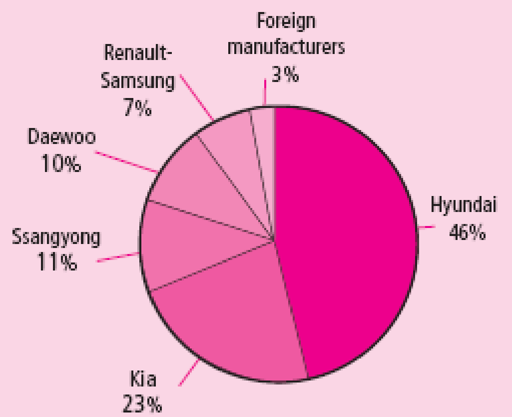
New start for South Korea's Daewoo

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

GM Daewoo was formed in 2002, when General Motors (GM) of the US bought the assets of the bankrupt Daewoo Motor Co. of South Korea. Elements of the collapsed South Korean conglomerates, or chaebol, were picked up by several large Western companies, in the hope that, with new investment and new management, they could become success stories. These included Renault, which acquired a share in Samsung, and DaimlerChrysler, which acquired a share in Hyundai. GM purchased 44.6 per cent of Daewoo's stock, joined by Suzuki, which purchased 14.9 per cent, and Shanghai Automotive Industries, which bought 10 per cent (the remaining stock is in the hands of Daewoo's creditors). It emerged later that the Korean government had granted the new company exemption from all corporation taxes for seven years after it returns to profitability, to be followed by a 50 per cent discount in taxes due the next three years. The newly formed GM Daewoo, it was hoped, would rebuild its reputation in the South Korean market, where consumers overwhelmingly buy home-produced cars. Looking into the future, the new company could export into China, which is the world's most rapidly growing car market.

Sceptics questioned GM's strategy, pointing out that an uphill competitive battle was waiting in the Korean market. Import restrictions combined with consumer loyalty to national manufacturers have given South Korea a reputation as a 'hermit kingdom' for car sales, with foreign manufacturers taking only 3 per cent of the market. Daewoo had enjoyed a 20 per cent share of the South Korean car market, but its share had slumped to 10 per cent following the bankruptcy (see figure) and its reputation had suffered. Korean consumers might not show the same loyalty to their own brands once foreign management had taken them over. Hyundai, which with its affiliate Kia Motors, enjoys 70 per cent of the domestic car market, has been highly successful at transforming itself from a volume producer of small cars to a producer of higher quality vehicles and, in particular, SUVs, which are preferred by 65 per cent of Korean purchasers. To compete, GM Daewoo would need to develop an SUV itself. GM was also aware that South Korea has a history of turbulent labour relations, which could de-rail its plans.



Breakdown of the South Korean car market
Source: Ward, 30 April 2002.

The new chief executive of GM Daewoo remained upbeat about the prospects. He argues that the advantages offered by Korea's highly skilled workforce more than outweigh the disadvantages of poor labour relations, pointing out that Korea produces more engineers each year than any Western country. The takeover of the company was approved by the major trade unions, which had the power to veto the deal. Union expectations are high: wage negotiations, which take place annually, yielded a 15 per cent rise in 2003, on the heels of which they demanded further double-digit rises in 2004. The company is hoping to go over to a system of multiyear agreements to avoid the near-continuous rounds of pay talks. Importantly, the management is hoping that restructuring will produce efficiencies which will give the company a competitive edge. The CEO sees the depth of its engineering expertise as key to developing new vehicle platforms at low cost. He says: ‘GM Daewoo can produce a platform for $300m., half the cost of one developed in Germany. Reasons for this advantage include the lower cost of the engineering talent and an inexpensive supplier base’ (McCormick, 2004).

GM Daewoo plans to increase its engineering and R&D in Korea, giving the company the capability to develop its own product portfolio. The aim is to make GM Daewoo the third largest engineering centre in the GM empire, behind Warren, Michigan and Russdsheim, Germany. The new management is confident that GM Daewoo will succeed in export markets, producing models designed for specific markets, such as the Matiz, which it sells in China. The CEO says: ‘Initially there was much concern that GM Daewoo would be just an assembly operation for GM worldwide, but we are a lot more than that’ (McCormick, 2004).

Sources: McCormick, J. (2004), ‘GM’s big bets in Asia pay off’, Automotive Industries, 184(1), pp. 27–30; Chang, P. (2003), ‘GM Daewoo gets Korea tax holiday’, Automotive News, 78(6086), p. 61; Ward, A., ‘Workers clear Daewoo sale to General Motors’, Financial Times, 17 April 2002; Ward, A., ‘GM’s bid to conquer the “hermit kingdom”’, Financial Times, 30 April 2002; Ward, A., ‘Korean employees work for GM’, Financial Times, 22 July 2004.

Case questions

Carry out a SWOT analysis of GM Daewoo.

@ GM Daewoo’s website (in Korean) is at http://www.gmdaewoo.co.kr/kor/main.jsp

@ GM’s website is at www.gm.com