

Ribbon Cutting in Kia-ville

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From Kia, with Love: Korean Greenfield Investment Revives a Community

On Friday, February 26, in a flashy rock concert atmosphere, a much awaited and well attended ribbon cutting ceremony took place at the Kia Motors America (KMA) plant in West Point, Georgia. The plant has been producing Kia Sorento crossovers since November 2009, and, once it reaches maximum production capacity, it will be capable of manufacturing 300,000 vehicles a year. When KMA and the State of Georgia announced the construction of the first Kia plant in North America, the largest in the state's history, a \$1 billion auto assembly and manufacturing plant on 2,259 acres of land in West Point, on March 13, 2006, residents of this small town 80 miles south of Atlanta regarded it as a borderline miracle. Once known for its textile mills, the town's economy was devastated by the migration of the textile business elsewhere in the 1990s, leading to massive loss of jobs, to the point where West Point was practically becoming a "ghost town."

Census data from the year 2000 indicate that there were 3,382 people, 1,354 households, and 931 families in West Point. According to the same census, the median household income was \$31,886, and the per capita income was \$16,735. In 2000, about 16.4% of families and 19.9% of the population of West Point lived below the poverty line. Of those under age 18, 25.1% lived below the poverty line, and, as young people started moving away, in search of opportunities no longer available in their hometown, businesses closed and the future seemed grim. Prior to Kia's arrival, the unemployment rate in Group County, where West Point is located, stood at 12.7%, well above the state average of 10.1%.

As West Point found out that Kia was to open a large automobile production facility in their tiny community, hope for an unexpectedly bright future returned, and elated residents came up with a nickname for their community, as acknowledgment of the bewildering turn of fate that the Korean auto manufacturer brought to the town. While operating only one shift, at the current production level, Kia Motors Manufacturing Georgia (KMMG) employs 1,200 workers, while various plant suppliers, located in the vicinity of the main production facility, employ an additional 3,000 workers. The workers directly employed by Kia were selected following an extremely competitive selection process, after more than 43,000 applications were received during a 30-day period. Once the plant reaches full production capacity with two shifts running, KMMG will employ a total of 2,500 workers, while anticipated job growth in the surrounding area will be up to 7,500. Compounding the positive synergies created by direct and indirect Kia hires, other businesses have reopened and returned to West Point, hoping to bank on the new jobs and income generated by Kia. Columbus State University has opened a satellite campus in West Point, in order to capitalize on the arrival of new residents employed by KMMG and their families. For the first time in the history of West Point, residents can sample sushi and Korean BBQ at the town's newly opened Korean restaurants. The State of Georgia has invested in widening roads and other relevant infrastructure in the area surrounding the KMMG production facility, and also in the Kia Georgia Training Center, located on the KMMG campus and operated through the Georgia Department of Economic Development, a training facility tasked to provide pre-employment assessment training and job-specific training for KMMG team members.

Rising out of Asia

West Point is just the latest installment in the "Kia Chronicles." Established in 1944, when Korea was still under Japanese occupation, as Kyung Sung Precision Industry, a manufacturer of steel tubing and bicycles, the company adopted the name "Kia" in 1952. The particle "ki" means "to come out," while "a" stands

for “Asia,” so the name of the company translates into English as “Rising out of Asia.” Kia’s evolution to date is testament to the prophetic nature of its name. In its early days, Kia produced Samcholli, Korea’s first domestic bicycle, and the C-100 motorcycle, which marked the birth of the Korean motor industry. Tasked by former President Park Chung-hee to produce trucks, Kia produced the iconic “Titan E-2000” truck, a reliable workhorse that defined the standard and image of Korean trucks for decades.

After producing Peugeot 604 and Fiat 132 sedans in the late 1970s and early 1980s, Kia established an equity partnership with Ford Motor Company that resulted in one of the company’s most renowned earlier models, the Kia Pride, known elsewhere as the Ford Festiva. In 1989, Kia opened its first overseas R&D center in Japan, and it established Kia Motors America in 1992. U.S. sales began through the establishment of a dealership network in California, while European operations began in 1993 on an upward note, through the moderately successful sales of the Sephia sedan.

In 1997, during the Asian financial crisis, Kia hit its lowest point when, following its bankruptcy, rival Hyundai Motor Company outbid Ford Motor company to acquire 51% of Kia. The takeover by Hyundai triggered a rapid turnaround: Kia became profitable again by the end of the decade, and has never been in the red since then. Hyundai has divested part of its ownership of Kia, and currently holds less than 40% of the stock.

With production facilities in Korea, China, Slovakia, and the United States, Kia’s “rising out of Asia” is well under way, and the company is one of the world’s fastest growing auto manufacturers. In the United States, once KMMG reaches full production capacity, it is anticipated that Kia Motors will be responsible for creating about 24,500 U.S. jobs, including a network of about 700 retailers.

Kia’s successful “rise out of Asia” can be measured by more than the prominence it has gained through robust sales in the United States and beyond and the hope it has created for communities such as West Point. KMMG is committed to supporting communities in and around West Point through contributions to organizations including West Georgia Medical Center, the Fuller Center for Housing, West Point and Troup County Recreation Departments, and West Point Fire Department and Hospice. On February 7, Kia’s first Super Bowl ad aired, and the company sponsors the NBA and sports teams worldwide, including European soccer greats such as Girondins de Bordeaux, Atletico Madrid, and Spartak Moscow and international sporting events including the 2010 FIFA Soccer World Cup in South Africa, and tennis tournaments such as the Davis Cup and the Australian Open.

Korea’s Upbeat Auto Industry: Current and Future Challenges

While the U.S. sales volume of most of the 44 auto manufacturing brands present in the United States decreased in 2009, due to the ongoing economic and financial difficulties, Hyundai and Kia motors were two of the three auto makers whose market share increased during the same period. Hyundai is currently the world’s fastest-growing auto manufacturer, and, while its year-to-year U.S. market share has constantly increased for the past 15 consecutive years, in 2009 it managed to boost that market share from 3.7% to 4.4%. Hyundai is one of the companies that offer a \$1,000 discount on Toyota trade-ins, and appears to have learned quickly from its Japanese competitor’s woes: following recent complaints about faulty door latches on new Hyundai Sonata sedans, although not a safety issue, the company promptly decided to take the safest route and issued a recall for 47,000 vehicles, including 1,300 cars produced at the Hyundai plant in Montgomery, Alabama.

Of about 22,000 Kia vehicles sold in the United States in January, approximately one third were Kia Sorento crossovers produced in West Point since November 2009. Kia Motors America has recently announced its intention to sell 347,000 vehicles in 2010 in the United States, which would amount to a 15 percent increase over 2009. By focusing on sales of the 2011 Sorento crossover, the Soul subcompact,

and the Forte sedan, Kia intends to acquire 3 percent of the U.S. market share, after exceeding the 2 percent mark in 2008, when it sold 270,000 vehicles in the United States.

In his statement before the U.S. Congress, aimed to address the current safety issues affecting some of his company's models, Toyota Motors president Akio Toyoda admitted that Toyota has grown at a pace that "may have been too quick." While Toyota Motors is the company that is currently in the crosshairs for alleged faulty brakes and accelerator problems, it is hard to believe that the world's largest car manufacturer was the only company that grew at an unmanageably high pace, in order to meet steeply increasing demand, during the years prior to the economic and financial turmoil of 2008. Over the past few years, Korean auto manufacturers including Kia and Hyundai Motors have been astutely aware that they were sandwiched between the quality of Japanese products and the lower prices offered by newer market entrants, and have made significant efforts to improve quality. Improved quality has resulted in enhanced confidence, in its turn reflected in the generous 10-year, 100,000 mile warranties that both Kia and Hyundai offer to the U.S. consumer.

Despite their recent success, Korean auto manufacturers are not insulated from the issues and trends that solicit the attention of car makers worldwide. Quality control should not falter, and, if issues are identified, recalls should be promptly issued. Sales of eco-friendly cars are on the rise, and both Kia and Hyundai appear to be responding adequately to this challenge, despite a later start, compared to some of their competitors: while both auto manufacturers have introduced hybrid electric vehicles to the Korean market, Hyundai will soon be selling a gasoline-electric hybrid vehicle in Korea and overseas.

Auto manufacturers worldwide are lowering prices, and Korean auto manufacturers need to maintain their competitive prices, while continuing to ensure good product quality. Emerging economies such as India and China are becoming major auto markets, and Korean auto makers appear to have established solid bridgeheads in those countries. In 2009, Hyundai's auto sales in China grew by 88 percent over the previous year, and the Korean company's market share increased to 7.2 percent, from 5.5 percent during the previous year. Hyundai Automobiles has acquired 23 percent of India's car market, reaching an annual production capacity of 600,000 vehicles at its plant in Chennai, and ranking second only to India's iconic auto manufacturer, Maruti Suzuki.

As auto makers worldwide are trying to survive the circumstances created by the recent financial and economic turmoil, size matters, and the forging of strategic alliances is in full swing all across the board: GM and Shanghai Automotive Industry Corporation (SAIC), already partners in China, are establishing another partnership company in India, intending to take advantage of GM's ample sales network and SAIC's ability to produce low-cost compact cars for that market. Through an alliance established with Mitsubishi Motors, Peugeot Citroen intends to capitalize on Mitsubishi's distributor network to make inroads into the United States and Asia, while Volkswagen and Suzuki Motor Corporation have recently agreed to enter a strategic alliance through cross-sharing. After the financial and economic turmoil that became the Waterloo of auto manufacturers, including GM and Chrysler, and while their present and future outlook appears strong, Hyundai and Kia may also need to strategize in order to maintain their competitive edge within an international auto makers' Concert of Powers.