RISKY BUSINESS:
A CASE STUDY OF HYUNDAI MOTOR COMPANY’S SUCCESS IN THE U.S. MARKET

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A CASE STUDY OF HYUNDAI MOTOR COMPANY’S SUCCESS IN THE U.S. MARKET  

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Economics  

Abstract  

Since its entrance into the American market, Hyundai Motor Company has transformed itself from an auto producer that was known for its poor quality and low price to one with a substantial market share, and stealing customers away from many industry veterans, as well as pushing into the luxury segment of the auto market. But how was this late-moving car maker able to gain an advantage in this extremely competitive market? This thesis attempts to answer this question through the method of archival research that results in a detailed history of the company as well as a case study that examines which factors were crucial to Hyundai Motor Company’s success. This case study found that there were four key areas of the company’s business that assisted it in achieving the accomplishments that it did: a unique culture, a flexible production strategy, a constantly evolving positioning strategy, and an extremely perceptive marketing team.  

KEYWORDS: (Hyundai, Culture, Production, Positioning, Marketing, Cars)
# TABLE OF CONTENTS

**ABSTRACT**  
**ACKNOWLEDGEMENTS**

1 INTRODUCTION

2 LITERATURE REVIEW
   - First and Second Mover Advantages
   - First and Second Mover Positioning
   - First and Second Mover Advertising
   - First and Second Mover Luck

3 METHODOLOGY

4 THE HISTORY OF THE HYUNDAI MOTOR COMPANY
   - Early Growth
   - Failure in Canada
   - The Acquisition of Kia Motors
   - The Shift to Quality
   - Success and Growth
   - The Sonata Recall
   - The Push Into Steel and Luxury
   - Potential Future Problems

5 KEY FACTORS IN HYUNDAI’S SUCCESS
   - Culture
   - Production
   - Positioning Strategy
   - Marketing
   - Luck

6 CONCLUSION
   - Summary of This Study
   - Implications

7 SOURCES CONSULTED
LIST OF TABLES

4.1 SELECTED STATISTICS ON HYUNDAI .............................................. 19
5.1 SPIRAL PROCESS OF ORGANIZATIONAL LEARNING IN
       CATCHING UP ............................................................................. 42
5.2 ROADMAP OF PRODUCTION SYSTEM INNOVATION AT HYUNDAI 46
5.4 COMPARISON OF PRODUCTION MANAGEMENT BETWEEN
       HYUNDAI AND TOYOTA ................................................................. 48
5.5 OUTLINE OF HMMA PLANT, COMPARED WITH ORIGINAL ASAN
       PLANT .......................................................................................... 50
5.6 PERFORMANCE OF HMMA PLANT, COMPARED WITH ORIGINAL
       ASAN PLANT .................................................................................. 51
LIST OF FIGURES

1.1 HYUNDAI ANNUAL U.S. SALES AND MARKET SHARE 1995-2011 ................................................................. 4

4.1 HYUNDAI PRODUCTION VS. SOUTH KOREAN INDUSTRIAL PRODUCTION BETWEEN 1965 & 1987 ................................................................. 20

4.2 NUMBER OF STRIKE DAYS PER YEAR AT HYUNDAI MOTOR COMPANY, 1987-2005 ................................................................. 24

4.3 CHANGE IN HYUNDAI’S SCORES FOR JD POWER AND ASSOCIATES’ VEHICLE DEPENDABILITY STUDY AND INITIAL QUALITY STUDY ................................................................. 28

5.1 THE DYNAMICS OF ORGANIZATIONAL LEARNING IN CATCHING UP .................................................................................. 39

5.2 CRISIS CONSTRUCTION AND THE SHIFT OF LEARNING ORIENTATION .................................................................................. 41

5.3 GLOBAL PRODUCTION STATUS ................................................................................................................. 43

5.4 SNAPSHOT FROM HYUNDAI’S 2007 “THINK ABOUT IT” CAMPAIGN ................................................................................. 61

5.5 HYUNDAI “ASSURANCE” AD ................................................................................................................. 62

5.6 HYUNDAI UNCENSORED EVENT AD ................................................................................................................. 64
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CHAPTER I
INTRODUCTION

In competitive business markets, there are many firms fiercely contending with one another for success. Each firm uses a variety of strategic decisions and maneuvers in order to get an edge in their particular market. However, no matter how widely the tactics differ between companies, every single firm is searching for the perfect set of strategic attributes that will allow it to not only succeed in its market, but also to obtain the highest market share as well. However, the strategy that a firm should use in order to get ahead depends heavily on when the firm entered the market in relation to its competitors. A firm that is the first to enter a certain market space is considered to be the first mover, and inherently has what is called the “first mover advantage”, namely that it is the first firm in a certain market. Because of this, it has the majority market share, and is the product/service that consumers are used to by the time other firms arrive in the market. Every other entrant on the other hand, is considered a second mover and should follow a completely different strategy in order to successfully enter a market, and gain a second mover advantage, allowing them to acquire a large market share. This thesis will focus on the second mover and examine the role of positioning and advertising in order to create a successful 2\textsuperscript{nd} mover advantage.

Not only do first and second movers follow different strategies to obtain and keep their respective advantages, but they also have distinctly different risks involved in
entering and competing in a market. First movers have a high risk of initial failure because the potential demand of its product/service is not known with assurance at the time of entry, and they have a high risk of competition if they do find demand, because innovation is a hard thing to protect over time. Second movers, on the other hand, have much less risk because the innovator has already discovered the primary demand and created the basic product/service design. However, even though the second mover has less risk than the first mover, the higher risks that the innovator takes on when becoming first mover also bring high reward, because the order of entry is inversely related to market share. For this reason, it is always better to be a first mover. However, there are ways in which a second mover can gain an advantage over every other player in the market, including the first mover. Second movers can do this by positioning their product/service better than the first mover, and by advertising that product/service more often as well as more effectively than the first mover. By focusing on these tactics, and with a little luck, a second mover can not only survive in a market, but also succeed in it (Urban et al., 1986).

Researching instances when a second mover is able to succeed and grow in a market is important because learning about how it was able to succeed can assist other second movers in bettering their chances in a competitive market. More specifically, it is important to discover which areas the profitable second mover focused on, or more importantly, enhanced in order to differentiate its self from the first mover and grow in the newly entered market. Personally, I find these successful second movers interesting because I have always been fascinated with how things work, but more specifically, how firms or corporations are able to improve themselves, and rise above the competition. I
will research this second mover success by completing a case study of Hyundai Motors and its experiences in the United States auto market.

Before Hyundai entered the US market, it was a very small auto manufacturer in South Korea, and between the time that it was founded and the time that it came to the United States, it made a number of key decisions that shaped both its early growth as well as its success later on in its career. These decisions stemmed from a belief that was conceived early on in Hyundai’s life. This belief was if Hyundai were going to be a successful company in the competitive automotive markets of the world, it would have to be self-reliant. This early philosophy was key to many of Hyundai’s major decisions since it was founded in 1967. These decisions include producing early models: the Pony, Stellar, and Excel with minimal foreign investment; ending a joint deal with Ford in 1968, because Ford would not allow Hyundai to have managerial leadership; backing out of merger negotiations with General Motors in 1979 and Sachan in 1981; as well as focusing heavily on indigenous R&D efforts. These early decisions allowed Hyundai to succeed in domestic markets as well as expand into international markets, eventually to the United States in 1986 (Hyun & Lee, 1989). Since its entrance to the US auto market, Hyundai’s global sales have risen to about 4,060,778 units in 2011 (Hyundai Motor Corporation, 2012) and a market share of 4.6% in the US during the year 2010 [see figure 1.] (Hill et al., 2011). Hyundai motor’s sales and market share have consistently grown since its entry into the US market, and clearly warrants further research into how they were able to succeed so much as such a small firm at the time of their entry into the US market.
FIGURE 1.1

HYUNDAI ANNUAL U.S. SALES AND MARKET SHARE 1995-2011

Source: (Hill et al., 2011)
First and second mover advantages have received a great deal of attention from academic literature over the past few decades. Traditionally, first movers are defined as innovators or pioneers of a market and thus the first to enter said market, while second movers are defined as the firms that enter a market after the first mover. While the literature has shed much light on the topic of market entry, there is no magical strategy that will automatically make a firm or product launch successful. This is most likely because of the nature of business or that there is no magical fixed strategy that will automatically make a firm successful in its market. However, if literature on the topics of market entry, positioning strategy, advertising, and luck are observed together, a much clearer picture emerges on how a firm might find an advantage over its competitors that allows it to sustainably grow within its market.

**First and Second Mover Advantages**

Beginning with first and second mover advantages, the literature seems to have come to a general consensus on when and how innovators and second movers should enter a market. It also suggests though, that while both positions have advantages that can be acquired, there are also inherent risks for each order of entry as well as optimal times of entrance for each that must be achieved before the advantages can be attained. For instance, the optimal time of entrance for a pioneer occurs when a firm acquires or
develops technology that allows it to make a revolutionary product, take advantage of an untapped market, or creates a new product that cannot be copied (Teece, 1987). Once a pioneer is established in its new market, the company will have the majority of the market share. In most cases, the first mover will be able to hold the market share for quite a long time due to the order of entry effect which states that the order of entry into a market is inversely related to the market share held by a firm. Urban et. al estimate, the second mover will make about $\frac{3}{4}$ the pioneer’s market share, while a third mover will make about $\frac{6}{10}$, its market share\(^1\). When the pioneer obtains this majority market share, it will have the opportunity to create stable preference patterns for its product from the fundamental consumer traits of those in its market. This fact will make the innovator’s product the standard to which all other entrants’ products in the market are held\(^2\) (Urban et al, 1986). The innovator will also have the ability to create barriers to entry in the form of patents, trade-secret protection, etc. Such barriers make it more difficult for, if not prohibit imitators from following it into the market (Teece, 1987). These are just a few of the many advantages that a pioneer can acquire once it successfully breaks into a new market.

One example of a pioneer that was able to obtain all three of the advantages listed above and dominate a market involved the firm G.D. Searle. This firm was the inventor of aspertame (product names: NutraSweet and Equal). Searle’s early strategy involved a competitive barrier to entry that concerned a strict patent that would require hundreds of

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1 This assumes that the following firms are entering the market with parity products and the same position as well as spending the same amount of money on advertising.

2 Christina Brown and James Lattin have contested the permanence of the order of entry effect. They claim that the order of entry effect does not signify that the segments of market share achieved by the early movers will stay the same over time. Instead, they state that the longer a firm is in the market, the more likely it will have a bigger market share.
safety tests by the FDA before the copy could come to market, making it extremely difficult for competitors to enter said market. The result? NutraSweet and Equal captured 50% share of the United States sugar substitute market, helping lift Searle’s combined sales from $74 million in 1982, to over $700 million in three years later. (Teece, 1987).

Not all first movers are as successful as G.D. Searle, however. Some firms are not able to overcome the inherent risks that are involved with being a pioneer and end up failing in the markets they first to enter. Three principal areas of risk are insufficient demand, high development costs (Urban et. al, 1986), and ineffective patents (Teece, 1987). The most apparent risk that puts a firm in a perilous position is an uncertain product demand. When the cost of the potential demand and therefore the potential revenue for the new product are not known with certainty, it puts a large amount of risk on a first mover (Urban et. al, 1986).

The patents that a firm puts in place to hinder other firms from competing with them can often be ineffective and allow competing firms to “invent around” the patents with very little extra cost (Teece, 1987). Once a second mover is able to go around the patent and copy the pioneer’s invention, the company can actually improve on the innovator’s product. When these actions are accomplished by a second mover, and then backed by aggressive advertising, the innovator can lose the majority market share that it took so much risk, and spent so much money on, to obtain (Urban et. al, 1986).

This exact phenomenon occurred when the U.K. firm Electrical Musical Industries Ltd (EMI) created the CAT scanner. This invention was a huge step forward for the medical community and was in high demand. However, EMI was slow to realize that because of the technological sophistication of the product, the CAT scanner would
require high levels of training and support for every buyer. This lack of insight, combined with EMI’s limited implementation of intellectual property protection, allowed the firms GE and Technicare to capitalize on these shortcomings and effectively enter the market. Because the two competitors already had the infrastructure in place to perform the service and training for buyers, they both had experience in marketing medical equipment, and they also had reputations for reliability, service, and quality, they became the clear choices for consumers. A pioneer in the marketplace, EMI was forced to completely exit the CAT scanner market after eight years (Teece, 1987).

The first mover, more often than not, will hold the majority of the market share and be quite successful in its innovated market. The real challenge is for a late mover to enter and acquire an advantage in the first mover’s market. In order to accomplish this, the late movers face significant challenges: initial low market share (Urban et. al, 1986) (Brown & Lattin, 1994), early price reductions and the dangers of a me-too product. As mentioned above, due to the order of entry effect, late movers have a significant market share penalty when they enter the pioneer’s market, and often cannot expect a substantial market share when they enter (Urban et. al, 1986) (Brown & Lattin, 1994). Second, in addition to the initial disadvantage, late movers frequently must offer a price reduction in order to convince customers to switch away from the existing brand(s), earning less per sale than the firms already in the market. (Urban et. al, 1986). Finally if the second mover attempts a me-too strategy (Carpenter et. al, 1990) or comes out with a parity product, they are very likely to be in the shadow of the pioneer, with smaller potential markets, lower repeat rates, and less marketing effectiveness when compared to the innovator (Shankar et. al, 1998).
Nevertheless, if it is able to overcome the obstacles it faces when entering the market and the advantages the pioneer has acquired in its time there, a second mover will be in a place to obtain what is known as a second mover advantage. If fortune and timing are on its side, a second mover can find a flaw in the pioneer’s strategy or product and improve on it, potentially overtaking the market leader. Examples of these opportunities include: if a pioneer does not properly design its product (Shankar et. al, 1998), does not fully understand consumer preferences (Urban et. al, 1986), or enters the market soon after a new trend in demand, technology, government regulations or economic conditions appears (Horsky & Nelson, 1992).

If a second mover enters during any of the conditions above, it will greatly reduce the odds that it has to overcome in order to obtain a second mover advantage. As a result it will either already have surpassed the pioneer in sales and market share, or will right on track to do so. Not surprisingly, accomplishing this capitalizing on these factors is quite difficult and requires an innovative late entrant to pull it off. An inventive firm’s ability to identify a weakness in the dominant brand’s strategy or product allows it to adjust its advertising or positioning strategy, exploiting that weakness and gaining the upper hand in the market.

An example of a firm that was able to capitalize on one of these opportunities entails RC Cola, Coca-Cola, and Pepsico. RC Cola was the first company to put cola in a can as well as offer diet cola. This should have given RC Cola a great advantage in the market, but because of the lack of barriers to entry, Pepsico and Coca-Cola moved very soon after RC Cola introduced those two products and because of the two late movers
size and reputation, they were able to not only lessen RC’s success, but also better their product line (Teece, 1987).

Positioning

Positioning is a critical part of any product’s entry into a category. There are three established directions for that position: low cost, differentiating itself from the competition, or focusing on a particular segment of the market (Prahalad & Hamel, 1989). The two strategies that are most commonly used by second movers are low price and differentiation. Undercutting the price of a dominant product while decreasing the potential profits for a new entrant can acquire from sales can stimulate trial of the new product. Lower price and the fact that the product is new can convince consumers of the dominant brand to learn about the new product that the second mover is offering, increasing potential demand. An article written by Dan Horsky and Paul Nelson demonstrates this point. Horsky and Nelson studied preferences among car purchasers. They found that when people are not faced with actually making a purchase, style and dependability are the most important factors, followed by prestige, remaining budget, and performance respectively. However, when consumers are faced with an actual choice of purchasing a car, their preferential rankings change and price becomes more important while other attributes seem to lose value. The authors believe that when consumers are actually purchasing a car, some tend to shy away from prestige and high prices and tend to focus more on tangible attributes while worrying on how much money they will have left over after the purchase (Horsky & Nelson, 1992).

Lowering the price of a product is a powerful way to attract potential customers away from the dominant brand. However, if that is the only enticement, repeat purchase
rate will be small and the second mover will lose a lot of potential business. What the later entrant needs, once it has lured customers away from the dominant brand with a lower price, is a differentiated product or strategy that will not only convince the customer to make the initial purchase, but also increase loyalty to that new product, keeping consumers coming back. The literature provides four basic ways to accomplish this:

1. Develop a superior product to the competition (Brown & Lattin, 1994)
2. Significantly differentiate itself from the competition (Urban, 1986)
3. Spend the extra money on the improvement of its products and more consistently update components that the rest of the industry does not update. While this would cost more for the late mover, it also ensures that the offering firm continues to have the most modern product in the market (Horsky & Nelson, 1992)
4. Deliver a product and adopt a strategy that combine to be so differentiated and successful that they completely change how consumers think of the market. If a firm can successfully accomplish any or all of these strategies, it will have also turned the strengths of the previous dominant players into weaknesses, essentially catapulting the new entrant to the top of the market (Shankar et al, 1998).

Advertising

Innovative and aggressive advertising highlighting those strategic positions further increases the chances for a late mover’s success. It is not enough however for a brand to just create a marketing campaign and expect customers to flock to the new product. The advertising must differentiate the new product to its potential customers. When a firm enters a market, it must achieve a subtyped, or niche, position with its ads
by communicating several different features in each ad. This positioning is connected with better memory for the advertising brand’s key features, recognition of greater variety among brands containing those attributes, and a substantial correlation between the differentiating trait’s importance and consumers’ evaluation of other brands (Sujan & Bettman, 1989). Nonetheless, a late mover cannot become too concerned with the factual portion of the message at the expense of the emotional effectiveness of an ad. (Dekimpe & Hanssens, 1995).

According to a recent study done by Orlando Wood, the simple emotional response of views to an advertisement, or emotion-into-action, is much more predictive of an ad’s success in a market than the commonly used indicators of message delivery, persuasion, and brand linkage. In fact, advertisements that do well on the evaluative indicators above as well as measures of cut-through and key message, do not do as well in the market on average as ads that did well when measured by emotion-into-action attributes (Wood, 2012).

**Luck**

If a firm follows the literature’s advice, its chances of success in the marketplace will be much higher than a firm that comes in with a parity product, or models itself after the pioneering brand. However, even if a firm differentiates itself and its product(s), backs the differentiation with aggressive advertising, and lowers its price(s), its product introduction can still fail. This fact is due to the unpredictable omnipresence of luck in successful businesses. Unfortunately, luck is extremely hard to define, and as such its effects and causes are exceedingly difficult to measure. The New American Dictionary defines luck as, “Success or failure apparently brought on by chance rather than by one’s
own actions.” However, John Hafer Ph.D, and George G. Gresham, Ph.D, scoured previous literature on luck looking for a universally useable definition of it. Here is what they concluded,

Years ago, Justice William O. Douglas was claimed to have said he could not define pornography, but he knew what it was when he saw it. Luck as a behavioral or attitudinal variable may be in much the same situation; everyone has an intuitive perception of what it is, they just have a difficult time trying to define it in universally applicable terms (Hafer & Gresham, 2008).

It is because of luck’s lack of a definition or perhaps because of the very nature of luck itself that the academic literature on the subject has been so sparse and inconclusive. Because of luck’s arbitrary nature it’s impossible to empirically analyze whether or not the firm was able to influence its luck in any way or was just in the right place at the right time. What the literature does say, is that there are six necessary conditions in order for luck to occur: an event must take place, there must be an agent, the event itself, an outcome that was caused by the event and a significant value of that outcome (Hafer & Gresham, 2008). Luck also has been found to have a significant effect on small business, however it is out of the control of those business (Oladapo & Onyeaso, 2012). The question then becomes, how can a business put itself in a position where it can get lucky more often? The answer is to obtain as much information about the market as possible and hope that a firm finds a key piece of information that the other businesses miss. A firm can also look inward at the assets it already controls and both how to improve them, as well as how they can be implemented to create a revolutionary product, seize an opportunity, or infiltrate a new market. For instance, because IBM has a large installed base of users, it is able to implement strategies and take advantage of opportunities that other firms, like Honeywell and Burroughs, can’t. IBM’s enormous financial resources
also allow it to pursue opportunities and implement strategies that other firms simply cannot afford (Barney, 1986). This phenomenon can be observed with the CAT scanner and GE’s fortune, or EMI’s misfortune, in being able to successfully take over the market as a second mover (Teece, 1987). Regardless of its elusive nature, the effects of luck are seen in almost every successful business decision in the marketplace, and its influences should be continuously observed to better firms’ chances of success in their markets.

The previous literature on competitive advantages suggests that in order for a firm to find a competitive advantage as a late mover, there are certain things it must do. It must differentiate itself from its competition, find a previously unattended segment of the market, have a lower cost than the competition, or innovate in some way with its strategy, marketing or product. And while there is no perfect list of attributes that will make a business successful, if a firm is able to accomplish some combination of these strategies, it will have a much better chance at creating success in its particular market. Luck has also caused many companies to have success, but a firm cannot plan for it. Instead, in order to become “lucky”, a firm must constantly analyze its market and be able to not only see certain shifts in consumer preference or the environment, but also be able to discover what the implications of those shifts are. If a firm does this, as well as equip itself with certain strategic assets that give it an advantage in a particular area, it will be optimally prepared if luck comes its way. The previous literature sheds light on many theoretical ways for a firm to employ a strategic advantage, but how does one organically come about in a market? The next chapter observes Hyundai Motors’ history and shows that the once small South Korean auto producer was able to differentiate its self in a very
particular way, and as a result grew to be one of the largest auto producers in the world (Taylor III, 2010).
CHAPTER III

METHODOLOGY

The objective of this thesis is to research second mover success in the case of Hyundai Motors in the automobile market of the United States. I will do this by completing archival research and creating a case study on Hyundai since its birth and focusing on its major decisions before entering the US market, as well as its actions since its entrance. I will then look into what particular attributes of Hyundai were able to make it have so much success. Hyundai is the perfect company for this topic because it is a producer in an extremely competitive market and was also very late to enter that market. However regardless of this adversity, Hyundai Motors was able to successfully differentiate itself and capitalize on a few key opportunities and as a result it is now one of the largest auto producers in the world. A case study is the best method of observing this success because it both gives a very clear picture of Hyundai Motors’ actions in the past 50 years and the environments that they were made in, as well as answering two questions that are essential to gaining a better picture of Hyundai’s success in America: how was it successful and what made it so successful?
CHAPTER IV
THE HISTORY OF THE HYUNDAI MOTOR COMPANY

In 1962, the South Korean Government implemented the Automobile Industry Protection Law and the Five-year Economic Development Plan with the hope of incentivizing new corporations to enter the country’s automobile industry. These laws allowed South Korean automobile producers a great deal of freedom from competition during their startup years and, as a result, many corporations flocked to the budding industry. One such company was The Hyundai Group, South Korea’s largest chaebol, with 28 subsidiary firms in industries such as construction, engineering, and automobile production. The Hyundai Group’s skill set made it a perfect match for the emerging automobile industry in South Korea. Consequently, in 1967 the Hyundai Group created a subsidiary called Hyundai Motor Company (HMC) (Young-suk & Lee, 1989).

This late entrant into the South Korean auto industry had two very important goals from its birth: self-reliance (Young-suk & Lee, 1989), and technological independence (Kim, 1996). These two factors were crucial in every decision that the company made in its early life, because Hyundai Motors believed that if it were to become a competitor on the global level, it would have to “be its own master” (Young-suk & Lee, 1989). Success would not be achieved if it did not have the technology necessary to manufacture its own cars or the power to make its own decisions in the market place. These two core ideologies influenced every decision in HMC’s early life and allowed it
to grow rapidly while keeping managerial control as well as slowly gaining technological independence.

**Early Growth**

In 1968, HMC started assembling Ford cars by putting together knock down parts, but constantly searched for ways to increase its technological knowledge and power without selling its managerial control (Kim, 1996). By 1974, the new carmaker had produced its own model, The Pony, resulting in a spike in domestic market share from 28.3% in 1975, to 57.5% in 1976. This momentum continued for Hyundai and its sales and production increased quite rapidly (see Table 4.1). In fact, by 1985 the now famous “New Entrant”, had become Korea’s largest manufacturer and had entered into many world markets on top of building a new assembly facility, which had an annual production capacity of approximately 300,000 units (See Figure 4.1). This new plant as well as the new global markets caused HMC’s production to skyrocket to exceed 606,000 units and sales to reach $134,000 (4.6 times those of 1980) in 1987.
TABLE 4.1

SELECTED STATISTICS ON HYUNDAI

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(UNIT: BILLION WON)

Source: (Young-suk & Lee, 1989)

1 The exchange rate in Korea is varied along with the floating system and 1 U.S. is worth about 800 Won as of July 1987 and 730 Won as of September 1988.
2 R & D personnel = Researchers who hold bachelor or above degrees.
3 Export ratio = Total export/total production in unit.
4 Productivity = Vehicle production per person.
FIGURE 4.1
HYUNDAI PRODUCTION VS. SOUTH KOREAN INDUSTRIAL PRODUCTION
BETWEEN 1965 & 1987

Source: (Young-suk & Lee, 1989)

Source: KAICA, Hyundai Motor Co.
Note: (1) Hyundai was founded in December 1967.
(2) Production in 1987 exceeded 970,000 and is shown by two bars in this figure.
With the new Pony model, made its first export: six Pony cars to Ecuador in 1976. For a decade after its first export, Hyundai Motors sent its products to Latin American, Middle Eastern, and South Asian markets, gaining valuable experience and knowledge about how to successfully enter a foreign market. What’s more, between 1976 and 1987, the company sold one million of its cars to over 60 countries. During this time, Hyundai Motors also created new models such as the Pony II in 1982, the Stellar in 1983, the Excel in 1985, The Grandeur 1986 and the Sonata in 1988. It began exporting to European markets in 1983 and finally entered the North American market in 1986 with a subcompact Excel (Young-suk & Lee, 1989).

When the Excel premiered in the United States, retailing at about $5,000, Hyundai ambitiously announced that it would sell 100,000 units in the first year. However, what seemed like an ambitious goal at the time quickly appeared conservative when, within four months of the company’s entry into America, the company broke Renault’s record for first-year sales of an import by selling 48,531 units (Kublin, 1987). By the end of Hyundai’s first year in the U.S., it had sold over 203,000 units, as well as being selected as a ‘Product of the Year’ by Fortune magazine. The following year Hyundai sold 310,000 Excels (Young-suk & Lee, 1989).

Needless to say, the first years that the Excel was sold in the North American market, it did exceptionally well. This could be because of Hyundai Motors’ early and constant focus on customer service: HMC insisted that dealers supply both separate showrooms and sales people, hoping that the showrooms would enhance the status of the cars, while the sales people would show the dealers’ long term commitment to the Hyundai brand. However, the much more probable reason is that Hyundai Motors entered
the United States automobile market at exactly the right time and with exactly the right product.

When Hyundai entered the market in February of 1986, new car prices had recently spiked and approximately 4 million consumers had dropped out of the new car market in favor of used cars. The Excel appealed perfectly to those new used car buyers—consumers in their late 20’s to early 40’s who made $30,000 a year, and wealthier families who were looking for a second or third car. The car had four distinct advantages over the used cars with which it was competing: an equivalent price, greater reliability, the status of owning a new car, and an extended warranty (Kublin, 1987).

**Failure in Canada**

After the initial success of the Excel in America, Hyundai decided to build a production plant in Bromont, Quebec, Canada in 1989. This decision was mainly motivated by the actions that the U.S. government may have taken in order to hinder Hyundai’s success because of rising anxiety amongst the Big Three (Ford, General Motors, and Chrysler). However, it was also prompted by the fact that having a production plant in North America would be crucial to future success in the rapidly growing North American market. Unfortunately, as good of an idea as the new plant seemed to be, the initial success that met the Excel and Hyundai was soon followed by failure, as a plague of quality problems forced the newly opened plant to be scrapped within a few years.

Looking back on the fiasco, Hyundai Motors admits that some blame lies with the green Canadian workforce, who would assemble and finish the cars that were sent to the plant in pieces, and their management’s lack of skill. However, the majority of the
blame lies with the labor unrest in South Korea. Because of this unrest, many of the kits that were sent to the Bromont plant to be assembled contained substandard parts, making it impossible for the Canadians to produce a high quality product. Even many Korean made models that were imported to the U.S. were subpar. The resulting quality issues were too much for the dealerships in the U.S. to deal with and many of them began to close up shop, leaving customers that had poorly constructed cars with very few places to go that could fix them. What resulted was an enormous hit to both Hyundai’s sales and, more importantly to its image, forcing the previously successful auto producer to move its Canadian plant to India (McClellan, 2000).

The total failure of the Quebec facility, or what is now known as the “Bromont Nightmare” (Kim, 2011), was the beginning of a dark time for Hyundai Motors that took the company almost a decade from which to recover. On top of its tarnished image, the unhappy labor force that was a main cause for Hyundai’s failure in the first place continued to be a thorn in its side. Hyundai was able to keep its workers in South Korea at bay for a while by giving them healthy pay raises, but in the mid 1990s the combination of a financial crisis and an industry slump caused the workers to strike, making things even more difficult for the struggling company. This series of crippling walkouts lasted for almost a decade and one particularly long strike cost Hyundai about $1.2 billion in exports (see Figure 4.2). Fortunately for HMC, the frequency of the strikes has since diminished and, although there is still about one strike per year, their intensity and consequences have lessened significantly for Hyundai (Taylor III, 2010).
The Acquisition of Kia Motors

Hyundai started to pull itself back up when, on October 19\textsuperscript{th}, 1998, it successfully acquired Kia Motors in. HMC did this for three main reasons: economies of scale, economies of scope, and the construction of a global network.
When Hyundai acquired Kia, it achieved economies of scale on multiples. 1) Buying Kia increased HMC’s production capacity to 2.6 million cars per year. With this expanded capacity, Hyundai surpassed Honda (2.4 million cars per year) as the 10th largest automaker in the world, and took a large step towards accomplishing its goal of producing two million cars per year by 2000. 2) The acquisition also gave Hyundai Kia’s whole lineup and expanded its network for equipment procurement and the localization of product development. 3) Absorbing Kia improved Hyundai’s competitiveness in all markets by allowing the use of common parts between the two companies, along with shared functional improvements, integrated quality control, and cost reduction through bulk purchases of products. Thus, manufacturing costs were reduced as were after-sales service and logistics costs due to improved parts compatibility and consumer security because of the standardization of products.

Hyundai obtained economies of scope through the purchase of Kia because the procurement allowed HMC to diversify its product range with Kia’s commercial vehicles, buses, trucks, and minivans. Hyundai also absorbed Kia’s R&D, business, and human resources. Integrating, restructuring and overlapping these parts of Kia’s workforce reduced costs further for HMC as well as creating new value. Absorbing Kia also released short-term pressure on both companies because Kia had already completed much of the proprietary technology and product development that was required for several new models.

Before Kia’s acquisition, Hyundai had been very conservative about investing overseas. After considering the Bromont nightmare, Hyundai was very much in need of a global network for production and parts. Luckily, Kia had that network. Kia had that
network, having built it early on in its lifetime through the localization of production, sales, and development. Thus, in addition to Kia’s breadth of product, Hyundai also acquired necessary expertise and infrastructure on a worldwide level.

Unfortunately, when Hyundai acquired Kia; it added the absorbed automaker’s KRW13 trillion debt to its own KRW five trillion deficit. In order to minimize the impact of this debt, Hyundai requested that the South Korean Government write off KRW seven trillion of Kia’s debt. The government accepted with the condition that if Hyundai were to own a controlling interest in Kia, it would have to pay off KRW 1.2 trillion of its own debt by 1999. With this in mind, Hyundai decided to normalize Kia early and as quickly as possible to reduce the cost of the acquisition. In addition, HMC also separated from its parent company, the Hyundai Group (Chung & Park, 2009).

**The Shift to Quality**

Shortly after Hyundai’s absorption of Kia, the HMC’s founder, Ju-Yung Chung passed corporate leadership on to his son, Mong-Koo Chung. The result of this switch was a significant change in vision for Hyundai. Since Hyundai’s birth, Ju-Yung Chung’s main priority had been increasing production (Taylor III, 2010). Consequences of this can be seen all throughout the first 20 to 30 years of Hyundai’s history but are particularly noticeable when one observes its first ten years in the United States market. When HMC entered, it found a niche market at a very opportune time and did exceptionally well in its first few years. However, as mentioned above, because the auto producer was so centered on the number of cars that it produced, the cars that it was selling were breaking down. This lack of quality caused a huge amount of problems with customers that damaged the brand’s reputation and took Hyundai nearly a decade to recover from (McClellan, 2000).
The newly appointed CEO realized that focusing on the quantity of cars produced was not the answer to Hyundai’s problems. Instead, Moo-Koo Chung decreed that Hyundai shift its focus to making the highest quality vehicles possible. The rest of the company rallied behind this new goal and went after it with the characteristic aggressiveness that Hyundai has always been known for. Hyundai benchmarked Toyota, the industry’s quality leader at the time, and installed Six Sigma³ in its engineering center in order to help measure how and where to improve its processes. The company made quality something every aspect of the business was responsible for, including the procurement, finance, sales, and marketing branches of Hyundai. HMC also brought in consultants and teamed them up with engineers and designers to preempt future problems, while making the previously poorly attended bi-monthly quality oversight meetings mandatory, as the young Chung showed up to every one (Taylor III, 2010).

The new company focus marked a turning point for Hyundai Motors. Not only did Hyundai drastically improve the quality of its cars, but their design as well. Consequently, HMC opened a new design studio in Fountain Valley, California in 2001 and a production plant in Montgomery Alabama during the year of 2005 (Hyung Je & You, 2011). By 2001, Hyundai Motors had acquired over 1.4% of the American market share, and was ranked 32nd out of 37 brands in J.D. Power and Associates’ study of initial quality (new vehicle quality after 90 days of ownership). It also placed 35th out of 38 brands in J.D. Power and Associates’ dependability study, which measures problems experienced by the original owners of three year old cars (Taylor III, 2010).

³ Six Sigma is a quality control process that finds and measures defects within a system, allowing them to be removed. ("Six sigma,"")
Success and Growth

As the years went on, these numbers started to increase. In J.D. Power and Associates’ study of initial quality, Hyundai ranked 7th in 2004, 3rd in 2006, and 4th in 2009; in J.D. Power and Associates’ dependability study, HMC was ranked 20th in 2006, and 14th in 2009 (Taylor III, 2010) (See Figure 4.3). By 2003, Hyundai Motors had sold 400,000 units in America (Ihlwan & Dawson, 2004) and saw its profits jump 21% to $1.51 billion even as sales fell 5.2% to $21.52 billion (Taylor III, 2010). The United States market reacted well to Hyundai’s increased focus on quality and as a result in 2008, Hyundai had 3% of the American market share (Beene, 2011).

FIGURE 4.3

CHANGE IN HYUNDAI’S SCORES FOR JD POWER AND ASSOCIATES’ VEHICLE DEPENDABILITY STUDY AND INITIAL QUALITY STUDY

※ Low score indicates better quality.

Vehicle Dependability Study (VDS)
Initial Quality Study (IQS)

(LOW SCORE INDICATES BETTER QUALITY)

Source: (Hyundai Motor Company, 2012)
As Hyundai’s ratings and sales increased, the South Korean car producer decided that having dependable, high quality, low priced vehicles was not enough. So, in 2008, Hyundai launched a model called the Genesis. This car was not only Hyundai’s first effort towards breaking into the luxury automobile market, but also an attempt at a major overhaul of how customers perceived its brand. The Genesis had all of the bells and whistles of a Mercedes Benz or a BMW, but only cost about $40,000. It had heated and cooled leather seats, a powerful V8 engine and more, but the one thing that it did not have at the time of its unveiling was prestige. The model did not sport the Hyundai badge on its front. Though the car was very eye catching, when customers learned that it was a Hyundai, their interest diminished. Regardless of its lack of status, the Genesis was a fantastic car, winning the North American Car of the Year award in 2009 (Ramsey, 2010).

**The Sonata Recall**

Unfortunately, 2009 was not full of praise for Hyundai Motors. While the company did produce its first hybrid model with a lithium battery that was 40% smaller and 35% lighter than the Toyota Prius’ battery, it also experienced a U.S. recall of its most successful model, the Sonata. This was a result of a possible faulty connection in Hyundai’s steering assembly, and forced the company to take back 139,000 cars. Perhaps the problem was just a manufacturing error, or perhaps Hyundai had too much success in the decade of 2000 and was beginning to lose its focus on quality. Regardless of the reason, the U.S. recall was another blow to the image of Hyundai. However, HMC was very quick to act on the recall problem and was able to avoid a lot of damage to the
company’s sales and brand image by being open and honest with consumers (Shim & Steers, 2012). This incident will be discussed in more detail in the next chapter.

Apparently, Hyundai’s consumers liked the way the company handled the recall, because in 2010 it bumped its market share in America up to 4% (Ramsey, 2010) and was ranked fifth biggest automotive producer in the world. HMC was also able to increase its sales by 7% in a market that was down 24% and, right in the middle of the global auto sales slump, it made a record $832 million in the third quarter. The South Korean auto producer was also ranked 11th in the brand-evaluation analysis performed by the Automotive Lease Guide (ALG). But Hyundai wasn’t satisfied. Amidst all of the success it was having regardless of the recent recall, it set its sights even higher with a two-part quality goal called “GQ 3-3-5-5”. This target called for Hyundai to finish in the top three in actual quality according to J.D. Power & Associates’ dependability study within three years, and to finish in the top five of J.D. Power & Associate’ perceived quality study within 5 years (Taylor III, 2010).

The Push Into Steel and Luxury

Later in 2010, Hyundai was praised as the “fastest growing major automaker in the world” as well as being “confident and hyper aggressive” by Fortune magazine (Taylor III, 2010). This description fit Hyundai Motors well, and the company presented more evidence to support the claim when it unveiled the Equus model that same year. This new model was a step up from the Genesis and was retailed at about $55,000. It came with all of the features that one would see on a $91,000 Mercedes, including a 17-speaker surround sound system, back massagers, suede roof liners and even an Apple iPad that contained the owner’s manual. HMC had two specific goals in mind when it
created the Equus: 1) attract the pragmatically wealthy, and 2) raise the brand’s image among less wealthy consumers who remained unsure about the brand’s lower-end models (Ramsey, 2010). This car was specifically positioned to catapult Hyundai into the luxury car market of America. It seems to have done the trick because in a review of the Equus, Autoblog.com called it “a set of leather covered brass knuckles flying towards the jaws of Audi, BMW, and Mercedes Benz” while Ward’s Auto World Magazine claimed that “[The Equus] has one of the ten best engines of the year” (Atlantic Hyundai, 2012).

Hyundai seemed to be getting the hang of things. In 2011, its market share in the United States rose to 5.1% (Beene, 2011), showing its continued success and improved quality. However, in 2011, the company also made a risky business decision that has not been a part of the auto industry for quite some time. Hyundai Motors invested heavily in its Hyundai Steel subsidiary in hopes of gaining a competitive advantage by lowering costs and being able to completely customize parts (Muller, 2011). This will be discussed in more detail in the next chapter.

**Potential Future Problems**

Hyundai’s recent and rapid success in the U.S. market does not mean that it will have an easy time in the future. In fact, in the past few years, there have been signs of potential obstacles that the auto manufacturer may have to overcome in the near future. The first is that Hyundai had become so successful in 2011 in the U.S. that its production could not fully keep up with its sales and as a result, dealers who usually have carried 90,000 cars in stock to sell 30,000 cars per month were consistently selling 55,000 a month with only about 43,000 vehicles in stock. In other words, Hyundai’s increase in sales has decreased its dealers’ stock from a 66-day supply, to a 25-day supply.
rapid shift in stock for the dealers forced them to adapt on the fly and switch from a
dealer stock-based selling model (selling cars that the dealer currently has) to an inbound
pipeline based selling model (selling models that are not at the dealership yet) (Beene,
2011).

Even more strain was put on this problem in 2012, when labor strikes in South
Korea stopped the production and export of 82,000 vehicles, 5,000 to 10,000 of which
were earmarked for the United States. Fortunately, Hyundai was able to stop the strikes
and make a deal with its unionized work force. Unfortunately, the new contract did away
with Hyundai’s previous 10-hour morning shift and 10-hour evening shift. Instead, the
new contract mandated an eight-hour morning shift and nine-hour evening shift. The lost
three hours of work time a day reduced the company’s production efforts by 15%. The
auto maker planned on making up for the lost time by increasing the amount of units
produced per hour and investing $264.6 million to improve its South Korean plants’
productivity.

In response, the Hyundai’s production plant in Montgomery, Alabama,
implemented a third shift which produced an extra 20,000 Elantras and Sonatas annually,
as well as producing 36,000 more Santa Fe Sports from Kia’s plant in Georgia. Thus far,
these measures have mitigated the damages caused by the strikes and solved the possible
problem of severe vehicle shortages. However, if Hyundai’s sales continue to increase at
their past rates, Hyundai will not be able to supply its dealers for too much longer without
the production of a new plant because of its shortened hours in South Korea and the fact
that the Montgomery plant is at full capacity (Beene & Greimel, 2012).
Another problem for Hyundai that is very real is its recent admittance that it had overstated the mpg ratings on over 900,000 of its 2011-13 models. Following discussions with the United States Environmental Protection Agency (EPA), Hyundai admitted that procedural errors at the automakers’ joint testing operations in South Korea had produced faulty fuel economy ratings for its vehicles, and voluntarily corrected those ratings (the average fuel rating went down 1 mpg) and put in place a comprehensive reimbursement program for its wronged customers. In this program, customers in both the United States and Puerto Rico received personalized debit cards that reimbursed them for the difference between the EPA combined fuel economy rating for their car(s) and Hyundai’s claimed mpg. Each card took into account gas prices in the area surrounding the customer, as well as how many miles the patron had driven. In addition, customers also received another 15% of their reimbursement amount for any inconvenience the false mpg claims may have caused them. Previous owners who sold their cars before the mpg problem was discovered also received the reimbursement (Carmona, 2012). This miscalculation by Hyundai is reminiscent of an earlier mistake that the producer made in 2002 when it overestimated the horsepower on 1.3 million vehicles. Like it always does, when Hyundai learned about the problem it was very quick to get out in front of it. The producer also claimed that it would make reimbursements between $76 million and $127 million, even though the plaintiffs’ lawyers claimed the actual payment would be about $30 million (Rechtin, 2012).

These two mistakes along with the Sonata recall in 2009 raise some questions about Hyundai and its future in the United States auto market. Is Hyundai an honest company that, in its characteristic aggression to get ahead of the pack, has made a couple
of mistakes? Or is the auto producer cutting corners and just happens to be very good at compensating its customers when mistakes occur? There is no way of knowing the answer with certainty at this point in time, but the questions do cloud the future for the South Korean company. Will Hyundai Motor Company continue to produce high quality products and aggressively push itself into more prestigious markets? Or will the aggression that it has always been known for backfire and result in more mistakes and recalls which tarnish the brand’s image? Regardless of what happens in the years to come, Hyundai Motors has accomplished an incredible amount in its time both before and during its career in the U.S. market, encountering unparalleled success followed by crippling failure, and the long journey back to success.
CHAPTER V

KEY FACTORS IN HYUNDAI MOTOR COMPANY’S SUCCESS

During its lifetime, the Hyundai Motor Company has gone from piecing cars together for Ford to successfully entering the American market and succeeding, even after experiencing difficulties in the 1990’s. But how was Hyundai able to accomplish this while being such a late entrant to the market? Many other auto producers have been in the market longer, are bigger, or have more prestige than the South Korean producer, but Hyundai Motors was still able to come into the market late and not only steal their customers, but also make and market a better product. There is no single aspect of Hyundai that made it thrive in the U.S., but rather a combination of attributes. The reason that Hyundai has been to thrive in the U.S. is that it was able to combine a unique corporate culture, flexible production process, thoughtful marketing, aggressive positioning, and a little luck here and there in order to achieve its ambitious goals.

Culture

Hyundai’s corporate culture gave the company direction from the beginning and helped guide a model to market that was able to satisfy a demand that other producers had not been able to fill. When quality became an issue, Hyundai’s corporate culture switched its focus in order to take the company in a different direction (Taylor III, 2010). HMC’s culture also allowed the company to get in front of most of its mistakes and avoid
massive amounts of potential damage to sales and brand image (Shim & Steers, 2012),
while also developing opportunities for itself to grow (Kim, 1996).

Hyundai’s corporate culture can be divided into two sections, the management,
and the workforce. The management and the culture is extremely important in giving the
company direction and setting aggressive, but attainable, goals for the company’s
workforce while also dealing with brand image. The workforce plays a much less
glamorous role, but is key to implementing management’s plans, however lofty.

There are two specific areas where corporate culture has either saved Hyundai
from a massive blow to its brand image or set a goal, however out of reach, and allowed
the company to achieved it. The first area is the management’s ability to successfully
mitigate mistakes that the company has made in production. One thing that becomes
apparent when observing Hyundai’s history is the surprisingly low amount of backlash
that it receives after a mistake such as a recall (Shim & Steers, 2012) or a wrongly
estimated performance figure (Rechtin, 2012). This is due to the management’ ability to
deal with instability and not only compensate their customers, but also to make an
opportunity out of the crisis. Take, for instance, the recall of 2009. As is stated above,
Hyundai had to undergo a U.S. recall of the Sonata, one of the automaker’s most
successful models. Coincidentally, Toyota Motor Company also had to undergo a U.S.
recall of the Camry, one of its most successful models during the same year. The two
automotive producers have very different cultures and as a result they responded to the
two crises in two very distinct ways.

Toyota’s recall resulted because of uncontrolled acceleration and faulty brakes in
the Camry model, according to the U.S. National Highway Traffic Safety Administration
(NHTSA). However, the problem for Toyota began earlier. Toyota’s culture revolves around minimizing mistakes with the “Toyota Way”, Toyota’s planning, production, and quality control methods. Because of the Toyota Way, the Japanese company’s production system is very planned out. This preparation usually works very well for Toyota, and as a result it often seems to be looked upon as foolproof. However, in 2002 Toyota was expanding rapidly in the global marketplace and in doing so it was straining both its management and its technology. However, Toyota’s managers were so certain of the Toyota Way’s infallibility that they either downplayed problems’ significance or ignored them completely when they occurred. The resulting 2009 recall took Toyota, a company that almost expects success, by surprise, and its management did not know how to respond. Instead of admitting fault and changing its system to fix the problem, Toyota first blamed its customers for the problem, and then its parts supplier, the U.S.-based CTS Corporation, for supplying faulty parts, even though the company had not been its supplier at the time. Because of the company’s delay and blame tactics, it lost control of the situation as lawyers and politicians stepped in, bringing even more attention to Toyota’s failure, and even more damage to its brand image.

Hyundai’s culture, on the other hand, is one that thrives on instability and actually tries to use it to its advantage. As a result, HMC is an extremely fast-moving company in the market that is aggressive, takes risks, and immediately adjusts itself when problems arise. This culture lent itself extremely well to the 2009 Sonata recall. Unlike Toyota, as soon as Hyundai’s management became aware that the NHTSA was looking into a possible recall, it got in front of the situation and initiated a voluntary recall, even though there were no accidents reported. This extremely aggressive move gave consumers the
impression that Hyundai truly cared about safety and was willing to lose a lot of money to ensure that its products met those very high standards. Their response was so fast – and pre-empted any mishap- that the incident barely impacted their sales. In fact, the company’s image was enhanced in the eyes of as a company that truly cares about its customers, especially when compared with Toyota. Hyundai further reinforced this image by having top executives visit the plants where the problems occurred, and rearranged or removed key managers in hopes of avoiding further problems in the future (Shim & Steers, 2012). Hyundai’s fast-acting and consumer-oriented responses to production problems can also be observed in its overestimations of horsepower and miles per gallon in 2002 and 2012 respectively (Rechtin, 2012).

Hyundai’s quick-response culture has been a core component of the producer since its birth. From the beginning Hyundai has obsessed over crises, which most producers seek to avoid. However, this is not as suicidal as it seems, however. Even though to most the word “crisis” represents a catastrophic event or failure of some kind, Hyundai Motors looks at it differently. The literal definition of crisis is “an unstable or crucial time or state of affairs in which a decisive change is impending” (crisis, n.d.). Hyundai has wholeheartedly embraced this definition and has constantly put itself into situations of crises in order to grow and succeed.

HMC has had a history of using crisis construction in order to efficiently and effectively gain technological knowledge from multiple sources. Typically, when the company decided to pursue a new technology or production system, it would organize a small team of engineers or designers and have them live together to read and discuss every piece of literature regarding the new technology or process. This immersion in the
subject and the constant exchange of explicit and tacit knowledge intensified the knowledge within the group (as seen in the spiral in Figure 5.1), allowing the team members to become experts on the theoretical aspects of the system. Hyundai would then negotiate a contract with a company that had the technology that was desired, and thus could provide migratory knowledge (see Figure 5.1), and send the team there. This would allow the team to observe the technology in action and receive hands-on experience before coming back to Hyundai’s plant and implementing the system or technology in a way that suited the company’s needs. HMC would also often temporarily hire outside experts on the topic in order to assist its engineers in both the system’s implementation and improvement, further increasing migratory knowledge.

FIGURE 5.1
THE DYNAMICS OF ORGANIZATIONAL LEARNING IN CATCHING UP

![Diagram of organizational learning dynamics]

Source: (Kim, 1996)

HMC has utilized this method of absorptive learning for almost every single aspect of production growth. This style of organizational learning has allowed the car
manufacturer to significantly increase its capability in production as well as design, while allowing it to grow more independent, rather than sacrificing its managerial control for the technology it needed. However, this method of production improvement is extremely risky. When a smaller producer becomes a member of a joint venture with a leading automobile firm looking to gain technology, it usually ends up having a very passive role in the agreement and ends up losing leadership control over itself. This role is very safe for the smaller producer, because the leading firm will always guarantee the performance of the transferred technology and will give technical assistance when the smaller company needs it. However, because of the passive role that the smaller producer plays, even though they have less risk in the endeavor, they also cannot gain as much organizational knowledge or be as independent as they would with a more active role. Of course Hyundai, which has proven to not be passive about any part of its operations, chose an active role, unpackaging the technology that was given to them. This caused it to take on the responsibility of coordinating components and imported technologies from a variety of sources so it could successfully incorporate them into a mass production system. This method of technological acquisition was inherently more risky than the passive approach because if there was a problem with any part of Hyundai’s production system, the system would be to blame, not the new technology behind it. However, in adopting this dangerous approach, HMC was able to stay completely independent in the global market. This approach also created a constant crisis environment for its employees, causing them to be more efficient and effective throughout each process of technological learning, as they were often learning on the fly. This form of organizational
learning caused Hyundai’s form of advancement to evolve from duplicative, to creative, and finally to independent innovation (see Figure 5.2) (Kim, 1996).

FIGURE 5.2
CRISIS CONSTRUCTION AND THE SHIFT OF LEARNING ORIENTATION

Source: (Kim, 1996)
Hyundai utilized crisis construction for almost every form of production that it undertook, especially when gaining technology independence in production early on in its development (Kim, 1996) but this system would be impossible without its South Korean workforce. The South Korean culture encourages its workers to be disciplined, knowledgeable, and willing to work difficult, extensive hours for reasonably low pay. South Korean workers are generally motivated by strong ties to nationalism and believe that they must sacrifice in order to transform their nation into an industrial power of the modern age (Kublin, 1987). This type of workforce is the perfect fit for the highly intense and erratic demands that stem from the crisis culture that Hyundai has implemented, and allows the auto producer to be extremely efficient with its projects, move quickly within a marketplace and gain outside knowledge without sacrificing managerial control. This workforce, when combined with Hyundai’s crisis construction and organizational
learning style allowed the company to produce more than ten times the cars than it had in the previous decade, from its birth until 1996: Hyundai Motors made 614 cars in 1968, 7,009 in 1973, 103,888 in 1983, and 1,134,611 in 1994 (Kim, 1996). HMC’s production numbers since then have been even more impressive with a production increase of almost one million cars between 2009 and 2011, where the total number of cars that it produced globally totaled 4,074,418 (Hyundai Motor Company, 2012)

FIGURE 5.3
GLOBAL PRODUCTION STATUS

![Production Chart]

Source: (Hyundai Motor Company, 2012)

Production

Many elements of Hyundai’s crisis construction can be seen when observing the history of its production system. When the company first configured its manufacturing system in 1975, it looked at the Japanese giant, Toyota Motors, as a model to emulate.
Toyota, an auto producer long been known in the automotive world for its lean production system, has consistently produced high-quality cars while being able to quickly adapt to changing consumer preferences. So, when Hyundai began to emulate the Toyota Production System (TPS), the South-Korean company recruited Seiyu Arai, a former student of Ohno Taiichi (the inventor of Toyota’s Production System), as a technical advisor. Mr. Arai was key in formulating the operational processes and the technical layout of the new plant. Specifically, the TPS expert advised Hyundai Motors to adopt some, but not all, aspects of Toyota’s production system. During the construction of Hyundai’s plant that would later produce the Pony model, Mr. Arai implemented many aspects of Toyota’s production system while adjusting or ignoring parts that didn’t fit well with the South Korean manufacturer. It was this selective manner of Arai’s implementation that truly allowed Hyundai to enjoy the fact that it was a late mover in the global auto industry.

As time went on and Hyundai Motors grew, it constantly searched for and acquired new technologies and systems that would improve its production process. In the early 1980’s Hyundai made a large investment in its existing plant and automated its production equipment. At the same time, HMC implemented a just in-time (JIT) production system by switching its material handling process from the bulk-parts delivery systems to a more streamlined sequential parts one. Later that decade, Hyundai Motors created a second production plant and again improved its production processes by installing a flexible body line (FBL). This enabled the company to produce two to four different models at one time, as well as allowing HMC to smoothly adjust production volumes thanks to decreased set-up times required for assembly. For this change,
Hyundai again used its organizational learning method and hired Yamashita Machinery for technical consulting throughout the process.

Hyundai continued to improve its plants as time went on, continually benchmarking itself against Toyota as it did with the “one buck system” or devising its own methods such as its “windmill jig system”, both of which automate the welding of panels onto auto body frames. However, it was the South Korean manufacturer’s ambitious plan for process improvement that truly defined the company’s management innovation. This multi-year plan involved constantly improving its plants in during the 2000’s and consisted of the implementation of Advanced Planning Scheduling (APS) in 2002, enterprise bill of material and Enterprise Resource Planning (ERP) in 2006, and a comprehensive production management system that combined Supply Chain Management (SCM) and Order To Delivery (OTD) in 2007 (for more detailed definitions, see Table 5.2).
TABLE 5.2
ROADMAP OF PRODUCTION SYSTEM INNOVATION AT HYUNDAI

<table>
<thead>
<tr>
<th>Stage and component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. APS (advanced planning and scheduling)</td>
<td>To enhance the accuracy of production planning and maintain the optimal level of auto parts inventory by visually controlling the due date of customer delivery</td>
</tr>
<tr>
<td>2. E-BOM (enterprise bill of material)</td>
<td>To develop the corporate-wide BOM data base necessary for implementing ERP</td>
</tr>
<tr>
<td>3. ERP (enterprise resource planning)</td>
<td>To build an IT system to manage the entire work flow from product development, manufacturing, sales and customer service</td>
</tr>
<tr>
<td>4. SCM (supply chain management)</td>
<td>To establish a systemic network to inter-connect manufacturing processes to suppliers, sales dealers, and customers</td>
</tr>
<tr>
<td>5. OTD (order to delivery)</td>
<td>To build the total management system to maximize the efficiency of business processes, comprising customer orders, parts supplies, manufacturing, and distribution</td>
</tr>
</tbody>
</table>

*Source: HMC internal document.*

While Hyundai constantly modeled its production processes after Toyota’s, the South Korean company also purposely deviated from the Japanese producer in certain areas, namely worker involvement and the production mode of auto construction.

Toyota’s production system involved “pull” production, a system that uses expressed market need to direct its R&D and marketing efforts toward making a better product. Hyundai, on the other hand, tried to implement the pull system in one of its plants but was not impressed with the results. Instead, HMC reverted back to the standard “push” production system that is used by most automakers as well as giving up the JIT system. This system does not involve expressed market need in its R&D and marketing processes,
but instead produces a preconceived idea without input from the market along the way. However, Hyundai Motor Company believed that it could be just as responsive to market demand as Toyota’s production system because of its OTD system (it could complete an order to delivery process in as little as a week).

HMC also differentiated itself from Toyota by creating a technology-based and engineering-driven production system. Unlike Toyota’s system, which was designed to maximize worker efficiency, Hyundai’s system minimized worker involvement by focusing on gaining the newest technology, automating as many production processes as possible (Lee & Jo, 2007), and minimizing worker involvement by standardizing the process that low skill workers must follow (Hyung Je & You, 2011). The root cause of this key difference is the two firms’ strategies toward minimizing mistakes (Lee & Jo, 2007). Toyota tries to prevent them by hiring highly skilled workers and making their jobs as efficient as possible (Hyung Je & You, 2011), while Hyundai tries to eliminate them by automating as many processes as possible. In short, when HMC emulated TPS it capitalized on the fact that it was a late mover and hired experts on each production system while selectively choosing which aspects of Toyota’s system would maximize efficiency in production. For instance, Hyundai chose to emulate the TPS method to improve the tooling of stamping dies in order to shorten the preparation time for press lines, as well as improve the efficiency of its body-welding line. However, the South Korean producer chose not to copy TPS’s JIT or pull systems (see Table 5.4). It used these selected aspects, along with others of its own to create technology-driven radical innovation in an engineer-led and automation-emphasized production system that used planning-led production as well as material requirements planning to maximize
efficiency. Consequently, Hyundai’s constantly evolving production system constantly
puts the producer in highly uncertain situations, because of the massive investments that
accrue for technologies that may or may not work well in HPS. This is something that
most automakers would dread, however, because of Hyundai Motors’ culture,
specifically its crisis construction, the South Korean firm is able to thrive, and use many
of the crises to its advantage (Lee & Jo, 2007).

TABLE 5.4

COMPARISON OF PRODUCTION MANAGEMENT BETWEEN HYUNDAI AND

TOYOTA

<table>
<thead>
<tr>
<th>Production mode</th>
<th>Hyundai</th>
<th>Toyota</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production control tool</td>
<td>PUSH MRP system</td>
<td>PULL JIT (Kanban)</td>
</tr>
<tr>
<td>Operational goal</td>
<td>Planning-led production</td>
<td>Minimization of inventory</td>
</tr>
<tr>
<td>Production management</td>
<td>Hourly plan-based process; management controlled by production engineer division</td>
<td>Flexible control of production process at the level of production departments</td>
</tr>
<tr>
<td>Production condition</td>
<td>High uncertainty and fluctuation</td>
<td>Low uncertainty and stable repetitiveness</td>
</tr>
</tbody>
</table>

Source: HMC internal document.

Source: (Lee & Jo, 2007)

Another way in which Hyundai’s production system gives it a competitive
advantage in the U.S. market is the system’s ability to be quickly and effectively
transferred between different locations and cultures. A perfect example of this can be
observed in the success of the Hyundai Motors Manufacturing Alabama (HMMA) plant
in the last decade (Hyung Je & You, 2011). Previous literature concerning the topic of
production transfer reveals that, in the past, Japanese transplants needed 30% more hours
to successfully produce vehicles when compared to their domestic counterparts. Also, on
average, the rate of operation at transplants was 10% less than the domestic Japanese plants (Hyung Je & You, 2011).

Built in 2005, Hyundai’s Alabama plant not only quickly became as efficient as the Korean plant in Asan, but it also produced high-quality products and was crucial in propelling HMC to becoming one of the top automakers in the United States. Two years after being built, the HMMA plant in Montgomery became the fourth most-productive midsize sedan plant in North America. The plant also received favorable reviews for the production of the Santa Fe model during the same year. In 2008, The Harbor Report ranked the plant as the second most-productive plant in North America. As of 2009, HMMA had reached a top level of efficiency, with an allocation ratio of 91%, (Asan’s was 68%), a production rate of 70 units per hour (Asan’s could produce 63), 19.9 hours spent per vehicle (Asan could produce a vehicle in 19.3 hours), and a sign-off ratio of 96% (Asan’s was 95.6%). For a more detailed comparison, see Table 5.5 and 5.6. These numbers are particularly impressive when one considers that the Alabama plant produced SUVs as well as midsize sedans and was still able to keep up with, and in some areas be better than, Hyundai’s plant in Asan. Not only was the plant efficient, it also produced high-quality automobiles: the Sonata was ranked among the highest of its class in owner satisfaction, owner costs, and reliability in Consumer Reports 2009 with the Santa Fe receiving good reviews as well (Hyung Je & You, 2011).
### TABLE 5.5
OUTLINE OF HMMA PLANT, COMPARED WITH ORIGINAL ASAN PLANT

<table>
<thead>
<tr>
<th></th>
<th>HMMA Plant (Montgomery, AL, United States)</th>
<th>Original Plant (Asan, Korea)</th>
</tr>
</thead>
<tbody>
<tr>
<td>History of</td>
<td>Opened in 2005</td>
<td>Opened in 1996</td>
</tr>
<tr>
<td>assembly plant</td>
<td>Production: 251,000 in 2007</td>
<td>Production: 297,000 in 2007</td>
</tr>
<tr>
<td></td>
<td>238,000 in 2008</td>
<td>261,000 in 2008</td>
</tr>
<tr>
<td>Plant operation</td>
<td>Products: Sonata and Santa Fe</td>
<td>Products: Sonata and Grandeur</td>
</tr>
<tr>
<td></td>
<td>Production capacity: 300,000 units/year (63</td>
<td>Production capacity: 300,000</td>
</tr>
<tr>
<td></td>
<td>UPH)</td>
<td>units/year (63 UPH)</td>
</tr>
<tr>
<td></td>
<td>2 shifts (day and night)</td>
<td>2 shifts (day and night)</td>
</tr>
<tr>
<td></td>
<td>20 hours/day</td>
<td>20 hours/day</td>
</tr>
<tr>
<td>Employees</td>
<td>Hourly workers: 2,200</td>
<td>Hourly workers: 2,200</td>
</tr>
<tr>
<td>composition</td>
<td>Salaried employees: 520</td>
<td>Salaried employees: 600</td>
</tr>
<tr>
<td></td>
<td>(expatriates 71)</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Hyundai Motor Company 2009.*

*Note: UPH (units per hour) is the number of vehicles that are assembled in an hour in a plant.*

Source: (Hyung Je & You, 2011)
TABLE 5.6
PERFORMANCE OF HMMA PLANT, COMPARED WITH ORIGINAL ASAN PLANT

<table>
<thead>
<tr>
<th></th>
<th>HMMA Plant (Montgomery, AL, United States)</th>
<th>Original Plant (Asan, Korea)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage (2008)</td>
<td>$55,000 per year</td>
<td>$54,800 per year</td>
</tr>
<tr>
<td>Number of irregular</td>
<td>81 (344 before the economic crisis)</td>
<td>950 (almost the same as before)</td>
</tr>
<tr>
<td>workers (2009)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocation ratio$^a$ (2009)</td>
<td>91%</td>
<td>68%</td>
</tr>
<tr>
<td>Productivity (UPH)$^b$ (2010)</td>
<td>70</td>
<td>63</td>
</tr>
<tr>
<td>Productivity (HPV)$^c$</td>
<td>2006: 24.8</td>
<td>19.9</td>
</tr>
<tr>
<td></td>
<td>2007: 20.6</td>
<td>19.7</td>
</tr>
<tr>
<td></td>
<td>2008: 20.7</td>
<td>19.5</td>
</tr>
<tr>
<td></td>
<td>2009: 19.9</td>
<td>19.3</td>
</tr>
<tr>
<td>Quality (sign-off ratio)$^d$ (2009)</td>
<td>96.0%</td>
<td>95.6%</td>
</tr>
</tbody>
</table>

Notes: a. Allocation ratio is the relative ratio of net assembly working hours out of total assembly working hours by production workers at the assembly plants.
b. UPH (units per hour) is the number of vehicles that are assembled in an hour in a plant.
c. HPV (hours per vehicle) is the index of plant productivity, which means the number of hours spent to assemble a car in a plant.
d. Sign-off ratio is the aggregate index calculated by multiplying acceptable rates at the four inspection spots: assembly line, final test, waterproof test, and ore-shipping test.

HMMA blew away the previous conceptions of transplant productivity and contributed heavily to Hyundai’s success in the United States market. But why was Hyundai Motors able to accomplish this while Japanese automakers, known for their flexible production systems, could not? There are four main reasons for Hyundai’s unheard of success with its transplant: 1) Its production system, 2) the plant’s location, 3) the plant’s workforce flexibility, and 4) the Korean “expatriates” recruited help the new plant in key areas of production.
Ironically, Hyundai’s production system was modeled after the Toyota Production System, which faced difficulties when its transplant was first implemented in the United States. However, one of the areas in which HMC purposely differentiated itself from Toyota proved to be extremely useful when transferring production systems to the new plant. Hyundai’s engineer-led and automation-intensive production style allowed the company to hire mostly unskilled workers in the Alabama plant. HMC then relied on technology as well as a smaller number of highly skilled managers and engineers, to ensure efficiency and quality in its system.

Hyundai’s production system created quite a bit of HMMA’s plant flexibility, but the adaptability of the plant was also due to the lack of union presence in Alabama, as well as the creative management techniques that are utilized in the plant. Hyundai was able to actively create opportunities for efficiency and quality improvement when unionized plants, including its plant in Asan, would not because of union regulations. For instance, when production stopped in the HMMA plant, managers could utilize the time that would have otherwise been wasted for the purpose of workplace innovation, total preventative maintenance, or even an early lunch break. In addition, because Alabama also has a highly flexible labor market, the company can respond nimbly to fluctuations in the U.S. auto market. For instance, if the market for cars changes dramatically HMMA can adjust its number of employees accordingly, allowing Hyundai to save on labor costs in times of economic recession or increase production in times of elevated sales. This phenomenon occurred during the economic recession in 2008. Before the recession, HMMA had 344 irregular workers. Since the recession, Hyundai has decreased that
number to 81, whereas the Asan plant has been forced to maintain its number of workers at 950 throughout the entire recession.

Hyundai was also fortunate enough to find the perfect location to put its North American plant. Unlike many auto producers who chose to place their plants in the Midwestern “rust belt,” Hyundai decided to put its production plant in the Deep South’s “sun belt.” Unlike the rust belt, the Deep South did not have a strong labor union presence, with only about 10% of the workers being unionized, whereas the union presence in the Midwest was about 20% according to 2000 data by the U.S. Bureau of Labor Statistics. Alabama became a very attractive location for Hyundai not only due to a weak union presence, but also because the state offered a very generous incentives package in return for HMC’s business. This package included a site preparation grant, tax abatement, an access road and bridge, as well as education and training programs for all job applicants to HMMA. These incentives, which had an estimated value of about $253 million, came to Hyundai in addition to the State of Alabama selling the car producer 1,744 acres for practically nothing.

The last key to HMMA’s quick transition to the U.S. market and the company’s continued success is the “expatriates” that Hyundai sent to the new plant during the first two years of its operations. During 2005 and 2006, Hyundai Motors sent hundreds of Korean engineers and managers to Alabama to offset the plant’s initial maintenance and operational limitations. These engineers and managers had enormous roles in HMMA’s extremely impressive numbers in efficiency and quality when compared to other transplants. After the initial two years of the plant’s activity, many of the expatriates left.
But as of 2011, 71 of them, as well as dozens of senior workers, still supplement whatever limited capabilities the plant has (Hyung Je & You, 2011).

Hyundai Motors also has held one advantage over almost all auto global auto producers since its birth: The cost advantage that the extremely low value of South Korean’s won brings. Because of this low value (one U.S. dollar is currently worth KRW1,114.83) Hyundai has had extremely low production, material and capital costs. Also, the depreciated won, when combined with Hyundai’s engineering-driven and automation intensive approach allows HMC to enjoy astronomically low labor costs. For example, in the late 1980’s at the South Korean Hyundai production plants, the average wage for assembly line workers was about $2 an hour ($3 an hour with fringe benefits). Japanese and American assembly line workers, on the other hand, received $13 an hour and $23 an hour respectively. However, this cost advantage, which at one point caused some economists to accuse South Korea of artificially keeping its currency’s value down (Kublin, 1987), has slowly decreased over time as the won has appreciated, and has recently became a burden to Hyundai Motor Company as the appreciation is weighing on its profits (Kim & Shin, 2013).

**Positioning Strategy**

A major factor in Hyundai’s choice of production system, as well as its choice of location for its Alabama plant, has been its strategy for positioning itself in a market. From its beginning, Hyundai has practiced a strategy of self-reliance and constant improvement within its industry. This approach influenced almost every move that HMC made in its early years, especially when the carmaker contracted with other companies for technology or production processes. For instance, Hyundai’s steadfast commitment to
self-reliance caused it to sever its three-year agreement with Ford because the joint venture endangered its managerial control and therefore its path towards independence. This strategy also influenced Hyundai during its early growth and influenced many major decisions, including investing heavily in the creation of its own model, The Pony; exiting a merger negotiation with General Motors in 1981 because HMC refused to give up managerial control and, after the GM contract breakdown, building a new plant that was capable of producing 300,000 cars and expanding HMC’s lineup (Young-suk & Lee, 1989). In addition, the independent position was a major force behind Hyundai’s entering the U.S. market and subsequent marketing efforts, and can be seen in its crisis construction culture (Kublin, 1987).

Hyundai has also positioned itself as an extremely agile company. It utilizes its flexible production style and crisis culture to be able to react quickly to events in the market and adapt accordingly. When discussing his company’s ability to react quickly, Hyundai CEO John Krafcik said, “[o]ne of the reasons we move fast is fewer people… speed doesn’t suffer bureaucrats well.” Krafcik offered further insight, explaining, “When we set targets, we haven’t made a plan for how to get there.” An example of this was when Hyundai vowed to achieve a fleet average of 35 miles per gallon by 2015, the company had no idea how they were going to do it. HMC also waits until the very last minute to sign off on production parts. “[W]hen developing a new model,” Krafcik said, “companies typically sign off on the characteristics of the powertrain 4.5 months before production. Hyundai waits until a month before so that it can incorporate the most recent performance data” (Taylor III, 2010).
When Hyundai Motors came to America, it imitated an entrance strategy that was used by Japanese manufacturers during their entrance to the U.S. market in the 1970s. This positioning strategy caused HMC to enter the lower segment of the market, and use penetration-pricing get to a foothold. Then, when it had some traction, it would slowly extend its line upward. Also, as discussed in the previous chapter, when Hyundai entered the U.S. market, it mandated that its cars would be sold at Hyundai-branded dealerships that would have separate show rooms and sales people (Kublin, 1987). This particular positioning strategy lasted until the quality issues in the early 1990s forced the Canadian production plant to close. The resulting drop in sales caused Hyundai to utilize a low pricing import strategy to keep customers buying the Excel. At the same time, the company attempted to handle the poor quality issues that it was experiencing while searching for a positioning strategy that would change its image and bring it success in the United States market (McClellan, 2000). After 1999, Hyundai’s position shifted to producing the highest quality cars possible. Along with the obvious intensified quality checks and employees sharing responsibility to create the best product possible, Hyundai Motors also looked into automobile designs that held more market appeal. HMC shifted its focus away from traditional Korean styles which were “baroque and fussy,” to international designs that had cleaner lines and more elegant details (Taylor III, 2010). As a result, when Hyundai Motors was producing the Sonata in 2004, it benchmarked the Toyota Camry for quality and the Audi A6 for design.

As Hyundai began to see positive results from its efforts towards quality and design, it set its sights forward once more and focused its attentions toward not only producing a high quality car that looked good, but one that also performed better than its
competition on the road (Ihlwan & Dawson, 2004). This subsequent shift in position is
evidence of Hyundai Motors’ ambition both before and after its entrance to the U.S.
market. Before, it was just as aggressive as it currently is, but that aggression was driven
by the survival instinct of a company that had to bet it all on multiple occasions in order
to be successful. However, once Hyundai began to improve its quality and its customers
began to notice, the company came into a position that was much more comfortable than
any before. However, Hyundai was not satisfied with being comfortable. Instead, HMC
expanded its ambitious positioning strategy outwards and upwards, seeking higher
standards with its current automobiles while also seeking to push itself into more
prestigious markets. HMC did just this when it introduced the Genesis and then the
Equus two years later. By using these models to enter into the luxury auto market, HMC
again imitated Japanese producers’ positioning strategies, which involved selling the new
luxury cars for significantly less than the competition. However, it is still unclear whether
this ambitious change of position will work for the company, as both models are
relatively young and the brand’s image is still improving in the eyes of American
consumers (Ramsey, 2010).

Hyundai’s most recent attempt to improve its position in the global marketplace
has continued on the aggressive, risk-prone trend to which Hyundai has been true.
Hyundai’s latest positioning move goes completely against the norm in automotive
production: In 2011, Hyundai Motors made a $5.5 billion-dollar investment in its steel
branch in order to build two brand new blast furnaces about 75 miles away from
Hyundai’s plant in Seoul, South Korea. These plants will be capable of producing 8
million tons of automotive steel; a third furnace that was in the planning stages would
produce 4 million more tons. With this acquisition, Hyundai Motors is making an incredibly expensive - as well as risky - maneuver in the hopes of gaining a sizeable strategic advantage by using its steel plants to develop and produce the high-strength, light-weight alloys that are necessary for the company to satisfy higher fuel economy standards while also increasing its cars’ safety.

By making this investment, HMC is forgoing almost 100 years of automotive production history and taking a page out of the playbook of Henry Ford, who kept his cars affordable by making all of the parts in-house. According to Ford Motor’s historian, Robert Kreipke, “Henry’s premise was: The more you control production, the more you can control what you sell the car for, too.” There are quite a few advantages to this strategy. First and foremost, with its own steel plant, HMC no longer has to pay the markup that other plants would charge for each part. Considering that between 2010 and 2011 steel prices rose 25%, this will save Hyundai quite a bit. Hyundai Motors can also enjoy the advantages of a process called hot stamping, where important structural elements of the car are heated up to 900 degrees Fahrenheit and then stamped into a desired shape and rapidly cooled almost at the same time. This process creates steel that is about four times stronger than what it was previously, and can be used, along with other processes, in order to make parts to Hyundai’s exact specifications. Regardless of the strategy’s advantages in the marketplace, many are skeptical of Hyundai’s decision to purchase the steel company because it is such an expensive and risky endeavor.

Apparently even the Ford Company thought the same thing in the 1950’s when it gave up producing its own parts and started buying from third parties. Still, Hyundai is unfazed by the critics and confidently looks forward (Muller, 2011).
Marketing

This aggressive, self-assured attitude is exactly how Hyundai has gone about marketing its products to U.S. consumers. Not surprisingly, when HMC entered the American market, it modeled the Japanese producers’ advertising and used the Hyundai chaebol’s size and production experience to show credibility and reliability to the consumer. An introductory Excel advertisement in the U.S. stated, “[The Excel’s] mother was a ship, its father was a locomotive.” From there, Hyundai Motors switched to an advertising campaign that emphasized the quality and high value per dollar that the Excel offered. In these ads, the price of the model was mentioned softly because, while the company did want to use their product’s price as a competitive weapon, HMC did not want to suggest that the low price meant that the car was of poor quality.

Hyundai’s soft mention of price has been a constant theme throughout its marketing campaigns in America. Whenever Hyundai mentions the price of one of its products, it wants customers to think of themselves as shoppers who get more for their money, not bargain hunters that have to sacrifice quality to get a good deal. In fact, when referencing this campaign, Hyundai’s advertising agency at the time said, “These ads…are going to say that it’s okay not to spend as much as possible; it’s okay to use your mind more than your money” (Kublin, 1987).

In 1998, as it was fighting its way back from the Canadian catastrophe and all of the quality issues that went along with it, Hyundai changed its ads again, this time introducing the industry’s first 100,000-mile warranty (Halliday, 2009). This bold promise added to the perception of improved quality—no other automaker had ever made such an offer of quality that was so contrary to the popular conception of the brand. The
momentum generated increased in 2007 when Hyundai hired Joel Ewanick to head up its U.S. marketing team. Ewanick operated the marketing team like one would imagine the upper level management works at Hyundai: Similar to the war room of a political campaign. He and his team were constantly looking for opportunities for Hyundai to take advantage of, and when they found one, they would strike with high quality campaigns that were produced at incredible speeds (Taylor III, 2010). This move shows Hyundai Motors’ realization that one of the biggest challenges that it would have to overcome in the U.S. market was convincing consumers that Hyundai no longer signified clunkers that were riddled with quality issues, but rather a high-quality car that was actually better in many ways than its competition.

Under Ewanick, Hyundai introduced the “Think About It” campaign. This was a series of 15-second ads that neither showed a Hyundai vehicle nor the brand name. Instead, they would show the view from the window of a car driving by various settings, voicelessly show a thought-provoking misstatement about the automotive industry, and then refer viewers to ThinkAboutIt.com, which would link consumers to HyundaiUSA.com. The ads, which challenged some injustices that had become commonplace in the U.S. market, such as auto producers charging for roadside assistance, almost doubled the number of hits to the site in the first stages of the campaign (see Figure 5.4).

The second stage of the campaign occurred during the 2007 Super Bowl and utilized the voice of actor Jeff Bridges, who told the audience a statement about Hyundai that most consumers didn’t know, and portrayed Hyundai as better than other companies that people use to set their standards of quality, luxury, performance, etc. Using Jeff
Bridges was a very strategic choice on the part of Hyundai’s marketing team. Because his voice is so soothing and relaxed, Bridges allowed Hyundai to boast about itself while still coming off as humble and informative. This ad campaign also went against the grain in the Super Bowl because while every other car producer was using humor to grab the attention of the viewers, Hyundai went for simple, straightforward, and thought provoking (Halliday, 2007).

FIGURE 5.4
SNAPSHOT FROM HYUNDAI’S 2007 “THINK ABOUT IT” CAMPAIGN

In 2009 HMC’s U.S. marketing team found the opportunity for which they’d been searching. As the economic recession hit, Ewanick’s team noticed growing concerns among consumers about future unemployment, so it reacted quickly and created the “Assurance” campaign. This program was also unprecedented in the auto industry in that it allowed customers to return their new Hyundais for a full refund if they lost their jobs. The campaign also included ads in the 2009 Super Bowl, which would take most
companies several months to put together but only took Hyundai’s marketing team 37 days. The marketing effort gained Hyundai Motors an enormous amount of awareness as well as good will in the U.S. market and was key to improving Hyundai’s image with the U.S. public. The Assurance approach was also an enormously successful business decision, because while the fear of unemployment was common among many consumers, only about 100 customers ended up taking advantage of the promise and returning their cars. The U.S. marketing team also added the to the “Assurance” campaign again in 2009 by introducing the “Assurance Gas Lock,” which guaranteed customers $1.49-a-gallon gasoline for a year. According to Ewanick, the “Assurance” campaign was such a success in 2009 because buyers had stopped responding to the typical cash-back and interest-rate promotions that most automakers were giving.

FIGURE 5.5

HYUNDAI “ASSURANCE” AD

Source: (PRLog, 2012)

This is not to say that Hyundai did not use incentives in selling its cars. In fact, for the first 10 months of 2009, HMC spent $2,825 per car on incentives, more than any other Asian manufacturer. Hyundai’s quick marketing team turned a potential crisis into a big opportunity again in 2009 when they beat the U.S. Government’s CARS program,
also known as cash for clunkers, to the punch and offered tax credits for people’s old cars before the Governments program had started (Taylor III, 2010).

The year 2009 was enormous for Hyundai’s marketing team in the United States. It was able to find opportunities in the economic recession and act quickly on them. Not only did the marketing efforts help increase sales temporarily, but the approach instilled in customers a completely new perception of the Hyundai brand, while making its competition look worse for not following suit. When observing the amazing things that HMC was able to accomplish via its marketing team in that year, it is not surprising that Ad Age named it as the 2009 Marketer of the Year (Johnson, 2010).

In 2010, Hyundai kept pushing itself to keep improving its brand image, this time calling for consumers to take a hands-on approach with its “Uncensored” campaign. Unlike previous campaigns, this marketing scheme involved test drive events around the United States in which consumers would be put behind the wheel of a Hyundai Sonata, A Toyota Camry, and a Honda Accord and would take each car through the paces of Hyundai’s preset course. This course consisted of high-speed straightaways, hairpin turns, evasive maneuvers and conditions that mimic icy roads. The consumers were then encouraged to go hang out under a large Hyundai tent with Starbucks Frappuccinos and Apple iPads that they could use to rant or rave about their experiences on the track via social media. There was even a Sonata that had a video camera and microphone in it that customers could go into and share their feelings about the products or the event. With this marketing approach, Hyundai Motors continued its efforts of getting closer to its consumers. According to Monique Morin Kumpis, Hyundai Motors of America’s manager of experimental marketing and strategic alliances, no matter how many great ads
Hyundai was producing, there was nothing more informative than getting behind the wheel. “Ad campaigns tell a story but there’s nothing there for the consumer to touch and feel… The key is letting consumers draw their own conclusions but to do that they need to have the Hyundai experience.” (Bush, 2010).

FIGURE 5.6
HYUNDAI UNCENSORED EVENT AD

![HYUNDAI UNCENSORED EVENT AD](image)

Source: (Rudenko, 2010)

Hyundai Motor Company’s strategy throughout its ads in the past decade has seemed different from most automakers ad campaigns. While most carmakers focus entire campaigns around one car and often use humor to attract customers’ attention, Hyundai has chosen a different route. It has shifted its campaigns’ focus to the resurrection of its brand name and has done so by showing customers that it has their back, holds the same values as they do, and that it also makes a great automobile. While it does advertise particular models and uses humor from time to time, it is always boosting its brand image. When Joel Ewanick described Hyundai’s marketing scheme in 2010 he said, “Consumers want brand that feel the same way they do about society and
the environment. But they don’t want to pay for it” (Taylor III, 2010). This underlying message can be seen in the campaigns that Hyundai has produced within the past decade and has clearly been successful, as sales have continued to increase in recent years. However, the vision may be changing for Hyundai Motors’ advertising. In 2011, after General Motors poached Joel Ewanick, HMC hired Steve Shannon to take over the marketing department in the U.S. For Shannon, the message that Hyundai needs to get across seems to be more focused on constantly innovating and improving the Hyundai brand while also highlighting the new models. When the new Vice President of Marketing for Hyundai Motor America described his priorities for Hyundai marketing, he said that HMC needed to build on “truth, candor and conversation…while innovating and pushing the brand forward.” Shannon wanted to utilize concepts “that don’t just support the Accent or Sonata but sell the Hyundai brand… products won’t always be this hot so it’s important to develop a strong Hyundai brand” (Halpert, 2011).

**Luck**

This hunger to progress both Hyundai Motors’ products as well as its brand has allowed Hyundai Motors to experience quite a bit of “luck” in its history. Hyundai has always been extremely ambitious and has taken risks that many other automakers would not, and when it has, it has been met with success the majority of the time. The reason that the word luck is in quotes is that when observing Hyundai’s history, it seems as if it has utilized its crisis construction culture and aggression at every crossroads and, as a result, has gotten very good at looking at uncertainty or adversity and finding opportunity. When Hyundai realized that its agreement with Ford would not work early on, it left Ford, put itself in a crisis by purchasing its own plant, and ended up with its
own indigenous model (Young-suk & Lee, 1989) because it was able to selectively emulate TPS (Lee & Jo, 2007). The same thing happened with the failed GM merger: Hyundai left, built a new plant, and came away with the Excel model and four other models, while gaining entrance into the U.S. market (Young-suk & Lee, 1989). After initial success in America (Kublin, 1987), catastrophic failure in Canada left HMC in crisis again (McClellan, 2000). Hyundai Motors, instead of letting the failure consume it, Hyundai took a step back and utilized the crisis as an opportunity to improve the quality (Taylor III, 2010), design, and performance of its vehicles (Ihlwan & Dawson 2004).

This pattern has emerged countless times throughout Hyundai’s history: HMC aggressively chases a current goal, endures a crisis, faces adversity and uncertainty, and uses the experience to improve something about itself that in turn betters its products or market share. At what point does the high repetition of luck actually make it something entirely different? Many people would call Hyundai lucky, but the overarching evidence seems to suggest otherwise. Instead, Hyundai seems to thrive in crises and because of this, it is able to create success out of adversity. Granted, Hyundai is not always successful in these endeavors, but even in its missteps, such as the Bromont nightmare (McClellan, 2000), and the mpg and horsepower overestimations (Rechtin, 2012), Hyundai Motors has managed to come back from its mistakes with a better product and a better brand.
CHAPTER VI
CONCLUSION

Summary of This Study

Previous literature concerning second mover advantage suggests that in order for a late mover to successfully enter a market, it must differentiate itself from its competition in some way. Whether it be innovation (Shankar et al., 1998), high quality, new technology (Horksy & Nelson, 1992), a superior product (Brown & Lattin, 1994), low price (Urban et al., 1986), a superior position (Horksy & Nelson, 1992), creative advertising (Wood, 2012), or taking advantage of something that the earlier entrants have overlooked (Shankar et al., 1998), a late mover must convince consumers that it brings something new to the market that the competition does not have. Being lucky always helps as well (Oladapo & Onyeaso, 2012).

The purpose of this case study was to determine which factors caused Hyundai Motors to be able to differentiate itself from the competition, grow quickly in its early moves and become so successful in the United States market. Hyundai started as a very small car producer that was an extremely late mover to the U.S. auto market (Young-suk & Lee, 1989). Despite initial quality issues (McClellan, 2000), recalls (Shim & Steers, 2012), workforce strikes (Hyung & You, 2011), and a resulting poor brand image, Hyundai Motors was still able to grow at an impressive rate (Taylor III, 2010). In order to determine what differentiated Hyundai from the other auto producers in America, I
compiled articles from newspapers, magazines, the Internet, and academic journals in order to fully understand its actions and to hopefully gain a glimpse into what specifically allowed the late entrant to succeed in America against such well-established competitors as Toyota, Volkswagen, and the Big Three.

The case study revealed that four major categories differentiated Hyundai Motors from its competition: Hyundai’s culture, production system, positioning strategy, and marketing. Hyundai’s Culture, which is central to everything the company does, is unlike any other auto producer’s. From the beginning, Hyundai aggressively and intentionally steered its employees as well the company itself into crises and instability in order to grow (Kim, 1996). Because uncertainty is something that most auto producers fear, Hyundai’s crisis culture as well as its aggressive ambition caused it to constantly take risks that other companies would not and thrive in crisis situations (Kim, 1996) (Ramsey, 2010), giving it a distinct competitive advantage in its market.

From this culture, stemmed Hyundai’s production system, which is a selective emulation of the Toyota Production System. Hyundai’s system is extremely flexible, minimizing mistakes by standardizing its unskilled workers’ jobs and supplementing them with an engineering-driven and automation-intensive production process. The production system is also extremely adaptable to shifts in market demand because of its highly efficient order to delivery system (Lee & Jo, 2007). Finally, this system is easily transferrable to other nations and cultures because of its lack of need for a lot of highly skilled workers due to its plethora of technology and automation (Hyung & You, 2011).

Hyundai Motors’ position has constantly evolved as it has grown. Its early positioning strategy was one of self-reliance and growth. When it entered the U.S. market
however, Hyundai mimicked the strategies used by Japanese producers when they entered the market in the 1970’s. As a result, HMC entered at the low end of the U.S. market and used extremely low price to establish its foothold. After quality problems in the 1990’s, the South Korean producer changed its positioning strategy to that of a high-quality automaker and as it gained success in this niche, it again changed its position in order to push into the luxury market (Taylor III, 2010).

HMC’s marketing strategy in the American market has been a great complement to its positioning strategy throughout the years. The U.S. market may have had the most consistently challenging job of all of the branches of Hyundai, convincing consumers that the Hyundai brand no longer signifies low cost and low quality. Despite that challenge, the American marketing team has done an amazing job of delivering Hyundai’s message. Since 2007, the marketing team has come out with some truly innovative ad campaigns and was even called “Marketer of the Year” in 2009 by Ad Age (Johnson, 2010).

Because of Hyundai Motors’ customer-oriented advertisements and campaigns, and its brilliant work during the economic recession, Hyundai has made significant gains in respect and prestige among consumers.

Interestingly, luck did not seem to influence Hyundai’s success. Despite the unusual number of it has taken. Because of HMC’s crisis construction, it thrives on the risks that it takes. Its aggression and flexibility allow it to make an opportunity out of any situation and improve as a result. So after observing what might be called luck the “luck” that Hyundai has had in its history, its fortune appears less and less to be dependent on luck and more like the result of an astute strategic business plan.

**Implications**
This case study of Hyundai Motors has uncovered some interesting conclusions in regards to the previous literature examining strategic advantages in a market. Hyundai’s performance in the U.S. market supports the literature’s theory on differentiation through innovation and positioning. Hyundai Motors differentiated itself through its culture, production system, marketing, high-quality products and customer-oriented values as well as its ambition and aggression. This set it apart from its competition in the eyes of its customers, and allowed it to steal many customers from its much better known competitors. Hyundai’s history has some interesting implications for the literature on luck and marketing as well. Because of the number of risks that it has taken and the success that it has achieved because of those risks, Hyundai’s case raises the question of whether the concept of luck is really luck at all. Many firms attempt to analyze their environment or optimally position themselves for opportunity, while staying in their stable patterns. Hyundai seems to take a much more aggressive approach, actively throwing itself into instability in order to grow, relying less on luck than a series of aggressive and calculated gambles.

HMC’s marketing team has consistently gone against the grain of traditional advertising and has supported the previous literature on success in marketing, but in a unique way. Instead of trying to subtly fit a message into an eye-catching ad, Hyundai’s most powerful campaigns have been extremely simple and straightforward. This simplicity seems to have stood apart so much from the chaotic ads that other carmakers have used that it comes off as fresh and innovative. But the aspect that truly differentiates Hyundai’s ads from the competition is the thought provoking messages (Halliday, 2007) and consumer oriented approach (Taylor III, 2010). Both have allowed Hyundai not only
to set itself apart from its competition, but to use economic and industry slumps to its advantages as well.

Observing HMC’s behavior over the past 50 years has also raised the question of whether the aggression and constant search for crises that Hyundai has employed over the years is a viable strategy for other firms to emulate. If a firm is always conscious of what consumers want and consistently takes aggressive risks in order to meet those needs, will that company constantly be successful, or will its risks eventually catch up with it and take it under?

Hyundai’s performance in the past decades has some interesting implications for practice. Like leadership traits, there is no single perfect strategy for a brand in any given market. The detailed observation that this case study provides on Hyundai Motors allows one to see that a company that has flexible production system, makes a high-quality product, has a good marketing team and, a good eye for what its customer wants has a very good shot at success within its market. It is unclear however from this study whether the aggressive nature that Hyundai has utilized throughout its history is a sustainable strategy. Can a company continually find success when taking as many risks as Hyundai Motors does? Or will aggression, as it nearly did in Hyundai’s Bromont nightmare (McClellan, 2000) or the ’09 Sonata recall (Shim & Steers, 2012), resulting in irreparable damage to the company that took one risk too many or pushed its employees too hard in pursuit of a lofty goal?
CHAPTER VII

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