

How Hyundai Went From Joke To Contender In U.S.

Tom Krisher, AP Auto Writer

NEW YORK (AP) — Americans were laughing at Hyundai's cars when John Krafcik joined the company eight years ago.

The cars were ugly and often broke down. The only reason to buy one was because it was cheap. Jay Leno once joked that you could double a Hyundai's value by filling it up with gas.

No one's laughing now.

The Korean automaker's quality has improved, and it's among the leaders in fuel efficiency and styling. Sales are up more than 60 percent since 2008, the year Krafcik (pronounced KRAF-chick) became CEO of American operations. Hyundai's Elantra compacts and Sonata midsize sedans are in such demand that few discounts are offered. And although the company's U.S. sales are just a fraction of General Motors' or Ford's, they're growing so quickly that Hyundai is feared by every other carmaker.

Hyundai had already started to change before Krafcik arrived, offering a 10-year, 100,000 mile warranty with its cars. But the transformation from joke to juggernaut accelerated under his watch.

Krafcik, 50, is a Stanford-trained engineer and manufacturing expert. He began his career as a manufacturing engineer at a General Motors-Toyota joint venture factory set up so GM could learn how Toyota made cars. While working for the venture in the early 1980s, he saw the gap in standards between Japanese and American plants. He has focused on quality ever since.

Despite Hyundai's turnaround, Krafcik still worries about quality.

"It only takes one small mistake with a critical part in a safety-related system to derail all of the good work that we've done," he says.

Krafcik, who often wears open-collar shirts, sport coats and jeans, recently spoke with The Associated Press in New York. He talked about his management style, cup holders and the success of his company, which has its American headquarters in Costa Mesa, Calif. Here are excerpts, edited for clarity and style:

Q: Your company has made a remarkable turnaround since the early 1990s when it sold inexpensive cars that fell apart. How did you make the transformation?

A: First you had to build that foundation of quality and consumer trust. By the time

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we got to the late '90s, we knew that our quality was good. We knew our reputation was horrible. And the America's Best Warranty, that 10-year, 100,000-mile powertrain warranty, ended up being huge. We were able to take ourselves from about 90,000 units (cars and trucks) per year at the absolute pits of our sales — this was in the late 90s — to 300,000 and 400,000 within four or five years.

Q: That was a bet-the-company move?

A: It was an absolute bet-the-company move. If we had gotten that one wrong, then the company would have failed. And rather quickly, too, as the warranty expense and exposure are significant when you're taking a bath that big.

Q: Hyundai has pushed the envelope in its car designs, and other companies are just now catching up with the Elantra and Sonata. How did you pull that off?

A: It just takes courage and a willingness to take risks. So with Sonata, the conventional orthodoxy in the industry was midsize cars should be styled conservatively. This is typical market research talking. We know this because we talk to our midsize car buyers all the time. Here's what they say: 'Safety. Quality. I want a good value and a fair price.' And about number seven or eight on the pecking order is design. From that mentality has come the point of view that midsize cars should look like (Toyota) Camrys and (Honda) Accords and (Chevrolet) Malibus.

Q: Why would you take a risk on design when it was conventional wisdom not to?

A: Products starting with the '05 Tucson and the '06 Sonata were designed in a safe and conservative manner. It didn't move the needle in terms of sales. You go through that and you finally see the pattern. You can't just accept safe. So now when we do our research, we categorize people before they come (in) as either conservative or progressive in their design thought. And we can then weight the results. It gives more weight to what we call design progressives.

Q: What else happens in your market research?

A: We'll send a couple of product planners and market researchers out with consumers and just literally spend a day or two with them, looking at their cars. Seeing how they live their lives around their cars. When they go to Costco, where do they put those big, huge things of toilet paper? It gives us insights. We're trying to find what we call unmet needs.

Q: What are Americans looking for in cars now?

A: Fuel economy is definitely on their mind. It's huge. As fuel prices go up, interest in the compact car segment goes up. So compact cars now are selling very, very well. Fuel-efficient cars are selling very, very well. We're seeing more discretionary car purchases now. More car purchases that aren't driven specifically because my car is old or my car is fuel inefficient.

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Q: What's something that has surprised you about how people use their cars?

A: The car as personal living space. It's amazing how much stuff people carry around. Finding room for people's stuff is one of our priority focal points. Let me give you a great example. Cup holders and bottle holders. This is a great success for Hyundai, and it took some time to convince the engineers that this is what we needed to do (because) cup holders cost money. If you're going to do them right, they have little gripper fingers and you have to make more expensive molds and stuff. Engineers never understand why a driver would need two cup holders and the front seat passenger would also need two cup holders.

Q: What could derail your sales growth?

A: It only takes one small mistake with a critical part in a safety-related system to derail all of the good work that we're done. So we're being so careful and cautious, putting in quality operating systems and insuring that everything is working with them. We need to get to this point of tier-one quality in everything we do. But we're not there yet.

Q: What in Detroit's corporate cultures caused them to get into trouble and what did you learn from being there?

A: Hyundai's culture is something refreshing. This idea that bold targets drive great things. (It) just stretches your boundaries, your mind and your team in ways that you wouldn't otherwise have stretched and achieved. Working at GM, Toyota, and Ford, the approach was more focused on, 'Let's set targets that we're fairly confident of being able to get to.' That's OK, but the outlook is decidedly less optimistic in a company like that.

Q: How would you describe your management style?

A: My job is to set some aspirational targets and continually communicate those targets. I believe in repetition of message.

Q: Is the auto industry becoming cool to work for again?

A: I would say so. There's no industry cooler, no industry more complicated and more important to industrial economies. It's always been a sore point for me that the industry has had a bit of a black eye. That people would think of us as not being quick on our feet, and not being responsive to consumer needs. And maybe, honestly, some of that has been true. But what we've been through in the last couple of years has gotten rid of a lot of old bad habits. I see the industry now stronger, more vibrant than it's ever been. I do see us recruiting a lot of really smart people.

Q: Who are your mentors?

A: Maybe the most influential guy was a fellow named Yoshimitsu Ogihara. He was a Toyota guy. He would teach like this: He would say 'OK, John-san. I want to send you

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to Oklahoma City GM plant. You go there. Make one-page, Toyota-style report. And come back.' And I'd say, 'OK, Ogihara-san. What do you want me to look for?'

'You will see.'

So I go there. It was this big place. Huge piles of inventory in cardboard boxes. People sleeping in those cardboard boxes. Massive parking lots filled with cars with parts missing. And the windshield wiper in the up position, which I later learned meant this car needed to be repaired. Every car in that huge lot, thousands of them, had their windshield wiper up. I remember writing this one-page report, just kind of detailing what I saw.

I said, 'What do you think?' He said, 'OK. Now I need to send you to Toyota City.' (the Corolla factory)

It was amazing. You could see from one end of the plant to the other. Every bit of floor space had a visual indication of what it was for. The workers were working, but not crazy hard. No one was sleeping in cardboard boxes. I came back and wrote this one-page report. This was 1984, and no one really knew at the time that there was this big, huge difference between the way one company built cars and another company built cars. And I was a 23-year-old kid and I suddenly knew. So I worked there another couple years under Ogihara-san. He taught me so much but never through saying it.

Q: What was so effective about that approach?

A: You owned it. You just discovered it with your own eyes.

Q: How do you use that in management today?

A: I like to leave a cookie trail to the right answer. I find sometimes you can bring a horse to water but you can't always get it to drink. But I don't like to say, 'Look, this is how we should do it.' I like to provide some approach that helps the team that's thinking about the problem get to that answer. And when they get there, I might say something like, 'That's terrific. I was hoping you'd end up there. What a great solution.' It's hard, though, when the team doesn't get to where you want it go to. And then you have a difficult decision to make. Do you enforce your will or do you let the team learn from their approach?

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