could give a price edge over Japan.

Korea's per capita income has risen from \$80 in 1965 to \$2044 in 1984.¹⁴ Korea appears to be able to achieve the higher growth it's seeking for the rest of the century.

¹²Ibid.

¹³Ibid.

¹⁴Economic Planning Board, Major Statistics of Korean Economy, 1985.

CHAPTER IV
KOREAN AUTO INDUSTRY

The Korean auto industry consists of the passenger car sector and the non-passenger car sector. However, only the passenger car sector is considered in this paper.

There are two companies which produce passenger cars. They are Hyundai Motor Company and Daewoo Motor Company. Table IV-1 shows the domestic market share of two motor companies.

Table IV-1

Domestic Market Share(Unit: percent)

	<u>1984</u>	<u>1985</u>
Hyundai	74.2	69.5
Daewoo	25.8	30.5

* Imported cars were excluded in the table.

(source: Car Industry, Hyundai Motor Company, 1986)

Existing Automakers and New Companies in Passenger Car Sector

As mentioned above, two big Korean companies have produced passenger cars in South Korea. The demand for passenger cars in Korea has increased gradually. Two other companies plan to enter the passenger car market. One of them is Kia, which has produced

non-passenger cars. The other is Samsung, which is one of the largest business groups in South Korea.

Kia has a plan to make 120,000 passenger cars with the technical assistance from Mazda in 1987; 85,000 of these cars will be sold in the U.S. market with the help of Ford and the rest will be sold in the domestic market.

Samsung has been preparing to import major components from Chrysler. In 1988, Samsung will enter the U.S. auto market. These new auto companies have entry barriers. The problems they face are as follows. First, existing motor companies have operated their facilities at the level of the economies of scale, but the capacity of two new auto companies will not be able to reach the economies of scale. Samsung will produce 100,000 automobiles and Kia will make 120,000 passenger cars. Since the production level to reach the economies of scale in the auto industry is 300,000, these new companies will be at a disadvantage over the existing motor companies.

Second, product differentiation might be an entry barrier. Hyundai and Daewoo have made significant product differentiation. For example, product differentiation has been achieved through car design. Hyundai Motor Company employed Italian designer Giorgetto Giugiaro for its car design.

Third, government regulation is one of the entry barriers. The Korean government has controlled the auto industry very tightly. The government regulates the entry of new companies for the stability of the auto market.

The Competition between the Two Big Motor Companies

Auto companies are very important to their business groups. Sales revenue from auto companies are relatively high compared with others. Also the contribution margin in the auto field is large. So auto companies play an important role in their business groups. Motor companies are called the "Cash Cow" in Korea.

Hyundai has a strong rivalry with Daewoo. The Hyundai business group competes with the Daewoo business group in many product lines. However, Hyundai is superior to Daewoo in the auto industry. Hyundai has the capacity to manufacture 450,000 automobiles annually, far exceeding the level of economies of scale. Daewoo has the capacity to make 248,000 cars annually, and does not reach the economies of scale. Therefore, Daewoo has a relatively high unit fixed cost. To solve these problems, it needs to search for a huge auto market like the United States.

In growth rate, Hyundai is dominated by Daewoo. Whereas the growth rate of sales in Hyundai is 15.8 percent, Daewoo's is 19.9 percent. But the market share of Hyundai is larger than that of Daewoo. Table IV-2 shows the domestic market share in 1985. In the midsize car market, Daewoo is superior to Hyundai, but Daewoo is significantly inferior to Hyundai in small car market.

With respect to technology, Hyundai is superior to Daewoo. The technology level can be measured by the percentage of components which are made in Korea. Table IV-3 shows the

technology level of two companies.

Table IV-2

The Market Share in 1985

Hyundai: Small Size 79.9% Medium 48.5% Total 69.5%
Daewoo : Small Size 20.1% Medium 51.5% Total 30.5%

(Source: Hyundai Management 86)

Table IV-3

The Percentage of Components which are Made in Korea

Year	<u>Hyundai</u>		<u>Daewoo</u>	
	84	85	84	85
Small	97	98	84	93
Midsize	97	97	72-73	89-91

(Source: Annual Publications 86, Daewoo Motor Company)

Overall, Daewoo is dominated by Hyundai. Therefore, the Daewoo Motor Company has tried to overtake Hyundai in the domestic market. In order to narrow the gap, Daewoo has adopted a joint venture strategy. Fifty percent of Daewoo Motor Company is currently owned by GM.¹⁵

The primary objective of Daewoo is to increase its domestic market share, and the next step would be to enter the

¹⁵"Big Three Get in the Gear," Time, November 24, 1986, P.65.

overseas market. Because Daewoo does not like to take risks, it has a plan to enter the U.S. market under the control of GM. Hyundai, however, is very aggressive in marketing and actively entered the U.S. market with the abundant marketing expertise which it acquired in the domestic market.

CHAPTER V

THE FOREIGN CAR SALES IN THE UNITED STATES

The Growth of Imported Cars in the U.S.

Imported cars have taken an important share of the U.S. auto market. In 1956 imported sales made up less than two percent of the market, and the Western United States accounted for thirty six percent of total U.S. foreign car registrations.¹⁶ By 1959 foreign car sales had increased to ten percent of the market or 614,131 units.¹⁷

Toyota Motor Company pulled its cars off the U.S. auto market and did engineering studies of American roads. Importers invested in new warehouses, parts inventories, distribution and dealers organizations. They then started producing cars for the U.S. market. In 1965 Toyota introduced the Corona, which was designed for only the U.S. auto buyers.¹⁸

Foreign car sales reached 1,117,700 units or 11.7 percent of the market in 1969. The Volkswagen accounted for 50.7 percent of foreign sales and Toyota replaced formerly second place Opel

¹⁶Joan Walsh, "High Tide for Foreign Cars," Federal Bank of San Francisco Monthly Review, September, 1970, P. 182.

¹⁷David L. Louis, "Automobile Industry," Collier's Encyclopedia Vol. III, P. 357.

¹⁸"Detroit Races to Meet Challenges of Imports," Business Week, March 29, 1969, P. 106.

in sales.¹⁷ Ford introduced the Maverick and AMC introduced the Hornet in an attempt to stem the sales increase of imports. As the market for subcompacts increased, the U.S. motor companies coped with that situation. But importers introduced even smaller, less expensive cars such as the Datsun 1200 and Toyota Corolla. The competition between foreign auto companies and the U.S. companies became more intense.

By late 1971 U.S. auto sales were up 24.1 percent, but foreign car sales were even better; foreign car dealers sold 138,000 cars in March 1971 for a new record.²⁰

The penetration by Japanese cars into the U.S. auto market since the oil embargo of 1974 has been impressive. Every year new motor vehicle sales of Japanese vehicles increased significantly. In June, 1975, Toyota moved ahead of Volkswagen, and Datsun surpassed Volkswagen the following year. Honda became the third largest importer in 1978, and Mazda surpassed Volkswagen in 1978.²¹

In 1980, Toyota and Datsun each sold more than half a million units in the United States, followed by Honda with 375,252. Honda's penetrating strategy has been working remarkably well, and it ranked top in sales per outlet in 1979, followed by

¹⁷David L. Lewis, "Automobile Industry," Collier's Encyclopedia Vol. III, P. 131.

²⁰"Sales of U.S. Cars Soared in Late March, But Foreign Makes Set Record in Month," Wall Street Journal, April 5, 1971, P. 1.

²¹Automotive News, 1980 market Data Book issue, 1980, P. 46.

Toyota and Datsun.²²

Japanese auto makers have provided American customers with the right product, at the right time and right price, through the right channel of distribution, and with satisfactory after-service.²³ In the 1970's and the early 1980's, American drivers wanted fuel-efficient small vehicles of high quality. While American motor makers have never been greatly successful in producing this type of vehicle, or, more accurately, have been reluctant to do so for various reasons, the Japanese have been successful in providing such products through innovation and improvement.²⁴ In other words, Japanese auto makers have succeeded in the meeting American consumer's needs and wants.

Mazda has supplied rotary-engine vehicles, and Toyota introduced a five-speed transmission, for better economy and quieter operation in 1972. Toyota changed its vehicles to produce more fuel-efficiency and powerful front-wheel drive.

The market share of imported cars(sales) in the United States was 26.98 percent in 1980, up from 21.89 percent in 1979. Japanese vehicles accounted for 75.95 percent of these vehicles in 1979, and for 79.62 percent in 1980. Japanese cars accounted for 16.62 percent of the total U.S. auto market in 1979

²² Ibid.

²³ Chang, C. S., The Japanese Auto Industry and U.S. Market. New York: Praeger Publishers, 1981, P. 147.

²⁴ Ibid.

and for 21.48 percent in 1980.²⁵ In other words, one out of five cars sold in the United States in 1980 was Japanese. At the end of February, 1981, popular Japanese motor makers maintained the following market share in the U.S. auto market: Toyota 7.6%, Datsun 5.5%, and Honda 4.6%.²⁶ Table V-1 shows the percentage of imported vehicles and Japanese vehicles in the United States.

Table V-1

Market Share of Imported and Japanese Cars in the U.S.

	<u>1973</u>	<u>1974</u>	<u>1976</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Imported Cars/Total MKT	15.1	15.7	14.8	17.8	22.6	26.7
Japan/Imported Cars	42.4	47.7	64.4	69.7	75.6	79.6
Japan/Total Market	7.9	8.0	9.6	12.4	17.0	21.3

(Source: Automotive News, Detroit Marketing Service 1973-1980)

As shown in the above table, the market share of Japanese cars in the United States has continuously increased. In the 1980's this trend continued. Table V-2 shows the strong market share of Japanese motor companies in the U.S. auto market. The data show that Japanese motor companies held the first place in the foreign car market of the United States. Compared with West Germany which has the second place in that time, Japan has significant market

²⁵Automotive News, March 2, 1981, P. 6.

²⁶R.L. Polk, Import Passenger Car Service "K" Report(Detroit: R. L. Polk, 1981), P. 2.

share(80.3 percent Vs 11.7 percent).

Table V-2

Imported Cars in the United States (1983)

	<u>Number</u>	<u>Imported cars/Total cars</u>	<u>Country/imported Cars</u>
Japan	1,915,623	20.9%	80.3%
W. Germ.	279,400	3.0 %	11.7%
Others	190,590	2.1 %	8.0%
Total	2,385,613	26%	100%

(Source: Hyundai Management 84)

From West Germany and Yugoslavia to Japan and South Korea, foreign cars are exported to the United States.²⁷ Battered in the early 1980's by recession and imports, GM, Ford and Chrysler were bolstered by short term protectionist measures, chiefly the imposition of "Voluntary" export restraints on the Japanese.²⁸ By 1984 the Big three had rallied to their highest profit level ever: \$9.8 billion in all. But protectionism began unwinding; the Reagan Administration stopped forcing quotas on Japan in 1985. Even though the Japanese unilaterally imposed their own ceiling on the number of cars exported to the U.S. that year, the quota was a full 24 percent higher than the one for the year before.²⁹ In 1985 Detroit's collective profits shrank a bit

²⁷"The Big Three Get in Gear," Time, Nov. 24, 1986, P.64.

²⁸Ibid.

²⁹Ibid.

to \$8.1 billion.

In line with the increasingly competitive climate, some Wall Street analysts expect Detroit's share of the U.S. auto market to shrink from 68 percent to as little as 55 percent by 1990. West German luxury carmaker BMW and Mercedes-Benz enjoyed a banner year in 1986. Although the totals are small, the exports are in the highly profitable \$20,000 to \$60,000 price range and skim off a nice portion of the cream of the American market.³⁰ Sweden's Saab and Volvo and Britain's Jaguar enjoyed record export sales in 1985.

At the opposite end of the price scale, South Korea's Hyundai made a dazzling debut in 1986. The \$4,995 subcompact sold 168,882 units in that year. Much less successful was the case of Yugo, a remodeled Fiat that sells for \$3,990 and is billed as the cheapest new car in the U.S. market.³¹ In 1986, only 28,000 units of the Yugo were sold.

Japanese motor companies exported to the U.S. 2.3 million vehicles in 1986. That was a formidable achievement, considering that the value of the Japanese Yen was more than 20 percent higher in relation to the U.S. dollar than it was in 1985. This fact resulted in the increase of an average production cost up to \$1,300 to Japanese motor companies.

The invasion of foreign cars has changed the environment of the U.S. automobile market. The U.S. auto companies try to

³⁰Ibid.

³¹Ibid.

collaborate with strong foreign motor companies in order to defend their market share against foreign auto makers. In fall, 1986, as Toyota started annual production of 50,000 of its peppy Corolla FX-16 at a joint-venture plant in Fremont, California, it was also assembling 200,000 Chevy Novas for GM. Ford, which since 1979 has owned 25% of Mazda, has agreed to buy up to 50% of the output of that company's Michigan plant, to be sold as part of the Mustang series. Chrysler and Mitsubishi have a joint project known as Diamond Star, which will begin building cars in Bloomington, Illinois by late 1988.☺☺

The Motivation of Buying Imported Cars in the U.S.

There are several reasons that Americans buy imported cars, especially Japanese style cars. First, Japanese style cars are very economical. In other words, they are very fuel-efficient. After the fuel crisis in the 1970's, American people have become more sensitive to the price of gas. Second, the prices of imported cars are usually lower than those of American cars, and the product quality is not less than that of the U.S. car. These factors attract American customers. Third, people who want to differentiate themselves from others buy imported cars. They are better educated, better paid, more sophisticated, and younger than average car buyers. Fourth, there

☺☺Ibid.

is a definite trend to prefer smaller cars in the United States. Since most imported cars are small, people have come to prefer foreign cars.

CHAPTER VI

THE MOTIVATIONS AND STRATEGIES OF KOREAN MOTOR COMPANIES IN THE U.S. MARKET

The Big U.S. Auto Market

The United State is the biggest auto market. No other country has a car demand like the U.S. Lloyd Reuss, an executive vice president at GM, has a clear view of the prospect. He says, "The good news is that North America is the only automobile market in the world where there is a good shot at a profit."

In 1984, the demand for automobiles increased remarkably in the United States. The demand for cars in 1984 was 10,390,000 units and the number of passenger cars sold in 1983 was 9,180,912, of which 3,190,000 were subcompacts. The percentage of subcompacts among total cars sold in the United States was 35 percent; so a huge subcompact market has existed in the U.S. These facts might motivate Korean auto makers to enter the U.S. market. Table VI-1 shows the situation of the U.S. auto market in 1983-1984.

In 1983, the number of imported passenger cars was about 2,380,000, of which 1,150,000 units were subcompact cars. The subcompact cars accounted for 48 percent of the total imported cars in 1984 and the imported cars accounted for 36 percent of the total U.S. subcompact car market in the same year. This fact means that the subcompact market is very important to the foreign

Table VI-1

The Number of Cars Sold in the U.S.

<u>Production Place</u>	<u>1984</u>	<u>% in Total</u>	<u>1983</u>	<u>% in Total</u>
U.S.A.	6,795,299	74	5,756,658	72.1
Import	2,385,613	26	2,223,087	27.9
Total	9,180,912	100	7,979,745	100

(Source: Hyundai Management 85)

car makers. The following data indicate the size of the U.S. car market.

Table VI-2

The Analysis on the Automotive Market in the U.S.

	<u>1984</u>	<u>% in Total</u>	<u>1983</u>	<u>% in Total</u>
Subcompact	2,034,807	29.8	1,738,590	30.2
Compact	924,639	13.6	1,104,080	19.2
Intermediate	2,247,042	33.1	1,168,080	28.1
Full Size	1,157,519	17.1	928,467	16.1
Luxury	431,292	6.4	367,441	6.4
Total	6,795,299	100	5,756,658	100

* Imported cars were excluded in the table

(Source: Hyundai Management 85)

The above data show that the percentage of small cars produced in the U.S. decreased in 1984 compared with 1983. In the small car market, the share of imported cars increased during that

period. This fact presented a good opportunity for Korean motor companies to enter the U.S. auto market because these companies mostly produce subcompact cars.

The Role of the Korean Government

The role of the Korean government has been considered critical in Korea's economic development. The Korean economy is, in nature, an export-led economy. With the construction, textile, and shipbuilding industries in a deep crisis, and Europe and Japan blocking Korean goods with trade barriers, the Korean government feels it has no choice but to go head-to-head with Japanese and American manufacturers in the rich U.S. market.²⁹ Hyundai's arrival in the U.S. was a national event for South Korea. The Korean government is deeply interested in the U.S. automotive market. Kum Jin-Ho, Secretary of Trade & Industry in South Korea said, "You will see that the service will be perfect when the first cars are sold in the U.S." The Korean government actively has supported the export of automobiles into the U.S. market.

South Korea lacks natural resources. It imports a great deal of oil and foods. The large amount of imports has resulted in the constant deficit of international trade. In addition,

²⁹"The Koreans Are Coming," Business Week, Dec. 23, 1985.

South Korea has more than \$45 billion foreign debt.³⁴ In order to overcome these problems, the country needs to increase exports. Since car exports have a good potential, the government has strongly encouraged Korean auto makers to enter the U.S. market.

The Motives Korean Motor Companies have in the U.S. Market

South Korea has a population of 40,000,000. But there are only 500,000 automobiles. The car market in Korea is too small, so Korean motor companies cannot rely on only the domestic market. Korean auto makers selected the United States market because it is big enough to satisfy the production of Korean motor companies. In order to maintain economies of scale, Korean motor companies need to secure the U.S. auto market.

One of the main advantages Korean motor companies have in the U.S. is the cheap labor cost. Korean auto workers earn \$2.50 an hour while Japanese auto workers earn \$15 an hour and American auto workers earn \$25 per hour.³⁵ The remarkably cheap labor cost has enabled Hyundai to set its price as the second cheapest in the United States. The low price is the most important advantage Hyundai has in the U.S. market.

Japanese motor companies conceded a share of the market

³⁴ Ibid.

³⁵ "The Big Three Get in Gear," Time, Nov. 24, 1986, P. 65.

to the Koreans and to another low priced model from Yugoslavia and the Soviet Union.³⁶ Toyota and Honda rapidly built bigger, more luxurious cars in part to avoid head-on competition with the new arrivals.

The economic pressures such as the rising value of the Yen, have continued to force the Japanese to concentrate on more expensive goods. As the Japanese companies keep moving upmarket, the Koreans can move in and take over the subcompact car market which was occupied by Japanese motor companies.

The Export Drive by Hyundai

It should come as no surprise that South Korea is staking its economic future on an automobile made by one of its giant conglomerates, the Hyundai group.³⁷ That is the way West Germany stormed the U.S. in the 1950's with Volkswagen; it's the way Japan did it in the 1970's with Toyota. And it's the way Korea must go if it is finally to break out of the cheap labor syndrome of steel, textiles, shoes, and stuffed toys and join the club of modern industrial nations.

In 1976, Hyundai accounted for 57.0 percent of the domestic market in Korea. It has maintained its leading status

³⁶Business Week, Dec. 16, 1985.

³⁷"The Koreans Are Coming," Business Week, Dec. 23, 1985, P.46.

since it was founded in 1967. But from 1980 to 1982 the sales revenue was below that of 1979 because of the oil shortage. In 1983 the Korean auto industry had a boom year because the demand of the domestic market increased remarkably. Since then, Hyundai has tried to increase productivity and to develop its own model. It has continued to make an effort to have the capacity for mass production. In its early days, Hyundai made the Ford Cortina, which was assembled from kits supplied by Ford. In 1976, Hyundai began to make the Pony, which was developed by Hyundai Motor Company. In February, 1976, Hyundai exported five units of Pony to Ecuador for the first time. After that, the company sold its automobiles to the Middle East and Central America. In 1978 Hyundai passed the MIRA test(Safety test), which was executed in Great Britain. Therefore, Hyundai could enter the European market. In 1984, it passed the Safety test in Canada.

In 1985, Hyundai began to export its Pony Excel, a small car, to Great Britain and Canada. As soon as Pony Excel was exported to Canada, it obtained big popularity, as reflected by its taking 11 percent share of the Canadian market. Its success exceeded by five times the original goal set by Hyundai. The Canadian market is not as big as the United States; it is as big as that of the market of California, which is 1/10 of the total U.S. market. The major reason that Hyundai entered the Canadian market was to prepare for entering the U.S. market. In September, 1985, Hyundai sold 57,539 units in Canada and it was the top sale record in that year. Honda, which

sold 41,726, was overtaken by Hyundai Motor Company in Canada.³⁸ Hyundai Motor Company obtained great confidence in international marketing because it overwhelemed Honda, the top selling imported car in Canada, in just 18 months.³⁹

Protectionism in the world blocked the growth of exports of Korea in the mid 1980's. Hyundai sold its Pony Excel in Britain for two years through International Ltd., a holding company for the Hyundai and Subaru franchises.⁴⁰ Hyundai originally planned to sell 10,000 units, but the European Community slapped a limit on the number which could be imported duty free. However, the United States never imposed any constraints on the Hyundai Motor Company. Therefore, the exports of automobiles into the united States, which is a relatively open market, could overcome export problems. Hyundai has had a keen interest in the big U.S. market because the demand of U.S. automotive market is as much as one third of the demand in the world auto market.⁴¹ Hyundai has concentrated every effort to export its cars to the United States. Hyundai's Pony Excel began to roll into the U.S. at the port of Jacksonville, Florida in January, 1986.

³⁸Japanese Automotive News, Oct. 14, 1985.

³⁹"Koreans are Coming," Business Week, Dec. 23, 1986, P. 49.

⁴⁰"A New Wave of Small Cars Headed for U.S. Showrooms," Business Week, July, 1984, P.37.

⁴¹The Prospect of Structure in Manufacturing and the Strategy for the Development, Korean Industrial Economic Institute, Oct 16, 1985.

Hyundai's Target Market in the U.S. and its Objectives

The target market of Hyundai in the United States is the subcompact car sector. Hyundai Motor Company had made an analysis of the competition before it entered the U.S. market. In the luxury car market, the U.S. big three and European car makers occupied the market. Benz, BMW, Audi, Porche and Jaguar had 36 percent of the market share of the U.S. luxury car market in 1984. The price range was \$18,000 to \$40,000. Japanese motor companies have planned to enter the luxury car market or midsize car market.⁴² In the midsize car market there is severe competition between Japan and the U.S. automakers. In the small car market, the U.S. companies are at a disadvantage compared with Japanese motor companies or Korean motor companies due to price. Hyundai was able to set a low price, so it could participate in the U.S. market owing to price, even though the quality of Hyundai's Pony Excel is lower than that of a Japanese or American car.

The short-term objective of Hyundai Motor Company in the U.S. market is to make a high quality car with a low cost. Its car should be quoted at a low price. The most important thing for Hyundai is to maintain a low cost that results from cheap labor costs. The long-term objective is to increase product quality and to increase the safety level. The fundamental goal for Hyundai is to become a leading automaker in the world.

⁴²Japanese Automotive News, April 13, 1985.

The Way of Entry into the U.S. Market by Hyundai

The export of Hyundai's Pony Excel was dependent upon car dealers in the Canadian market. As the demand for Pony Excel increased in Canada, Hyundai set up Hyundai Motor Canada, which is a marketing agent. There are 160 car dealers which deal with only Hyundai's Pony Excel in Canada.

Hyundai set up Hyundai Motor America, which is located in Los Angeles, for their entry into the U.S. in April, 1985. There are some reasons for setting up a subsidiary. First, Hyundai had assistance from Ford in the 1970's. It may have tried to get help from Ford in marketing. Since Hyundai wanted to own 100 percent of the management in the foreign operation, it decided not to get any assistance from Ford in the U.S. auto market. Although Mitsubishi gives some technical assistance, it cannot participate in the management of Hyundai. Ford proposed that it sell Pony Excel in the U.S. market, but Hyundai declined the offer. For marketing in the U.S. Hyundai decided to utilize their experience from the Canadian market. Even though this decision brings about some risks, Hyundai Motor Company chose that method because it preferred independence in the U.S. market.

Second, cooperation with the U.S. motor companies may result in a disadvantage. For example, if Pony Excel is sold as a Ford brand in the United States, this fact prevents Hyundai from growing to a leading motor company in the world.

Third, the successful cases of Japanese motor companies gave a guideline to Hyundai. Japanese motor companies secured their own distribution channels and through excellent after-services they satisfied the needs and wants of American customers. Hyundai decided to follow this success stories.

Hyundai divided the U.S. market into three regions, which are East, West and South. The western part is controlled by the subsidiary which is located in Los Angeles and the eastern part is controlled by the district headquarters which is located in New Jersey. The southern part is controlled by the district headquarters located in Atlanta. These three locations are close to ports, so it is convenient for Hyundai to transport cars into the U.S. auto market. Hyundai considered weather, income level, population and transportation in the early entry. The western and southern regions are in the sunbelt. In these parts, weather is mild, so the weather condition is very good for a car engine. Since the engine of Hyundai's Pony Excel is not strong enough to survive in cold weather, Hyundai Motor Company had to choose these mild areas. A lot of businesses have shifted to the mild area, so population of these areas increased. Therefore, the demand has grown in these parts. According to World Automotive Year Book, the number of total cars sold in the U.S. was 10,118,000 in 1984.⁴³ 1,006,000 cars were sold in California in the same year. California is the biggest auto market in the United States. Florida, Texas, New Jersey and Maryland are

⁴³World Automotive Year Book, 1985.

important markets. The following data show the sales of brand new cars in the United States.

Table VI-3

The Sales of Automobiles in 1984

<u>Rank</u>	<u>State</u>	<u>No. of Cars Sold</u>	<u>The Rate of Annual Increase</u>
1.	Calif.	1,006,000	9.1 percent decrease
2.	New York	685,000	1.7 percent increase
3.	Florida	652,000	10.6 percent increase
4.	Texas	651,000	10.7 percent increase
5.	Illinois	573,000	12.3 percent increase
6.	Michigan	552,000	14.0 percent increase
7.	Ohio	518,000	20.0 percent increase
8.	Pennsylvania	512,000	11.6 percent increase
9.	New Jersey	433,000	23.8 percent increase
10.	Maryland	282,000	11.5 percent increase

(Source: World Automotive Year Book, 1985)

Hyundai Motor Company is deeply interested in the eastern part of the United States. Detroit and Chicago are big industrial cities. Hyundai thinks that success in these cities can improve its image, but their products are not ready for the cold weather market. Hyundai will need to improve its engine and get some information about the automobile market from these big cities before marketing their cars there.

Strong marketing activity has been considered critical

for Hyundai in the United States. It studied the success cases of Japanese motor companies very carefully and hired former marketing managers of Toyota. Hyundai Motor Company employed Americans as salesmen. Dealers have been controlled by distributors. Distributors have been controlled by the marketing department of Hyundai Motor America.

Hyundai's Marketing Plan

A. Pricing

Hyundai decided the price of its car based upon those of competitors in the U.S. market, considering the size of engine and type of vehicles. First, Hyundai set the consumer price, then it calculated the margin for the dealer, the margin for the sales agent, and custom duties. Finally the company determined the price on a F.O.B. basis. The price can be changed, depending upon the economic situation and the pricing strategies of competitors. Hyundai set a very low price, which is \$4995. This low price was considered extremely important in the success of 1986. Hyundai Motor Company sold 168,882 units in that year. Hyundai adopted the strategy of high-quality and low price. This strategy could be a competitive edge in the U.S. market. In the Canadian market, the high-quality and low price strategy enabled Hyundai to overtake Honda in 18 months.

Hyundai employed three marketing specialists who had

consulted for Toyota Motor Company. Hyundai set the price below the minimum prices of Japanese cars, following the suggestions of these marketing consultants.

B. Advertising Strategy

In the beginning of 1985, Hyundai hired former Toyota officers who have a great deal of knowledge in the American automotive market. In June, 1986, Hyundai set up the advertising department in Hyundai Motor America and employed the advertising agency Becker & Spievogel, which is located in New York, paying \$25,000,000. Becker & Spievogel has promoted the image of Hyundai in the United States.

When Hyundai entered the Canadian market, it spent \$3,000,000 in the first year. In the U.S. market, Hyundai spent more than eight times that amount. The reason is that Hyundai was not well known in the United States, although it is the 37th largest firm in the world.

Hyundai Motor Company has used dealers for its advertising. Through car dealers, Hyundai can promote its image and is able to get some information about consumers' needs and market situation.

C. Brand Name

Hyundai has two types of cars. One is called "Pony Excel". The other is called "Stellar", which was designed by

Italy's Giorgetto Giugiaro.⁴⁴ In the case of Pony Excel, the brand name is expressed as "HD PONY". For Stellar, it is expressed as "HD STELLAR".⁴⁵ These expressions are always the same regardless of country because Hyundai Motor Company set a goal for the world market.

"Hyundai", pronounced Hee-Un'-day in Seoul, will be softened to rhyme with "Sunday" in the U.S. The most important thing in the brand name policy is to establish a high-quality image.

D. Product Strategy

Hyundai developed the new type of small car--Pony Excel. The motivation in the development was as follows. First, the demand pattern for automobiles has changed. After the oil crisis, small and economical cars have been preferred. Second, Japanese automakers began to concentrate on midsize cars for higher profit rather than to continue in the small car market.

Hyundai has tried to make its cars of quality as high as those of Japanese cars. Hyundai Motor Company adopted the front wheel drive type, which saves 20 percent more gas over other types of cars. In January, 1984, Hyundai passed the safety test in Canada. In 1985, it passed Federal Motor Vehicle Safety

⁴⁴"A New Wave of Small Cars is Headed for U.S. Showrooms," Business Week, July 9, 1984.

⁴⁵HD is used to signify Hyundai.

Standards(FMVSS) in the United States. Pony Excel is already launched into the U.S. market. Stellar is expected to be sold in 1987.

E. Dealership

Dealers are extremely important for success in the U.S. market. Hyundai has secured 150 dealers. These dealers thought that Hyundai would give a higher margin to them. Hyundai requested dealers to set up a showroom for only Hyundai. It offered an 8 to 12 percent margin of average selling price. Hyundai Motor Company plans to have its own dealerships throughout the United States. If Hyundai has its own dealerships, it will be in a better position to compete with Japanese motor companies.

F. Guarantee and After-Service

Hyundai determined its strategy about after-service and guarantee based upon those of competitors. The guarantee period is six months after the sale, and is one year after the shipment. One officer in the maintenance department in Hyundai Motor Company said, "We are trying to decrease the guarantee period because it contributes to the cost increase." ⁴⁶

For after-service, Hyundai has employed American technicians instead of sending its employees from Seoul. Since

⁴⁶Seoul National University, A Study on the Korean Auto Industry, Seoul, Korea, 1986, P. 102.

Hyundai exports its cars to 67 countries, it is not easy to send technicians to the United States.

The Export Drive by Daewoo Motor Company

Daewoo Motor Company has not had any international marketing experience. However, General Motors has actively supported Daewoo's entry into the United states. GM can help Daewoo in marketing and technology. Similarly, Daewoo can offer cheap labor forces, so GM might be able to compete with Japanese motor companies with lower prices by using Korean workers. The cooperation between two companies can eliminate competitors in the U.S. market.

Koreans see themselves as a crucial ally in helping American companies compete with Japanese. Korean companies signed dozens of agreements combining U.S. technology with cheap, disciplined Korean labor to make products that compete with Japan's.⁴⁷

Daewoo Motor Company can easily enter the U.S. market with the help of GM. Also, Daewoo is able to avoid the protectionism of the United States since it uses GM's distribution channels and service systems. GM might be able, through cooperation with Daewoo Motor Company, to recover the subcompact market which was lost by Japanese motor companies.

⁴⁷"Koreans Are Coming," Business Week, Dec. 23, 1985, P. 51.

In 1986, Daewoo and GM made an agreement whereby GM supplies technology to Daewoo and sells Daewoo's subcompact which is called LeMans, in the U.S. market. 100,000 units of LeMans will be sold through the Pontiac Division in 1987. The style of LeMans is very similar to the one which Opel developed. (Opel is a GM's subsidiary in West Germany.) LeMans has a front wheel drive system and its engine capacity is 1,500 cc. This car might be able to attack Japanese automobiles with its low price.

Daewoo's Short-Term and Long-Term Objectives in the U.S. Market

In the short-term, Daewoo tries to absorb advanced technology and expand the current facilities to meet new demand in the United States. In the long run, Daewoo plans to overtake Hyundai in the domestic market through high technology and sophisticated marketing expertise which will be obtained in the U.S. market.

The Entry into the U.S. Market by Daewoo

While Hyundai is very aggressive in international marketing, Daewoo is conservative. Daewoo enters the U.S. market, using GM's distribution channels.

Daewoo has had no plan to sell its cars as its own

brand. The reason is that the Pontiac division has an excellent marketing ability and good dealers throught the United States. Daewoo Motor Company considers the Pontiac division as its marketing agent. As a matter of fact, Daewoo has no marketing strategy in the U.S. automotive market, since the Pontiac division takes all responsibilities of pricing, distribution, and advertising. Daewoo Motor Company is unable to control its marketing channels in the U.S. However, Daewoo does not have to spend any money in marketing and is able to secure the U.S. market very safely.

CHAPTER VII

THE PROBLEMS OF KOREAN MOTOR COMPANIES IN THE U.S. MARKET

Hyundai's main problem is supply, not demand. Hyundai Motor Company operates for 24 hours a day to meet the demand in the United States. Hyundai's work force consists of two shifts and each shift works for 12 hours per day.⁴⁸ Hyundai has a plan to expand its facilities to supply more cars to the United States, but management worries about the quota the U.S. government may set in 1988. The amount of the quota will be the same as the amount of sales in 1987, so Hyundai has tried its best to export as many cars as possible to the United States. The Daewoo does not worry about the quota problem because its cars are sold by the Pontiac division. The market share Daewoo will have in the U.S. may be very small. Daewoo has a plan to secure only one percent of the U.S. auto market.⁴⁹ There is little possibility that the U.S. government will set the quota for the Daewoo Motor Company. But Daewoo Motor Company may have a very serious problem. General Motors has had a Saturn project, which is its plan for a small car development. If GM succeeds in developing the small car which will surpass a Japanese automobile, GM may not import LeMans from Daewoo. In this case, Daewoo Motor Company will lose the U.S. market. Unless Daewoo has

⁴⁸Seoul National University, A Study on the Korean Auto Industry, Seoul, Korea, 1986.

⁴⁹Ibid, P. 147.

its own marketing plan in the U.S., it should give up exporting its cars to the United States

Japanese motor companies may think that the Japanese will be driven out of the U.S. market by Korean motor companies because Korean cars are well designed and they are sold at a good price.⁵⁰ Although Japanese auto makers are likely to continue doing business with midsize cars in the U.S., some of them are resigned to losing shares steadily to Korean autos. Consequently, Korean auto makers are expected to be retaliated against by Japanese motor companies. In fact, Mitsubishi owns 15 percent of Hyundai Motor Company and provides it with major components such as engines and axles. If Mitsubishi stops supplying the components to Hyundai, Hyundai will not be able to survive in the U.S. market. In order to overcome these problems, Hyundai Motor Company is expected to develop its own technology and to make an effort to increase product quality.

Japanese motor companies have tried to set up production facilities in the U.S. to reduce costs. They may make subcompact cars and sell them with lower prices than before, which would threaten Hyundai's Pony Excel. To cope with this problem, Hyundai might make a joint venture with Ford, which supplied the major components to Hyundai in the 1970's.

Another problem the Korean motor companies have in the U.S. market is the entry of other developing countries like China, whose labor cost is much cheaper than that of South

⁵⁰"The Koreans Are Coming," Business Week, Dec. 23, 1985.

Korea. In fact, Korea is competing against Japanese companies and the U.S. companies, owing to cheap labor costs. But this advantage cannot last long. If China enters the U.S. auto market, Korean motor companies will lose the price edge because China will be able to set a lower price than South Korea.

CHAPTER VIII

CONCLUSION

Two Korean motor companies, Hyundai and Daewoo, have entered the U.S. auto market. The most important motivation for these companies in the U.S. is to be able to sell their cars at low prices. Another motivation factor is the trend that American consumers prefer to buy small cars. Japanese motor companies began to develop midsize cars rather than to continue concentrating on the subcompact car market in the U.S. This fact gave Korean motor companies a good opportunity to enter the U.S. automotive market.

Hyundai Motor Company has had international marketing experience and is independent in marketing. Hyundai sells its cars under its own brand name, which is "HD Pony Excel". It has tried to control its distribution channels and to make an effort to advertise extensively. Hyundai has taken an aggressive approach in the entry to the U.S. market. Daewoo Motor Company, on the other hand, is risk-averse in the business. It took a conservative approach in entering the market. Daewoo utilizes GM's marketing channels and sells its cars as a Pontiac brand. Actually Daewoo takes no risks in the marketing.

The problems Hyundai has in the U.S. market are potential competition from other developing countries(e.g.,China), technical dependence on Mitsubishi, and the import quota. In order to overcome technical problems and new entry of other

foreign companies whose labor costs are cheaper than Korea, Hyundai should develop its own technology and increase product quality. For the quota problem, Hyundai might get help from Ford. Hyundai Motor Company could make a joint venture with Ford in the United States. This strategy would enable Hyundai to eliminate the protectionism of the United States. Hyundai Motor Company could also get technical assistance from Ford instead of from Mitsubishi.

Even though Daewoo Motor Company does not take any risks in marketing, it is not certain that GM supports Daewoo in the long run. If GM decides not to cooperate with Daewoo, it will lose the U.S. market because it has been heavily dependent upon GM for marketing.

In this study, only two Korean motor companies were examined. Kia, the third largest auto maker in Korea, plans to export 85,000 units of automobiles in 1987. Kia has produced only non-passenger cars (e.g., trucks). Now, it will try to make passenger cars. It will get technical assistance from Mazda and sell its cars by using Ford's distribution channels. A further study needs to be done about Kia's entry into the U.S. auto market.

Samsung, one of Korea's four large conglomerates, also plans to participate in the U.S. auto market. In the United States, Samsung has been well known as a T.V. maker. Samsung will supply some components to Chrysler soon. Chrysler will be able to enjoy cheap labor costs like General Motors. There is a high

possibility that Samsung will enter the U.S. market under the control of Chrysler.

In South Korea, car imports have been prohibited since the early 1980's. However, the Korean government will lift the ban in 1988. Korean auto makers are expected to concede a share of the domestic market to foreign motor companies. In order to make up the lost market, Korean motor companies will make an effort to sell more cars in the foreign markets. Since the United States is the most attractive auto market, the Korean auto makers will try their best to sell their automobiles in the U.S.

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