

**GLOBALIZATION OF THE  
KOREAN AUTOMOBILE INDUSTRY**

**By**

**ISLAMOGLU, Nazim Emre**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

**MASTER OF BUSINESS ADMINISTRATION**

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## **ABSTRACT**

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The objective of this thesis is to understand the trends that changed the automotive industry for the last few years and to analyze how Korean automakers expanded their operations overseas.

Overall automotive industry has been experiencing drastic changes recently. Supply chains, marketing strategies, production process and materials have been redesigned including new technologies of the digital age. There has also been extensive restructuring of the industry as firms reorganized to have greater presence and larger product portfolio in each of the three major producing areas.

Among Korean automakers, Hyundai Motor Company showed a great performance for the last two or three years. While all industry was under recession, Hyundai made great even in the hardest markets. The company has set out a new corporate goal: sales of 1 million cars and trucks a year by 2010. To reach this goal, company started enormous globalization efforts and among these efforts, new production facility in Alabama, U.S. is expected to be the most remarkable one. This new factory may help the company grab a bigger share from the world's biggest auto market after production starts in 2005.

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# **1. INTRODUCTION**

## **1.1 Background and Objective of the Thesis**

Although automobile can be considered a "global" product, the regionalization in this industry corresponds to the competitive need to respond to consumer tastes, to conform with different government regulations, and to provide high quality marketing and after sales service.

During the last decade, trends in the industry changed a lot. Acquisition of smaller, specialist automobile firms; formation of minority shareholdings and joint ventures have all been part of global strategies which have improved the relative position of major assemblers.

Hyundai Motor Company has a relatively short background in automotive industry compared to those in the United States or Japan. The company began to enter true volume production in the mid-1980s, driven by exports to North America. However, they have recognized that market differs there than the one at home. Perceived quality problems quickly dampened demand in the important U.S. market, however, and the company spent the next ten years fighting its way back. With the 1997 Asian currency crisis, pressure to consolidate Korea's auto industry became acute, leaving only a single, truly independent domestic OEM – Hyundai – left standing today. There is no doubt that Hyundai Motor Company is one of the most interesting automaker of the past few years. The company has been doing much better than the industry average both in sales and profitability.

The objective of this study is to analyze the recent trends in the automobile industry and globalization efforts of the Korean automobile industry. In this study, we also tried to give a closer look to Hyundai Motor Company's overseas efforts selecting U.S. as sample market.

## **1.2 Scope of the Thesis**

This thesis studies the globalization process of the automobile industry and focuses on the Korean automobile industry. In chapter two, the globalization trends of the world automotive industry reviewed. The future direction of the industry and the need to the globalization is explained. Chapter three focuses on the history of the Korean automobile industry. This part analyzes how the auto industry in Korea developed so rapidly. The export strategies of the Korean companies are also discussed in this part. Chapter four is a case study of Hyundai Motor America. This part involves the history and growth strategies of the company, focusing mainly on Hyundai Motor America. Finally, in the conclusion part, the main findings and implications are discussed.

## **1.3 Methodology of the Thesis**

This study depends largely on literature research and reports on the industry and companies as well. In addition, the interviews with the relevant managers of the Hyundai Motor Company for the case study were very helpful. The recent data and information were obtained through the recent industry magazines, annual reports and related Internet sites.

## **2. GLOBALIZATION TRENDS**

Today automobile industry is at the stage of economic evolution with the globalization of capital, communications, economic policy, trade policy, human resources, marketing, advertising and brands. There are Germans and Japanese producing cars in the United States, and Koreans producing cars in Eastern Europe, and Malaysia exporting cars and parts. In addition to that the automotive industry is now becoming not just a hardware-driven industry but an electronics-driven industry. It is becoming more and more a business that requires huge investments in technology and intellectual capital. So there's no choice about globalization anymore. Companies cannot just remain a national company or a regional company. Some of the companies are still trying to keep being local. Their strategy is doing well in their domestic market and selling a little bit in the others. That might not be a bad strategy for a short time or for a certain type of company, but for a company who wants to be a global player that is a hot viable alternative. The days of looking across town and seeing the major competitors are gone. Today auto companies around the world have ambitions, and some of them are world-class players-Toyota and Honda, for example. Besides, U.S companies are facing competitors with whom they have no experience. So the industry is now experiencing an incredible challenge today: more markets open for business, more competitors fighting for dominance, more need for very smart people and fresh ideas. And at the same time, they have to grow. They don't make money by downsizing or shutting plants or reducing their product line. They make money by building the company. It is more essential to the automobile manufacturers to make plans and build strategies, in order to achieve their goals.



The changes in the world economic landscape, particularly the globalization of markets, are creating new challenges for internationally operating companies. Taking advantage of this trend, the leading automotive manufacturers are increasingly building development and production activities in the local markets. However, this expansion of production capacity will only fuel the already intense competitive pressure. Companies looking to maintain, or expand, their market position must renew their product line-up at even shorter intervals, as well as continuously improve their cost structures.

In this chapter, we are going to look at the main challenges of today's auto industry deeper.

## **2.1 Overcapacity**

Like all global industries, the automotive sector is facing a number of challenges at present. First of all, the sector is currently suffering from an enormous over-capacity problem. Figures show that if automotive production continues to grow at the same pace, manufacturers will have the capacity to produce twice as many cars as needed by the year 2005.

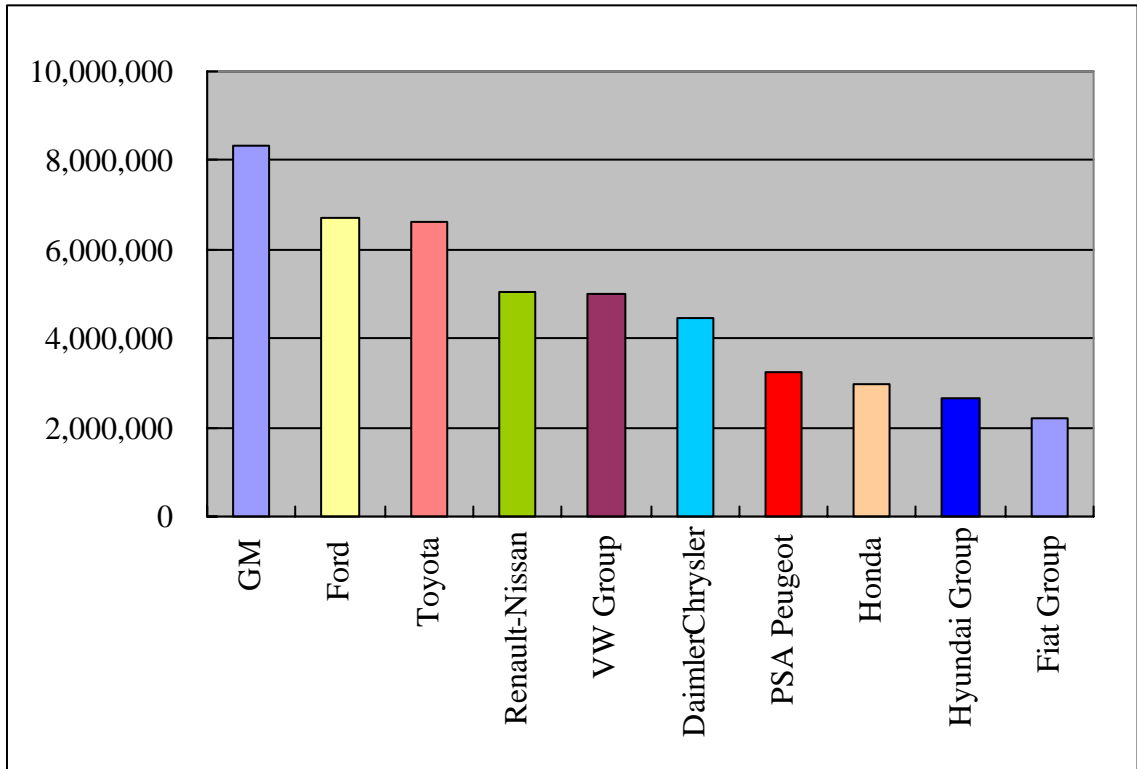


Table: Global Vehicle Production by Manufacturers in 2002

Source:OICA

Excess capacity is simply a threat for both the short and long term. Excess capacity destabilizes markets, which leads to tighter margins and depressed returns, which causes increased competitive intensity at all levels and a need for new markets, which of course in turn results in more excess capacity.

Capacity investment soared during the 1990's, expanding 30% between 1990 and 1998 and adding 17 million new units-the equivalent of adding a new North America. Capacity growth will slow, from the 90's average annual rate of 3.4% to an annual rate of 1.4% between 1998 and 2006. But that will still add 8.7 million new units or the equivalent of two South Americas.<sup>1</sup>

<sup>1</sup> PricewaterhouseCoopers LLP, *AUTOFACTS Early Warning Report*. November 1999, p.12.

Excess capacity is a structural problem of long standing, the consequence of build-where-you-sell policies (designed to diffuse trade friction and gain market access) and unrealistic conquest and export targets. While annual output grows from 52 million units in 1998 to 62 million by 2006, manufacturing capacity surpasses over 83 million by 2006. Therefore, global excess capacity will remain above 20 million through 2005-equivalents to 100 assembly plants-even if no global cyclical downturn is factored in. Of all the global markets, the Asia-Pacific region has the most over-capacity.<sup>2</sup>

It is important to remember that excess capacity affects not only vehicle manufacturers. Manufacturers' globalization strategies are forcing parallel supplier investments, so problems cascade through the supply chain, with negative impact on shareholder value across the entire industry.

## **2.2 Fierce Competition**

In addition to the over-capacity problem, the automotive industry is also extremely competitive. There is increased competition in all the major automotive markets throughout the world. The world's car makers are increasingly competing against each other in all major regions, in all major product lines and at all price points. The US and Europe are mature markets for the automotive firms and they are fighting for market share and margins - and this is being felt right through the supplier chain. The industry is facing a number of opportunities and risks and vehicle manufacturers are supposed to consider everything: expand into new markets,

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<sup>2</sup> PricewaterhouseCoopers LLP, *AUTOFACTS Early Warning Report*. November 1999, p.12.

rationalize production, build where it sells, reduce platforms, build vehicles for new segments, get bigger and become more nimble.

Due to consolidation in the automotive industry, the number of automobile manufacturers has more than halved over the last 30 years. Today there are fewer than 20 independent manufacturers and this process will continue in the years to come.

### **2.3 Growing Markets**

In spite of the over-capacity and the severe competition in the industry, automotive production is expected to grow even faster, increasing 20% between 1998 and 2006, versus a 13% increase between 1990 and 1998. Annual global output will grow from 52 million units in 1998 to top 60 million by 2004 and 62 million by 2006. The growth will vary from region to region, from a low of 5-10% for mature markets, characterized by replacement demand, to 30-60% in emerging markets, with plenty of new demand.<sup>3</sup>

Asia-Pacific is expected to be the fastest growing market. By 2002, the Asian markets have recovered from their extended auto recession and reach pre-crisis production and demand levels. Asia-Pacific is large, yet since most of it (excluding Japan & Australia) remains an emerging market; it will be the dominant automotive market.

North America & Western Europe are large and mature. They will still contribute a large share of growth, but achieve low annualized growth rates-about 1%.

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<sup>3</sup> PricewaterhouseCoopers LLP. *Automotive Industry – 2001 in Review*. p.5.

Eastern Europe represents 16% of global growth versus 7% of global volume, contributing more than either North America or Western Europe.

South America represents 9% of global growth between 1998 and 2006 versus less than 5% of global volume.<sup>4</sup>

## **2.4 Global Presence**

There is strong pressure for the world's major automotive manufacturers to move out of mature markets and build a global presence. They need presence both in mature and emerging markets. Mature markets, where economies of scale are more readily available, offer short-term cost/profit improvements-or would, if competition didn't narrow margins. The developing world, with higher volume growth potential, offers greater long-term returns-against a background rich in potential economic and political stability. Accommodating both types of markets means differentiating general product styles. The emerging markets require basic transportation; mature markets demand vehicles offering new technology and added functions. The result is a complex recipe for vehicle manufacturers in the configuration of products, services and production capabilities for global markets.

Also, as the costs increase, it makes sense for some companies to pool their R&D capabilities in some areas. Daimler-Benz and Hyundai, for example, will be working together to develop new diesel engines for trucks<sup>5</sup>. There are economies of

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<sup>4</sup> PricewaterhouseCoopers LLP. *Automotive Industry – 2001 in Review*. p.5.

<sup>5</sup> DaimlerChrysler and HMC Press Releases

scale to be gained by sharing product development costs. Cars may look different, but today many share identical components such as headlight bulbs.

## **2.5 Building Global Players**

Companies looking to maintain, or expand, their market position must renew their product line-up at even shorter intervals, as well as continuously improve their cost structure. In order to achieve both economies of scale and potential synergies in the field of research and development, pressure on the manufacturers to combine into larger units is mounting. A similar trend can be observed in other economic sectors as well. Several consolidations took place in the automotive industry over the last 30 years and the number of the manufacturers is almost halved. Today there are fewer than 20 independent manufacturers and the rivalry can only get fiercer with each mega merger - just in the past year, Daimler-Benz acquired Chrysler, Ford bought Volvo, and Renault took a big stake in Nissan. The industry is moving closer to the day when a handful of companies have the scale to squeeze purchasing and manufacturing costs and plow billions into new models. In the meantime, the world is awash with capacity: The industry can make 20 million more cars and trucks than it can sell.

DaimlerChrysler, after the merger between German giant Daimler-Benz and American legend Chrysler, is considered one of the world leaders in manufacturing passenger cars, light trucks and commercial vehicles and trying to shape the future of its industries.

## **2.6 Changing Customers**

As customers become better informed, more demanding of product options and variety, less brand-loyal and more price sensitive, vehicle manufacturers have sought to expand their product range across all segments of the market, either through strategic alliances and merger activity or product development. The recent example is Daimler-Benz, moving into the small car market through the A Class and its involvement in the SMART car.

Currently customers have more access to any kind of information, which absolutely increases their buying power. They compare the brands, products and since the switching cost is not high, may switch to another brand or product easily. In addition, because of the fierce competition between the manufacturers, customers are able to behave more price sensitive. As the technology develops, customers expect the products to be better and safer, dressed up with more electronic devices. And they want to see more technology for less money in their vehicle.

## **2.7 Premium Segments**

Competition in the lucrative premium segment seems to heat up further. In the medium and long term, new growth potential has to be accessed, both regionally and in terms of new products and brands, particularly in volume segments. Developing new products for a different market segment or establishing an additional brand may, however, have implications for the positioning of the existing product range. New products for the volume markets not previously served by the manufacturers might have an adverse effect on the exclusive image of their brands. A move into completely new market segments would involve both high costs and substantial risks. An alternative is to co-operate with another manufacturer who already has a successful brand and products in place in the segments where the new company is either not yet

or inadequately represented. In this way, the existing product portfolio could be broadened without any risk to each company's brand identity and its associations of exclusiveness.

## **2.8 Environmental Concerns**

Environmental legislation is getting tighter and car manufacturers are now responsible for not only producing cars, but checking they are responsibly destroyed at the end of their life. Certainly, some manufacturers are beginning to produce cars, which will degrade in an environmentally sound way, or are made of components, which can possibly be recycled. In addition, the pressures of urban living may result in fewer cars being welcome in cities, which will affect manufacturers. Finally, the internal combustion engine may now have a limited life - the technology behind electric cars is improving rapidly.<sup>6</sup>

Consumers are smart and they recognize the threat that pollution and global warming present to them and their children. They will gladly choose products and technologies that help safeguard the global environment, if those products and technologies are available and if they are affordable and if they perform as well as conventional alternatives.

## **2.9 New Technologies**

Now it is "a time of new beginnings." Manufacturers are mobilizing their company's resources to assert leadership in new power-train technologies. Those

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<sup>6</sup> Mckinsey&Company. *Interview with Jurgen Kluge: Automotive World in 2020.*



technologies include electric, hybrid, and fuel cell systems, as well as innovations in internal combustion engines, such as direct injection.

Also, Intelligent Transport Systems (ITS) could be as important as improved drive-train technologies in constraining automotive output of carbon dioxide and pollution.

In the meantime, it means better routing of traffic to cut fuel consumption, reduce pollution, and enhance safety. According to industry analysts, intelligent transport could reduce traffic congestion 50% in 10 years and 80% in 20 years. That would help achieve huge reductions in emissions of pollutants and carbon dioxide.

## **2.10 Industry Leaders**

No company can survive in a world driven by rapidly changing consumer needs and tastes without having leaders at every level capable of fast decision-making. If leaders think and move slowly or operate inefficiently-basically, if they don't keep up with consumers and competitors - then they won't be able to satisfy the capital markets' demand for both profitable growth and unassailable asset utilization. Is the company positioned to meet consumers' needs now and in the future? And can it meet those needs while bringing home great returns on the capital employed? Another point comes into play here, too. Increasingly, the markets value a global approach to business -an approach in which a company's units, divisions, teams, functions, and regions are all tightly integrated and synchronized across borders.

## 2.11 Information Technology

Like in any other industry, auto manufacturers are studying how the information technology could improve their business. Electronic commerce revolutionizes the supply chain and triggers industry shakeout besides the challenges in production and processes. It allows reduction in purchasing prices and process improvements and thus leads to product changes. As products change new business models like modular vehicles or standardization are introduced. Industry experts predict that 90% of all future innovation in the automobile will be driven by electronics. This revolution is expected to take place on four levels: surge in electronics innovations in the car, networking and integration of electronics, networking of vehicle with environment and automotive embedded mobile computing<sup>7</sup>.

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<sup>7</sup> Roland Berger & Partners. *Automotive Supplier Trend Study*, November 2000.

### 3. KOREAN AUTOMOBILE INDUSTRY

The Korean automobile industry, now the 5<sup>th</sup> largest in the world, share much of the characteristics of a global industry within more advanced manufacturing countries such as the US, Japan and Germany. The Korean automobile industry is characterized by huge investment in indigenous model development and manufacturing facilities. This characteristic is more similar to the US, Japan and Germany than it is to the automobile industries of Mexico, Canada, Spain, United Kingdom and Thailand. The automobile manufacturers in the latter countries are mainly subsidiaries that are manufacturing and often just assembling from KD kits, models developed by the parent companies headquartered elsewhere. By contrast, the automobile manufacturers in Korea all have their parent headquarters within Korea and most of the new product development is carried out in Korea.<sup>8</sup>

The history of the automotive industry in Korea starts from the mid-1960s, with the formation in 1965 of Shinjin Motors (later to become Daewoo). Hyundai started up a couple of years later, with first Kia (which absorbed Asia Motors in 1976), then Ssangyong, and Samsung trying to come in and stay in. The government has always exerted enormous influence over which groups could operate in the automotive industry, and over the scale of their operations. The morphology of the market has been the outcome of government decisions over which chaebol should be permitted which roles. Conflicts among the chaebol then determined the structure of the components business. Each vehicle manufacturer wanted its own family of suppliers, and business was meant to be mostly within the family. Few parts suppliers

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<sup>8</sup> Sung Joon Hong, "The Study of the internationalization of the Korean Automobile industry," Master's Thesis, Choong Ang University, June, 1994.

therefore have been partners of more than one vehicle manufacturer, although some of the joint ventures with leading international component companies have sold on a wider scale.

In the same way as other countries that have entered the automotive industry, Korea had to draw heavily on foreign technology, training and intermediate inputs. For the most part Korean companies sought to keep the foreign linkages at arms' length. The most important exception, lasting for 20 years, was the 1972 50:50 joint venture between GM and the original Shinjin Motors. Although equity was split equally, the Korean partner kept management control. In 1983, the company became Daewoo Motors. Strained relations between the partners, particularly over management decisions, eventually led to an acrimonious parting of the ways in 1992 with Daewoo purchasing GM's share. Ford did build up, via direct and indirect means (through Mazda, of which it owns 33%), a 16.9% share of Kia. Although the arrangement has brought an important (although not continuous) supply of Kia vehicles to the US, the American company has not had any direct voice in management.

Even with the intensity of Korea's effort, the automotive industry took time to establish itself. The first model to have assemblance of being Korean (the Hyundai Pony) did not come on to the market until the mid-1970s. An export effort began at the start of the 1980s, but still by 1990s vehicle sales abroad were under 25% of output. Total vehicle output per year remained under the 1million level until some 10 years ago; FDI ventures are essentially a feature of the late 1980s-early 1990s (and have included spectacular failures, e.g. Hyundai in Canada).

The strategic aims of automotive industry policy have not altered much in the past three decades. Companies have focused on size, in the belief that they could achieve economies of scale and thus compete on price at the commodity end of the vehicle business. The government and companies together have pursued local content. To do this, two things have been necessary; the growth of parts companies to meet the needs of Korean vehicle manufacturers and the effort to ensure that technological improvements in Korea do not fall behind the rate of automotive industry technological progress on a global scale.

Hence, both the scope and nature of the automotive industry investments have always been the heart of the matter. For Korean companies and the government they have been seen as the instruments through which unit costs should be reduced, and production techniques could be upgraded. But the fact that capacity growth, output growth and the export growth (especially at the accelerated rates of the period 1990-96) took place with a closed domestic market became an increasing source of frustration. Globalization does not take kindly to strategies that want no more than selective contacts with external groups. It is this tension between the Korean approach and that of powerful international entities that accounts for the almost unprecedented ferocity of the present debate.

### **3.1 Environmental Changes**

Because of the enormous amount of investment in manufacturing facilities, experts view the efficiency scale of an automobile assembly plant to be output of 200,000 to 300,000 cars a year. On the other hand, the huge investment in new product development makes the scale of economy of a platform as important as the

scale economy of an assembly plant. For example, Hyundai Sonata platform strives for about 400,000 cars a year in order to be competitive. However, the minimum efficient number of cars per platform differs by companies and models. In fact, many Japanese and European manufacturers have profitable platforms producing less than 200, 000 cars per year.

Another consideration is the variety of consumer tastes. As Korean consumers become more mature consumers of automobile, they are exhibiting more variety-seeking behavior and demanding more models. However, more models imply less domestic sales per model, as more and more models compete for the same consumer dollars. In order to produce more models at the efficiency scale, Korean manufacturers have had to look to the global market for their cars.

Yet another reason for the globalization of the Korean automobile industry can be attributed to slower domestic growth. During the 70s and 80s, the growth of domestic sales averaged around 25%. This growth rate has decreased to 10-14% in the early 90s; in 1994 to zero; and was minus in the first quarter of 1997. Besides, many Koreans manufacturers have increased their capacity in order to become a global player. Also in 1998, the top chaebol group in Korea, Samsung, entered the market. For the first time in its history, Korean manufacturers were experiencing severe overcapacity and increasing inventory at their lots. Meanwhile labor costs in Korea have gone up substantially, as have input costs.

The opening up of the Korean market following WTO and Korea's membership into the OECD has engendered more intense competition from foreign imports. In particular, most foreign automobile companies are using penetration

pricing strategies to gain a share of the Korean automobile market.<sup>9</sup> Due to the importance of the automobile industry to a country in terms of employment and its effect on related industries, many governments are sensitive to trade imbalances arising from automobiles. Also, with the regionalization of economies through trade blocks Korean manufacturers are in the danger of being handicapped in their major export markets by both tariff and non-tariff barriers.

Due to mainly these environmental changes above, the Korean automakers have chosen the road to globalization as a way to sustain its competitiveness. Globalization of Korean automakers has unfolded in the following stages:

1. Exports
2. KD exports and assembly
3. Local manufacturing
4. Global alliance and networking

The major difference between the Korean experience and the experience of other countries is that the stages 2, 3 and 4 seem to have progressed concurrently. Like other aspects of the Korean economy, stages of globalization have seen a feverish pace with everything coming about within a very short period of time.

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<sup>9</sup> Chi Sang Ji, "WTO order and the Korean Automobile Industry," Automotive industry, December 27, 1994.

### 3.2 History of Korean Automobile Exports

The history of Korean automobile exports started in 1976 with the first shipment of the Hyundai Pony to Ecuador.<sup>10</sup> Exports were possible due to the development of the Pony by Hyundai as an indigenous model. Prior to Pony, all the automobiles manufactured in Korea were KD models of Japanese and American manufacturers and they were manufactured purely for local consumption and manufacturers were prevented from exporting them.

The Korean automobile industry saw strong growth between 1985 and 1988 through aggressive export market cultivation and improved technology and productivity. In terms of technology, Hyundai developed its indigenous model named the Excel, and built the Ulsan plant with an annual capacity of 300,000 units. During this time, Kia, in a three-way alliance with Ford and Mazda, manufactured the Ford Festiva. It was developed by Mazda, manufactured by Kia and marketed by Ford.<sup>11</sup>

On the marketing side, Hyundai established its own network of dealers in 1985 and set up Hyundai Motors America. During this period, many high quality and reasonably priced consumer electronics and garments were being exported to North America from East Asian countries such as Japan, Korea and Taiwan. Hyundai rode this general optimism toward Asian-made products and made a strong entry into North America. In 1985, Hyundai Excel was the number one import vehicle in Canada. In the following year the Excel was broke the record for the most car sold in its first year of import in the US by positioning itself as an alternative to a used car.

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<sup>10</sup> Hyundai Motor Company Website

<sup>11</sup> Chu, Wujin, "Globalization of the Korean Automobile Industry", *FY'97 IMVP Working Papers*, p.6



Between the years 1989 and 1991, Korean exports saw a dramatic decline. The main reason for the decline being quality problems that began to surface after the initial ownership period was over. In particular, North American consumers came to realize that the quality of Korean-made cars were not up to their expectations. One of the main reasons for backsliding in the quality was due to the labor unrest that broke out in 1989. Labor unrest resulted in poor quality levels as workers did not care about quality and did not make the suggestions that lead to steady improvements in quality. In fact, the lean production system with its high quality requires stable and cordial labor relations as a necessary condition. The labor management conflict at Hyundai began to stabilize in 1992, resulting in the improvement of IQS scores from 235 to 193 in 1992. However, this figure has stayed constant until 1995, indicating that the quality problems at the Korean automakers were not all labor related.<sup>12</sup>

In 1992, exports increased 13% over the previous year and started to pick up. In 1993, export increase was 33.9%; and in 1994, it was 13.8%. In 1994, Korean manufacturers exported 737,000 cars. The biggest reason for this improvement was due to the diversification of export markets and the high value of the yen. Market diversification meant lessening Korea dependence on the North American market by making inroads into Europe, Central and South America and India. During this period, Korean automakers made aggressive investment in distribution and sales. Rather than relying on the diligence of their partners, as was the case of OEM exports, Korean automakers took matters into their own hands by setting up their own distribution system and selling under their own marquee.

### **3.3 Knock-Down (KD) Operations**

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<sup>12</sup> Chu, Wujin, "Globalization of the Korean Automobile Industry", *FY'97 IMVP Working Papers*, p.6

The stage between exporting and local manufacturing is KD operations. KD operations of Korean makers started in 1989 and over a short period of 7 years, it has been tremendous growth. In 1993, 63,000 units were exported followed by 47,000 units in 1994 and 88,000 units in 1995.

Kia was the first Korean manufacturer to start KD operations and mostly the leader. Kia started KD operations in 1987 by exporting 25,000 units to Taiwan and Philippines and doubled the number to 50,000 units in 1993. Daewoo was the last in starting KD exports. Although its slow start, throughout the years Daewoo has been the most aggressive Korean auto maker with ambitious plans for globalization.

KD operations were initially a way to boost exports. Many developing countries placed heavy tariffs on fully-assembled cars and KDs were a way to get around the tariff barrier. KD operations also contributed to the diversification of exports markets, as they went hand-in-hand with the opening up of new markets. KD operations also gave the impression that the automobile assembled is the local country's own rather than an imported product. This breaks down consumer resistance, leading to increased sales and a more favorable image of the KD exporter.

### **3.4 Local Manufacturing and Global Networking**

The environment for doing business in the automobile business for Korean manufacturers is pointing towards globalization as the only way for Korean automakers to survive and become one of the major players. The sharp downturns in domestic demand, formation of regional economic trade blocks, the need to amortize the huge investments in new product development, need for scale economies in manufacturing, changing consumer tastes, volatile foreign currency markets are all

pointing towards globalization as a way for the Korean automakers to sustain their competitiveness.

In the next chapter, we are going to take a deep look at Hyundai Motor Company North America operations as a case study.

#### 4. HYUNDAI MOTOR AMERICA CASE STUDY

Hyundai Motor Company, the biggest Korean automaker, sold its first car in the U.S. in 1986. At that time, few Americans had ever heard of Hyundai or its products. Since that time Hyundai has expanded and upgraded its product line in the U.S. and has gained valuable experience in the competitive U.S. automobile market. In 2002, Hyundai recorded an operating income ratio at 6.1% and a net profit ratio at 5.5%, higher than Big Three (GM, Ford and DaimlerChrysler) and Toyota<sup>13</sup>.

Hyundai Motor	January-July		Year to December		
	2003	2002	2002	2001	(%)
<b>Revenue (billion USD)</b>	10.555	10.266	21.95	18.75	1.17
<b>Op. Profit (million USD)</b>	1,409	740.8	1,338	1,747	0.77
<b>Op. Margin (%)</b>	13.3	7.2	6.1	9.3	-0.34
<b>Net Profit (mil USD)</b>	823.7	744.5	1,203	971.2	1.24
<b>Net Margin (%)</b>	7.8	7.3	5.5	5.2	1.06
<b>Sales (units)</b>	842,994	803,342	1,719,134	1,584,488	1.08

Table: Recent Key Financials

Source: HMC Annual Reports

During an interview in November 2002, Hyundai Motor America's present CEO Finbarr O'Neil has set out a new corporate goal for the company: sales of 1 million cars and trucks a year by 2010<sup>14</sup>.

<sup>13</sup> Each Company's Annual Reports

<sup>14</sup> Kohn, Joe, "Hyundai's Goal is a Whopper: 1 million by '10," *Automotive News*, November 18, 2002

## 4.1 Company Background

The Hyundai Motor Company was founded in 1947 as Hyundai Engineering and Construction Co. by Chung Ju-Yung. Hyundai Motor Co. (HMC), established in 1967, and built its first manufacturing facility in Ulsan<sup>15</sup>. In February 1968, President Chung Se Yung made an agreement with Ford Motor Company of U.K for Hyundai to become an assembler of complete knockdown (CKD) sets of Ford Cortinas that would be manufactured by Ford and then shipped to Ulsan for final assembly<sup>16</sup>. Hyundai started to assemble 3,000 vehicles per year and within two years, production was increased to 5,000 cars. Soon, diesel trucks and buses were added to the product mix. Hyundai learnt the business from start to finish, including planning, scheduling, product assembly, inspection, and quality control from Ford. In 1973, the Ford-Hyundai partnership broke up. Hyundai still required foreign support and selected a Japanese partner: Mitsubishi, who offered Hyundai a technical licensing agreement, which means that Hyundai could build its own nameplate cars using technical designs from Japan for everything from engines to transmissions<sup>17</sup>.

### Making the First Korean Car

By the early 1970s, Hyundai management had decided to manufacture its own proprietary passenger car. President Chung first hired Giorgio Giugiaro of ItalDesign, the car stylist for Alpha Romeo and Fiat for design assistance. Next he hired George Turnbull, who had recently resigned as president of British Leyland over a policy dispute with the company's chairman, as an HMC vice president. Turnbull immediately hired six European chief engineers to assist him, including a body

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<sup>15</sup> Hyundai Motor Company Website

<sup>16</sup> Amsden Alice, *Asia's Next Giant*. Oxford University Press, New York, NY. 1989, p.175-179.

<sup>17</sup> Steers, Richard M. *Made in Korea*. Routledge, New York NY., 1999, p.78.

designer, two chassis designers, two production engineers, and a test engineer. By learning manufacturing know-how from Japan and the UK, Hyundai was able to put into production its first model, the Pony. The Pony, 1.2-liter rear-wheel-drive subcompact of modest quality, was an immediate success in the domestic market. Export markets were tested during the latter 1970s and provided the company with early export experience.

In the early 1980s, the company invested in a major expansion of its Ulsan plant, making a major transition from low volume to high volume manufacturing. Hyundai was looking for future growth. Soon, with the new capacity, HMC's exports began to climb, as did local sales. In 1982, Pony II was launched and exported as far as Africa, Latin America, and Canada and was well received as a modestly priced compact car. By 1986, HMC's sales had risen to more than 400,000 vehicles, and profits began to stream in.<sup>18</sup>

### **Global Ambitions & Restructuring**

In 1999, HMC announced its intention to join the ranks of the world's ten largest carmakers by 2002 through integration of auto-related operations which now belong to other affiliates of Hyundai group.

As a major step towards the goal, HMC merged the operations of Kia Motors, acquired in June 1999, with its own activities. The Kia deal made Hyundai the largest automaker in South Korea with a broader product line. The combined operation gave company not only bargaining power but important leverage to play parts suppliers against each other, making them compete for quality.

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<sup>18</sup> Hyundai Motor Company Reports

Next Hyundai Motor has separated itself from the Hyundai Group in 2000. Hyundai Motor now faces a lower risk of being burdened by financially weak group members and this independence of Hyundai Motor improved confidence among investors that management will focus on the interests of shareholders instead of those of the conglomerate.

In June 2002, 10% shares of Hyundai Motor have been sold to DaimlerChrysler with the aim of building a strategic alliance. DaimlerChrysler and Hyundai will attempt a number of new projects under this strategic alliance including the development of a world car jointly with Mitsubishi Motor. The two partners have agreed to a variety of technology exchanges to enhance the competitiveness of operations, which also includes cooperation in securing parts through a global network and the exchange of management personnel.<sup>19</sup>

Today, HMC is the 9<sup>th</sup> car producer with a global production capacity of 2.5 million vehicles and continues to build global market share with newer, more stylish- and higher quality-cars.

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<sup>19</sup> Korea Automotive Research Institute. *2001 Korean Automotive Industry*. KARI, Seoul, 2002, p.136.

<b>Company Name</b>	<b>Total</b>	<b>Passenger Cars</b>	<b>Light Commercial Vehicles</b>
<b>General Motors</b>	8,325,835	4,900,561	3,391,423
<b>Ford</b>	6,729,499	3,606,715	3,069,594
<b>Toyota Group</b>	6,626,387	5,555,111	397,602
<b>RenaultNissan</b>	5,047,336	4,214,430	671,610
<b>Volkswagen Group</b>	5,017,438	4,829,456	164,382
<b>DaimlerChrysler</b>	4,456,325	1,998,946	2,210,157
<b>PSA Peugeot Citroen</b>	3,262,146	2,894,030	368,116
<b>Honda</b>	2,988,427	2,930,688	57,739
<b>Hyundai Group</b>	2,641,825	2,185,002	108,312
<b>Fiat Group</b>	2,190,595	1,710,439	356,352

Table: Global Vehicle Production in 2002

Source: OICA

In 2002, HMC sold 790,004 cars in Korea and exported another 929,130 cars worldwide. Cumulative HMC sales since their founding surpassed 10 million cars as of 1997, including 4 million exports. Cumulative exports by geographic region currently stand at 2.5 million cars for North America, 1.1 million for Europe; 375,000 for Asia and the Pacific; 360,000 for the Middle East, and 330,000 for South America, and 110,000 for Africa. HMC has indeed become a global marketer for cars.



<b>Selection</b>	<b>Country</b>	<b>Company Name</b>	<b>Location</b>	<b>Model</b>
100 % Owned	India	HMI	Chennai	Atos Prime, Verna
Joint Venture	Turkey	HAOS	Izmit	Verna, Grace
	China	WGMC	Wuhan	Grace
	Malaysia	INOKOM	Kulim	Porter
Technical Agreement	Egypt	PRIMA	Cairo	Accent
	Venezuela	MAV	Barcelona	Accent
	Pakistan	DFML	Sujawal	Porter, Atos
	Indonesia	HIM	Jakarta	Atos, Verna, Trajet
	Malaysia	ORIENTAL	Johor	Avante, EF Sonata
		HYUNDAI		
	Taiwan	CCM	Keelung	XG
	China	RCHT	Rongcheng	Galloper
JAC		HUBEI	Starex	

Table: Hyundai Motor Company CKD Plant Abroad

Source: HMC Website

## **4.2 Entering the U.S. Market**

By the 1980s, Hyundai Motor Company felt it was time to enter North America which is the world's largest and toughest automobile market, aiming to become one of the major manufacturers. From HMC's point of view, they had reasonably high quality entry-level products, a well trained and inexpensive labor force, and the financial backing of the Korean government. Since they were not strong enough in marketing know-how, a North America market study began. The timing of market entry was ideal. U.S. economy was at the height of the cycle and car sales were higher than ever in 1986 by 11.4 million cars and 4.6 million trucks. At that time Japanese companies were scrambling for the compact market but their volume was well below the market demand. The U.S. companies were still focusing primarily on the mid-and large-sized market with an increasing production volume. There was a large void for the entry-level cars in the market. Thus, HMC decided to go after it. Target market was the first-time car buyers such as college students and young families, who were not able to find adequate, value-equipped cars that meet their needs, yet were priced within their economic means. Also used-car buyers could buy a simple but attractive new car for the same money they spent for used-car. For a little extra, they could even have an automatic transmission and air conditioning. The plan was undercutting Toyota Corollas, Nissan Sentras, and Mazda 323s, as well as Ford Escorts and capturing the market then held by the notoriously unreliable Yugo.

The new Hyundai Excel was designed with the export market in mind and priced \$4,995 well below the \$6,000-plus compacts. Hyundai Motor America (HMA) is established in late 1985. Headquarters were opened in Garden Grove, forty miles south of Los Angeles in southern California. HMA hired several senior U.S.

executives away from their Japanese competitors to help run it. It was a chance to use American know-how over their Japanese rivals. Park Sung-Hak from Hyundai's Canadian operations became HMA's first president. HMA was consisting of Korean executives transferred in from other Hyundai companies and Americans hired in from outside. HMA engaged Backer, Spielvogel, & Bates, a leading American advertising firm, to develop a marketing campaign.<sup>20</sup> Since Hyundai would focus its efforts on lower income used-car buyers, theme was "Cars That Make Sense." Even though there were some quality problems like the paint, reliability and performance since nobody has claimed that they were selling premium cars, in the you-get-what-you-pay-car market, the Excel was instantly recognized as a good compromise for low-end buyers. Besides, it came with a five-year limited warranty.

### **Dealership**

HMA initially took a conservative approach to establishing dealerships. Since the Excels would be shipped through just three U.S. ports (Los Angeles, California; Portland, Oregon; and Jacksonville, Florida), it was important that the initial dealers be located near these ports. Moreover, dealers would need to have sufficient funds to staff and equip a full-service dealership adequately. HMC didn't let the dealers also to sell any other brands. Regardless being not that easy to become a Hyundai dealer, expecting Hyundai to be the "next Toyota," there were over 4,000 applicants for the first 75 dealerships. By 1988, the number of dealerships rose to 300, still a small number in comparison to their Japanese or U.S. competitors, but sufficient for Hyundai's initial needs.

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<sup>20</sup> Steers, Richard M., "Made in Korea" New York; London: Routledge, 1999, p.85.

## Hyundai Cars in the U.S.

The first cars arrived in the showrooms in February 1986. Hyundai Excel was surely successful. Sales for 1986 surpassed the initial projections and reached 168,000. In 1987, sales were 264,000.

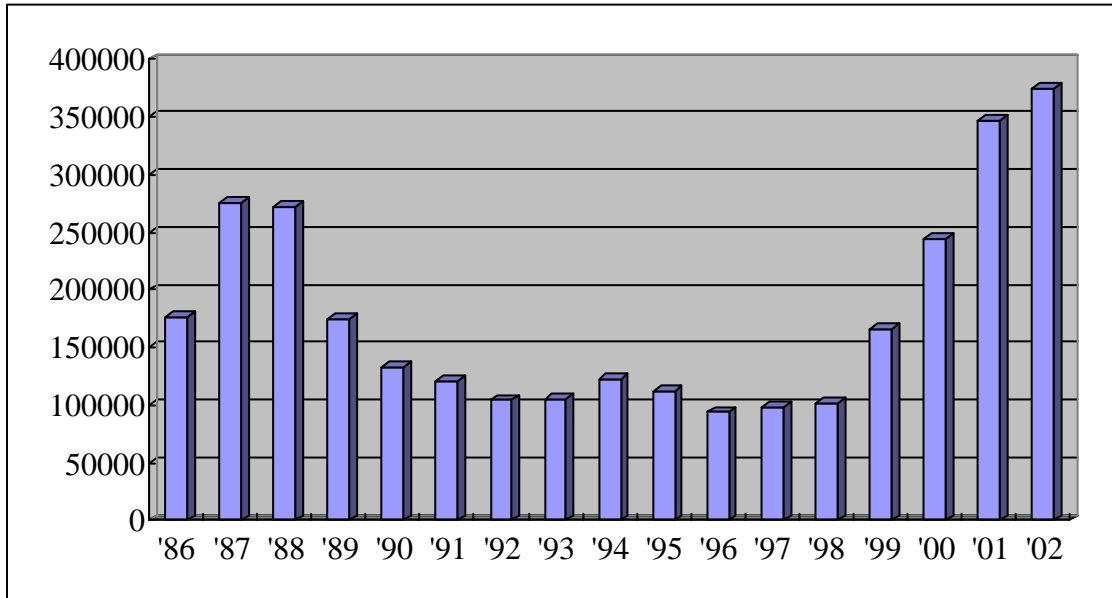


Table: HMA Sales

Source: HMC Company Reports

The Excel was rated the number one imported car for both years in sales. No other company in history had achieved such initial success. The key to the success was mainly excellent market segmentation and good management. In order to handle the huge car-transport ships destined for the U.S. market, HMC built a massive automobile storage facility and a four-ship dock adjacent to its assembly facilities in Ulsan, Korea. HMA dealers were invited to Ulsan on a regular basis to inspect the cars and advise the Koreans on how to improve them.

## **Production in North America**

In support of its successful entry into the American car market, Hyundai decided to build a North American assembly plant in Quebec, Canada. A huge package of government incentives was presented to Hyundai. In this plant, HMC was planning to assemble both Excels and the larger Sonata, which they hoped to sell eventually in the United States. This plant was to provide Hyundai with the ability to rapidly assemble and deliver more cars built to exacting North American standards than would be possible from its Ulsan factory. The plant opened its operations in December 1988 with a capacity of 100,000 cars per year.<sup>21</sup>

Despite its initial success, HMC started heading for serious trouble by 1989. Inexperience and nationalism were apparently holding back Hyundai's charge into the global marketplace. In an effort to incorporate more Korean made parts into the U.S. vehicles, HMC began dropping its European and Japanese suppliers in favor of less experienced Korean ones. As a result, the quality of the Excels, never outstanding, began to deteriorate. When the American managers complained about such issues, their concerns were brushed aside. HMC knew what it was doing. But the marketplace was telling a different story. By new entries into the subcompact, the stakes for quality and value were raised. Hyundai sales remained static in 1988 at 263,000 units, below the targeted 300,000.

Then, the new Sonata, Hyundai's midsize sedan was introduced in the U.S. market in December 1988. However, late shipping parts to Canada caused delays in the assembly line. This was caused by related labor strikes that had erupted throughout Korea during this period. Potential customers visited empty showrooms

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<sup>21</sup> Steers, Richard M., "Made in Korea" New York; London: Routledge, 1999, p.87.

and went away angry. When the parts finally arrived and the cars were assembled and shipped, they were not supported by a serious advertising campaign. Customers began looking elsewhere, and sales decreased. Then the United States was hit by a severe economic recession, and overall car sales began to decline. Despite the reasonably high quality ratings the car received, sales were crashed.

By 1989, total Hyundai sales in the United States had dropped to 188,000 vehicles. By 1991, total sales had dropped to 120,000 vehicles. By 1992, this figure had dropped again, to 77,000, with an operating loss of \$140 million.<sup>22</sup> Consumers began to complain more seriously about poor quality and poor resale value.<sup>23</sup> The brand image of Hyundai was at the bottom of the industry. People simply pursued Hyundai cars “inexpensive undesirable cars for those with no alternative.” Moreover, dealer commitment dropped along with the sales. In most areas, lower market potential caused dealers to focus less on Hyundai franchise and shift their resources and energy to other brands. This lowered focus resulted in less qualified sales and service people which in return caused lower levels of customer handling, meaning less and less sales. In response to the declining sales, American managers proposed investing additional funds in rebates and advertising to recreate sales and Korean counterparts looked for new ways to reduce costs instead.

In 1992, only 14,220 Sonatas were assembled in Canada, less than 15 percent of total plant capacity. In October 1994, the plant was closed.<sup>24</sup>

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<sup>22</sup> Hyundai Motor Company Reports

<sup>23</sup> Mateja, Jim, “Cartalk”, *Chicago Tribune*, January 19, 1992.

<sup>24</sup> Johnson, Richard, *Automotive News*, May 30, 1994.

## **Back to the Future**

Hyundai's rush into the marketplace-perhaps before they were ready-cost them dearly in terms of brand image and corporate reputation. Poor quality products, combined with poor marketing and after-sales service, tarnished the company's reputation in the U.S. marketplace for years to come.<sup>25</sup>

By 1993 sales were recovered and somehow stabilized at around 100,000 units. Hyundai cars were largely ignored by both consumers and competitors. In many markets Hyundai cars were even not represented. Financial services institutions were unwilling to finance consumer loans on Hyundai products. Prices were still lower, but cars were not perceived as offering value due to poor product quality. The company focused on improving internal efficiency to achieve profitability and offered 2 year free maintenance to increase fleet sales to achieve sales goals.<sup>26</sup> However, fleet vehicles were returning to the market after only 3-4 months with low mileage and competing directly with Hyundai's new vehicles. This low cost plus low cost of ownership marketing worked in 1996 and 1997 but sales were not going up despite the aggressive production and losses were huge by 1998 due to the decision to not to continue this short-term tactic. By increased car prices to offer highest customer rebates in the market, Hyundai was now priced near competitors and considered among the worst in value due to poor product quality.

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<sup>25</sup> Amsden, Alice, "The South Korean Economy: Is Business-Led Growth Working?" in Donald Clark, ed., *Korea Briefing*, Westview, Boulder, Colo., 1992.

<sup>26</sup> Hyundai Motor Company Reports

### 4.3 Recovery Phase

By 1999, HMA decided to focus on a new strategic direction to overcome the difficult market situation. The strategy was basically: “add content without increasing the prices, lower rebates and increase dealer incentives.” Hyundai was trying to push customers not to ask for discounts on cars but to shift incentive spending to pay for increased product content. Main challenges were consumers, who do not believe in Hyundai’s product quality; bleeding brand image; unfocused and unmotivated dealers; and almost non existing product value.

Hyundai has started by launching industry-leading warranty coverage as proof of improved product quality in order to convince consumers that Hyundai had improved the quality up to satisfactory levels.<sup>27</sup> Company also chose consistent marketing communications and dealer support policies focusing on positive product attributes instead of high rebates message for stronger price/value advantage over competitors. Hyundai offered volume-oriented dealer incentives and minimized consumer rebates. Moreover, reallocated incentives into product price/value improvement had renovated the brand image among customers and combining with dealer sales incentives, pushed dealers to focus more on Hyundai cars and future of the company’s operations in USA.<sup>28</sup> As a result of these new strategies, sales began to grow.

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<sup>27</sup> Armstrong, Larry and Kerwin, Katie, “Hyundai Gets Hot,” Business Week, December 17, 2001.

<sup>28</sup> Hyundai Motor Company Reports



<b>MODEL</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Accent</b>	41,235	66,736	79,480	71,488
<b>Elantra</b>	83,292	104,099	111,293	120,638
<b>Sonata</b>	30,022	45,983	62,385	68,085
<b>Santa Fe</b>	-	10,332	56,017	78,279
<b>Coupe</b>	n.a	15,237	19,176	19,963
<b>XG</b>	-	2,004	17,884	16,666
<b>TOTAL</b>	n.a	244,392	346,235	375,119

Table: Hyundai Motor U.S. Car Sales by Model

Source: PR Newswire

Fleet sales have been reduced and total incentive costs have been sharply decreased as product value has increased. The brand, which is still well behind the key competitors in terms of overall strength, also got good grades from third party endorsements like consumer reports and buyer profile has improved.

	<b>Hyundai</b>	<b>Ind.Avg</b>	<b>Toyota</b>	<b>Nissan</b>	<b>Mazda</b>	<b>Mitsubishi</b>	<b>VW</b>	<b>Ford</b>
<b>Ad Awareness</b>	49%	59%	76%	55%	38%	45%	65%	84%
<b>Familiarity</b>	50%	72%	83%	69%	61%	59%	76%	91%
<b>Opinion</b>	26%	55%	75%	58%	50%	46%	62%	56%
<b>Consideration</b>	25%	43%	66%	40%	35%	30%	43%	54%
<b>Evaluation</b>	827	843	851	829	829	834	874	824
<b>SSI*</b>	106	124	118	108	115	106	119	122
<b>CSI**</b>	812	837	842	815	826	804	808	812
<b>Quality***</b>	628	448	299	419	438	575	586	443

Table: Brand Image / Position vs. Key Competitors

Source: Consumer Reports

\* Sales Satisfaction Index

\*\*Customer Satisfaction Index

\*\*\* Long Term Quality

Warranty costs have been declining and dealers were now profitable and they were eager to support HMA's sales which have improved company's profitability. Sales per dealer have improved dramatically. The percentage of dealers selling over 25 cars per month has increased from 11% in 1998 to 51% in 2000.

Sales/Month	1998		1999		2000		7/2001	
	#of	%of	#of	%of	#of	%of	#of	%of
	Dlrs	Dlrs	Dlrs	Dlrs	Dlrs	Dlrs	Dlrs	Dlrs
<b>76+</b>	2	0%	9	2%	35	7%	86	15%
<b>41-75</b>	10	2%	73	15%	111	21%	146	26%
<b>26-40</b>	42	9%	87	18%	123	23%	112	20%
<b>11-25</b>	159	34%	198	40%	176	33%	161	29%
<b>0-10</b>	254	54%	125	25%	83	16%	57	10%
<b>Total</b>	467		492		528		562	
<b>Sales/Dealer</b>	195		332		463		516	

Table: Dealer Status & Sales Profile

Source: HMC Reports

### HMA Alabama Plant

In April 2002 HMC announced that it will build a plant in Alabama. The plant will begin production of 235,000 sedans and sport utility vehicles in 2005. Hyundai is planning to expand the volume to 300,000 units as its U.S. business grows. Also a third, higher-priced vehicle in addition to the Sonata sedan and Santa Fe SUV is planned to produce here. The plant will also include engine manufacturing and stamping facilities as well as assembly.<sup>29</sup> As one of the most automated auto factories in the industry, the plant will rely on modular assembly, using about 20 key suppliers to construct large parts of the vehicles. How Hyundai structures its U.S. supply chain will be a key how the automaker hopes to produce vehicles in the United States as inexpensively as it does in South Korea. However, in an interview Hyundai Motor Co.

<sup>29</sup> Zachary, Katherine, "Hyundai Alabama Has Engine, Stamping," Wards Automotive Reports, April 22, 2002.

President Kim Dong Jin stated that HMA would increase the car prices.<sup>30</sup> The company is considering developing a new vehicle, designed and engineered specifically for U.S. consumers which will be sold at a higher price. In this regard, new U.S. design and engineering center, under construction in Irvine, California will

<b>National Headquarters</b>	Fountain Valley, Calif.	Also houses Western regional office, California Design Center, National Service Center and National Headquarters of Hyundai Motor Finance Co.*
<b>Parts Distribution Center</b>	Ontario, Calif. Aurora, Ill.	Also houses an office complex
<b>Regional Offices</b>	Jamesburg, N.J. Lithia Springs, Ga.	Also operates as a parts distribution center
<b>Port Facilities</b>	Portlnad, Oregon Los Angeles, Calif. Brunswick, Ga. Newark, N.J.	

be an important part of the Alabama project.

Table: Hyundai Motor America Facilities

Source: HMC Website

\*Hyundai Finance Co.(HMFC) serves Hyundai dealers nationwide with individual customer financing and dealer inventory financing.

By this plant, Hyundai, which is one of the twenty manufacturers selling passenger vehicles in the US, is becoming one of the nine manufacturers producing vehicles in the states by 2005. Robert F. Cosmai, Hyundai America vice president-national sales stated that the factory will also solve the inventory shortage problem resulting from “back-order situation,” waiting inventory from parent HMC. This

<sup>30</sup> Chappell, Lindsay, “Hyundai Sees Plant As a Ticket Uptown,” Automotive News, April 22, 2002.

plant will allow U.S. operations receive the entire inventory from the plant which would have fueled the sales over 400,000 in 2002. As a result of this, HMA is planning to expand its U.S. dealer body by as much as 15%.<sup>31</sup>

The forthcoming plant is also a possible springboard to launch exports into markets such as Latin America since Montgomery's proximity to the port of Mobile was a factor in selecting the site.

#### **4.4 Challenges & Opportunities**

There are two ways to look at Hyundai Motor America Inc. On the one hand, it's a company on a roll. With a boost from new products and one of the industry's boldest warranties, its sales have grown more than 40 percent a year for three years. That growth has strained the ability of plants in Korea to supply it with vehicles, leading to a decision to build a \$1 billion factory in U.S.

On the other hand, Hyundai can be seen as just another middle-of-the pack importer with a long way to go to achieve Tier 1 status.

Previous CEO Finbarr O'Neill viewed the company the second way:

"Basically the job's not done. There's a long way to go for the Hyundai brand and for this company. We still have to build the brand to a point where it will be

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<sup>31</sup> Bas, Cliff, "Hyundai Says Impending Alabama Plant Will Ease Showroom Shortages," Ward's Dealer Business, August 1, 2002.

accepted as a Tier 1 brand. That leads to product challenges, marketing challenges, improvement in CSI, upgrading dealer facilities-fairly comprehensive challenges.”<sup>32</sup>

The year 2002 was not a bright one for U.S. automotive industry. Sales of light vehicles reached a level of 16.9 million units, down 1.5 percent from 2001’s total of 17.1 million units.

Beside the declining market conditions sales, stiff competition, and rising marketing costs conspired against auto companies. With the Big Three suffering sluggish sales and declining market share of 61.3%, imported cars accounted for a higher percentage in the U.S. market; increasing 6% in 2002 compared to 2001.<sup>33</sup>

Among importers, Hyundai was one of the biggest car importers in the U.S. The company has reached a sales number of 375,119 units in 2002 by 8.3% growth.

<b>Maker</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Toyota</b>	541,065	626,047	681,142
<b>Hyundai</b>	164,190	244,391	346,235
<b>Honda</b>	273,626	284,591	268,319
<b>Nissan</b>	270,387	276,192	238,458
<b>Kia</b>	134,594	160,606	223,721

Table: Sales of Imported Cars

Source: KAMA

<sup>32</sup> Jordan, William, “Talk From the Top,” *Automotive News*, May 6, 2002.

<sup>33</sup> USDOC Office of Automotive Affairs. *The Road Ahead for the U.S. Auto Industry*, April 2002.

This dramatic rise was attributable to decisive and aggressive marketing. 10-year 100,000-mile warranties, increase in consumer satisfaction, improvement in quality, and expansion of product lineups was the heart of the campaigns.

In addition to these advertising and marketing efforts, Hyundai Motor America had collected the benefits of the improved dealer network which enabled better customer service hence resulted in increased customer satisfaction and sales. Hyundai has 602 dealers in the United States. The company says it will expand that to 625 to fill points in the southern and western regions. The average Hyundai dealership already is selling around 600 units annually. Sales per dealer have improved dramatically.

As a result of these improvements, major US media sources are now speaking words of praise for Korean brands beyond simply making favorable comments, and they are highlighting the improved image of Hyundai.<sup>34</sup>

Hyundai Motor America clearly intends to continue to improve its sales and profitability. However, industry analysts anticipate the market conditions to be very challenging over the next few years. The market is expected to grow only 1% with a balance of car and truck segment.<sup>35</sup> The overall performance of the U.S. auto market is brisk, largely because of the generous incentives and no-interest financing, and these high incentives will continue as long as industry overcapacity exists.

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<sup>34</sup> Korea Automobile Manufacturers Association, *2002 Korean Automotive Industry*. Seoul, 2002, p.150.

<sup>35</sup> USDOC Office of Automotive Affairs. *The Road Ahead for the U.S. Auto Industry*, April 2003.

Sales of small cars, and small SUVs are expected to grow or remain steady in the future, the very segments of the market in which Hyundai is strongest. To reach O'Neil's corporate goal for the company: sales of 1 million cars and trucks a year by 2010, Hyundai will need to continue to grow as much as it did in recent years and that would be faster than either Honda or Toyota, the only other importer makes to reach 1 million vehicle sales annually in the United States. To Hyundai's benefit, some of the industry's bigger players have taken their eyes off the car market, which makes up about 80% of Hyundai's U.S. sales.

Hyundai Motor's strategy will be maintaining significant price/value advantage over its competitors. Company will also work on minimizing reliance on rebates and fleet sales to achieve sales objectives. Sales expansion goals will focus on Sonata and Santa Fe models. During trying to achieve more sales, Hyundai Motor Company will face increased government pressure from U.S. government due to growing Korean sales/trade imbalance between Korea and U.S. Besides, competitor product improvement and cost reductions will continue to put pressure on HMA's pricing and profit margins. Moreover, Hyundai is now seen as a legitimate threat, a second Toyota by leading manufacturers.<sup>36</sup> As a result, competitors may develop strategies and models specifically intend to respond HMA's growth progress. In this regard, DaimlerChrysler's recent joint venture with Mitsubishi and Hyundai<sup>37</sup> may be seen as an effort to compete Hyundai's entry-level cars by simply teaming up with Hyundai.

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<sup>36</sup> Kohn, Joe, "Hyundai's Goal is a Whopper: 1 million by '10," *Automotive News*, November 18, 2002

<sup>37</sup> Korea Automotive Research Institute. *2001 Korean Automotive Industry*. Seoul, 2002, p.138.



## **5. CONCLUSION**

Automobile production in Korea has grown rapidly since the mid 1980s, when the industry began mass production and successfully entered U.S. market. In spite of slowdowns in 1989 and 1990, because of a drop in exports, production, fueled by rapidly expanding domestic demand and exports, grew at a remarkable 15 percent annually from 1990 to 1994. As a result, production jumped from 1.3 million in 1990 to 2.3 million units in 1994, and the Korean automobile industry became the world's fifth largest right before Canada. Korean auto manufacturers, in 1994, made 4.4 percent of the world's automobile production, an increase of 0.2 of a point over the previous year's figure. Korean auto production capacity, which was 337,000 units in 1984, has increased sharply over the last decade in response to booming domestic demand and aggressive export policies. By the end of 1994, production capacity was over 3 million units.

In 1995, domestic automobile demand slumped and registered the first negative growth in 14 years. The major reason for the drop was that replacement demand for cars has outshined the new demand. This was a clear indication that the Korean auto market is reaching maturity. Hyundai sold 609,514 units in the first ten

months of 1995, up only 2.5 percent from the year before. Its market share dropped to 48.8 percent.

In 1998, like other industries, automobile industry underwent much hardship because of the currency crisis. Domestic demand declined to half of the previous year and exports did not increase as much as expected. Total automobile production was 1.95 million units, a decline of 30.6% from the preceding year and accordingly, negative growth was reported for the first time in 18 years. Capacity utilization rate fell by just under 50%. Consequently Korean automobile production, which was ranked 5<sup>th</sup> in the world in 1997, fell to 7<sup>th</sup> place in 1998. Over one year period, a significant number of auto part companies went bankrupt.

Korean auto exports had grown drastically especially in 1995. The number of exports soared by 884,493 units over the 1994 total. Partly related with this great increase, both Europe and U.S. sought to ensure that Korea's market is fully opened before her exports pose a major challenge to their respective manufacturers. The Korean automobile market was officially opened to imports in 1987. However, although sales of imported cars do appear to be growing, they remain minimal. Whether the domestic market is sufficiently open to the imported cars had become a political issue in the U.S. and in the E.U. In March 1995, the European Commission contrasted Korea's ambitious move into European markets to its continuing dominance of its own market by its own manufacturers.

In October 1995, the Korean-U.S. automobile trade dispute was settled. At talks in Washington, Seoul made drastic concessions on its cumulative auto tax that is

based on engine capacity and promised an early realization of the U.S. demands for prime time TV commercials and foreign-owned auto financing firms.

The growth of production in the industry was due to innovation in productivity and the improvement of labor productivity. The export oriented growth policy, which was also highly supported by the government and domestic rivalry was also one of the drivers. Most Korean companies are production oriented and follow strategies heavily based on achieving low production costs, mass production of standardized products is the predominant approach. Korean automobile manufacturers are no different: low-cost, highly productive workers are combined with large-scale, modern facilities employing the best available foreign technology to yield a significant advantage.

Korean companies are managed less for profitability than for growth. Company size is the key source of social recognition and the driving force for entrepreneurs.

Most people agree that Korean cars are trouble-free and pleasant to drive. However, the thing no one would deny that is, in general, foreign cars are safer and designed more stylishly.

Korea will be transformed into a truly open and market-based economy cooperating with the rest of the world very soon. Consumers' free choice will be recognized and respected as the ultimate economic driving force. Only the products and firms that meet consumers' expectations will survive and thrive. A consumer-oriented market economy will flourish only if it is based on the free flow of products and information.

In Korea, the days when people were overly conscious of or hostile to those driving foreign cars are gone. These days, more and more often foreigner cars are seen on the streets or parked in the open. Luxury cars are popular not only in the business community but also in the society in general as well.

Automakers of advanced countries are extending their global reach through export and other forms of overseas operations. They are becoming more active abroad as the domestic market is fast reaching maturity. This new business environment would drive carmakers to compete even harder than before. It would seem to be better, however, to achieve their objectives through cooperation. Especially American, European and Japanese companies started to work hand in hand, as competitors and partners, for the advancement of the automobile industry under a new environment of the 21<sup>st</sup> century.

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