

The Hyundai Advantage, Creative Marketing and America's Best Warranty—The Story Behind

A bold creative marketing “10-year / 100,000-mile Warranty” program was first introduced in the U.S. in 1998...not by Detroit's Big 3 or the growing number of Japanese brands, but by Korean automaker Hyundai Motor.

The brand's U.S. entry model the Hyundai Excel was very competitively priced when compared to Japanese imports of the mid 1980s. Sadly, quality issues surfaced. Common complaints were that the body panels were wavy, the paint faded and window cranks faulty.

As a result of consumer perception, sales dropped and a number of dealerships abandoned their franchises. Frankly, this is no surprise. With their love of cars Americans have long been harsh on even domestic models not living up to expectations.

It was during this time that Hyundai was compelled to address consumer perception. This is the story behind what would become known as America's Best Warranty.

Having served in the late 1980s as an executive of Hyundai Motor America and then as managing director for the Korean automaker's overseas export division, in January 1997 Myung-hun (Mark) Juhn, returned to the U.S. as the new President and CEO.

As Mark explained, "It was a difficult time for Hyundai Motor Company as sales had been shrinking for many years in the U.S. No matter what HMA did, sales failed to pick up as the cost of sales skyrocketed month by month."

Adding to this challenge was the fallout of the 1997 IMF Asian Fiscal Crisis that rocked the foundations of most Korean industrial groups or *chaebol*. In fact, no fewer than five major *chaebol* failed early in the crisis amid others who had to petition for bankruptcy. In the end, as many as 18 of the largest 30 *chaebol* ended in receiverships or bankruptcy, and no more than a handful of the top 30 groups were considered to be financially sound.

"The management team of HMA, including myself," Juhn explained, "had squeezed their brains but not any bright idea popped out. I gave a homework assignment to the executives in Sales, Marketing, Parts and Service to present ideas on how we could turn our corporate image around."

In contrast, at the same time reports from sales and service teams at the dealerships were that Hyundai product quality was significantly improving. Echoing this, in a September 1998 *LA Times* article auto industry consultant George Peterson, president of AutoPacific Inc., pointed out, "Ironically, today's Hyundai cars are considered to be well-built, but models, such as the Accent, Elantra and Sonata, face an uphill battle to win market share away from Japanese and American car makers." The negative perception by the public and potential customers remained unchanged. Few would believe or even try to listen.

Juhn shared “I thought the most important thing was for prospects and customers to change their minds or at least look at our products. How can we make our unhappy customers know and believe that Hyundai products are completely different from the past products?”

To tackle the challenge, the Hyundai Motor VPs and department directors were asked to conduct a study and present their ideas at an upcoming executive meeting. Many ideas surfaced and the team of executives discussed and evaluated the merits of each one.

One idea suggested by the Parts and Service team caught Juhn’s attention—it was for America’s longest car warranty. However, some of Korean team assigned to HMA explained that it had been attempted in the past with no result.

Probing further Juhn quizzed the Korean staff. Their answer was interesting-- the previous program was actually not a Manufacturer's Warranty, but a Dealer Insurance Package, a form of extended warranty. Furthermore, Juhn was told that there was a huge difference between a Manufacturer's Warranty and a Dealer's Extended Warranty in the minds of the customer.

Expressed another way, customers trusted a manufacturer warranty considerably more than a dealer's warranty.

Recognizing a long term warranty would bolster public confidence in the quality of its Korean-made cars, the next concern was the incremental costs associated with such a bold program. Generating debate among the teams over the costs, Juhn requested estimates for the additional 5 years of warranty on top of the current five years or 60,000 miles coverage.

Meanwhile Juhn and his teams strategized how to persuade HMC HQ to approve the proposal, perhaps the most difficult part of the process.

Traveling to Korea, Juhn encountered deep concerns from HMC executives over the engineering, production and quality standards needed to support the warranty.

With talks stalled, an undaunted Juhn presented the plan directly to the then HMC President Chung Se Yung during a visit to the US, a bold move no one prior had attempted. Juhn’s efforts paid off and he gained approval for what they branded “America's Best Warranty”.

Launched as *The Hyundai Advantage* in November 1998 with a \$25 million print and television campaign, newly promoted HMA CEO Finbarr O’Neill remarked in *the New York Times*, “We thought an improved warranty would make a statement about our quality and get us on more people's shopping lists.” Created by Bates USA West, Irvine, Calif., two TV spots showed the car maker's 1999 Tiburon model and the commercials explained that all 1999 Hyundai models are backed by a 10-year/100,000-mile powertrain warranty, a five-year/60,000-mile bumper-to-bumper warranty and 24-hour roadside assistance for five years.

Mark Juhn, now HMA Chairman at the time of the announcement noted, “When Hyundai announced the 10-year / 100,000-mile Warranty, it was like burning its boat, no way out. If the crew could not put out the fire, they [Hyundai] would burn and die.” Juhn further explained that the warranty compelled the OEM to improve quality to avoid the company suffering huge financial consequences covering warranty repairs.

Fortunately for the brand, Hyundai Motor Company, now under the leadership of Chung Mong Koo, invested heavily in the long-term R&D, design, manufacturing, and quality of their vehicles. Concurrently, Hyundai began production of its first SUV. Introduced for the 2001 model year, the Santa Fe became a milestone for the company.

The SUV was a huge hit with the American buyer. Marking a trend that continues today, the Santa Fe was so popular that Hyundai dealers had trouble meeting demand. For Hyundai Motor America, the Santa Fe was a critical addition to the line up of the Accent, the Elantra, the Tiburon and the Sonata.

This improved quality, in addition to new models that appealed to buyers and the 10-year / 100,000-mile Warranty, added to the confidence of a growing consumer base. By 2000, Hyundai sales in the U.S. soared compared to the previous years of decline. The company was also able to cut back dramatically on costly price discounting and incentive programs.

All told, what stands out is the creative marketing behind America's Best Warranty. In particular, Hyundai was able to reposition its image from one in which low price was synonymous with cheap and poor quality to instead a car brand giving customers more value for their money.



Mark Juhn and Don Southerton, Seoul Korea.

About the writer...

Don Southerton has authored publications on the Korean auto industry, new urbanism, entrepreneurialism and early U.S.-Korean business ventures. He heads Bridging Culture Worldwide, which provides strategy, consulting and training to Korea-based global business.

Special thanks go to Mark Juhn, veteran international automotive authority.

The opinions reflected in the article are the author's own.