CLOSING CASE Hyundai: Leading the Way in the Global Auto Industry

The global automotive industry is one of the largest and most internationalized business sectors. There are seventeen major global automotive companies producing more than one million cars a year. Hyundai Motor Company is South Korea's number one carmaker and the tenth largest in the world, generating about $100 billion in annual sales. It sells vehicles in over 190 countries, producing about a dozen car and minivan models, plus trucks, buses, and other commercial vehicles. Popular models in the United States are the Accent and Sonata, while exports to Europe and Asia include the GRD and Equus.

The Industry

During the recent global financial crisis, global automotive sales declined to near-record lows. Automotive industry profits suffered due to significant excess production capacity. Although there is capacity to produce 80 million cars worldwide, total global demand fell to only about 60 million a year. This led to consolidations and divestitures, including those between Ford and Land Rover; Jaguar and Volvo; Fiat and Chrysler; and General Motors and Opel, among others. Consistent with new trade theory, the required scale compels automakers to target world markets, where they can achieve economies of scale and maximize sales.

The Industry in South Korea

Despite its large size, the car market in South Korea (Korea) is insufficient to sustain indigenous automakers like Hyundai and Kia. Korea holds numerous competitive advantages in the car industry. The country is a world center of new technology development. Korea has abundant, cost-effective knowledge workers who drive innovations in design, features, production, and product quality. The country also has a high savings rate, with massive inward FDI, which ensures a ready supply of capital for carmakers to fund R&D and other ventures. Collectively, Korea's abundance of production factors in cost-effective labor, knowledge workers, high technology, and capital represent key location-specific advantages.

Korean consumers are demanding, so carmakers take great pains to produce high-quality automobiles. Intense rivalry in the domestic auto industry ensures that carmakers and auto parts producers improve products continuously.

The Korean economy is dominated by several conglomerates, called *chaebols*. They include Hyundai, Samsung, LG, and SK and account for about 40 percent of Korea's GDP and exports.

The Korean government has imposed stringent accounting controls on many of these firms. The government cooperates closely with the business sector, protecting some industries, ensuring funds for others, and sponsoring still others. The government promoted imports of raw materials and technology at the expense of consumer goods and encouraged savings and investment over consumption. Partly due to these efforts, Korea is home to a substantial industrial cluster for the production of cars and car parts. The nation benefits from the presence of numerous suppliers and manufacturers in the global automotive industry.

In past years, Hyundai also benefited from a weak Korean won (Korea's currency), making prices for Hyundai cars cheaper for customers in Europe and the United States who buy imported cars in their local currencies. Hyundai owes much of its success to favorable international exchange rates.

Background on Hyundai

Hyundai was founded in 1947 by Chung Ju-yung, a visionary entrepreneur from a peasant background. By the 1970s, the firm had begun an aggressive effort to develop engineering capabilities and new designs in the auto industry. In the 1980s, Hyundai began exporting the Excel, an economy car priced at $4,995, to the United States. An instant success, Excel exports grew to 250,000 units per year. But the Excel suffered from quality issues and a weak dealer network. Buyer confidence waned in the late 1990s and Hyundai's brand equity weakened. In response to complaints, Hyundai initiated major quality improvement programs and introduced a 10-year power train warranty program, unprecedented in the auto industry. The strategy was a major turning point for the firm.

Geographic Diversification

In 1997, Hyundai built a car factory in Turkey, giving the firm convenient access to key markets in the Middle East and Europe. Next, Hyundai opened a plant in India and within a few years became the country's best-selling brand of imported car. In 2002, Hyundai launched a factory in China, doubling production, and is aiming for 20 percent share of the Chinese car market. The firm also partnered with Guangzhou Motor Group, winning entry to China's huge commercial-vehicle market. In addition to gaining access to low-cost, high-quality labor in emerging markets, Hyundai hopes its presence in local showrooms will improve consumer awareness and drive new sales. Most recently, Hyundai has been ramping up sales in Europe.

Hyundai uses FDI to develop key operations around the world. Management chooses locations based on the advantages they bring to the firm. The firm established plants in Iran, Sudan, Taiwan, Vietnam, Venezuela, and numerous other countries. Recently, the firm opened plants in Europe and the United States. Hyundai has R&D centers in Europe, Japan, and North America. It has distribution centers and marketing subsidiaries at various locations that deliver parts to its expanding base of car dealers worldwide. Hyundai also has regional headquarters in Asia, Europe, and North America. To guarantee control over production and marketing, the firm has internalized many of its operations.

To remain competitive, Hyundai employs inexpensive, high-quality labor. Engines, tires, and other key inputs are sourced from low-cost suppliers. The firm has entered various collaborative ventures to cooperate in R&D, design, manufacturing, and other value-adding activities. These allow Hyundai access to foreign partners' know-how, capital, distribution channels, marketing assets, and the ability to overcome government-imposed obstacles. For example, Hyundai partnered with DaimlerChrysler to develop new technologies and improve supply-chain management. Compared to Japanese or Western rivals, Hyundai has superior cost advantages in the acquisition of high-quality inputs.

While Japanese auto giants such as Toyota and Honda rely heavily on U.S. sales for their profits, Hyundai is more diversified. North America accounts for only 22 percent of Hyundai's total sales, while Europe and Asia (excluding Korea) represent about 30 percent.

Hyundai recently launched its first luxury model, the Genesis. The Elantra was named the North American Car of the Year at the 2012 Detroit Auto Show, trumping industry favorites like the Ford Focus and Volkswagen Passat.

A recent marketing innovation is the "Assurance Program" under which buyers can return recently purchased cars if they lose their job within one year of purchase. The program even pays the customer's lease payments for up to 90 days while the customer searches for a new job. Owners who elect to keep their cars are not required to reimburse Hyundai.

Recent Events

Hyundai continues to launch new marketing campaigns and replaced General Motors as the official automotive sponsor of the Academy Awards. Hyundai has pursued internationalization aggressively. While many global firms struggle to stay afloat during a crisis, Hyundai is seeking to expand. Hyundai sees the crisis as an opportunity, with plans to emerge even stronger. Hyundai has improved quality and increased sales against all odds. Given its focus on quality, energy efficiency, cost control, and customer satisfaction, perhaps Hyundai is the new standard bearer in the global auto industry.

AACSB: Reflective Thinking Skills, Analytic Skills, Multiculturalism, and Diversity

Case Questions

1. What are the roles of comparative and competitive advantages in Hyundai's success? Illustrate your answers by providing specific examples of natural and acquired advantages that Hyundai employs to succeed in the global car industry.
2. In terms of factor proportions theory, what abundant factors does Hyundai leverage in its worldwide operations? Provide examples and explain how Hyundai exemplifies the theory. In what ways does Hyundai's success contradict the theory? Justify your answer.
3. Discuss Hyundai and its position in the global car industry in terms of the determinants of national competitive advantage. What is the role of demand conditions; factor conditions; related and supporting industries; and firm strategy, structure, and rivalry to Hyundai's international success?
4. The Korean government has been instrumental to Hyundai's success. In terms of national industrial policy, what has the government done to support Hyundai? What can the government do to encourage future success at Hyundai? What can the government in your country do to support development or maintenance of a strong auto industry?
5. Consistent with Dunning's Eclectic Paradigm, describe the ownership-specific advantages, location-specific advantages, and internalization advantages held by Hyundai. Which of these advantages do you believe has been most instrumental to the firm's success? Justify your answer.

Sources: "2012 Hyundai Elantra: Why It Won Car of the Year Award," *International Business Times*, January 9, 2012, retrieved from www.ibtimes.com; "Hyundai Floors It in the US," *BusinessWeek*, February 23, 2009, p. 30; "Business: Sui Genesis; Hyundai's Surprising Success," *Economist*, March 7, 2009, retrieved from http://www.economist.com; "Hyundai Motor Company," *Hoover's Company Records*, February 17, 2012, retrieved from http://www.hoovers.com; T. Murphy, "Hyundai Ratchets Up Momentum," *Ward's Auto World*, March 2010, p. 28; "2009 Production Statistics," *OICA*, 2010, retrieved from http://www.oica.net; "Survey: Driving Change," *Economist*, September 2, 2004, pp. 15–24; "The Quick and the Dead," *Economist*, January 27, 2005, retrieved from http://www.economist.com; R. Steers, *Made in Korea* (New York: Routledge, 1999); Chris Reiter, "The Contender," *Bloomberg Businessweek*, January 30, 2012, pp. 21–22; M. Schuman, "Hyundai Revs Up," *Time*, April 25, 2005, pp. 27–30; "Special Report: The Car Company in Front—Toyota," *Economist*, January 29, 2005, pp. 73–77.

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CHAPTER ESSENTIALS

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Key Terms

absolute advantage principle 139
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