



UNIVERSITY  
of  
GREENWICH

**Greenwich Academic Literature Archive (GALA)**  
– the University of Greenwich open access repository  
<http://gala.gre.ac.uk>

---

*Citation for published version:*

Wynn-Williams, Michael (2010) SsangYong: South Korea's eternal bride. AutomotiveWorld.com.

*Publisher's version available at:*

<http://www.automotiveworld.com/news/oems-and-markets/83500-ssangyong-south-korea-s-eternal-bride>

---

**Please note that where the full text version provided on GALA is not the final published version, the version made available will be the most up-to-date full-text (post-print) version as provided by the author(s). Where possible, or if citing, it is recommended that the publisher's (definitive) version be consulted to ensure any subsequent changes to the text are noted.**

*Citation for this version held on GALA:*

Wynn-Williams, Michael (2010) SsangYong: South Korea's eternal bride. London: Greenwich Academic Literature Archive.

Available at: <http://gala.gre.ac.uk/4132/>

---

**Contact: [gala@gre.ac.uk](mailto:gala@gre.ac.uk)**

## SsangYong: South Korea's eternal bride

*By: Dr Michael Wynn-Williams, Thursday, August 26, 2010, AutomotiveWorld.com*

If the one positive outcome of a recession is that it delivers the coup de grâce on the walking dead, it is something of a surprise to see that South Korea's SsangYong has clung onto life. Indeed, far from slipping on a white shroud in readiness for the grave, it has donned a wedding gown and gone looking for a new partner. This would not be the first trip up the aisle: SsangYong has loved and lost Daewoo, Mercedes-Benz and now, finally, SAIC of China. Despite this poor record, an orderly queue of suitors has again emerged.

At first glance, SsangYong has little going for it. Its main focus is on the SUV segments, but the technology is too basic to bear much comparison to world leaders like Land Rover or Jeep. Furthermore, it has dissipated its meagre resources on an expansive range of vehicles, including a MPV and two luxury sedans. Its latest project, the C200 crossover vehicle, represents a decent stab at a high volume product but it means yet another market segment to service. While it is clear that the C200 offers the only realistic future model strategy for the company, such a bold expansionary move was only feasible for as long as SAIC provided support.

### SAIC as wicked stepmother?

SAIC took majority control of SsangYong in 2004, going on to obtain a 51.33% share at a cost of around US\$500m. On the face of it SAIC appeared to be making a sensible move. In terms of output volume the Chinese company had the status of a major player in the industry, yet the truth was that it was a guest in its own market. Its products were provided by its foreign partners, General Motors and Volkswagen, and there was little prospect of export sales. SAIC therefore set out on a strategy of seeking established manufacturers around the world that it could use as sources of vehicle technology for its own exclusive purposes. SAIC then stepped right into a paradox: the only automotive companies that would be for sale would be the ones that had technology that was not worth buying.

SAIC found itself scouring the world for distressed vehicle manufacturers that had not quite made it in the rough and tumble of the global industry. In 2001 it joined with Suzuki as junior partners with GM to rescue Daewoo Motor of South Korea, a deal that also released SsangYong from Daewoo after just three years of ownership. SAIC's minority stake in the new GM Daewoo provided it with experience of the South Korean industry but little of technical value. SAIC retains a small stake in GM Daewoo at the group level.

The search for automotive technology then began in earnest. In a two-pronged advance, SAIC negotiated with MG Rover for passenger car designs while looking to SsangYong for SUV technology. Despite its size, SAIC was still a novice in the industry and it failed to grasp the scale of investments that would be necessary to revitalise failing vehicle manufacturers. Indeed, MG Rover itself collapsed before a joint venture could be finalised. SAIC had already purchased the intellectual property rights (IPR) to a number of MG Rover models, which it subsequently launched under the Roewe brand.

For a period, this meant that SsangYong become the centre of attention for SAIC. At the takeover in 2004 there were grand announcements of production capacity increases to 300,000 units per annum. There were also plans for a range of new passenger cars, to be designed by SsangYong engineers but with production shared with Chinese plants. Then fatally, in late 2007, SAIC merged with its smaller rival Nanjing Automobile (NAC), the company that had snapped up the remnants of MG Rover in 2005.

---

China, though, is unlikely to offer many opportunities without SAIC support against the increasing number of local competitors

---

SAIC claimed that it now operated a global network of three research and development (R&D) sites, which it called home-rooms. The truth was that it only needed one overseas R&D site to feed advanced designs to its nascent Chinese R&D capability. As the ex-MG Rover engineers had the inside knowledge on their old designs, the British R&D operation clearly had the advantage.

It was at this point that SAIC should have considered selling out its stake in SsangYong. There is a belief that the Chinese company was hanging on just long enough to extract the maximum R&D benefits from SsangYong before divesting itself of its unwanted subsidiary. In particular, SsangYong had made progress on a diesel-hybrid powertrain system that SAIC were keen to acquire.

As a conspiracy theory the story has a tempting logic, but whether true or not it ignores a simple truth about R&D and technological development. As SAIC had already found when it purchased the MG Rover IPR in 2004 at an apparently bargain price, the IPR is of little use without the intellect behind it. Granted, at one time SAIC is said to have had the majority of SsangYong engineers working on Chinese product development programmes, but this would only have been a short-term tactic until the new MG models came on stream. Furthermore, the MG operation was perfectly capable of designing the kind of CUV derivatives that were needed for the increasingly fuel conscious market. With the SsangYong C200 project becoming an irrelevance to SAIC, the only real question was whether SsangYong could survive as an autonomous subsidiary.

### Slow death

In the days when SUVs were built on ladder-frames that displayed all the engineering elegance of iron girders, SsangYong products had a good market rationale. The ladder-frame is a relatively low cost yet highly versatile vehicle platform, meaning that a bewildering number of model derivatives are viable at low volumes. However, Figure 1 shows that there was little growth potential and SsangYong production reached its peak during the first full year of SAIC control.

Figure 1: Production and CKD Assembly

Country	2005	2006	2007	2008	2009
China	1,975	2,790	166	55	0
Iran	628	274	1,001	1,744	1,084
Malaysia	65	103	396	538	85
Russia	0	2,957	4,656	10,422	5,087
Ukraine	1	390	1,650	4,070	1,225
South Korea	135,901	117,123	122,857	81,445	34,936
Total (minus double counting)	138,143	123,637	130,726	98,274	42,417

Total production for 2006 dipped as the Musso and Rexton models came to the end of their product life cycles, being replaced by the Rexton II. Fuel prices then rose stratospherically in 2007 and 2008, which suppressed any possible lifecycle recovery. There was reassuring expansion in complete knock down (CKD) assembly in Russia and Ukraine, along with minor growth in Iran and Malaysia. However, even in 2007 it was clear that SAIC was backing away from SsangYong production in China.

According to SsangYong, its one assembly plant in Pyeongtaek has potential for around 210,000 units per annum and at this level would be close to enjoying economies of scale for a single plant. SAIC's plan had been to take this further, with an industry standard output of over 300,000 units per annum, but SsangYong production barely managed to ever half-fill the existing plant. Furthermore, a car company needs to achieve full capacity utilisation in two such plants to have any chance of a long-term future, and this was no longer possible once plans for a plant in China had been quietly dropped.

SAIC made a show of supporting SsangYong with a reluctant cash injection of US\$45m and the purchase of a number of vehicles at the end of 2008. The measures were a fraction of what was necessary. Spurned by its parent, SsangYong slid into bankruptcy protection in January 2009, overwhelmed by debts of around US\$1bn.

### The patient flatlines

Even as SsangYong struggled for life in the first half of 2009, it was inflicted with a series of strikes. The automotive unions in South Korea have a tendency towards militant action and the threat of redundancies for a third of the workforce brought on a furious reaction. The Korean Confederation of Trade Unions (KCTU) orchestrated a plant occupation and a series of violent battles with the authorities until defeated by police action in August.

The union was not alone, though, in recognising the importance of keeping SsangYong alive. The city of Pyeongtaek is heavily dependent on SsangYong for employment, all the more so while the government was doing its best to keep the global recession outside the national borders. As a consequence, SsangYong was being kept going by the indulgence of its biggest creditor, the Korea Development Bank, but both money and patience were in short supply. A credit for equity swap reduced SAIC's share from 51.33% to 9.5%, and by July 2010 this had shrunk further to 3.79% with SAIC showing signs that even this is too high. SsangYong is in a state of independence, but one that cannot be sustained.

### Back on the shelf

Surveying the wreckage of a firm that had no economic right to survive the recession, it is easy to overlook its underlying strengths. With its highly flexible, if out-dated, ladder-frame platforms it is able to produce a wide number of SUVs, each destined for a market niche that is SsangYong-shaped. Figure 2 (see below) gives some idea of how the company is able to hold small shares of markets all around the world.

Markets that are most receptive to these unpretentious SUVs include Russia, where an agreement with Sollers in June this year will see a total of 160,000 CKD units being assembled in Vladivostok by 2017. A similar deal will see 15,500 CKD units being assembled in Vietnam over the next five years. The impact on annual production levels in South Korea may be small but welcome, nonetheless.

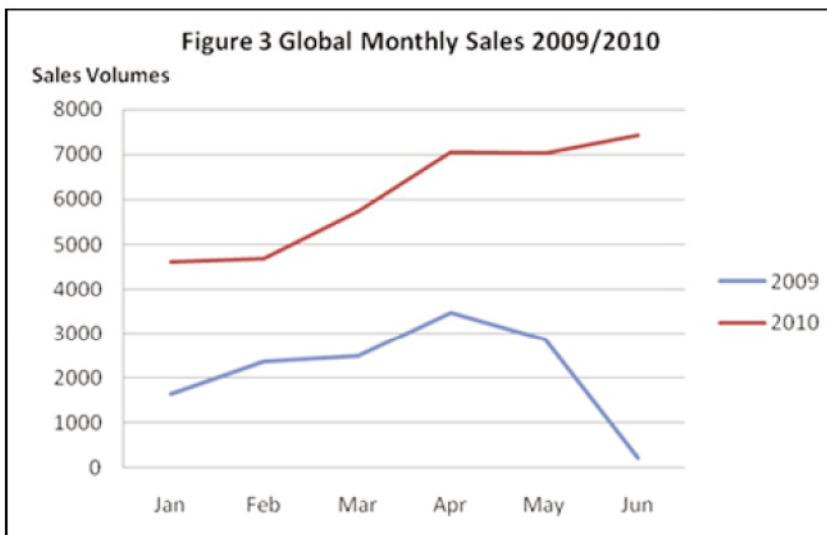
The Russian deal also indicates that this region will be a major source of future growth, with Ukraine and Chile showing good potential given the resilience of demand over the past two years. China, though, is unlikely to offer many opportunities without SAIC support against the increasing number of local competitors.



Figure 2: Major Markets % of Total Sales

Country	2005	2006	2007	2008	2009
South Korea	61.9	48.3	49.0	40.9	40.1
Russia	0.2	3.5	9.1	18.6	16.3
Spain	6.9	10.6	9.6	4.6	6.2
Chile	1.3	1.0	0.8	0.9	4.8
Italy	5.7	7.4	4.1	2.7	3.9
Turkey	0.0	0.0	0.0	3.2	3.2
China	0.5	0.6	4.0	6.1	2.6
Brazil	0.1	0.0	0.2	1.5	2.3
Colombia	0.5	0.8	1.3	4.2	2.2
Ukraine	0.0	0.3	1.3	4.2	2.2
Iran	0.5	0.2	0.8	1.8	2.0
Australia	2.2	1.9	1.7	1.4	1.9
UK	1.1	1.8	1.1	0.7	1.4
Others	19.2	23.4	17.0	11.5	10.8
Total	100.0	100.0	100.0	100.0	100.0

Now that SsangYong's condition has been stabilised, at least for the time being, monthly global sales have bounced back. Figure 3 (see below) shows how the first half of 2009 compares to the same period in 2010.



The sales total for the half year amounts to 36,512 units, an increase of around 180% year-on-year. At this rate of improvement, SsangYong may be able to defy the pessimists and equal the sales of 2008 by closing on 80,000 units at the end of the year.

Sadly, none of this means that the long-term view belongs to the optimists. For the plant to break even output needs to be well over 120,000 units per annum, year after year. The current range of vehicles is made up of ageing SUVs, a barely competitive MPV in the Rodius and the low volume luxury cars, the Chairman H and the Chairman W. The Chairman H was born out of the tie-up with Mercedes-Benz and has long been due its pension. With output volumes set to decline from 2011 onwards on model life-cycle factors, the C200 will emerge in the nick of time to boost production levels back up.

The C200 makes a very positive statement for the company. It appears to be a competitive CUV from the same design philosophy as the popular Nissan Qashqai. The C200 is expected to be released as the Korando C in the domestic market by the end of the year and will feature front-wheel-drive and four-wheel-drive options. SsangYong has also been working on a new range of powertrains, including hybrids, which is quite a feat considering the financial pressures it is under.

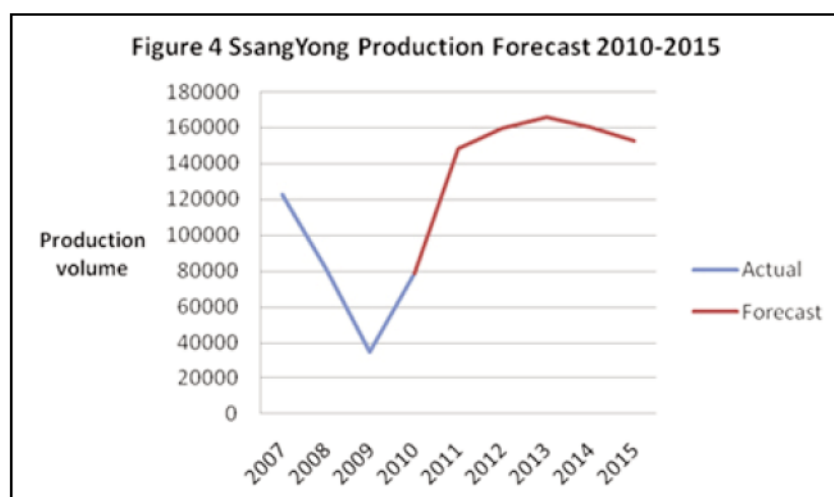
The release of the Korando C should provide a substantial boost to production. Figure 4 provides a forecast of future production volumes for SsangYong at the Pyeongtaek plant. The main improvement will be felt in 2011, courtesy of the new model, but total output will level-off thereafter as sales of the old SUVs drift gently down. If resources allow, there will be more variants of the C200, such as a new MPV and sedan, to at least maintain some sales growth in 2012 and 2013. However, the C200 range cannot save the company by itself.

Although the new model strategy means that the Pyeongtaek plant will be economically viable, for the company to fully exploit the economies of scale and be sustainable in the long-term it would need to fill at least two modern plants with production. This implies that continuous output of 600,000 units per annum is the bare minimum, and the company has neither the resources nor the time to attain these heights. It is for this reason that a partner, or new parent company, has to be found.

### Speed dating for car companies

During the industry shake-out of the past couple of years it has transpired that it is possible to find buyers for ailing vehicle manufacturers, given enough

time. Against the odds, Chrysler and Saab have found takers while the sale of Volvo will shortly be finalised. No matter how parlous the financial state of a vehicle manufacturer may be, it will always offer some value to someone. As a consequence, SsangYong extended the deadline for bids to August 10 in order to be as accommodating as possible.



There were around seven bids that SsangYong was actively entertaining, with the Ruia Group being a late addition. A number of the bidders comprised private equity firms and speculators, perhaps attracted by the value of the plant for property development. Overall, the company was valued at around US\$570m.

The main priority has been for SsangYong to find a partner that is willing to preserve as much of the existing structure as possible. It is fortunate that SAIC never attempted to dismantle SsangYong's ability to conduct complete new model programmes, from the engineering concept to final production. Yet when advertising for an alliance partner, this degree of vertical integration can be both a blessing and a curse. In the short-term, it is what allows the company to continue operating independently, but in the long-term it makes the search for a larger parent even harder.

---

**SsangYong has been working on a new range of powertrains, including hybrids, which is quite a feat considering the financial pressures it is under**

---

The problem for SsangYong is that it cannot offer the global giant anything that they are not already doing themselves but on a much larger scale. The best that could be hoped for is that the larger partner might want the production space for its own products, but such cherry picking of assets is often politically unacceptable since it means killing off the rest of the company.

Into this camp we must put the leading industry bid for SsangYong, which was from the Renault-Nissan Alliance and already the majority owner of local rival, Renault Samsung Motor. Renault-Nissan already matched SsangYong model for model, most crucially against the new Korando C with its globally successful Nissan Qashqai. It was entirely logical, then, that the Renault-Nissan chief Carlos Ghosn, should openly state that the group's main interest was in SsangYong as a production site. More likely, though, Ghosn was simply doing what all top industry executives should do: investigating all strategic possibilities. In the event, the plan was dropped and Ghosn will move on to the next speculative plan.

A local bid came from the Young An Hat Company. A bizarre notion, at first glance, but apart from being the self-proclaimed "world's best hat company" it is also something of an industrial conglomerate. It controls Daewoo Bus and it has owned Clark Forklifts since 2003. Yet it will take more than chairman Baik Sung Hak's financial skills to conjure up any synergy with SsangYong Motor. Even bus manufacturing, a fellow member of the vehicle production industry, has little technical commonality with an SUV company.

A late bid came from the Ruia Group of India. Although it is the owner of Dunlop Tyres this automotive connection is purely coincidental and it is of little relevance to SsangYong. The Indian group lacks technical resources, sales outlets and vehicle production facilities, so the most it could offer is a large cash investment. While this would sustain SsangYong in the short-term, it would do little to solve the chronic need for massively increased production output. Other financial speculators fall into a similar category, perhaps targeting the firm for asset stripping.

#### **A marriage made in India**

Finally, on August 23 2010 Mahindra & Mahindra announced that it had signed a Memorandum of Understanding with Ssangyong to acquire a majority stake in the company. This signing will now be followed by a detailed due diligence process and finalisation of definitive agreements.

Anand Mahindra, vice chairman and managing director, Mahindra Group, commented at the time: "Korea is one of the world's leading centres of automotive excellence and Ssangyong brings with it a rich legacy of R&D and innovation. India is a rapidly growing SUV market and will create new growth avenues for Ssangyong. The synergies between both the brands, which share a similar heritage, will make us a combined force to reckon with in the global SUV space."

Pawan Goenka, president, Automotive and Farm Sector, Mahindra & Mahindra added: "We are committed to leveraging Ssangyong's strong competencies in R&D and technology by investing in a new SYMC product portfolio which will help us gain momentum in global markets. Mahindra's focus on alternative fuels and electric vehicles with the acquisition of Reva, will further strengthen SYMC's brand value and take it to new geographies."

Mahindra is not a car manufacturer of note, but it has a strong presence in agricultural vehicle sectors. It also manufactures rugged SUVs that are somewhat in the SsangYong mould. This would open the burgeoning Indian market to distribution of SsangYong's more expansive, and dare one say, slightly more advanced, range of SUVs. In turn, SsangYong has distribution outlets throughout the world, but it is not clear if they would be accessible to Mahindra's agricultural products.

---

## Despite SsangYong's rather lowly reputation, its engineering capability is surprisingly efficient

---

Despite SsangYong's rather lowly reputation, its engineering capability is surprisingly efficient. Overstretched it may be, but it has designed the Korando C from scratch, with a number of related models in the pipeline. There is also a new range of Euro 5 compliant diesel engines on the way, including a hybrid version, to replace the Mercedes-Benz units. All this is being achieved with a team of around 300 personnel, roughly equivalent to the number of MG engineers being employed by SAIC at the UK Birmingham facility. MG has been given responsibility for a similar range of projects, suggesting that SsangYong's product development strategy is equally viable.

Under the Mahindra Group, SsangYong will receive the necessary financial backing to continue product development and maintain production at its Pyeongtaek plant. The laws of economies of scale cannot be disobeyed, so once full capacity utilisation has been achieved a second plant must then be found and filled. The most likely outcome in the long-term would be for SUV production to shift to India, while the South Korean plant would be dedicated to passenger car production. There is probably no place for the low volume luxury cars and the Chairman W will serve out its model life cycle in the home market. This will leave SsangYong to focus on expanding into the mid-market segments with a range of sedans, CUVs and an MPV.

*Dr Michael Wynn-Williams is the author of 'Surfing the Global Tide: Automotive Giants and How to Survive Them'. He lectures in international business at the University of Greenwich.*

---

*Published on Thursday, August 26, 2010*

*<http://www.automotiveworld.com/news/oems-and-markets/83500-ssangyong-south-korea-s-eternal-bride>*