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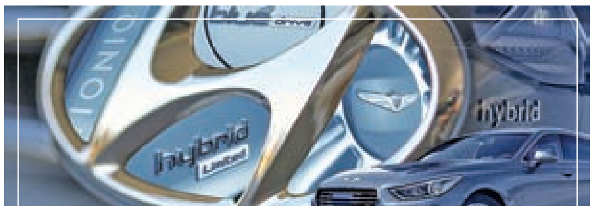
THE NAFTA CATCH

The treaty united the U.S., Canada and Mexico into a world-class auto manufacturing bloc. But the production center has shifted south. | PAGE 3 |



HYUNDAI'S TRIFECTA

After a cooling-off period, Hyundai rolls the dice on a range of eco-cars, a performance subbrand and the Genesis luxury marque. | PAGE 4 |

MARKETING SPECIAL SECTION

THE BIRTH OF A BRAND

Hyundai's Genesis must forge a brand image from scratch in a crowded field. Plus: Do religion and marketing mix? | PAGES 21-28 |

The appeal of mobility? The margins, Ford says

Fields: Investments, then a path to profitability

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DETROIT — Why is Ford Motor Co. so interested in becoming a mobility provider?

That's easy. Its executives see a day in the not-too-distant future when Ford will earn far bigger profit margins from helping customers get around in vehicles they don't own than from selling them cars and trucks.

Ford projects returns of at least 20 percent from those new ventures vs. single digits for its 113-year-old automotive business.

"It's not about moving from an old business to a new business. It's moving to a bigger business," CEO Mark Fields said.

Fields: "Bigger business"

But getting to that point won't be cheap. Ford said its rapidly growing investments in mobility services will reduce earnings in 2017. It is intensifying cost-cutting efforts to offset most of the new spending, which covers a broad swath now but will become more focused as the company begins to separate promising paths from dead ends.

"We are going to try a lot of different things, but obviously, at the end of the day, we have to build business models around them that work," Bill Ford, the automaker's executive chairman, said last week. "The one thing we cannot be is wed to a model and put a stake in the ground and then that's it. We also can't be kids in candy stores, just grabbing everything that we see coming along."

Thus far, Ford has been more reluctant to make big investments in mobility — the industry's catch-all term for helping consumers

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AUTOMOTIVE NEWS ILLUSTRATION

NEWS ANALYSIS

YEAR TWO

Despite settlements and new product, VW's diesel mess drags on

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SEATTLE — These days, Volkswagen executives talk more about winning back trust than market share.

It has been that way ever since the diesel emissions scandal cast the brand known for happy hippie-mobiles into a basket of deplorables, alongside Enron, Lance Armstrong and Bernie Madoff.

Yet as the scandal approached a milestone — it has been one year since the EPA went public with a notice of violation and sales of VW's diesel cars were halted — VW last week was entertaining a gaggle of car reviewers, journalists and bloggers here to show off the new Golf Alltrack wagon.

The timing reflects what VW's U.S. boss Hinrich Woebcken sees as the best way back for a beleaguered and scandal-tainted brand: "product, product, product."

"One thing which is great about your country is you guys give people who did a mistake a second chance," said Woebcken,

see **VW**, Page **44**

Turmoil, turnover | **PAGE 44** | Crisis timeline | **PAGE 45** |

NEWSPAPER

"Every organization needs a break before it goes for another jump. A lot of people inside feel that way. I'm ready for the next jump."

Ahn Byung-ki, Hyundai's director of eco-vehicle development

GREAT LEAP FORWARD

After pausing to regroup, a stronger Hyundai is poised for biggest blitz yet

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HWASEONG, South Korea — An old Korean proverb about jumping frogs is suddenly finding fresh currency in the executive suites and engineering labs of Hyundai Motor Co.

After pressing pause on years of breakneck expansion to nail quality, restock the product pipeline and streamline production, Hyundai is on the offensive again.

Internally, the company's engineers and executives liken it to an old Korean saying: "Even a frog must rest before the next jump." And Hyundai's next leap may be its biggest yet.

The rested-and-ready company is simultaneously jumping into three new areas: a full range of eco-cars, from hybrids to EVs to fuel cells; a new subbrand of performance vehicles; and the new Genesis luxury marque nearly built from scratch.

Ahn: Regroup, charge ahead

The executives leading these initiatives, in interviews with *Automotive News*, describe today's Hyundai Motor Group as a mature, waking giant that used its downtime to regroup and is poised to build on its rank as the world's No. 5 automaker.

"Every organization needs a break before it goes for another jump," said Ahn Byung-ki, director of eco-vehicle development. "A lot of people inside feel that way. I'm ready for the next jump."

The trifecta bet underscores the outsized ambition of a company that traces its roots to just 1967, has scant racing heritage and only developed its first proprietary engine in 1991. Indeed, the stakes are high for the entire auto group, including Hyundai and Kia, as the new ventures devour valuable resources at a time when Hyundai Motor is sliding into a fourth year of falling profits.

The transformation also adds strain as speculation swirls about the transfer of corporate control from Chung Mong-koo, the Hyundai-Kia group's 78-year-old patriarch and chairman, to his 45-year-old son, Vice Chairman Chung Eui-sun.

■ Hyundai punts on plans for a Genesis performance subbrand | PAGE 36 |

Sagging profits are a reason to push into more profitable segments, but also a limitation. Operating income dropped 1.5 percent in 2013, 9.2 percent in 2014, 16 percent in 2015 and was down 7 percent through the first half of this year.

Hyundai hasn't put a figure on the new programs. But investments will likely run into the billions of dollars, said James Chao, IHS Automotive's managing director for the Asia-Pacific region.

"It's not only a question of raw dollars, it's a question of consistency over the long term, in terms of consistent brand message, technology improvement as well as investment levels," Chao said. "Not only do they need to lead in terms of technology, efficiency and luxury, the consumers must recognize this. This is the biggest challenge."

By any estimate, Hyundai's sheer number of entries in new segments is dazzling.

The global blitz began this year with the launch of the first sedans from Genesis, the flagship G90 and the G80, as well as the debut of the Ioniq line of electrified vehicles meant to wrest the green-car mantle from

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AUTOMOTIVE NEWS ILLUSTRATION

> Hyundai's trifecta bet

Hyundai is jumping into 3 segments with a product assault by 2020.

- **Eco-cars:** 28 new eco-vehicles across the Hyundai, Genesis and Kia brands. The expansion covers 10 traditional hybrids, 8 plug-in hybrids, 8 EVs and 2 fuel cell vehicles.
- **Performance cars:** 3 new entries under the Hyundai brand's fledgling N performance subbrand, starting with an N-badged variant of the redesigned Elantra compact next year.
- **Luxury cars:** 6 new nameplates under the freshly minted Genesis luxury marque, starting with this year's G90 and G80 sedans, and continuing with a smaller G70 sedan next year or in early 2018, then a coupe and 2 crossovers.

After disaster, expect peak sales in 60-120 days

Researcher: Timeline can guide inventory plans

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After a major natural disaster, such as the recent flooding in Louisiana, dealerships in the affected area can expect to see vehicle sales stall for 30 days.

Then sales will increase — with consumer demand shifting to pickups from small cars — to a peak selling range in the 60 to 120 days after the onset of the disaster before returning gradually to normal levels about 12 to 18 months later.

Those are the conclusions from years of research by Urban Science, a research company in Detroit.

Mitch Phillips, global director of data at Urban Science, started studying the effects of natural disasters after 2005's Hurricane Katrina. He has analyzed what happens after major hurricanes, floods and snowstorms since. The disasters themselves can be somewhat unpredictable, but Phillips said he found their effect on vehicle sales follows a particular pattern.

While dealerships may have understood that trend in a broader sense, the Urban Science study finally gives a more precise timeline for post-disaster sales.

Phillips said knowing that timeline and what segments will see greater demand can help dealerships to ensure that they have enough inventory, as well as guide automakers' production and allocation plans.

"Auto manufacturers are the ones that need a lot of advice on what to build," he said.

In analyzing Louisiana's recent experience, Phillips found the floods occurred in the midst of what had been Louisiana's best-selling month for vehicles each of the past several years.

Aftershocks

What dealerships can expect after a natural disaster

WHEN	WHAT
First 30 days after onset	Sales collapse
Days 31-60	Sales start to rebound, led by pickups
Days 60-120	Sales peak
12-18 months later	Sales return to normal levels

Source: Urban Science

The hot sales month was quickly quieted by floods in the second week of August, which swept away or damaged nearly 100,000 insured vehicles and the entire inventories of a handful of dealerships.

Bouncing back will be tough for Louisiana, whether the dealerships are waiting for consumers' insurance claims to be processed or restocking their own stores. But an appropriate reaction by automakers and dealerships is possible, Phillips said. It's about speedily collecting the right inventory.

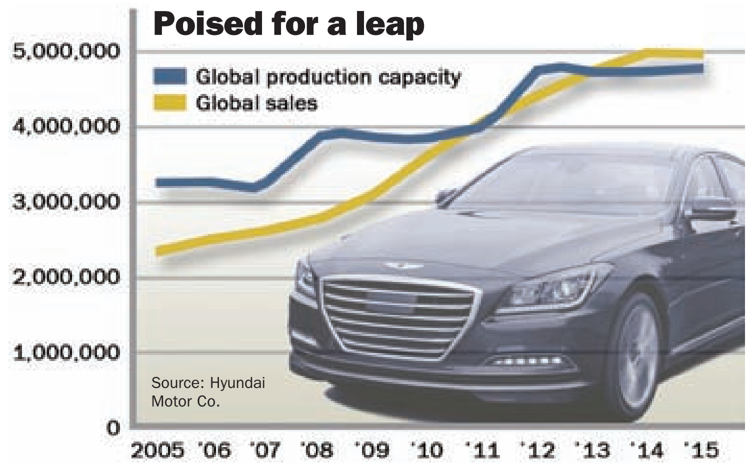
"Analyzing and looking at what you can control and make a difference on will make a difference in the end," Phillips said. "It's not about being more efficient but having that inventory on hand that you will need. In this case, for flooding, it's really about timing."

In any case, Phillips said, managing the effects of a natural disaster can come down to a comforting science during an unpredictable time. "We've seen this before, we know what to do," he advises. "Don't panic. Just execute what proves to be successful in knowing the sales pattern and what consumers want." AN

HYUNDAI

‘People’s mindset is most important’

continued from Page **4**



Japanese rival Toyota Motor Corp. The rollout gathers speed next year with the release of Hyundai’s first N performance vehicle. Then comes a next-generation hydrogen fuel cell vehicle in 2018.

That’s just for starters.

Hyundai Motor Group plans to introduce 28 eco-vehicles by 2020 across the Hyundai, Genesis and Kia brands. The expansion will cover 10 traditional hybrids, eight plug-in hybrids, eight electric vehicles and two fuel cell vehicles.

During the same time frame, the company also plans to introduce the Genesis G70 sedan, a coupe and two crossovers. And next year, the first entry from the N performance sub-brand arrives, a souped-up variant of the next-generation Elantra targeting European customers. Another offering for the U.S. will follow, and then comes a third N for a global audience.


Yang: Pressed for a pause

“It’s a huge undertaking,” said Vice Chairman Yang Woong-chul, the group’s global head of r&d. “But we feel like we can do it.”

That confidence is partly due to the pause that Yang helped orchestrate.

Finding holes

In 2010, Hyundai was thrown for a loop when Toyota Motor Corp., one of Hyundai’s favorite benchmarks, was reeling from its unintended-acceleration crisis.

Hyundai took note. It was nearly chased out of the U.S. in the mid-1990s because its then-lackluster quality repelled customers otherwise won over by low sticker prices.

And in 2010, Hyundai was on a worldwide rampage, not unlike Toyota’s surge before its stumble. In just six years, Hyundai’s global sales soared 74 percent to 4.06 million vehicles in 2011 from 2.34 million in 2005. Global production capacity climbed 25 percent to 4.06 million in that time. In fact, at the height of the global financial crisis in 2009, Hyundai was one of the only brands to boost sales and market share in the battered U.S.

Wary of the pace, Hyundai began tapping the brakes.

Leaders warned against overstretching Hyundai’s r&d resources as it rushed to meet global demand with increasingly diverse and complicated technology.

“We were growing so fast, there might have been areas we were missing — some holes,” Yang said. “Before really feeling the pain, we looked back to find the holes.”

During the pause, new factories were put on hold, engineering operations were strengthened, testing centers were improved and product portfolio holes were plugged. Hyundai also shifted product development away from vehicle-based programs toward more efficient processes based on vehicle groups and component systems.

Finally, people problems were addressed.

Of particular concern, Yang said, was the “easygoing” work ethos of younger employees.

“They just follow the design guidelines, templates and fixed formats developed by the older, experienced people,” he said. “They don’t know what it takes to come up with these kinds of designs, what’s behind the principles. The people’s mindset is most important.”

Hyundai’s fix: new mentoring teams that paired veterans with greenhorns.

‘Hyundai Speed’

Even as profits declined in recent years, however, Hyundai Motor Co. kept seeding the future with a steadily growing r&d budget.

Hyundai attained economies of scale from sharing with Kia new technologies developed at the group’s sprawling Namyang r&d center south of Seoul.

But demands have never been higher. Automakers are being pressured to improve not only the feel and finish of their cars. They must meet stringent fuel economy standards with costly new powertrains, all while pouring money into the advanced safety and autonomous driving features customers are starting to demand.

At Hyundai, executives say, the panacea rests as much in hard work as bigger budgets.

“We are very efficient. The number of engineers is a lot less than other automotive companies in the world,” Yang said. “But it never solves the issue just to add people.”

Indeed, employees pride themselves on a frenetic corporate cadence dubbed “Hyundai Speed,” a kind of burn-the-candle-at-both-ends obsession born from playing

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HYUNDAI

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catch-up to overseas automotive rivals that often boast industrial pedigrees dating back a century.

"There's no hour or day sacred to them. They are incredibly demanding and exacting," said Ron Harbour, senior partner for global automotive manufacturing at Oliver Wyman.

Slipping profits are a big reason the carmaker must now push forward into luxury, performance and alternative powertrains, Harbour said.

"They're a mass-market manufacturer that never had a presence in the more profitable segments," he said. "To grow their profitability, they knew they have to be in more upscale segments."

Hyundai's best bet may be cracking the eco-car segment, said Karl Brauer, senior director of automotive industry insights at Kelley Blue Book. That is partly because market trends are pushing all carmakers in that direction. And as a Korean company, Hyundai has the advantage of drawing from the country's expertise in batteries and electronics.

Hyundai may also make inroads into performance vehicles. That's because performance buffs aren't as hung up on reputation if the specs measure up, Brauer said.

Think Mitsubishi or Subaru when it comes to rally cars.

The tallest order may be tapping luxury, Brauer said.

"Being an established brand with a strong reputation is a core component of what luxury buyers want," he said. "The Genesis brand can succeed, though it will take a decade or more just to build any momentum. And to hold any serious market share could take 20 years or more. Hopefully Hyundai is in it for the long haul, because that's what the company is facing no matter how good Genesis is."

Eco-cars

When it comes to eco-cars, the company is clearly channeling Hyundai Speed.

Hyundai launched its first gasoline-electric hybrid only in 2010, more than a decade after rival Toyota brought out the first Prius.

Now enter Project Ioniq, a green strategy to reposition the car as a "driving device, not a machine." Key to the program is a host of new hybrid, plug-in hybrid, all-electric and hydrogen fuel cell vehicles. On many measures, including fuel economy and range, the Ioniq Hybrid and Ioniq Plug-in introduced this year already beat the Prius.

Hyundai Motor Group aims to be the No. 2 player, behind Toyota, in electrified cars in four years. Though it hasn't released a sales target, Lee Ki-sang, senior vice president for the group's Eco Technology Center, said sales should be more than four times the current volume, implying 2020 sales of around 300,000 vehicles or more.

That's a huge jump from last year. In 2015, Hyundai sold just 42,900 hybrids and plug-in hybrids worldwide. It delivered just 300 fuel cell vehicles and didn't even offer an EV. Kia moved only 18,735 hybrids. It doesn't have a plug-in or fuel cell. Its Soul EV tallied sales of 8,450.

Luxury cars

Hyundai's frenetic clip is palpable to newcomers such as Manfred Fitzgerald.

Biermann: **"The sound is getting better."**

"There is definitely a pace here that I have never experienced before," said the former Lamborghini executive who took over as head of the new Genesis brand in January. "In the Western world, it's still one of the best-kept secrets what this corporation is able to do and what it's all about."

But when it comes to Genesis, Fitzgerald warns, don't expect such a bolt from the blocks.

"Speed also has its downsides," he said in an interview just outside the Namyang r&d center. "Everyone is expecting a lot from this brand right now. And here, something that is not innate is patience. For this brand to be successful, there has to be some patience."

Fitzgerald's challenge is daunting: Take an all-but-unknown marque that was cleaved from the mass-market Hyundai brand only last autumn and raise it onto the global stage with BMW, Mercedes-Benz and Lexus.

It was a natural next step, he said.

"Creating this luxury brand gives you the chance to show off your expertise, to show what you're all about and what you can actually do. It's a totally new ballgame for the group."

One of Fitzgerald's first tasks was to devise a brand DNA — something long baked into the identities of rivals from Europe. After six months, Fitzgerald's team finally isolated a brand persona centered on three traits: being progressive, audacious and distinctly Korean.

The reception at home has been strong.

In the first six months of the year, Genesis sold 17,000 vehicles in South Korea, exceeding the target of 14,000 for the full year. The total was not too far behind luxury leader BMW, which sold 23,154 vehicles in South Korea through June.

But Genesis' real test will be winning fans overseas, not in brand-loyal South Korea.

That's a key reason one of the most Korean of Korean blue-chip companies increasingly taps foreign talent such as Fitzgerald. Hyundai wants to better target international tastes.

It started with poaching Audi design veteran Peter Schreyer in 2006 to head styling at Kia. Schreyer now heads group design, overseeing Kia and Hyundai.

Since then, Hyundai has brought in former Volkswagen Group designer Luc Donckerwolke, who now heads the studios at the Hyundai and Genesis brands.

Performance cars

Albert Biermann, former head of BMW's M performance division, was hired to lead Hyundai's push into performance cars.

The German engineer arrived in April 2015 to work some of BMW's driving dynamics into Hyundai cars long-disparaged for their ho-hum handling.

Biermann was immediately put to work fine-tuning the soon-to-launch Genesis G90. But he was also handed responsibility for Hyundai's fledgling N performance subbrand. The division was formed in 2012 but has mostly just played with prototypes. Under Biermann's watch the first N production car will be released next year.

Biermann is formulating new strategies for torque management, limited-slip differential, electronic stability control, tire development and even engine sound.

The breadth and pace of work at the company is "exploding," he said.

"We have Genesis, we have N, then we have eco-cars. That brings a lot of extra challenges that weren't there a few years ago," he said. "You have to dig deeper."

N is a big milestone for an automaker from a country that lacks the car culture of Europe, America or even Japan. Indeed, highly restrictive car-modification laws in South Korea long kept a lid on customizing cars with fluorescent spoilers and racing decals, let alone garage-tweaked fuel injection or chopped exhaust. Only in 2014 did Hyundai and Kia tiptoe into relatively tame aftermarket merchandizing of such items as accented fuel tank lids.

But there are signs of awakening there, too.

One day, a senior Korean engineer ran up to Biermann, flashing him a YouTube snippet on his smartphone. With a twinkle in his eye, he trembled with excitement and tapped play.

"He was fascinated by a video about a drifting car!" Biermann recounted. "That would not have happened two years ago. Our whole mindset is changing."

There is no more satisfying proof of the shift, he said, than the vroom of screaming engines at the proving ground's high-speed oval just outside his corner office at Namyang.

"The sound is getting better and better," Biermann said.

"It happens more and more often, that I look out there and say, 'What was that!?'" he said.

"When I came here 15 months ago, you didn't hear that so much. Now, I can hear it a lot." AN

Hyundai punts on Genesis high-performance division

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HWASEONG, South Korea — Hyundai Motor Co. is expanding into performance cars and luxury cars, but what about performance-luxury cars?

Executives in charge of Hyundai's new N performance subbrand and Genesis luxury marque say pulse-pumping thrills must be part of the Genesis experience. But it may be a long time before the neophyte premium contender gets its own division to challenge the likes of BMW's M, Mercedes-Benz's AMG or Cadillac's V series.

Hyundai is already dabbling with the idea. The N division for the mass-market Hyundai brand was formed in 2012. The first N production entry, a souped-up variant of the next-generation Elantra, arrives next year and targets European customers.

Albert Biermann, the former head of BMW's M performance unit who was lured away by Hyundai to steer the N subbrand, says performance must be part of Genesis' DNA.

Fitzgerald: Hyundai's new Genesis luxury brand must be sporty.

"Genesis is the brand where we need more brand shaping activity," he told *Automotive News*. "The high-performance aspect should also be included in the Genesis brand."

Manfred Fitzgerald, global head of the Genesis brand, agrees it must be sporty.

But both executives ask for patience. Genesis is not even a year old, and it has launched only two of six planned vehicles. Meanwhile, the company as a whole is juggling the independent launches of the N and Genesis divisions with a massive push into eco-cars.

Biermann said, "We need some stability first in the base lineup." AN