Business Models in Creative Industries: Music industries in Korea

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• Characteristics of creative industries
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Motivations

How did they beat the previous market leaders?  
What was happened? Then...What's next?

- The Outline of the music industries in Korea.
  - Characteristics of creative industries
    - The Classification of CIs
    - The Value Chain
  - To understand BMs of specific firms in the industry
    - Cases
      - Similarities and differences in BMs of different companies in the same industry
      - Dynamic paths of BM innovation (get strategic and practical implications.)
  - Implications and discussions
    - Relationships among value chain, (core) competences, and BMs ➔ Performance
    - What are “Good” BMs ?
      - What does it make good BMs no more effective?
    - Can we use the understanding of BMs for better competitiveness?

Approaches

- Creative industries ➔ Various classifications of Cis ➔ management issues, strategy, industrial policies, BMs
- The value chain
- A BM perspective
  - An exploratory study on BMs of major entertainment companies in Korea.
  - Use the BM Canvas tools (Osterwalder) for the description of BMs.

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Characteristics of creative industries

Supply / Production

- High setup,
- Based on creativity: Star(talented people), Idea, knowledge are the key resources
- Very high risk high return: Risk management is important
- Even producers do not have deep knowledge of the value of their products
- They have to discover the value by experiments (reason for diversifying their products)
- Pro-sumption

Demand / Consumption

- Experience goods and services
- Asymmetry of information
- Asymmetry of talent (between producers and consumers)
- Positive addiction is important asset (G. Becker)
- Re-consumption
- Roles of gatekeepers

Market

- Agents:
  - Mavericks /talents – Gatekeepers – Customers
- Intellectual property:
  - Rent seeking price? – durable rents? (IP)
- Fast growing or evolutionary?

Digital influence

ICT influence / Social networks / network externalities

- Creative industry contains inherent novelty and/or uncertainty ➔ production and consumption decisions are determined by the choice of others (in social networks)
- Revenue migration: Location migration / Inter-temporal migration / value chain / inter-business migration

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A Classification of Creative Industries

<table>
<thead>
<tr>
<th>Large Org., Capital intensive Routinized jobs</th>
<th>Theme park</th>
<th>Movies Broadcasting Publications Games</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Music performances</td>
<td>Animation Mobile apps</td>
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<tr>
<td>Small workshop, Individual artisan activity</td>
<td>Industrial design</td>
<td>Cartoons &amp; Comics Characters</td>
</tr>
</tbody>
</table>

**Production Process**

<table>
<thead>
<tr>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique product, Individual customers</td>
</tr>
<tr>
<td>* Customer needs education to consume</td>
</tr>
<tr>
<td>Experience goods, Focused customers</td>
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<tr>
<td>Customized business</td>
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<tr>
<td>Commodity Public customers</td>
</tr>
<tr>
<td>* IP right is very important</td>
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</table>

Marketing strategy / Business Model

<table>
<thead>
<tr>
<th>Large Org., Capital intensive Routinized jobs</th>
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<tbody>
<tr>
<td>Med-sized Org. Professional jobs</td>
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<td>Production Process</td>
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Social network marketing / Blockbuster strategy (HRHRI - Platform business strategy)
Current trends in the creative industry (music production and entertainment management companies)

• **Value chain:**
  - Production – Publication – Distribution type VC ➔ Digital impact on production, and distribution (internet access) ➔ Mobile-internet distribution channel
    - Record (products) ➔ digital content (ICT-based services)
    - Physical distribution ➔ wired internet ➔ mobile, streaming
      - Value of music in digital era has been declined?
    - Talent searching ➔ talent building
    - Individual firm activities ➔ collaboration environment (various and many cases of collaboration have occurred across all sectors of value chain activities)

• **New Currencies and Assets**
  - Customers are paying not only cash but attention (to exposure), participation, commitment, personal data
    - New Asset (revenue potentials): Content, IP, Contract ➔
  • Addiction, Traffic, Big data, Network, Reputation, Trust
    - Needs more creative BMs or monetization schemes
    - Intangible and valuable

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Current trends in the creative industry: a BM perspective

• **Value offer**
  - Hit songs and many wannabes ➔ Hit content, Talents and idols, Community, Experience, Opportunities

• **Channel:**
  - Physical media (CD, record) distribution channel / Own, individual use ➔ Media / on-line (download) / broadcasting/subscription (one-way) ➔ streaming over mobile internet streaming over the SNS, exclusive service through the fandom / Sharing/participating (two-way, multi-way community)

• **Market**
  - Mass ➔ individual/segmentation ➔ Social networked market, Niche and exclusive market

• **Customers**
  - Passive consumption ➔ active feedback ➔ active (aggressive) pro-umption
  - i.e. global SM town, fandom: consumer are expecting participating and experiences ➔ more performances and events, larger audience, advertising opportunities

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Current trends in the creative industry

- **Key activities:**
  - Centralized in-house activities ➔ outsourcing ➔ decentralized crowd sourcing (fund, participation.)

- **Key resources:**
  - Exclusive talent ➔ original sources of talent(?)
  - Cash ➔ **New assets**

- **Key Partnership:**
  - A single company handled most activities in the value chain ➔ collaboration within the value chain (revenue sharing became a big issue) ➔ collaboration crossing the borders of different industries

- **Cost structure:**
  - One to one revenue-cost matching ➔ Cross-subsidy: few stars and many trainees,
  - Fees for distribution channel platforms
  - Marketing and promotion (papers, TV) ➔ marketing and promotion (Search engine, SNS, App and website development)

- **Revenue model:**
  - Sales revenue model ➔ advertising model ➔ revenue migration / potential assets build-up ➔ creative potential seeking
  - fee for downloading ➔ free for streaming
  - New revenue stream: M&A, funding, opportunity offer

(Pop)Music industry: performing arts, production, and publishing

**Multi-sided customers**
- Advertiser
- Media
- Consumers

**Various participants**
- **Creation process:** composer, players, singers
- **Production process – packaging and publishing:** video, audio, animation
- **Distribution channel:** media, record retailers, Youtube. Melon, Itunes, Google music
- **Intermediaries:** match consumer tastes with artist talents

**Key resources**
- Talent
- Content IP is essential but enforcing IP protection ➔ getting harder

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Music industry in Korea

The global music industry market volume seems somewhat stagnant, but the structure of the industry is in a digital revolution.

- Digitization (digital forms of content), e-commerce (digital-internet distribution channel and platforms) changes industry value chain

No global players exist in Korea. The domestic market is relatively small. And there are cultural and language barriers to get into the global markets.

A sudden global success of K-Pops. What’s happening?

Korean music industry

- Revenue growth rate (2010-2012, except Karaoke): 24.4% per annum

Major products

- K-Pop idol groups: Girls’ Generation, Super Jr. EXO, etc (popular in Asia)
- Global Hit: Psy,

Behind such the success of K-Pop, there are entertainment companies, YG, SM, JYP etc.,

* YG, SM JYP name after the founders, all are former pop musicians

BMs of these companies are unique and interesting comparing with major global music companies. Recently their BMs are even evolving.
The value chain of the music industry in Korea (%: revenue share)

- **Creation**
  - Composer, writer (10%)
    - SM, YG, JYP, CJ E&M (M-net), KT Music, LOEN
  - Singer, Performer (6%)
    - LOEN, KT music, SM, Neowiz, Sony, Universal Music (9%)
  - MelOn (LOEN), Olleh music (KT music), Bugs music (Neowiz), M-net (CJ E&M), Soribada, Mobile Telcos, Record retailers (40%)

- **Production**
  - Neowiz (Bugs music), … (35%)

- **Publishing**
  - Licensing, packaging

- **Distribution Channel**
  - Online, mobile channel

**Business coverage**

A sketch of selected companies, SM, YG, JYP

**Management:**
- Former star singers established the companies exploiting their artistic talent, human networks, experience especially in entertainment (media, production, training) sectors.
- They established companies different from old model record companies

**Business areas:** Talent search, training, agency, content production

**Products/services:** These companies offer not just song titles but talents, multi formatted content, experience
- **Idol stars (Group and/or solo singers), TV talents,** actors, fashion models, dancers
- **Hits (songs, music videos)**
- **Performance**

**Major assets**
- Management skills and systems
- Copyrighted content
- Agency and management contracts with (star) talents, Pool of promising trainees
- Fan communities

**Revenue sources:** Content royalties, Concert tours(performance), CF, Agency fees

**History**
- Before the advents of these companies, traditional record companies (most of them have closed their business or became minor players), production teams of media companies were dominant in music production business. Talent searching and content production processes were usually informal, unstructured, and not well-managed. Actually no management systems for human and financial management existed. They upgraded Korea’s music industry by introducing structured business processes and corporate management systems.
A sketch of the companies, SM, YG, JYP

Copy cat strategies?
- In the beginning (late 1990-2010), they focused on music (production) business, later (2010) they expanded business realms into actors, TV talents, comedians, MCs, fashion models, even pro-athletes
- They are trying to find additional revenue sources from merchandizing and/or collaboration work with luxury brands, fashion, cosmetics industries.
- Based on the domestic success, all of them went to Asian markets (especially Japan and China), then have been attempting to be global players.

Funding
- After taking-off stages, they could get investment (not from the traditional music or media business) and from foreign (China) partners.

Ups and downs
- Their business performances were greatly affected by big hits and scandals of their star talents.
- ‘Too-long-term’ agency service contracts with idol stars often got blamed as slavery contracts. That means conflicts over the revenue sharing are not unusual.
- They became tycoons to talent candidates, trainees, publishers, distributors, and even to media companies.

A sketch of the companies

The Business Model of SM Entertainment (YG, JYP)

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media (TV, radio, internet) Communications (mobile, SNS and internet) cos. Production cos. Composers and audio technicians</td>
<td>Talent finding + training • Marketing + promotion • Content production • Event, performance management • Platform development and maintenance</td>
<td>Hit content • Star talents (idol groups)</td>
<td>Fan community, Fan events • SNS interactions,</td>
<td>Segmented markets (geographically, demographically, by genre)</td>
</tr>
<tr>
<td>Key Resources</td>
<td></td>
<td>Experience • Business potentials</td>
<td></td>
<td>Brand and merchandise cos.</td>
</tr>
<tr>
<td>Portfolio of talents (agency agreements) Copyrighted content</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cost Structure
- Talent production, (+ training)
- Marketing and agent costs
- Platform development and maintenance costs

Revenue Streams
- Royalty (digital contents, CDs and records)
- Concerts and tours
- Brand merchandising
- Advertisement
- CF
**A key activity: Talent seeking (and building) process**

- **Traditional approach**
  - Observation ➔ Talent selection based on collective intuition/experience ➔ introduction to the market ➔ hit or perish
- **SM’s structured approach (especially for idol groups)**
  - candidates pool (so many applicants from many countries) ➔ trainee selection process / audition ➔ long-term training (singing, dancing, speech, attitude) + organizing teams + long-term contract ➔ well-designed introduction to the market ➔ big hits or perish (higher success rates?)

**Distribution Platforms**

- Music distribution channels are owned and managed by big companies. **SKT, Korea Telecom, and CJ group** are the major players especially in online and mobile areas.

- At the dawn of the internet, late 90’s and early 2000’s, traditional record (publishing) companies, such as Oasis Record and Jigu Record, closed their business

- They established **integrated entertainment content (music, movie, drama, games) distribution platforms**: Melon(SKT), Olleh music(KT), Mnet(CJ)

- With strong financial capabilities, they became big investors for entertainment projects and business. And they have extended their business into project planning and production of audio and video content and events.
  - SKT and KT are telecom giants, and CJ is entertainment giant that runs cinema multiplexes and movie production and investment businesses.
### The Business Model of LOEN Entertainment (SKT, KT, CJ)

<table>
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<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Entertainment production companies</td>
<td>• Mobile app/website design</td>
<td>• Distribution channel platform (Streaming, downloading, business licensing)</td>
<td>• User interface (online relationship)</td>
<td>• Mass Market (music consumers)</td>
</tr>
<tr>
<td>• Communications (mobile, SNS and internet) cos.</td>
<td>• Information systems management</td>
<td>• Content production investment</td>
<td>• Usage data,</td>
<td>• Business Market</td>
</tr>
<tr>
<td></td>
<td>• Marketing</td>
<td>• Advertising</td>
<td>• Mobile communications</td>
<td>•Advertisers</td>
</tr>
<tr>
<td></td>
<td>• Investment</td>
<td></td>
<td>• Internet (Telecom, CATV)</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Variety of content</td>
<td>• Mobile communications</td>
</tr>
<tr>
<td>• Financial resources</td>
<td>• Internet (Telecom, CATV)</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Content royalties</td>
<td>• Free</td>
</tr>
<tr>
<td>• App, website design, development and maintenance</td>
<td>• Subscription and download fees</td>
</tr>
<tr>
<td>• Bandwidth costs</td>
<td>• Licensing fees</td>
</tr>
<tr>
<td>• Marketing</td>
<td>• Advertisement</td>
</tr>
<tr>
<td>• Financial expenses</td>
<td></td>
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</tbody>
</table>

### YG’s evolution path

**Value and activity driven BM innovation** → **Resource driven BM innovation** → **Market (customer) driven BM innovation** → **Expansion, extension, integration of BMs** → **new value offer (new experience)**

In the beginning
- Effective talent training process and system + personal capabilities of the CEO as an artists, producers and manager → increased success rates of introduction of talents.
- Offered talent as a product, experience (concert) as a service

2008-2012
- Sought key human resources internationally. Collaborated with international entertainment companies and experts (JV with AVEX Japan), famous American musicians. Recruited candidates internationally.
- Enter the international markets, with the BMs proven successful in domestic market
- Enter other entertainment sectors (actors, TV talents, fashion models,
- Started partnership with potential competitors (Mnet)
- Started collaboration with fashion brands
- Psy’s big hit in the global market

2013
- Audition and fan voting (new experience)

**Issues and obstacles**
- Conflicts with Media (on market hegemony)
- Conflicts with contracted talent (on revenue sharing)
- Negative social opinion on fair contract issues
- Are the current BMs are sustainable??????

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**SM’s evolution path**

*Value and activity driven BM innovation ➔ Market (customer) driven BM innovation ➔ Expansion, extension, integration of BMs ➔ Collaboration BMs (with Card cos., Samsung)*

**In the beginning**
- Former singer Lee, CEO, founded SM Ent. in 1995. Made big successes in launching teen idol groups
- Effective talent training process and system + personal capabilities of the CEO as an artists, producers and manager ➔ increased success rates of introduction of talents.
- Offered talent as a product, experience (concert) as a service

**Early 2000’s**
- Established a JV, Fandango Korea, with Avex, and international affiliates in Japan, Beijing

**2010-**
- Partnership with YG, JYP, and other domestic entertainment companies (major competitors), KMP holdings (global market distribution business), UAM (Agency for global market)
- Entered in travel and tourism area (SM Town Travel, offer concert package for international fans)
- Started SM art exhibition using digital technology
- Launched SM check card service with VISA and KB card. (KB Card and Visa will be associates for the S.M.Art Exhibition, as well as the SM Town Live World Tour III)
- Started co-working with famous entertainers in non-music sectors, MCs, actors, to produce dramas and video content
- In 2013, started to collaborate with Samsung for Samsung’s social community platform
- In 2014 collaboration for Indie music

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**BM innovation / evolution in a creative industry**

**BM innovation can be a goal of innovation, and a mean of innovation, and a subject of innovation ➔ not just for better business performances but for the survivals (sustainability)**
- Collapse of traditional cos, and artists agencies
- BM innovation is a powerful mean to transform the company to adapt to the future environment, and to improve business competitiveness and performance.

- The effective period of a BM is getting shorter, because of
  - Technology innovation (disruptive, i.e. iTunes, streaming services, mobile apps)
  - New competitors (usually copy cats, not so hard to imitate the business processes of a new BM, lower entry barriers)
    - Easy access to (new) technologies especially related to the internet
    - Core competences (celebrities, networks, business know-how) are usually attached to creative persons
    - Downturn times: bold moves (BM innovation) are possible

**BM innovation can create**
- New value propositions
- Transforming competition rules
- Mobilizing people and resources to unprecedented levels of performance
- Tapping new revenue sources
- Build competitiveness and key assets
  - Access to markets
  - Brand
  - Cost leadership
  - Time to market
  - Customer service/ convenience
  - Customer loyalty: fandom ➔ more performances and events, larger audience, advertising
  - Network integration (bigger network externalities?)
  - Lock-in customers
  - Lock-out competitors / entry barrier
  - Addition
  - Trust

**Barriers of BM innovation**
- Existing organizational inertia
- Management inability
Findings: Sudden and destructive waves in the Korean Pop music industry

- **The first wave**: management system and process re-design gave impacts on traditional internal activities.
  - Innovate major activity: talent searching into mining-training
    - Risk reducing. Roundabout process of talent, Hunting ➔ farming

- **The second wave**: the internet and mobile communications changed products into services, production process, distribution process in the value chain
  - Record, CD ➔ online music service (streaming, downloading, video)

- **The third wave**: emerging Co-opetition / Collaboration environment
  - Various collaboration partnership relations with mobile communication companies, fashion and brand, cosmetics, drama production, electronics, tour, credit cards etc.
  - More entrants (famous stars).
  - Competition with partners (investors, communications service providers, distributors) extending their territories.
    - Distributors expand their roles to production (CJ E&M, KT)
  - Competition with platforms (not with specific products)
  - New competitors from other platform players in movies, games, SNS

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Findings

- Diseconomies of scale and scope ➔ limited business scale? Cf. Hollywood BM
  - Confusions in coordination ← complexity
    - Combining dissimilar businesses (Singers, TV talents, Comedian, Models, ) did not reduce complexity that should be managed smartly
    - Burden of coordination across functional boundaries has increased too much
  - Vulnerability of social attention
    - They are too conspicuous to avoid people’s attention. SNS have boost the pressure. (issues: contract period, harsh control of personal and social activities, profit sharing schemes between entertainers and the firms)

- Changing market terrains
  - Talent farming model is getting obsolete. Easy-to-copy BM? No hard to copy core competence (resource ➔ system coordination ➔ organization embedded capability??)
  - China: the biggest entertainment market (in Asia) / New formidable competitors
    - Chinese players are getting more negotiation powers in the market
    - How will they handle new competitors?

- BM evolution? Or just adaption?
  - BMs can hardly be anticipated and designed in advance
  - learning by doing over the time and evolving, discovery and development process?
  - They started with similar BMs. Eventually they are pursuing different partnerships.
    - YG: Collaboration with fashion business and luxury brands
    - SM: Collaboration with financial cos, and Samsung
    - JYP: relatively stick to the entertainment business area

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For further discussions

• An exploratory study on music industry with few cases
  • Limited observations on particular industry in a country
  • Need more case studies for generalization?

• More questions and hypothesis

• Future topics
  • Relationships among competency, value chain, BM, strategy, management, and business performance
  • Comparative studies on BMs of movie, mobile games and music industries that belong to entertainment area, have comparable value chains, and creative industry characteristics
  • BM evolution path selection.
  • BMs with multiple perspectives (partners, focal company, consumers)

Concluding remarks

Digital and Management Technology, Value Chain, Business Models

Revenue Sharing

Ever-changing BMs

Q&A

Suggestions
References


Company websites

- http://www.cjenn.com/
- http://www.loen.com/
- http://www.lync.com/
- http://www.ktnusic.co.kr/
- http://www.smtown.com/
- http://www.ygfamily.com/

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