



An Analysis of the U.S. Automobile Market

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# 1. Porter's Five Forces Analysis of Automobile Industry

## 1.1 Entry

- Significant Entry Barrier to Overcome
  - Industry of Scale: Huge resources had to be devoted to enter.
    - Huge Factories, Labor, Automobile Parts
    - Resources needed build Transportation/Delivery Network (Trucks, Drivers, Warehouse, Management etc.)
    - Marketing Cost, Sponsor Cost (Events such as Super Bowl)
    - Contract Costs
  - Variety of Networks
    - Must compete with incumbents
    - National wide network of Dealers
    - Delivery network
    - Contracts with 3<sup>rd</sup> party automobile parts dealer required. (Pep boys, AutoZone etc...)
    - Maintain advertisement over TV networks
    - Obtaining the rights to sponsoring Popular Events (Super Bowl)
  - Technology: Matching the industry standards
    - Must maintain competitive technology amongst many firms. (Improving Safety, Gas Mileage, Reduce Breakdowns, Higher Performance, Hybrid technology etc.)
  - Product Differentiation
    - Creating unique designs and unique names for products
    - Creating brand image among consumers through aggressive investment in advertisement and sponsorships
  - Government: Huge restrictions as an foreign exporter
    - Obtaining trade rights
    - Altering product lines to match U.S. laws

- Must pay a separate tax as an exporter
- Reputation
  - Earning brand image is difficult and may take years in automobile industry

## **1.2 Buyer Bargaining Power**

- Significant bargaining power among buyers, since they can always settle for a complement
  - Prior to purchase, Buyers usually obtain huge information on the current automobile industry
  - Many substitutes; Various brands with similar specs and price with competitive marketing
- Huge marketing power among advertisers, and sponsors due to large demand with monopolistic supply

## **1.3 Supplier Bargaining Power**

- Almost no bargaining power among suppliers
  - Automobile makers work to maintain aggressive cost strategies, thus suppliers must price compete with one another to obtain contracts with them.
  - Automakers retains most of the information of the suppliers

## **1.4 Substitutes**

- Products from other manufacturers
  - Toyota, Nissan, GM, Ford, Chrysler, BMW etc.
- Public Transportation (Increasing in most metropolitan areas)
- Secondary Transportation (Motorcycles, Segway etc.)

## 1.5 Rivalry

- Huge Price competition leading to extensive need to differentiate, leading to more resources devoted to marketing brands
- Rivalries among introducing the newest and best technology.
- All strategies are highly monitored and, in many times, copied among rival firms.

## 2. SWOT Analysis

### 2.1 Strengths

- Entry Timing

Hyundai entered the U.S. market as a late starter, giving its rivals ranging from 20~50 years of early start in the industry. Although there are downsides to late entry, Hyundai was successfully able to monitor and follow the strategies of the companies that succeeded prior to Hyundai's arrival, such as Toyota and Honda. Hyundai was able to modify and use the strategies that these companies used in each step of their growth to ensure similar growth for itself. Also, Hyundai could also monitor histories of companies that have declined in American market, such as GM/Ford/Chrysler and ensure that it doesn't follow their path, such as unmonitored inefficiencies in production and resource management.

- Low Cost for Implement Newer Technology

Since other rival firms have invested huge amounts of capital to discover new technology, Hyundai can implement similar technology with less cost. Combined with being flexible mentioned above, Hyundai can quickly manufacture cars equipped with newer technology with less cost, making it more efficient.

- Flexibility

Hyundai Motors, compared to BIG 3 or Toyota, is still considered to be small in American market. Given that, Hyundai can be very flexible, financially and strategically, in many different situations. Therefore, whenever Hyundai chooses to implement its strategy, it can be quicker and more efficient than its rivals. For example, if Hyundai chooses to produce a new line of vehicle, it can produce enough to meet the market requirements, whereas other bigger firms must produce much more than that. Also, whenever there is a financial crisis, Hyundai can alter its labor force and production capacity without causing a huge impact, whereas these larger firms might have to close down few plants, layoff thousands of workers, etc...

## **2.2 Weakness**

- Low Brand Recognition and Brand Power (Late Entrant)

As mentioned above, brand image is a significant entry barrier in the automobile industry. Many factors, such as target buyers and used car pricing, are dependent mostly upon the firm's brand image. Hyundai Motors still have low brand recognition compared to other larger firms, making it harder for Hyundai to grab a wide range of consumers. Also, since brand recognition is low, price depreciation rate is very high in comparison to Toyota or Honda, which curbs new car buyers from buying Hyundai.

- Technological Advancement

Given that Hyundai is smaller in size compared to its rivals, Hyundai's investments are geared toward increasing the market share and larger advertisement schemes, rather than making drastic technological advancement. When all the rivals have already begun to produce Hybrid vehicles are looking forward to finding a next-gen alternative to gasoline vehicles, Hyundai is still a runner-up in these areas. Therefore, Hyundai cannot compete in some areas of the market where technological advancement is critical.

- Small Pool of Previous Buyers

Most consumers do a lot of research prior to purchasing an automobile, and feedbacks from prior buyers can be a determining factor for many consumers. However, Hyundai does not have a huge pool of previous buyers to provide feedback, thus many careful consumers hesitate to buy Hyundai.

### **2.3 Opportunities**

- Increasing Shares in Targeted Markets

Hyundai currently carries a very loyal pool of buyers in certain specialized markets, such as used car markets, low-income consumers and retired seniors. Given that the size of these markets have not decreased, but is predicted to increase in the next few years, Hyundai can find itself with more consumers in its loyal target markets.

- Product Life Cycle Not Reaching Maturity

Unlike other brands that have been in the U.S. market for long periods of time, Hyundai is fairly new to American consumers. Given that the product life cycle exists for any product out in the market, automobiles from other incumbent companies have reached or even passed their maturity phase, tending toward the decline phase. Unlike them, Hyundai products are far from reaching the maturity cycle, thus there is huge room in the market where Hyundai can bring from other firms.

- Current Financial Crisis Provides Room for Growth

Due to the current economic crisis, many failing automobile companies are working toward to decrease in size and trying to reduce their losses. If strategically positioned well, Hyundai can take advantage of this opportunity and grow.

### **2.4 Threats**

- Overflow of Used Vehicles

Current U.S. used car market is very saturated due to the huge influx of lease returned vehicles and car owners looking to sell their vehicles. This causes an overall drop of all used car available. This drives the residual values of Hyundai vehicles much lower than before. Given that this was Hyundai's weakness for a long time, further losses in the market share from the pool of consumers looking forward to sell their vehicles are inevitable.

- Chinese Automakers

Chinese automakers are presenting the greatest threats for Hyundai, since they plan to arrive at the American market, threatening many present competing firms. Chinese automakers are capable of making huge amount of vehicles at very low cost, thus having the capability of taking a huge market share away from Hyundai's target consumers.

- Saturated Market with Overflow of Similar Line-Ups

Hyundai's main product, Sonata, is a mid-size sedan. However, American auto market is oversaturated and is still increasing in numbers with mid-size sedan line-ups. Therefore, Hyundai is threatened by multiple lineups from multiple automakers at once.

### **3. Strategic Analysis for Hyundai in the North American Market**

The most important decision that Hyundai CEO's should be making is which section of market is Hyundai going to compete in. Although it is quite clear that Hyundai Motors is an automobile production company, there exists, in the motor market, various groups of consumers that are buying cars for lots of different reasons. Aiming for the right pool of consumers will maximize the chance of success for Hyundai.

Hyundai has recently emerged in the global-market as a competitor in the auto industry relative to other automakers like as Toyota and GM, and thus, lacks in many aspects: overall size of the company and comprehensiveness of the line-up. This makes it especially difficult for Hyundai to compete head-on with existing firms in the auto-market aimed at the general public of all race and age. This kind of strategy was possible in South Korea where they were the first mover and was ensured protection and support

by the government. However in a totally competitive market like the one in North America, a different approach for the strategy is required.

For Hyundai, targeting a specific consumer type with a relatively small line-up of cars is advantageous. The advantage that Hyundai has can be summarized as having more choices. Hyundai, compared to other major automakers, is smaller in size in terms of total employees and production. This fact alone enables Hyundai to be more flexible in terms of cost and decisions that relates to expansions and cutbacks. It would be easier to expand a business once it has settled down than to contract after it has already expanded; contracting a business is mainly done by selling property and firing employees which usually has a low return, strong opposition and problems in cash flow. Hyundai definitely holds advantage over other massive automakers in terms of flexibility.

Therefore, the next question is naturally to ask in what kind of market in the auto-industry is Hyundai going to aim for. One of the key facts that we are going to pay close attention to is the fact that the average age of the consumer in North America is 46.

People of age around 46 typically have been working for more than 20 years and have a family to support - at least in the traditional American standard. These people need a car that will last long, while having as few problems as possible. Also, around this age, people will start to prepare for retirement, which will limit their spending on new vehicles. In other words, this pool of consumers will practically not purchase a new car as long as the car is fit for the job it is supposed to do. Therefore, the consumers will look for a car with reliable steering wheels/break system and long-lasting warranties, in opposed to having xenon headlights, v-10 engine and chrome wheels. Given that they will be looking for a car to keep for a long time, low residual rate would not be an issue for these buyers. In other words, the best way for Hyundai to satisfy people of age around 46 is to produce cars that last long and contain only the essential functions that the car needs in order to meet the customer's basic needs.

Other than providing a reliable and practical car, low price is another key strategy that Hyundai should aim at. This low price can be achieved by producing automobiles that carry selective features that also emphasize practicality. It is important to note that Hyundai no longer ships cars that are produced in South Korea but sell product that are produced in North America. Therefore, we assume Hyundai to pay the

same amount of wage from the same kind of labor market as that of its competitors. Given this fact, Hyundai no longer has any price advantage over its rivals on production. Therefore, in order to continue with low pricing, subtracting unnecessary utilities rather than producing extravagant luxury cars can mainly achieve low price.

However, given that the target buyers are mid-aged Americans with recognizable social status, they will not settle for reliable engine in a box. These people would want a vehicle to show their status, without spending too much off their retirement savings. Also, these people would want comfortable, large sized vehicle, because people of this age look forward to travel a lot with many family members. However, if they were to buy a functional and cheap they would settle for Toyota Corolla or Honda Civic, but as the trends show, we know that this is not the case. Thus, Hyundai must produce a product that can satisfy this pool of buyers economically and functionally in order to ensure their growth in this segment.

Other than aiming for a specific market, Hyundai should take advantage of the fact that most of the major traditional automakers in the North American market have been known for a long time and Hyundai is quite new. If Hyundai comes up with high-quality cars with new design and a reliability backed by its extensive warranty, it can be easier to give the impression that Hyundai is a young and energetic company. This new brand image can attract many new consumers.

For most of the competitors, it is difficult to simulate what Hyundai's strategy since it will always be a loss for them. If other motor companies offer warranty as extensive as Hyundai's, it will be a tremendous additional cost for them since their cost is already put into adding many unnecessary features that are rarely recognized by the consumers. Plus, the more unnecessary features there are, the more likely that some of them will break down, increasing the overall marginal cost per vehicle in the long run.

Furthermore, competitors cannot start eliminating features that they have put so much money developing and producing. Many times this would mean that competitors are going to have to signal their customers that they are turning away from all the high-quality automobile company, which will cause previous loyal customers to turn away.

## 4. Conclusion

Given that we need to focus on the loyal buyers in the pool of mid to high aged Americans, Hyundai must produce a new line of vehicle that can appeal to this pool of buyers. Summarizing the facts, the new line of vehicle must be luxurious enough so that it is not an embarrassment of the people of that age, it must be economic enough so that it does not impose a financial burden, and must be comfortable enough for people in the given age demographics. Also, since they will look forward to owning this vehicle for a long period time, long-lasting warranty is a must. Therefore, Hyundai should strategically aim to create a new line of luxury mid/large-size sedans.

Hyundai should position itself, so that the pricing is similar to Toyota, but the quality and the design is that of a luxurious automaker like BMW and Mercedes Benz. Hyundai has a possibility to achieve such strategy, because it could cut back on unnecessary luxury and concentrate on high quality vehicle with options largely aimed for mid/high age Americans, such as high quality comfortable leather seats, high quality audio system, and smooth riding vehicle.

Knowing that the rivals would take longer to respond to Hyundai's strategy, Hyundai, with its flexibility, can quickly work to gain market share in this segment. Thus, creating a luxury line of vehicles at a low cost coupled with long warranties and comfortable necessities would ensure long-term growth and survival of Hyundai.

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## 6. Exhibits

### 6.1 Exhibit A

Shows Hyundai as No.10 Automaker, consisting mostly of Passenger Cars

**WORLD MOTOR VEHICLE PRODUCTION**  
**OICA correspondents survey**  
**WITHOUT DOUBLE COUNTS**

**WORLD RANKING OF MANUFACTURERS**  
**YEAR 2007**

Rank	GROUP	Total	CARS	LCV	HCV	HEAVY BUS
	<b>Total</b>	<b>72,178,476</b>	<b>56,301,121</b>	<b>12,775,910</b>	<b>2,685,200</b>	<b>416,245</b>
1	GM	9,349,818	6,259,520	3,055,575	33,042	1,681
2	Toyota	8,534,690	7,211,474	1,108,333	129,107	85,776
3	VOLKSWAGEN	6,267,891	5,964,004	256,777	39,600	7,510
4	FORD	6,247,506	3,565,626	2,586,284	95,596	0
5	Honda	3,911,814	3,868,546	43,268	0	0
6	PSA	3,457,385	3,024,863	432,522	0	0
7	Nissan	3,431,398	2,650,813	641,734	131,429	7,422
8	FIAT	2,679,451	1,990,715	536,578	127,542	24,616
9	RENAULT	2,669,040	2,276,044	392,996	0	0
10	Hyundai	2,617,725	2,292,075	67,003	159,237	99,410
11	Suzuki	2,596,316	2,284,139	312,177	0	0
12	Chrysler	2,538,624	754,855	1,779,269	4,500	0
13	DAIMLER	2,096,977	1,335,226	257,350	438,954	65,447
14	B.M.W.	1,541,503	1,541,503	0	0	0
15	Mitsubishi	1,411,975	1,100,528	304,273	7,174	0
16	Kia	1,369,330	1,286,299	81,040	0	1,991
17	Mazda	1,286,730	1,165,660	117,779	3,291	0
18	DAIHATSU	856,171	711,595	130,968	13,608	0
19	AVTOVAZ	735,897	735,897	0	0	0
20	FAW	690,712	690,712	0	0	0
21	Tata	588,158	243,251	170,230	157,781	16,896
22	Fuji	585,028	512,606	72,422	0	0
23	CHANA AUTOMOBILE	543,787	543,787	0	0	0
24	Isuzu	532,013	0	49,810	478,535	3,668
25	BEIJING AUTOMOTIVE	454,272	454,272	0	0	0
26	DONGFENG MOTOR	437,035	437,035	0	0	0
27	CHERY	427,882	427,882	0	0	0
28	OTHERS	368,728	189,057	69,935	85,036	24,700
29	SAIC	313,002	313,002	0	0	0
30	BRILLIANCE	293,588	293,588	0	0	0
31	GAZ	248,839	39,138	179,596	30,105	0
32	VOLVO	236,024	0	14,825	210,446	10,753
33	HARBIN HAFEI	231,488	231,488	0	0	0
34	GEELY	216,774	216,774	0	0	0
35	ANHUI JIANGHUAI	209,880	209,880	0	0	0
36	MAHINDRA	168,556	104,441	64,115	0	0
37	Paccar	126,960	0	0	126,960	0
38	GREAT WALL	122,605	122,605	0	0	0
39	JIANGXI CHANGHE	112,083	112,083	0	0	0
40	PORSCHE	107,170	107,170	0	0	0
41	Hino	106,893	0	4,586	97,323	4,984
42	BYD	100,376	100,376	0	0	0
43	CHINA NATIONAL	100,202	100,202	0	0	0
44	M.A.N.	98,441	0	0	92,485	5,956
45	Navistar	86,758	0	0	70,839	15,919
46	FUJIAN	84,138	84,138	0	0	0
47	SCANIA	78,331	0	0	71,017	7,314
48	UAZ	72,162	31,869	40,293	0	0
49	SHANNXI AUTO	68,160	68,160	0	0	0
50	SHANGDONG KAIMA	65,790	65,790	0	0	0

## 6.2 Exhibit B

Until recent drop due to the financial crisis, Hyundai kept its steady growth, while most other rivals are either peaking at maturity or declining.

### Stock price change of the companies (10 years)



Hyundai

Honda

Nissan

Ford

GM

Toyota

### 6.3 Exhibit C

Shows steady increase in sales in U.S. market

US sales

Calendar Year	Sales
2000	244,391
2001	346,235
2002	375,119
2003	400,221
2004	418,615
2005	455,012
2006	455,520
2007	467,009
2008	401,742