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Japanese see Hyundai as global threat

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The Associated Press*

TOKYO - Hyundai Motor Co. - not the up-and-coming Chinese, nor the leaner meaner Americans - is the automaker that has the Japanese seriously worried.

Talk to any Japanese auto executive, and the official is likely to say the South Korean automaker is rapidly emerging as the most feared competitor to Japan's world-leading car companies.

"Hyundai is awesome," said Honda Motor Co. Chief Executive Takanobu Ito in an interview this week. "They are undoubtedly a threat because their products are cheap, and the quality is improving."

Nissan Motor Co. Senior Vice President Shiro Nakamura agreed. He compared the rise of Hyundai to Samsung Electronics Co. of South Korea, which has grown to rival Japan's Sony Corp., and said its cars were riding on their reputation for quality and affordability.

It may take another decade for China's automakers to start seriously competing with Nissan, but Hyundai was there already, he said.

"Hyundai is the biggest threat for the Japanese automakers," Nakamura told The AP. "They have the technology, but they seem to have cheaper labor."

To compete, Japanese manufacturers need to start relying more on their creative "sensibilities" to add value to a product almost like an European designer bag, Nakamura said.

Buyers must want to pay more in the same way Japanese gourmet delicacies called "kaiseki" can command higher prices than some Korean dishes, he said.

"We have to offer the equivalents of sushi, tempura and kaiseki to compete against Korean barbecue," Nakamura said.

Hyundai, which boasts Kia Motors Corp. as an affiliate, recently grabbed 5 percent global market share for the first time, despite a declining global market.

These days, Hyundai and Kia form the world's fifth-largest automative group and have seen sales surge in the U.S. and Europe, with only Toyota Motor Corp., the world's biggest automaker, outselling it among the Japanese.

In the U.S., Hyundai was the only one among the major automakers, including the Japanese, to record better sales last month, up 27 percent from September 2008.

The Japanese automakers have been battered by last year's financial crisis, although they are counting on expansion in emerging markets to offset declining sales in established markets such as the U.S., Europe and Japan.

Nissan, Japan's No. 3 automaker, based in Yokohama, lost 16.5 billion yen (\$185 million) for the quarter ended June 30. Hyundai, by contrast, earned 811.85 billion won (\$691 million) in the April-June period - a quarterly record for the company.

Christopher Richter, auto analyst at Calyon Capital Markets Asia in Tokyo, said that Hyundai was growing not only in the U.S. market, where it was taking advantage of a weakened GM to grab sales, but has been strong for years in emerging nations, such as China and India.

Although both the Korean won and Japanese yen have been strengthening, eroding the value of overseas earnings for both exporting nations, the yen's jump has been bigger, further putting the Japanese at a disadvantage, Richter said.

He said the smaller Japanese makers, like Nissan and Mazda Motor Corp., were especially at risk because their products didn't rank as high in quality surveys as Toyota and Honda, and compete more directly with Hyundai offerings.

"They are not an act you want to dismiss lightly," he said. "They are increasingly going to create a bigger challenge to the Japanese."

Hyundai spokesman Oles Gadacz said the company had no comment.

Tokyo-based Honda, with its longtime strength in smaller models reputed for mileage such as the Fit subcompact, has emerged from the global recession in better shape than other Japanese automakers.

But the nation's No. 2 automaker barely eked out a 7.5 billion yen (\$84 million) profit in April-June.

Honda's Ito acknowledged as possible threats the U.S. automakers, including General Motors Co. and Ford Motor Co., which have been reshaping their businesses and preparing smaller fuel-efficient models that are likely to better compete against Honda models.

But he appeared to be merely being polite in talking about the Americans and turned adamant when the topic became Hyundai.

"Its growth is fantastic," said Ito.