

Full Speed Ahead

Once the laughing stock of the car industry, Hyundai has slowly emerged as a manufacturer of stylish, powerful and well-engineered vehicles. Added proof: Its first rear-wheel luxury sedan, the Genesis, was just named the 2009 North American Car of the Year. Now, the South Korean automaker must fight to compete with powerhouses Lexus and BMW, tough out a dismal economy and win over some of its toughest critics: Korean Americans.

> By Rebecca U. Cho

IN the bustling arena of the Detroit Auto Show, cameras flashed, reporters jotted notes and viewers applauded the vehicle just named the 2009 North American Car of the Year.

But this time, the executive proudly clutching the trophy was not from a Japanese, American or European automaker. He was H.S. Lee of South Korea's Hyundai Motor Co.

The winning car, the Hyundai Genesis, took the title on Jan. 11 after becoming the first vehicle from a South Korean automaker to even make it to the finals of the contest. A panel of 50 top automotive journalists from around the world voted on the award, one of the industry's most prestigious accolades.

It's a stunning win for Hyundai, Korea's largest carmaker and the world's fifth largest, hinting at just how far the company has come since its meek 1986 debut in the U.S. market. The hungry infant that stumbled along in the 1980s and 1990s with cheap, unreliable vehicles has quietly grown up.

"Genesis ... really does mark a new beginning for our company," Lee, vice chairman of the Hyundai Motor Co., told reporters as he accepted the award. "It represents the engineering excellence that our company has tried for and it is a game-changing vehicle which will define our product going forward."

The company's first U.S. offering, the Hyundai Excel, with its low reliability ratings and poor product quality earned Hyundai a reputation as the K-mart of automakers — a producer of cars for those who just could not pay for anything better.

The perception made its way into popular culture. In an episode of *Friends*, Rachel mocks Ross' decision not to chip into the group's lottery collection, saying that if they win, they'll all be taking their helicopters "up to the Cape," while Ross is left "loading up the Hyundai." Kanye West's song "Gold Digger" makes a jab at the automaker with the lyrics: "I know somebody payin' child support for one of his kids/His baby momma's car and crib is bigger than his/You will see him on TV any given Sunday, win the Super Bowl and drive off in a Hyundai." And David Letterman once quipped that if one wanted to play a prank in space, tape a Hyundai logo onto the ship's main control panel.

"You know it's bad when late-night comedians are making fun of the car," says Ed Kim, director of industry analysis at Torrance, Calif.-based AutoPacific.

Hyundai has been fighting hard to break free from its stigma ever since.

The maker hopes that the Genesis, Hyundai's first foray into the full-size, rear-wheel drive luxury market dominated by Japanese and European brands such as Lexus and BMW, will cast a halo on its brand, leading more car buyers to turn to Hyundai when shopping.

But the fight will be an uphill climb. Auto experts question just how far Hyundai can push into the luxury sector, given the company's niche is in entry-level, low-priced vehicles.

And as for erasing the stigma on the brand, consumers in the car market have a notoriously long memory, says Paul Koh, the executive director of multicultural marketing for Hyundai Motor America, based in Fountain Valley, Calif.

"Once a customer is burned by a product like a car, it's very difficult to get them back," he says.

Koh recently finished a marketing campaign targeting first-generation Korean Americans, one group he hopes to "bring back" to Hyundai. He is bilingual, having immigrated to the U.S. from Korea at age 12, and has been with Hyundai Motor America since its inception.

"I'm the most passionate about this market because they're my people," Koh says. "If Koreans don't buy our products, how can we expect others to buy our products?"

He targeted churches in his outreach in order to reach Korean Americans at large gatherings and get them into the driver's seat of the Genesis. He first tested the idea at Cerritos Presbyterian Church, offering to donate $25 to the church for each person who test-drove the Genesis in the church parking lot. Koh says he was uncertain about how the idea would be viewed.

"From a church standpoint, not everyone looks at mixing business with church favorably," he says.

But the program experienced a warm reception. Koh visited 17 churches last year in major cities across the U.S., including Los Angeles, New York, Washington, D.C., Seattle, Chicago, Dallas and Atlanta, offering test drives. In surveys taken at the sites, 99 percent of participants said their opinions of Hyundai improved after driving the Genesis, Koh says. He plans to continue the program this year.

Hyundai has also been aggressively boosting the Genesis in the mainstream market, running commercials during the Super Bowl the past two years.

AutoPacific's Kim, who until the beginning of 2008 served as Hyundai Motor America's manager of advanced product planning, says that Hyundai has pinned great hopes on the Genesis to move the brand up-market.

Hyundai has made a heavy investment in the Genesis, including spending $200 million in product development alone, according to a company spokesman.

Kim says the Hyundai is not expecting its new luxury car to make huge sales, but to drive up the branding of its name. After introducing the Genesis in late June, Hyundai sold more than 6,000 Genesis sedans.

"[The Genesis] is a statement to the public that [Hyundai is] capable of building a world-class car," Kim says. "If the general public sees Hyundai can make these world-class luxury sedans, the Sonata must be a good car, too."

Although Hyundai cannot compete in prestige with its older cousins, it hopes to grab the piece of the market that caters to consumers who want all the trappings of luxury without the price tag.

Hyundai touts the Genesis as competing with the Lexus GS and BMW 5-series in product quality, but for the price of a Lexus ES and BMW 3-series. Offered with the V-6 or V-8 engine, the Genesis is priced at about $8,000 lower than its target competitors, starting at $33,000 and ranging upwards to $42,000. With all the trimmings, the Genesis speeds from 0 to 60 mph in 5.7 seconds, propelled by its powerful 4.6-liter V-8 engine.

The carmaker even threw into the mix the Lexicon audio system, making the Genesis the only other car besides the Rolls-Royce Phantom to boast the acoustics of the Lexicon brand.

"It's going to be hard for people worried about the grille on the car to say no to us because we make so much sense," says Jim Trainor, the product public relations manager for Hyundai Motor America, the U.S. subsidiary of Hyundai Motor Co.

In March, Hyundai will unveil its highly anticipated, lower-priced coupe.

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Hyundai makes its push into the premium market as the U.S. automotive industry hobbles out of its worst year in vehicle sales since 1992, marked by an 18 percent drop in car and truck sales, according to Autodata. Auto experts predict 2009 will be even worse.

But Hyundai seems to be holding its own in the dismal economy. In 2008, Hyundai's U.S. sales declined by 14 percent, but the drop was moderate compared to many others. General Motor Company's domestic sales dove 22.7

percent and Toyota's 15.4 percent, according to Autodata.

At the same time, the automaker increased its U.S. market share, reaching 3 percent. With that number, Hyundai pushed ahead of Chrysler, Jeep and General Motors in 2008.

Hyundai, the perpetual youngster in the crowded car market, has experienced its share of growing pains.

The parent company, Hyundai Motor Co., was established in 1967. Hyundai Motor America opened in 1985, breaking a record the next year by selling more cars in the U.S. than any other car brand in its first year of business at the time. But soon, the South Korean maker's inexperience began to show in the Hyundai Excel's poor reliability. Enthusiasm for the brand simmered and sales plummeted.

"In a way, Hyundai brought this upon itself," says Kim. "In the 1980s, many assumed Hyundai would be a high quality car because it came from Asia. Those early Hyundais were junk. They were horrible cars that always broke down."

Hyundai's product quality slowly and steadily improved. By the late 1990s, Hyundai had established itself in the entry-level, mid-size market with cars like the Sonata. In 1999, the company introduced a 10-year, 100,000-mile warranty, in an effort to prove to the public that Hyundai could produce long-lasting, quality cars. Hyundai's sales climbed at a hot pace, growing by an average of 14 percent annually from 2001 to 2005. Better quality and a wider lineup of cars, including the sporty Tiburon coupe and Santa Fe SUV, powered the climb.

The momentum slowed in 2006 when Hyundai chairman Chung Mong-Koo was convicted of embezzling the U.S. equivalent of $73.8 million from the company.

But Hyundai continues to grow, having more than doubled its North American market share from 1.3 percent in 2000 to 2.8 percent in 2007, according to data from market research firm Frost & Sullivan.

In 2006, J.D. Power and Associates for the first time ranked Hyundai third, behind Porsche and Lexus, in overall product quality. Hyundai came out ahead of Toyota and Honda.

Kyu-min Oh, a senior industry analyst at Frost & Sullivan, believes Hyundai's brand image has made great strides. But as Hyundai takes serious steps into the premium market, the maker's strategy of offering lower budget, but high quality cars, can only carry the company so far, Oh says. People who tend to buy luxury cars do not like the low-cost image.

"It's a very good marketing strategy for the moment, but in the future, you would want to get rid of that image," Oh says.

Hyundai's efforts to shake loose from its stigma also echo the experiences of its Japanese counterparts. Toyota and Nissan, both of which appeared in the U.S. scene in the 1950s and 1960s, worked hard to rid themselves of the image that their cars were cheap and unsafe. They also had to confront anti-Japanese sentiment that blamed them for taking automobile industry jobs away from the U.S.

With the introduction of the Genesis, car experts were quick to draw comparisons to Toyota's foray into the luxury market with the Lexus LS 400 in 1989. Toyota promised this new luxury line would change the face of the automotive landscape, and the Japanese company delivered.

One big difference, however, is that Hyundai has chosen not to start up a new line for its luxury cars, a decision fueled by the massive costs that come with creating one, says Hyundai's Koh.

"It would cost us an incredible amount of investment — in the billions," Koh says. "We'll try it out in the current brand."

There are signs of growing consumer confidence in Hyundai. In 2000, just 2.4 percent of new U.S. buyers said they would consider the Hyundai when shopping. By 2008, that figure had tripled with 9.2 percent of new buyers saying they would

Hyundai's Road To Respectability



1946

Chung Ju-Yung establishes Hyundai Auto Service in Seoul, South Korea at the age of 31. The name translates to "modern." The stylized "H" logo symbolizes partners — the company and customer — shaking hands.

1967-1968

Chung Ju-Yung and younger brother Se-Yung Chung launch Hyundai Motor Company and enter a contract with Ford to assemble the Ford Cortina and Granada for the South Korean market.



1975

To stimulate economic growth, the South Korean government formulates a detailed plan for the development and manufacturing of Korean cars. Hyundai, along with Daewoo, Kia and SSangyong, accept the challenge and production begins.



1976

Hyundai's first indigenous model, the Pony, is officially released. It is exported to Europe.



1983

Hyundai releases the Stellar, a rear-wheel drive vehicle with luxury options such as power windows, locks and mirrors, and air conditioning. Emissions restrictions prevent the Stellar from reaching the United States, but it is exported to Canada and other countries.



1985

With its first front-wheel drive automobile, the Excel, Hyundai finally earns the approval to enter the U.S. automotive market. A year later, it debuts with a price tag of $4,995, a steal for American consumers. Hyundai sets a record of selling the most automobiles in its first year of business in the U.S.



1989

Hyundai debuts the Sonata, the first automobile created entirely by the company's own design and technology.

'80s and '90s

While initially well received, Hyundai's faults become apparent and cost-cutting measures cause reliability to suffer. With an increasingly poor reputation, Hyundai sales plummet, and many dealerships either earn their profits on repairs or abandon the product.

Hyundai's efforts to shake loose from its stigma also echo the experiences of its Japanese counterparts. Toyota and Nissan, both of which appeared in the U.S. scene in the 1950s and 1960s, worked hard to rid themselves of the image that their cars were cheap and unsafe. They also confronted anti-Japanese sentiment that blamed them for taking automobile industry jobs away from the U.S.

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place Hyundai in its consideration set, according to Kim's figures.

Hyundai's introduction of the Assurance program this year, which allows a customer who buys or leases a Hyundai to return the car if the buyer loses employment, has increased foot traffic by 75 percent at Hyundai dealerships, according to Trainor.

The hard-charging Hyundai in the past has announced some impressive goals, including sales of 1 million cars and trucks annually in the United States by 2010. The automaker has yet to reach the half-million mark. but Hyundai's "grand dreams," tempered with resilience, has brought the company this far.

"Hyundai is very hungry, very aggressive and what's most impressive about them is they're extremely fast learners. They make mistakes, but they learn from their mistakes very, very quickly," Kim says.

Hyundai still has a long road to travel before turning around consumer perceptions of its brand, he says. The next step for Hyundai is to distinguish itself as a leader, rather than a follower.

"It can't just try to be the low-cost Toyota," Kim says. "They're really beginning to understand that. The next step is going to be in understanding what makes Hyundai uniquely Hyundai."



1998

Hyundai Automotives purchases a significant share of rival Kia Motors after the latter files bankruptcy during the financial crisis in Asia.

1999

Chung Mong-Koo, son of Hyundai's founder, takes over Hyundai-Kia Automotive Group in Korea.



2001

Hyundai enters the crossover, sport utility market with the Santa Fe. It is a solid effort, but fails to measure up to the competition. Future generation Santa Fes would improve.

2001

Hyundai founder Chung Ju-Yung dies of pneumonia in Seoul.



2005

Hyundai opens a $1.1 billion manufacturing plant on 1,744 acres of pasture in Montgomery, Ala.



2006

The South Korean government arrests Chung Mong-Koo for embezzlement of 100 billion won (USD $106 million). Hyundai Vice Chairman and CEO Dong-Jin Kim takes over as head of the company.

2008

The Hyundai Elantra is *Consumer Reports'* top-ranked 2008 vehicle, beating out stalwarts such as the Honda Civic, Toyota Corolla and Toyota Prius.



2009

The Hyundai Genesis, the automaker's first rear-wheel luxury sedan, is named the North American Car of the Year.

SOURCE: GEORGE PERRY, THEHYWAY.COM

A Closer Look What makes the Hyundai



DASHBOARD
Nearly all versions come with a leather-wrapped dash and glossy wood accents. "The soft curves of the sweeping dashboard architecture are complemented by an elegantly adorned center stack," Edmunds describes.

ALL STANDARD
Dual zone automatic climate control and air quality control system, tilt and telescopic steering wheel, heated front seats, roof-mounted curtain air bags, remote keyless entry — wow.

WINDSHIELD
An automatic windshield defogger with a humidity sensor and rain-sensing wipers get to work when necessary.

STYLING
Car and Driver describes the look as "a bit of S-Class in the headlights, a hint of Lexus GS in the hood, some 5-series in the taillights, and a BMW- or Nissan-like kink in the C-pillars."



GRILLE
After gauging public reaction, Hyundai decided not to slap the curvy "H" logo onto the prominent, brightly chromed grille.



ENGINE
The all-new Tau 4.6-liter V-8 engine produces 375 horsepower and 333 pound-feet of torque. According to the maker, the car hits 0 to 60 mph in 5.7 seconds. The Lexus GS 460, which uses the same size engine, only makes 342 horsepower.

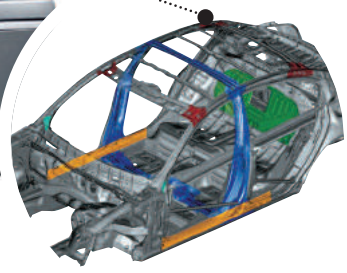
Genesis the 2009 North American Car of the Year?



INTERIOR
The *Chicago Sun-Times* calls the rear seat stretch-out room and headroom "limolike."



AUDIO SYSTEM
An optional Lexicon audio system offers 7.1 channels, 528 watt output, 17 speakers, two three-way transducer systems, five two-way transducer systems, and digital signal processing that provides equalization among driver and passengers. The Rolls-Royce Phantom is the only other automobile to offer the system.



SKELETON
The high body stiffness, combined with five-link independent suspension front and rear, provides enhanced ride comfort.

CONTROLLER
Hyundai uses a dial to control the navigation and stereo systems, similar to Audi's MMI or BMW's I-Drive. The controller is complemented by a voice command system. Saying "help" shows you available commands, making it possible to learn the system as you use it.

ENVIRONMENTAL FOOTPRINT
The Genesis weighs 3,748 pounds with the V-6 and 4,012 pounds with the V-8. But, despite its size, weight and power, the car delivers a decent, EPA-estimated 18 mpg in the city and 28 on highways with the V-6, and 17 and 25 with the V-8.

SOURCES: CNET, EDMUNDS, HYUNDAI