

## COST STRATEGIES OF KOREAN AUTOMAKERS

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### *The Situation Today*

The global auto industry has entered into an era of unbridled competition. Before the 1980s, America and Europe dominated the world auto industry. But in the early 1980s, with the onset of the oil crisis, the Japanese auto industry rapidly rose to prominence in the world auto market with sales of smaller-sized cars at its head. Because of the rising oil prices, consumers preferred the smaller, fuel-efficient Japanese cars, and soon the Japanese auto industry developed into a rival of America and Europe. Starting in the mid-1980s, Korea began to make its mark in the world auto industry by entering into the vast U.S. market and also by its rapid domestic motorization.

Recently, the world auto industry has entered into a phase of equalization in terms of quality thanks to progress made in technological development. Therefore, in order for auto makers to survive in the future, strengthening price competitiveness will have to take precedence over quality competitiveness. Thus, the world's leading automobile companies are concentrating their efforts on strengthening their price competitiveness through curtailment of cost. Auto makers are actively pursuing production on the spot to reduce costs and also the development of lower-priced smaller models in order to secure their share of the Asian market, which will be the world's largest market in the future.

Korean auto makers, which up until now have relied upon their price competitiveness to succeed in the world market, are now facing a new barrier. Since the world's leading auto

companies have been actively developing lower-priced small cars, it has become extremely difficult for Korean companies to maintain their price competitiveness. Therefore, as a survival strategy, the Korean auto manufacturers are making every endeavor to recover their price competitiveness by reducing costs in various ways.

### *It's All in the Parts*

The competitiveness of an automobile industry depends on the competitiveness of the parts industry because an automobile consists of around 20,000 parts. The Korean auto component and parts industry lags behind those of the developed countries both in terms of size and also technology. Korean auto manufacturers have been searching for various ways to strengthen the competitiveness of its component and parts industry. In addition, Korean makers have been pursuing systematization, modulization, usage of parts in common, and outsourcing of supply of component and parts. Under systemization, system supply companies are in charge of the supply and systemic assembly of all parts except for those which must be made by the auto manufacturers themselves. Modulization means that each individual part combines to form a module unit. It improves productivity by reducing the number of working process. Using parts in common has the effect of reducing the prime cost by decreasing the number of items to be developed, reducing the development time, and shortening the

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*“One could say that whether or not Korean car makers will be able to recover their price competitiveness will depend on the success or failure of their efforts to reduce the period of development for a new car.”*

assembly process. Korean car makers are also pushing forward a scheme to reduce costs in parts supply by fostering competition among parts suppliers. They are also expanding outsourcing and global sourcing for parts supply. Recently, the Hyundai Motor Company (HMC) decided to have its parts suppliers compete with one another for parts supply contracts. Kia Motors has also developed a plan to decide upon the supplier of most of its common parts through a competitive bidding process among its suppliers in order to reduce the prime costs and encourage technical innovation and productivity enhancement among the parts suppliers.

*Developing a New Car*

**K**orean auto manufacturers are striving hard to reduce the term of development

for a new car, a key element for reducing the prime cost. HMC is planning to decrease the time period for every aspect of the car manufacturing process, through such things as drastically reducing the time to go from the vehicle concept to determining the model, and also introducing a system to make the design coincide with building of a trial model. In its efforts to reduce the term of development for a new car, Kia Motors plans to greatly increase the size of its R&D staff and enhance its model and clay model development abilities. The Korean firms’ plan to reduce the term of development to 24 months, the level of the developed countries, is primarily geared toward reducing the enormous expenses entailed in the development of a new car. The only way to gain price competitiveness is to reduce the unit cost required in each stage of manufacturing. One could say that whether or

*(continued on p.19)*

〈Table 1〉 The Present Status or Plans for Localized Manufacturing

	HMC	KIA	Daewoo
South-America	Venezuela(2/96) Brazil(10/unknown)	Venezuela(0.8/92) Brazil(3/97)	Brazil(6/98)
East Europe & C.I.S.	Hungary(0.1/96)	C.I.S.(2/97)	Rumania(20/96) Uzbekistan(20/96) Poland(29/96) Czech(2.35/96)
Asia	China(3/96) Thailand(1/93) Indonesia(1/95) The Philippines(1.2/95) Pakistan(1/98) Vietnam(3/97) Malaysia(1/98) India(20/98) Turkey(5/97)	Taiwan(3/89) The Philippines(1/89) Iran(5/93) Pakistan(1.5/95) Vietnam(0.5/93) Indonesia(12/97) Malaysia(1/96) India(3/97) Turkey(5/98)	China(0.5/94) Vietnam(2.2/96) India(16/95) Indonesia(1/95) The Philippines(8.5/96)

Note : (production capability, unit 10 thousand /year begin to produce)  
Source : KAMA.