

ANALYSIS OF KOREAN AUTOMAKERS' STRATEGIC ADVANTAGES ON THE RUSSIAN MARKET

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Abstract

Over the past few years, Korean Hyundai and KIA have become one of the most recognizable and influential brands in the Russian automotive market. Many motorists and organizations loved the cars of these manufacturers for their reliability and one of the most attractive price-quality ratios. The appearance of such models is due to a number of thoughtful strategic decisions made by these companies based on all sorts of features of the domestic automobile market. In this article I will try to conduct a detailed analysis of these solutions and highlight the general features of the Russian automotive market.

Key words: automotive industry, promotion of the products, competitive advantage, market rivalry, market penetration, positioning of the product, Russian automotive market

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INTRODUCTION

The rapid growth and development of Korean automobile manufacturers has become one of the most significant and relevant trends in the automotive industry over the past 10-15 years. Nowadays, many well-known brands such as Hyundai and KIA continue to capture Russian and many other markets worldwide, gradually crowding out Japanese, French, and sometimes even German brands from some segments.

Today we can safely say that the popularity of the so-called "Koreans" arose for good reason. South Korean cars of both passenger and commercial class owe their success to a number of undeniable advantages that distinguish them from competitors from other regions. In our country, the "Koreans" became famous for an impressive product line that includes cars of all popular segments, a markedly increased level of safety, low maintenance costs and availability of spare parts, as well as one of the best price-to-quality ratios on the market.

However, one should not forget that tremendous success on the market depends not only on the final product and consumer tastes. In this article, I would like to analyze the strategic decisions made by Korean automakers, determine the goodwill of Korean brands on the Russian market, evaluate the effectiveness of supply chains and the rationality of the structure of organizations, as well as conduct a general overview of their financial and competitive positions.

The object of this study will mainly be such aforementioned brands as Hyundai and KIA. They represent not only the most popular, but also the most developed automotive manufacturers with a wide dealer network in many regions of Russia. To successfully complete the task several different research methods, such as: analysis, comparison, synthesis are exploited.

REVIEW OF SOURCES

Company's history

The creation and development of the automotive industry in South Korea was predetermined to a greater extent not by ambition, but mainly by necessity. South Korea is a small, densely

populated country with very limited natural resources, which was once one of the poorest nations in the world. At the beginning of the 60s, the South Korean leadership understood that the development of industrial production was the main key to the country's prosperity.

Major General Park Jung-hee, who came to power as a result of the 1961 military coup, is considered one of the most important figures in the history of the Korean automobile industry. He took a number of fairly radical measures aimed at creating the necessary impetus in the auto industry (Southerton, 2012)

The ban on the sale of imported cars instantly made local counterparts the default choice for all Koreans. At the same time, tax cuts on imports of incoming automotive components have pushed Korean companies to become collectors of so-called CKD assembly kits brought in from abroad. Small assembly or CKD assembly is a technology for the production of cars, trucks and other types of equipment, in which the vehicle is assembled from individual parts and subassemblies brought from the manufacturer, with a number of technological operations performed at the production site, such as welding, painting, installation of interior elements, decoration and other operations.

1955 is an unofficial birthday for the history of automotive industry in South Korea, that year the first Korean car came off the assembly line (that turned out to be the Sibal SUV).

Hyundai was founded back in 1946, but it has become the automobile company we know today only in 1967 and quickly moved into a partnership with Ford. At this time, the state provided generous subsidies to companies that were creating joint ventures with international partners to acquire technological experience. Initially, KIA, founded in 1944, was a manufacturer of bicycle parts. Over time, the company began to gradually expand its field of activity and soon began the production of motorcycles and commercial vehicles with the support of Japanese Honda. However, the first KIA passenger car was the 1974 Brisa, created under the direction of another

Japanese concern - Mazda. These events served as the foundation for the formation of the Korean auto industry.

The real breakthrough of the Korean automobile industry occurred during the so-called third stage of development, which took place from 1983 to 1998. At that time, Korean manufacturers began to enter the US and European markets, introducing models designed for those who were primarily interested in value for money. Almost immediately, buyers were interested in availability of both cars and components with their fairly high level of quality. Orientation on mass market has become a key direction of strategic development for the "Koreans" for many years to come.

In 1997, crisis in Asia dealt a serious blow to the Korean auto industry. Kia, which was previously constantly appearing in the Big Three, filed for bankruptcy. Following her, almost all automakers faced similar difficulties, with the exception of only Hyundai. This situation arose due to debt on loans taken in a more prosperous time. The bankrupt Kia was acquired by Hyundai Motors, which separated from the Hyundai holding into an independent company.

At the beginning of the 21st century, Korea became one of the key players in automotive industry. Today, the level of production of Korean brands is able to compete with Japanese,

European and American counterparts. Gradually, Korean automakers begin to present models not only for the budget segment, but also for the sports, as well as business and luxury classes.

In Russia, massive appearance of Korean cars occurred at the merge of the 90s and 2000s. However, a wave of foreign cars has become a significant threat to the Russian automotive industry. Soon, due to reforms in the field of legislation and various changes in customs duties, many foreign automobile concerns began to gradually establish the process of manufacturing within Russian borders. Today, Hyundai and KIA brands are among the largest players on the Russian market, staying behind local AvtoVAZ in terms of sales.

Short overview of the Russian automobile market

According to the data of the international analytical agency LMC Automotive, as of 2019, Russia ranked 11th in the list of leading countries in the world in the number of new cars and commercial vehicles sold. Sales of 1.76 million units put Russia on a par with neighboring countries on the list, such as South Korea and Canada, slightly inferior to position of Italy, Brazil and France. However, if we conduct a deeper analysis, it is easy to notice that the Russian automobile market is significantly different from car markets of many developed countries.

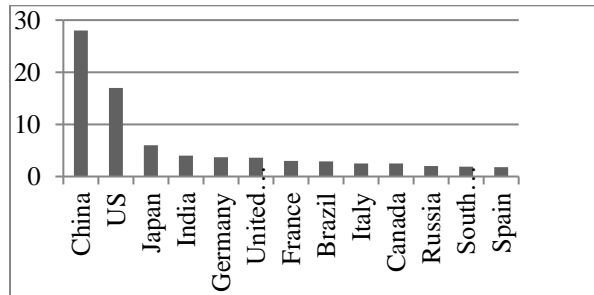


Fig. 1. Volume of car and light commercial vehicles sales in selected countries (M. Units)

As a result of economic instability, the Russian automobile market is subject to significant volatility and inconsistency of demand. These factors complicate process of creating accurate forecasts of changes in the industry. In many ways, development of automotive industry is extremely sensitive to various

macroeconomic and regulatory changes. The key reasons for the changes may include: dynamics of oil prices, exchange rate of the national currency, introduction of new restrictive measures, as well as the general state and stability of the world economic situation (Steers, 1998).

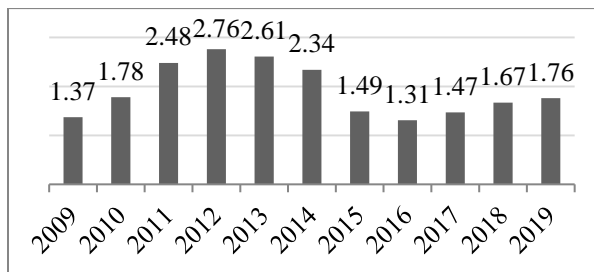


Fig. 2. Number of cars sold in Russian Federation by year in million units

Today, many global automakers continue to show interest in investing in the development of the automotive business in Russia. For example, in 2019, factories of German Mercedes-Benz and Chinese Haval began to operate in Russia. This trend can be explained by a relatively high growth potential, which distinguishes the Russian automobile market from other markets

of many Western countries. As for 2018, the number of cars in Russia grew to an indicator of 371 units per 1000 people. These values are significantly lower than in North America and Western Europe: 928 units per 1000 people and 642 units per 1000 people, respectively. It is worth noting that today, average age of cars and commercial vehicles in Russia is 13 years. In the

presence of favorable economic and regulatory conditions, this factor is also able to stimulate growth of new vehicles sales

(<https://www.pwc.ru/ru/materials/automarket-review-2018.pdf>).

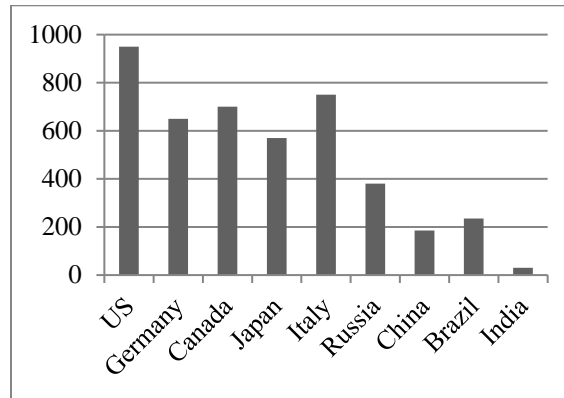


Fig. 3. Number of cars per 1000 people in selected countries

At the moment, leaders of the Russian market in the passenger car segment are LADA, KIA, Hyundai and Renault. Russian legislation stimulates global automobile concerns to attract

significant investments into localization of different levels and steps of production process. This policy directly affects sales structure of cars as well as light commercial vehicles in Russia.

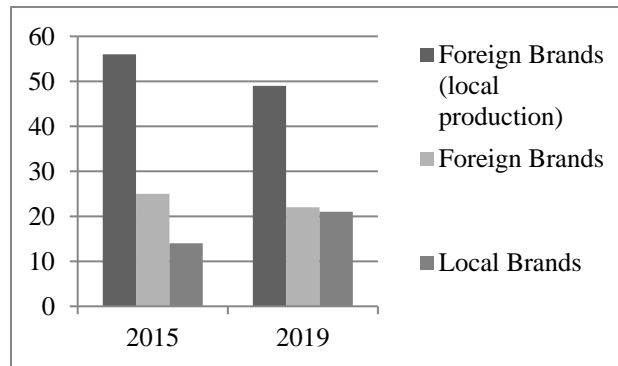


Fig. 4. Structure of car sales in Russia

The Russian market is dominated by demand for budget class models. Despite the increase in sales of premium brands in quantitative terms, their share in relation to the total volume of cars sold has been declining over the past few years. As a result, we can observe the list of best-selling cars of 2019: for the period from January to December, Russians purchased 135,831 cars of the Lada Granta family, which is 27.7% more than in the same period of 2018. The second place is occupied by the Lada Vesta model, which was chosen by 111,459 residents of the country. This is 2.9% more than a year earlier. The third place is taken by

Kia Rio - 92 475 cars. Sales of cars of the Korean brand decreased by 7.7% compared to 2018. According to the results of sales in 2019, the top 10 most popular models also included: Hyundai Creta (71,487 units, + 5.8%), Hyundai Solaris (58,682 units, -10.5%), Volkswagen Polo (56 102 units, -5.6%), Lada Largus (43 123 units, -2.1%), Renault Duster (39 031 units, -5.74%), Volkswagen Tiguan (37 242 units, - 11%) and Renault Logan (35 391 units, + 16.8%) (<https://www.pwc.ru/ru/materials/pwc-auto-press-briefing-2019.pdf>).

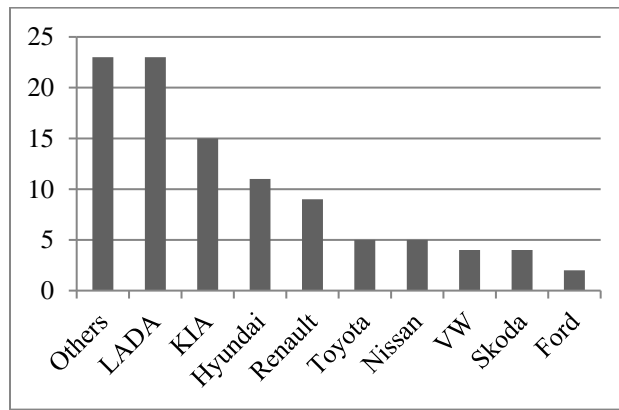


Fig. 5. Market share of car brands on the Russian market (%)

Based on the statistics presented, it is not difficult to notice that Korean manufacturers have held strong positions in Russian market over the past few years. An analysis of the strategic decisions made and organizational structures of Korean companies should be carried out to identify the main factors that contributed to the success of the above-mentioned brands.

RESULTS

Financing programs (car loans)

To begin with, it is worth determining a list of the main features of the Russian automotive market. This will allow us to highlight the key areas in which Korean automobile companies made strategically important decisions, and how they were able to adapt to trends in the automotive sector in Russia. So, the main distinguishing features of the Russian automotive market are:

- Deficit of solvent demand
- High percent of purchases made with borrowed money
- Impressive development potential
- High demand for budget segment cars
- Availability of government subsidies, benefits and special programs

At the moment, car loan programs are one of the main factors that positively affect sales of new cars in the country. According to data for 2019, almost every second car in Russia was bought on borrowed money. In many respects, the achievement of these indicators was facilitated by implementation of the state program on subsidizing interest rates on loans during the crisis of 2017-2018. The retention of the level of this indicator is also facilitated by the "first car" and "family car" programs.

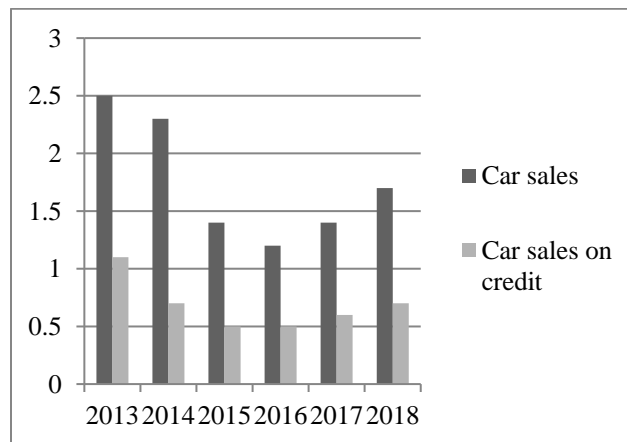


Fig. 6. Volume of cars sold on credit

Major universal banks remain the most important players in the car lending market in Russia. Their market share fluctuates at the level of 70%. At the same time, influence of captive banks is gradually growing, as many automakers continue to increase investment volumes in this area.

Various aspects related to the lending processes have been worked out at a very high level by Korean manufacturers. In addition to a large number of banks directly working with dealerships, KIA and Hyundai offer many promotions and special programs with attractive enough conditions and various bonuses that stimulate purchase of cars on credit.

Today, Hyundai invites customers to participate in the "START" financial program. According to the manufacturer's official website, participants in this program can count on a number of significant advantages, such as:

- Down payment 0%
- Simplified procedure for registration by passport and driver license
- Low monthly payments
- The possibility of including obligatory insurance and technical inspection costs
- The ability to return the car to the bank without paying off the residual value
- Exchange a car for a new one under the trade-in program

Dealer network size

One of the most important factors when buying a car is locations and scale of brand's dealerships. As a result of the 2017-2018

crisis, dealer networks in Russia continue to adapt to changes in the market. Despite the growth in sales of new cars, a bulk of inefficient distribution companies continue to leave the market or undergo a financial restructuring process.

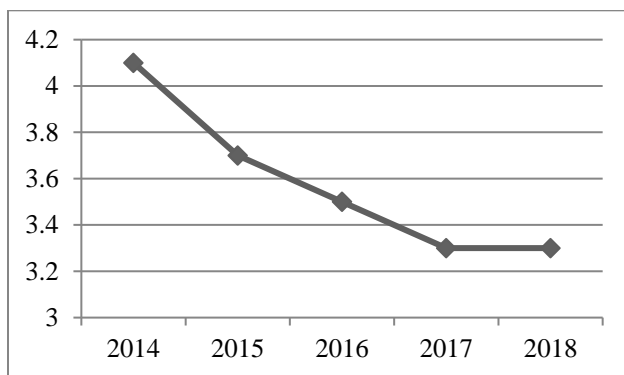


Fig. 7. Number of car dealerships in Russia by year (in thousands)

Due to high competition in the market and a gradual decrease in profitability from new car sales, in order to maintain profitability and keep stable market share, car dealers need to go through the process of transforming their business model. The diversification of the line of additional products and financial services, as well as investment in the dissemination of digital technologies, can have a positive impact.

According to the analytical agency "Avtostat", the total number of dealerships in Russia fell to 3.4 thousand units. The largest dealer networks are owned by domestic automakers LADA and UAZ (327 car dealerships and 181, respectively). Korean brand KIA occupies the third position; it is represented by 174 dealerships in our country. With a slight lag behind the leaders in the top 10 on the scale of dealer networks, Hyundai also enters the list, next to Renault and the Chinese Lifan.

Localization of production process

Today, Russia has a number of restrictive measures and duties aimed at curbing the volumes of imported cars and stimulating the domestic automobile industry. Korean automakers were able to successfully master and develop the practice of manufacturing cars in the Russian Federation. According to the RBC news agency, the Hyundai plant located in St. Petersburg is the largest manufacturer of localized foreign cars. It is primarily responsible for the production of such popular models as Hyundai Solaris, Creta; Kia Rio. At the 6th position in the list is the Kaliningrad Avtotor plant. On its shoulders lies production of the following models: Kia cee'd, Sportage, Soul, Venga, Optima, Quoris, Prime, Mohave, Cerato, Sorento; Hyundai, i40, Elantra. However, this plant is inferior in terms of production to the Petersburg alternatives of competing Nissan, Toyota and Ford.

Foreign cars of domestic assembly have several advantages over their foreign counterparts. Tax and investment incentives, low cost of import of components and savings in logistics can significantly reduce the cost of a car. As a result, new imported cars from abroad can cost several dozen percent more than their domestic counterparts.

On the other hand, transfer of production to Russia may push some buyers away, as the society has firmly established opinion that cars manufactured in Russia are of a lower quality. However, this opinion often has a more tangible effect on the premium segment, which is still not the main focus area for Hyundai and KIA (<https://www.autonews.ru/news/58adca6a9a79479c3a3967a8>).

Brand reputation

It is difficult to deny the fact that brand reputation is one of the key factors stimulating sales of certain automobile manufacturers. A few years ago, general consumer confidence index in relation to Korean cars was significantly lower than that of Western brands.

However, it is worth noting that an ability to steadily and stably produce models with one of the best price-to-quality ratios helps "Koreans" to gain more and more customer confidence. This is confirmed by growing sales volumes and a study conducted by the RIA News agency in cooperation with previously mentioned "Avtostat". According to the data, Hyundai has become the 3rd most recognizable automobile brand in Russia.

Utilization of market potential

It should be noted that "Koreans" pay great attention to high potential for epy market growth. Both manufacturers offer many models in the segment of subcompact, compact cars, as well as a number of crossovers combined with sports and executive cars. At the same time, unlike KIA, Hyundai offers for consideration minibuses, buses and commercial vehicles with a total lifting capacity of up to 10 tons.

Financial positions

As noted earlier, both Hyundai and KIA brands occupy fairly confident positions in the Russian market at 14% and 11%, respectively. These high rates also favorably affect the financial position of both companies (<https://www.rbc.ru/rbc500/>).

Table 1. Financial results of car brands in Russia

Company	Revenue in billion rubles	Profit in billion rubles
Toyota Motor	313	12
KIA	232	10
Volkswagen	289	9
LADA	283	6

Hyundai	185	5
Renault	137	4
AB Volvo	73	3
BMW Russia	124	3
Mazda	49	2
Jaguar Land Rover	56	2
Porsche	29	1
Mercedes-Benz	176	0,297
Mitsubishi Motors	65	0,242

Profits of both Korean brands outperform performance of even more well-known global automakers such as Mazda, BMW, Renault and Mercedes-Benz.

CONCLUSION

Based on all of the above information, we can make sure that Korean automakers occupy well-deserved high positions both in the Russian markets and in the markets of many other western countries. Results of the study allow to form a better understanding of the structure, features and principles of emergence of trends on the Russian automotive market. In this work, great emphasis was placed on identifying various key reasons for success of Hyundai and KIA, analyzing statistical data collected by many analytical agencies over the past few years, and assessing the consumer opportunities of citizens of the Russian Federation. This approach contributes to the formation of a comprehensive awareness of strategically important decisions made by major automotive manufacturers, and also a solid understanding of the role of strategic management in today's highly competitive market.

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