The Market Expansion of Korean Entertainment Company in China: The Case of YG Entertainment

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# Catalogue

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The following research is about what a foreign music company can do to enter China’s music market. We choose the South Korean pop music company YG as our research target. Positioned as the consultants of YG Marketing Department of China, we want to provide valuable market plan for YG to realize its overseas ambitions based on our study of its current situation and China music industry.

In recent years, YG music company has gained reputation around the world, with their music products and artists popular in many countries. Based on the present facts, we are curious about how a foreign music company such as YG can better explore the China market.

The article begins with the macro environment analysis of South Korea with PEST model. The successful operation of a company, or even an industry, should have tight connection with its own country’s macro environment. From the PEST model, the present condition and advantages of South Korea on supporting entertainment industry are evident and they reveal how political, economical, social and technological factors can affect certain industry.

A five forces analysis on the Korean-pop industry is provided after PEST for a more clear and precise understanding of Korean pop music. Although still chasing after American pop music, K-pop has already become the fashion icon among Asian
markets and its impact is still growing. For YG itself, the background information and assessment are presented after industrial analysis in SWOT model. Comparing YG entertainment with other Korean entertainment companies, it has unique brand image, especially in HIP-HOP genre. Also, artists from YG show great talents in composing, singing and dancing. Besides, the strong relationship with SBS provides YG artists more opportunities to perform.

YG is not a freshman in overseas markets. It owns relatively high market shares in Japan compared with other Korean music companies. More precisely, other than Korea, Japan is YG’s biggest market. The fact that Korea and Japan share the similarity in culture and language leads to the relatively low entry barrier for YG. More importantly, the developed Japan music industry provides more profit margin and luring concert opportunities.

In fact, both China and Japan markets show great demands for Korean pop music. Valuable experiences generated from practice in Japan are useful references for YG to enter the China market.

In the last part of research, China music market analysis is made up by present figures of China music market, consumer analysis and industrial regulations. It’s worth mentioning that, another Korean entertainment company SM is the main competitor of YG in China market. We go through SM’s strategies in China for reference. In the end, a vertical and horizontal comparison will be made based on researches and analysis above, and the problems faced by YG in China market are pointed out. Low brand recognition, redundancy in agency management and limited music elements are main problems YG is coping in China market. Under this circumstance,
market plan will be offered to YG, as it has shown great interests in business expansion in China.

To sum up, this article aims to provide practical strategies and suggestions to foreign entertainment companies to enter China market based on a better understanding of the present condition of China music market.
Nowadays, the entertainment industry aims at not only amusing people, but also bringing happiness to their daily lives. This industry can also have large impact on the impression of the country and also the economy. Gradually, culture itself can become an icon and economic growth pole.

The Korean pop industry is a typical example. From the 1990s, Korea began to export TV drama series, pop music and games. Through these products, audiences from all over the world are unconsciously influenced by the Korean culture, from little to huge, weak to strong. In the beginning, audiences focused on the artists, and little by little they focused on the scenes, products in the TV series and what the Koreans eat, wear and use. What hide behind the screen is the Korean culture and its influence.

The prosperity of Korean pop culture relies on a mature system of Korea music industry and government. Although, Korea has not set up a ‘UNITED STATES INFORMATION AGENCY’ like US does, it has Foreign Ministry for regulating and signing contracts with other countries, Korean Culture, Sports and Tourism Ministry for popularizing culture industry, and Korean Education and Human Resource Ministry for popularizing Korean and attracting overseas students. In August 2001, the Cultural Industry Revitalize Department was set up by Korean Cultural Ministry. This department is in charge of developing cultural technologies and cultivating talents, making policies and assisting overseas promotion. Every year, the Cultural Industry Revitalize Department receives government funds of 50 million US dollars. And since the year of 2001, this department has already set up working station in
Beijing for collecting and providing information of China’s cultural industry, including market, technology, human resources and related organizations. It helps Chinese and Korean cultural organizations to build up business relationships and communications. The Cultural Industry Revitalize Department is a great motivation in enhancing cultural cooperation between the two countries.

In addition to a mature macro environment in Korea, within the entertainment industry, there are advanced technologies and Korean attaches great importance to develop young talents. That is to say, from creation, production, marketing, promoting and sale, it is a well-developed system.

3. [Why the study was undertaken]
In recent years, a series of policies were released for further support on Chinese cultural industry. The latest one was released on March 14, 2014, when the State Council issued the Several Opinions on Boosting Cultural Creativity and Designing Industry. In the statement, the State Council advocated on encouraging the production of culture, the digital and networked integration on communication and consumption. From the national level, to encourage the cultural development is a tendency. We believe it is important to have a deep understanding of our market itself and every aspect within this industry.

Secondly, from the prosperity of Korean pop, the benefit it brings is obvious. Korea and Korean pop are role models that worth learning. For China, it shares similar cultural background with Korea and they are geographically close to each other. Thus, to learn from Korean pop is much easier and more practical than any other modern music industry. And also for the influence by how can Korean pop gradually enhancing its country’s collective strength.

Last but not least, to come up with suggestions and strategies is an integration of what we learned during our master studies. We hope, through our knowledge and understanding of Korean pop and Korean music industry, and combine with business theories can we finally build up a set of practical business suggestions for foreign entertainment companies.

4. [Literature Review]
4.1. Korean pop with online’s help, goes Global

This article talks about the reason K-pop becomes so popular worldwide because of the use of Internet. U.S. and Europe used to be hard to reach for Korean artists simply by traditional media like TV and radio. With the widespread of social media like YouTube and Twitter, popularity of k-pop is growing at amazing speed.

Not only because of the advent of social media, more importantly, Korean bloggers and agencies take this opportunity aggressively and actively. For example, allkpop.com is a U.S.-based Korean pop blog written in English that caters to international fans. It generates more Web traffic than any Korean music portals in South Korea. The blog's monthly readers reached 2.2 million in 2010.

Moreover, entertainment companies started to take advantage of online distribution. It began with more than 50 Korean artists in the alternative, hip-hop and electronic genres; now there are hundreds of Korean artists available in the online music store. Taeyang, a singer and dancer of YG entertainment released his English album on Aug.25, 2010 and reached No. 3 in Japan, No. 5 in Canada, No. 11 in the U.S. and No. 15 in Australia on the R&B/Soul album chart. For the very first time a South Korean album released and promoted online and offshore and gain success. Social media was the one and only way to prompt the recognition and awareness of Korean pop music.
K-pop's online buzz not just brings Korean artists overseas, but also makes a way for talented “nobody” to become “somebody” at home. For example, Kim Yeo-hee, a 22-year-old Korean girl, posted a video on YouTube, singing Beyoncé’s “Irreplaceable” and playing music with apps of iPhone. She became most searched on YouTube Korean Channel in few days. Later, she got a chance to release her own album on iTunes.

4.2. Local Appropriations of a ‘New Media’ Phenomenon

In this article, author Matt Goodarce discussed the phenomenon of ‘Gangnam Style’ under globalization. Communication has transformed into a global scale. The use of social media has helped to drive up the popularity of Korean pop music. This surge in visibility of Korean culture has been termed the “Korean Wave” (Ravina, 2009). The remarkable success of Gangnam Style is part of this. Politically, it enhanced the national image of South Korea and introduced Korean culture and language to more countries.

The absurdity and ridiculousness of ‘Gangnam Style’ is one major reason of its global acceptance. According to Eco, Aristotelian, there are several aspects to comic effect: there has been the violation of a (minor) rule by somebody with whom the viewers do not sympathize because he is ‘ignoble, inferior, repulsive’, and therefore the viewer feels superior to his behavior. (Eco, 1984:2).
So culturally speaking, racial prejudice is contributing to the success of ‘Gangnam Style’. The western world is laughing while watching.

Dance to participate implies the “collective effervescence”, in which social bonds are cemented through ritually induced passion or ecstasy such as dance (Ehrenreich, 2008:2-3). So-called Horse dancing is easy to follow and everyone can be a part of it. In conclusion, the global appeal of ‘Gangnam Stlye’ is the product of new media and the characteristic of the song itself – hilarious and easy to follow.

4.3. Investment Report of SM in 2014

SM, one of the big three entertainment companies in Korea, has entered China market for years. According to 2013 financial report of SM, its revenue grew 16.5% YoY to W281.5 bn, and operating profit to remain broadly flat YoY at W60.7 billion under consolidated K-IFRS.

China should become a major market for SM in 2014. The company is planning on establishing a joint venture company in Mainland that is convenient and efficient for them to promote artists through broadcasting, TV dramas, films and commercials. EXO, a boy band of SM, is extremely popular in China, which leads to high profitability. China’s service and entertainment markets are growing at a rapid pace, The Beijing SM Town concert held in October 2013 drew over 70,000 fans, which proved massive popularity of SM artists in China. Because of the coming digital age,
the spread of Korean music is faster than ever.

<table>
<thead>
<tr>
<th>Market</th>
<th>Revenue</th>
<th>Operating profit</th>
<th>OP margin</th>
<th>Net profit</th>
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<td>2,13</td>
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<td>Average</td>
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<td>14.1</td>
<td>15.9</td>
<td>12.9</td>
<td>14.1</td>
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</table>

Notes: Bloomberg consensus. Based on November 13th closing prices; EPS is based on U.S.
Source: Bloomberg, KDI Dawson Securities Research

(Figure 1 Earnings Forecasts for Global Media Companies)

China now has become the second largest movie market in the world, following the US. Its cultural industry contains huge potential.

- Less restriction on cultural products by President Xi’s administration,
- Improved quality of domestic release,
- Improved infrastructure,

However, the nation’s music market accounts for only a small fraction of the global total (1.4% based on 2013F data), which implies huge gap in music industry to fill in. It’s a great opportunity for SM to increase its market share in China. And so far, Chinese consumers’ buying power has not let SM down. The Chinese-language copies accounted for half of the sales of EXOo’s latest album (close to 1mn copies total), meaning that Chinese music market has a positive attitude to foreign music and great potential in consumption on cultural products.
4.4. SM Focus on Asia, While YG Entertainment Pushes For Global Dominance

According to Adrienne (2014), this report compares different marketing strategy between YG and SM. The competition to reach audience beyond Korea escalates rapidly. SM is more focus on Asia market, especially China, Japan and Korea while YG is building up corporation with top producers from America.
To better cater Asian audience, two SM artists—Heechul and Key joined the popular reality show We Got Married Global Edition, with f(x) Amber and Tasty's Soryong hosting the related web program WGM-TV. Recently, SM is busy promoting Super Junior-M and Exo-M for their comeback stage. As the first Korean entertainment company that recruits Chinese members, SM has accumulated solid fan base in China and maintained a reach to Mandopop Industry. As a result, SM artists are the more popular than ones from YG.

Although YG started to realize the importance of Chinese market and do promotion in China, their efforts are way less than what SM has done. With growing heat of K-pop, world-class artists Lady Gaga and Pharrell Williams are taking an interest in Korean artists. And YG has been working on the relationships with these American music powerhouses all these time. Recent collaboration of The Skrillex, Diplo, G-Dragon, and CL, Dirty Vibe has received positive feedback from global audience and proved YG is at the forefront of delivering K-Pop to a worldwide audience.

4.5. Chinese Music Industry

Music industry, a business connecting musicians’ creation to the related products, is now globalized around the world. According to Lecturer Miaoru Jian (2003, 15-30), globalized transnational recording industry and international market cooperation are quite energetic. Nowadays, music products all over the world mainly come from four major labels: Warner Music Group, Universal Music Group, Sony Music Entertainment and EMI Group(The Big Four).
Lecturer Miaoru Jian (2003, 15-30) describes the music globalization as a process of transferring and the process of integrating, defined as transculturation. Transculturation is a term created by the Cuban anthropologist Fernando Ortiz in 1940 to describe the phenomenon of merging and converging cultures. (Ortiz 1995,102-103.)

China’s great variety of music history could date back to dawn of the Chinese civilization as early as the Zhou Dynasty (1122BC-256BC) (Yang, 1980). Many Chinese music products are still unheard of in the West, and relatively few recordings are commercially available. Until recent years, only a few scholars have been specialized in Chinese music, but in the past few years there has been an increasing numbers of publications on many aspects of Chinese music. (CHIME 2007.)

China music market is relatively complicated comparing to other Asian markets, as M-Pop, Cantonese-Pop, J-Pop and K-Pop mix in this grand market. According to IFPI, record music sales in China totaled $92.4m (CNY 583.3m) in trade value in 2012 – a 35% increase from the $68.2m reported 2011. It is commonly recognized that the general Chinese music production quality is still fairly poor. No one is willing to spend money in promoting records because nearly 90% of the CDs in China are counterfeited and an even higher percent of online music is competitive (Ed Peto, 2007). 90%, this high piracy rate has push the record music company into a dilemma phenomenon, market of only $86m a year (2006 figures), making China, a country of more than 1.3 billion people, not so attractive for music business (Ed Peto, 2007).
Like all the other foreign companies operating in China, the music recording and entertainment companies have had to enter as joint ventures with Chinese companies, consisting 51% of the new China collaboration in the process. The joint ventures music companies stick very much to front line releases (Ed Peto, 2007).

In the political perspective, the government protects airwaves in China. Government controls its own network of regional licenses strictly, both in broadcast policy and physical presence. As the Chinese government heavily monitors the mass media and the press, the instant changing Internet becomes a more effective and efficient way of promoting music in China. Therefore, China is becoming the world’s testing ground for the digital music development.

The development of 4G in 2013, 520 million mobile users and six million new mobile subscribers per month, these statistics are suggesting China as a potential digital market with the second largest broadband network in the world. But the reality is that all of these statistics need to be adjusted. Fewer than 10% of downloaders are actually paying 14 Yuan per download for the privilege (average price). Lecturer Ed Peto has estimated that legal music sites are on the rise, but the change will be painfully slow due to a dislike of DRM (Digital Rights Management), lack of support from government, and a public who have been used to getting free music online for free. It is becoming increasingly common for record labels to build the profiles and then profit from where the real money potentially lays, namely Mobile Value-Added Services (MVAS). (Ed Peto, 2007) Therefore, the subscription models are going to be the future model for music development in China.
5. [General Analysis—PEST]

K-POP, also known as Korean pop music, is seen as a musical genre that comprises a variety of musical and visual elements, has its conception and industrialization in 1990s. And after 10 years of development, K-POP made itself go globalized and become popular and now become one of the most distinguished music in the world. According to the Nightline, the global sales for Korean Pop music reaches a new peak, over 3 billion US dollars a year.

5.1. Political Factors

South Korean government has tried different ways to help develop the music industry. The copyright landscape gets improved along the time. In 2007, Korean government mandated its copyright law so as to prohibit the illegal use of creative contents online. Later in 2011, the government introduced a new law to regulate the use of P2P file sharing service by official registration and implement other filtering approaches. The result goes satisfying. According to the Korean authorities, 70% of users stop infringing after getting the first warning. The market has grown since 2007 by 58% by the end of 2011. And in 2012, a new law was set up to require P2P service providers to register with the Copyright Commission. And government required these registered services to block the illegal distribution of creative contents. This act gives a stronger regulation towards Internet music service providers to protect and respect copyright.
The government revises the deal and claims that domestic music artist can get from original 60% to 80% of the recorded music sales with the popularity of Kpop. Besides, domestic artists also enjoy 70% of the revenues generated from digital channels.

As it is a concern of a country ‘s overall competitiveness, Korea finds it critical to build up its country image. Having creating its own style of music, television programs, as well as film, South Korea positions itself as a hotspot of cultural interchange, and therefore increases its cultural influence in Asian region.

5.2. Economic Factors

A wide range of export industries drives South Korean economy. Korea’s four major export industries are Electronics, Automotive, Chemicals and Shipbuilding. With more International recognition of Korean culture, these industries will beneficial from the increasing awareness of Korea. This is a comprehensive consideration of Korean economy also.

When we look into the Korean cosmetic business, it goes so popular outside of Korea. Taking into the consideration of girls group in Kpop dancing, we may not really memorize every face of them. Critically, we have a very strong impression that they have quite a high standard of make-ups.

From the graph below, which retrieved from the Korea Creative Content Agency (shortened for KOCCA), we know that the creative contents that developed by Korea
have positive effect on improving the situation of exporting consumer goods drastically.

(Figure.3 Korea Export Index 2006-2014)

At the same time, with the wave of K-pop culture, South Korea is becoming a popular destination in the world. Using K-POP effect as a tourism mechanism to drive prospective travelers into this region proves to be effective. Specifically, tourism is an industry which has the potential to increase the interchange of people, along with, the interchange of information flow, the interchange of technology and also, the most important, the interchange of capital. Having more people going traveling in South Korea, objectively, more advanced technology, capital, and information will have substantial effect on this place and therefore help improve the landscape of this country.
5.3. Social Factors

Korea has a population of only 50 million. Hence, music produced in South Korea is hugely depended on foreign consumption to cover its production cost. K-pop satisfies many people’s needs and wants. For example, the GangnamStyle, brings people out of reality and leads a fantasy tour.

Given the hypothesis that different age groups of people have different preference on choosing types of media. Generally speaking, generation Y prefer to use mobile devices, such as pad, smartphone and computer while the generation X may prefer radio and TV. Under this circumstance, there are many other types of media platforms. For example, online radio enables K-pop become famous a wide range of different demographics.
Moreover, the growing awareness and affection to art among young generation is another contributing factor that boosts K-pop. Korean is a nation good at singing and dancing historically. In recent years, with rapid expansion of K-pop, they realize the power of cultural soft power and become more passionate about investment in artistic skills like singing, dancing, drama performing. As a result, numerous young artists join in K-pop and push it to a higher level.

5.4. Technological Factors

There is a link between technology and content consumption. In Korean domestic market, according to the IFPI (International Federation of Phonographic Industry), a organization represents the interest of the recording industry worldwide, reported that the value of the South Korean dropped by 4.3% in 2012, for the sake of the collapse of the biggest social networking platform. One critical point we observe here is the huge market capacity when we combine technology, music and social network. With more ongoing advancement of new technology such as the “big data mining” and “cloud storage”, it is believed there will be more applications and function on technology, music and socialization. To be specific, generation Y are heavy users of digital social network and K-pop has a vivid characteristic of young and socializing.

South Korea has the world’s highest number of broadband services per capita. Into 2014 over 38% of the population and around 95% of households were broadband subscribers.
According to the study of Pacific Telecommunication Council, South Korea has a 100% of mobile phone penetration rate among which, 40% of the mobile phone are smartphone. South Korea’s leading mobile carrier, SK Telecom, will bring forth a super fast 300 megabits per second mobile Internet service in late 2014.

Having acknowledged that the construction advancement of Korean telecom, it has provided a solid backbone for the smooth and steady delivery of creative contents. The supreme telecom condition enhances subscription-based music services. People pay a certain amount of money to download music tracks.

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranking</th>
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<td>2005</td>
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<tr>
<td>2007</td>
<td>23</td>
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<td>2009</td>
<td>14</td>
</tr>
<tr>
<td>2012</td>
<td>11</td>
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*(Figure.5 South Korea placement in global market rankings IFPI)*

From another perspective, Korean music industry is growing. In seven years, South Korea music market rises from 33rd to 11th the largest in the world.
6. [Industry Analysis— Five Forces Analysis]

6.1. Rivalry

6.1.1. A-POP

Korean music industry receives strong competition from American pop music. The mature music system and countless talented songwriters bring creative elements and productions to all over the world. Jay-Z, Beyonce, Justin Bieber and Lady Gaga etc., these American pop singers are real world-class artists. A-pop is almost excellent in every music genre such as Hip-hop, R&B, Jazz, Country music, Rock&Roll and Electronic. Compared with A-pop, the brand recognition and influence of K-pop are still remaining weak global wide.

6.1.2. J-POP

In 1990s, Japanese music was competitive in Asian market and attracted numerous fans in China and Korea. However, entertaining industry is declining along with its economy recession (J.D. 2012). Although famous Japanese artists like NamieAmuro, HikaruUtada and AyumiHamasaki are relatively competitive in Asian market, the J-pop heat no longer exists.
6.2. **Bargaining Power of Buyers**

Every year, there are many new groups debuting with good looking and strong stage performances. The fierce competitions in K-pop market give buyers a lot of choices. It’s obvious that in entertaining industry, buyers are the kings. They decide what to like and dislike and whom they are going to spend money for. And the switching cost is low for them. They always can shop around to discover more options. Thus, bargaining power of buyers is high.

6.3. **Bargaining Power of Suppliers**

The main suppliers of Korean music industry are entertainment companies and television stations. Given the fierce competition, every company and TV station are trying so hard to draw attention. If any of them rise prices, lower quality, or reduce availability of their products, competitors would replace them very soon (Warda, 2014). Even the most powerful three SM, YG, JYP with resourceful financial support and famous producers like Park Ji Yoon, Teddy, Choice 37 and G-dragon, are very cautious and nervous to present new artists or release new albums for well-known musicians. Because once they failed to reach the market, it’s not just money they will lose, but the reputation that built over years will be harmed over night. So, the bargaining power of suppliers is low.
6.4. Threat of Entrants

It requires high capital to enter Korean entertainment industry. The fees in producing music and training potential talents and making them stars are extremely high. Besides, it’s hard to survive in K-pop market if the new comer does not have a solid understanding of entertaining industry and recognizable music style. Most of all, management on relationships with media and TV stations are complicated and requires time and money. Thus, it’s difficult for a outsider to enter Korean entertaining industry. In other words, the threat of entrants is low.

6.5. Threat of Substitutes

6.5.1. Korean TV Drama

Korean TV drama is another organic part of Hallyu. To many Hallyu lovers, Korean music is not as mainstream as TV drama. They can live without k-pop but not without tv drama. For example, the latest Korean Drama< My Love From The Star> was a huge success in South Korea and China. It became one of the most viewed streaming shows on Chinese platform iqiyi, where it was streamed more than 14.5 billion times from December 2013 to February 2014. (Kimberly, 2014). However, there is no Korean singer can achieve that popularity.
6.5.2. Rising Chinese Entertainment Industry

The role of record companies in the music value chain was traditionally limited to production, promotion, and distribution of recorded music. Given the critical importance of alternative revenue channels in the era of widespread piracy, Chinese record companies are reshaping their business models to become more like those of talent management agencies, which handle and share revenues from all aspects of a musician’s entertainment-related businesses, from record sales to touring, merchandise, brand sponsorship, music publishing, fan club, website, and television and film appearances. These all-encompassing deals are often called the “360 Degree” model, by which musicians essentially sign over the entirety of their careers at least during the contractual term.
7. [Company Review]

7.1. Company Introduction

Yang Hyun-suk in Seoul founded YG Entertainment in Feb 24, 1996. The company mainly produces music of Hip-hop, R&B, Electronic, Dance, and Pop genres. It is one of the “big three” music entertainment company in South Korea.

7.2. Financial Analysis

Financial analysis:

The benchmark company: SM Entertainment

Reasons for choosing SM Entertainment as benchmark:

7.2.1. Same Industry

SM is a giant in entertainment industry in Korean and Asia as well. SM has a longer history producing and selling entertainment products.

7.2.2. Similar Company Strategy

Compared with YG, SM also targeted in Japan and China market, owning more singers and artists, which are competitive in overseas market.
7.2.3. Comparable Performance

YG:

SM:

(Figure 6 Key Financial Data of YG Entertainment and SM Entertainment)

To further research and learn more about these two companies, we should take a look at its firm performance and policy.
7.2.4. Growth---Sales Growth

YG has reported dramatic growth rate from 27 to 72.5 in 2011, but a dramatic drop back to the level of 22 again in 2012. SM has leaped up to 74.5 in 2011, but the growth rate has slowed down since 2011. As both of the two companies open the Japan market in 2011 and 2012 relatively, comparing the two entertainment companies, we can see that SM is more stable in company growing.

7.2.5. Profitability

- profitability---ROA.
profitability—ROE.

We use ROA and ROE to evaluate the profitability of YG and SM. SM has a better ROA, referring to a higher effectiveness in using the stakeholders’ assets to generate return, while YG has a better ROE, generating more return and profit for the equity investors.

Briefly, we will review companies’ performance by net profit margin. The trends of them are drawn in under graph.
● **profitability---OP margin.**

(Figure 10 OP margin of YG Entertainment)

● **profitability---NP margin.**

(Figure 11 NP margin of YG Entertainment)
The case of YG Entertainment
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- **profitability---EBITDA margin.**

![Graph showing EBITDA margin of YG Entertainment](Figure.12 EBITDA margin of YG Entertainment)

From 2010 to 2013, YG has a higher profit margin than SM, but it is less stable than SM. Profit is adjusted from revenue, operating profit margin, net profit margin and EBIT margin, so we can see what the specific reasons are that lead to different profit margins of these two companies.

**7.2.6. Sales Analysis**

Revenue from sales is recognized on transferring significant risk and rewards of ownership of the goods to the customers, usually on delivery of goods. Basically, YG and SM have similar sales resources, recorded music, digital music, concert revenue, advertisement, overseas royalty and others. The trend of these index are shown below in chart and graph.
The case of YG Entertainment

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YG:

![Annual earnings trend](image)

(Figure.13 Annual earning trend of YG Entertainment)
SM:

![Annual earnings forecast table and graph](image)

*Figure 14: Annual earning trend of SM Entertainment*
From the charts above, we can witness the great sales generated from the overseas royalty. Concert revenue and advertising are also the main sales resources. What’s more, even though the recorded music industry is not so positive, SM and YG has gained certain positive growth and market share in the records. Both of them have invested into the digital music market, therefore, the digital music sale is increasing in a slow but healthy speed.

7.3. **SWOT Analysis of YG**

7.3.1. **Strength**

- *unique brand image.*

YG Entertainment sticks to the HIP-HOP style and leads the hip-hop fashion in this industry. Most of the training sessions are HIP-HOP related, such as RAP, Beat Box, Break Dance, etc. YG designers also package the artists with HIP-HOP style headgear, headband and colorful clothings. YG catches the HIP-HOP heat point and distinct itself from the digital dancing music, which is the mainstream in Korean music market. YG localized their HIP-HOP with the local digital dancing music by mixing some rock and R&B music elements, performing the unique Korean Pop music. Given to YG’s unique music style and fashion taste, it has accumulated a group of loyal fans.
resourceful talents, YG spirit and YG family.

Artists in YG are talents of creating new k-pop music. They can produce creative contents in a family-like environment, and YG provide them the convenient working environment. But the company itself would not interfere the artists during their creating process. YG spirit consists of creative thinking, enjoying mindset, excellent quality, unique identity and familism.

strong relationship with SBS.

YG entertainment has a particularly strong relationship with SBS compared to its relationships with KBS and MBC. Debut stages and appearances on SBS’s ‘Inkigayo’nare always a priority for groups such as Big Bang and 2NE1. SBS in reality, exclusively enjoys appearances by YG artists. During the time of Big Bang’s comeback, the broadcast station arranged an hour-long special program for the group, who also appeared on many of its major variety programs, such ‘Healing Camp’, ‘Running Man’, and ‘You & I’.

relatively healthy internal communication system.

Comparing to the extremely rigid system in SM entertainment, YG has the most healthy internal communication system among the three agency companies (YG, SM and JYP entertainment).

high financial develop potential.

According to the official data, for the first half of 2013, YG posted revenue of 60,394,746,793KRW (approximately $54,036,032.31 USD). Comparing this to the first half of 2012, when YG accumulated approximately 40.6 billion KRW
(approximately $36,325,392.99 USD), YG posted a gain of 20 billion KRW (approximately $17,894,282.26 USD), breaking a record-high in its revenue. Moreover, in the first half of the year, it collected a record profit of 9,635,257,537 KRW (approximately $8,620,800.90 USD). Both YG’s operating profit and net profit in the first half of 2013 is highest ever.

7.3.2. Weakness

- fewer channels to cooperate.

Channels in this paper mean the distributional and promotional ways, including television, newspapers, magazines, and other media. The smallest negative matters brought up by sides can cause a fatal blow on up and down artists.

- high dependency on two artists.

Before 2NE1, YG was highly dependent on one artist, Big Bang. In the year 2010, Big Bang was responsible for 70.1% of YG entertainment’s total sales. This could mean that YG is more focused on Big Bang than any of its other artists, but this also means that if a problem were to occur with Big Bang, the whole company would be risky.

- relatively limited music style.

Although YG unique music style is recognizable and has gained millions of fans so far, it contains risks that buyers may get bored with unchanging music style. Focus on Hip-hop drives other buyers who are into R&B, jazz and electronic away.
7.3.3. **Opportunity**

- **expansion of Hallyu.**
  Expansion of Hallyu is significant in Asia area and global market, moreover, the recognition of K-POP is growing constantly in overseas market. Along with other Hallyu products such as the Korean TV dramas, movies, and the pop dancing, K-pop music has been one of the important part of this Hallyu boom in overseas market, especially in China and Japan market.

- **the emerging importance of social media.**
  Social media is vital in the popular music industry in the 21st century, and nowadays it is changing the entertainment industry from a fan-oriented service business to a big business servicing industry that aims to maximize the entertainment industry’s profit through royalties, commercials, and advertisements. Social media platforms, such as Facebook and YouTube, provide Internet content free of charge to all the music lovers whoever have access into the internet. This development has given the pop music industry new opportunities to all-round production, transmission and multi-level creation of derivative products.

7.3.4. **Threat**

- **SM.**
  SM, as YG’s biggest competitor, founded in 1989, has the first-mover advantage among the big three. It is the company created original Korean idol groups like H.O.T, S.E.S and Shinwa, and brought Hallyu Wave through Asia. The current leading K-
pop stars such as Girls Generation, Exo, Super Junior and BOA enjoy great success in domestic and international market. The market penetration of SM is deep and wide and its businesses are not restricted to music. SM also has rich resources in drama producing and fashion design and it has established sub-companies in Japan, China and U.S.A to better promote its artists.

However, SM has been criticized of exploiting its artists for years. SM uses its status to pressure “slave” contract onto its artists, which includes forcing them to sign on for a long period of time, an excessive penalty provision for breach of contract, and a one-sided scheduling of activities. Thus, Shinwa and three members of TVXQ were determined to leave by filing a lawsuit and they did. The exploitation poses a potential risk to SM that they can’t retain artists.

- **JYP.**

JYP was the home to Rain, the biggest Hallyu star in the world. The label’s current roster includes Wonder Girls, Miss A, 2PM, 2AM etc.

The market share of JYP is decreasing. According to Gaon music chart, the digital sales and album sales of JYP productions are in decline. They are not targeting their buyers well in music and fashion. It’s estimated that JYP would be out of big three in very few years.

- **other emerging companies.**

There are so many entertainment companies in South Korea who are ready to take YG down. Cube Entertainment and Woollim have been expanding its business very fast.
Their artists include Trouble Maker, Beast and 4 Minutes have post-great competition to YG recently.
8. Market Expansion

8.1. YG In Japan

8.1.1. Why Japan Market First

- **the same East Asia culture.**
  Both Japanese culture and Korean culture are affected by Confucianism, and mixed with their own ethnic feature to become the foundation of their national culture. As a result, they share a few social values. In some levels, Japanese and Korean have the same taste of music, which can save the cost of production for YG. YG can open the new market just with the old products.

- **geographical advantage.**
  Korea and Japan are both in the East Asia. It costs approximately 2 hours to take a plane from Tokyo to Seoul. It is very convenient for the actors of YG to do promotions directly in Japan. At the same time, besides the cost on time, the cost on the fees for advertising and promotion can be saved a lot.

- **language advantage.**
  Japanese and Korean are both Agglutinative languages, so their grammars are similar. That is because Chinese affects their languages from ancient times, they have numbers of same words, it is easy for YG to change the lyric to Japanese. At the same time, YG always teaches the Japanese lesson for its trainees, they all can speak Japanese. Japan market is a good choice for YG because of low language barrier.
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- **the most beneficial concert market.**

The concert model of Japan has tremendous advantages among the world concert market. Because of the mature model and professional management, holding concert in Japan makes a lot of profits. The ways of making money in Japanese market includes the income of copyright, the income of derivative, the shared revenue of TV stations and restaurants, and so on. In today’s music industry, the profits made by selling CD decreased dramatically due to digital age. Considering this situation, YG made up its mind to expand its business in Japan for its mature and profitable concert market.

- **need of market.**

As the decline of the J-pop, it is a good timing for K-pop to enter the Japan market. In the following picture, we can see after 2010, K-pop began to lead the click rate in the internet. YG had foreseen the trend, so it decided to develop its Japan market in 2009 with the Big Bang starting their activities in Japan.

（缘何韩国能在流行文化的竞争中如此轻松地战胜日本？Euny Hong retrieved February 13, 2013）

(Figure.15 Search terms about K-pop and J-pop)
8.1.2. The Differences between K-pop and J-pop

In the following data, it illustrates that Korea music made more profit than Japan music and the average of the whole industry in the world. J-pop was very popular in a time, but now it is totally under the shadow of K-pop. Why can it be taken place by K-pop in just a few years? There are some reasons that we cannot ignore. (Hong, 2013)

Firstly, Made in Japan only sells in Japan. Some Japanese culture is too isolate to be accepted by the whole world. They thought it is enough for them to sell in the domestic market. It is too difficult to maintain the enthusiasm because it always stays the same style. At first, people were curious about Japanese style, as time goes on, old things did not have enough competitive power to lead the whole world market.

Secondly, in the moral level, Korea culture adores abstinence culture, which is highly praised in most of Asian countries. The eastern parents do somehow not like Japanese culture. For example, the most famous Japan group- AKB48, which are made of teenagers always wearing sexy school uniforms, they says that the school uniforms
are in the way in a song. On the contrary, this can never be shown in the Korea music. Unlike the Japan music, Korea music is trying to protect the pure of juvenile.

Thirdly, K-pop has a better management. They made the music to be an industry just like some big consortiums in Korea such as Samsung Corp. SM, JPY, and YG are the top music factories to make music for the market, and they provide all-round courses including singing, dancing, song writing and performing to cultivate their trainees. As a result, the quality of their production can be guaranteed. On the other hand, J-pop is some experimental. Some elements of J-pop are too progressive for people to be accepted.

8.1.3. YG in Japan---The Strategies on How YG Developed Japanese Market

- **YG + AVEX = YGEX.**

AVEX, one of the biggest independent music labels and the giant record company of Japan, it once achieved more than 70% of market shares among whole Japan music industry. The core business of AVEX include Avex Entertainment, Avex Management and Avex Marketing which relate to music and image publishing, entertainment affair agency, production and sale.

On Jul, 2011, YG entered into a contract with Avex, these two giant entertainment companies ‘combined’ as YGEX. YGEX is established for YG artists to develop their career in Japan, which is managed by AVEX. Some of the most well-known Japanese artists, for example, Ayumi Hamasaki and Namie Amuro belong to Avex,
and Avex is always the first choice of Korean artists who desire to open up career in Japan.

Before the cooperation with Avex, YG regards itself as an ‘non-active’ participant of Japanese market. In its past thought, to be ‘active’ in Japan means at least, stay for a relatively long time in Japan, and it will definitely results in gradually losing popularity in home country. YG has struggled for quite a long stage until it determined to cooperate with Avex.

YGEX has built a special mode for YG artists to break through Japanese market. The first consensus between both YG and Avex is ‘do not change the music style of YG’s to over cater for Japan or not cater for Japan at all’. That is to say, the existence of YGEX is an acknowledgement of YG’s music style. From that on, artists from YG once release a new album in South Korea, the promotion schedule will start one week later in Japan, and from Japan to Asia.

- **YG Family One Concert.**

From the official website of YG company, we can find out in the year of 2003, YG opened up its first YG Family One Concert, which is an assemble of almost all YG artists. The first YG Family One Concert was held in Seoul. After year 2003, YG Family One Concert was also held in year 2004, 2005, 2007, and 2010. In year 2006, YG Family 10th Anniversary World Tour was held in Osaka and Tokyo, the only two Asian cities except Seoul. The same situation happened in 2012 as well, when YG Family 15th Anniversary World Tour was held.
individual schedule of YG artists.

According to the official statistics from YG’s website, 6 years before the establishment of YGEX, Japan has already become the first overseas market of YG. Se7en, one of YG’s top artists, is the first YG artist to develop career in Japan. The first concert of Se7en’s was held in Yokohama in year 2005 and a second one was held within six months in Tokyo and Osaka. In year 2007, there was ‘Se7en Japan Tour Concert Are U Ready’ held in Osaka and Tokyo. Since then, every year there were concerts held in Japan for YG idols. In year 2008, BIGBANG, a legendary band of YG, held their first Japan concert in Tokyo,’BIGBANG 2008 National Tour Live Concert’ and three more in late 2008 in Osaka, Nagoya and Tokyo. In year 2010, BIGBANG “Electric Love Tour” was held in Yokohama, Kobe and Tokyo. Also, in year 2011, there was “BIGBANG Presents Love & Hope Tour” in Osaka, Chiba and Nagoya.

From year 2011, since the establishment of YGEX, YG artists visited Japan more frequently. More and more artists entered Japan market and concerts were commonly held in Japan. 2NE1, another outstanding YG band, their first Japan Tour was held in Yokohama, Kabo and Chiba, only one year after 2NE1 made their debut.

In year 2012, 16 concerts were held for YG in 6 Japanese cities. And last year, 29 concerts among 18 Japanese cities. YGEX not only gain profits by selling concert tickets, but also the selling of concert-related merchandise is another road to riches and influence.
8.2. YG In China—What YG Have Done In China?

8.2.1. Expand Coverage

To further penetrate Chinese market, YG partnered Samsung Electronic to develop channels that features artists’ music video and behind-the-screen video. The newly signed “YG Family Channel” via Youku platform will target younger generation and increase YG Company’s awareness.

In digital era, there is more opportunity for a newly set up company to do promotion. Social media help company to keep in touch with their audiences and enables public to discover more. Social media help to maintain virality that gets more possibility increase brand awareness. For example, the brand creates some topics that related to the artists and interact with audiences in a global range.

8.2.2. Localized Its Product Feature

YG came out two ways to start with opening the gateway of Chinese market. Considering the fact that it is very hard to balance the investment and payback of the physical and digital downloads in Mainland China, around 99% piracy rates therefore, YG mainly focuses on holding concerts and events.
Based on current circumstance, YG planned to set up a firm in mainland to better monitor the market change, build up connection with industrial resources as well as limit the activity cost in China.

This year, YG Entertainment began to choose their auditions in Greater China. They set competition in Beijing, Shanghai, Hong Kong and Taiwan in which creative young music talents love to stay in. They looked for singing and dancing talents who dreamed to be famous singers at the age of below 18. The training requires new talents to take dancing, singing, media and speaking classes, a rigorous program that continues for as long as a decade. The YG Company borrows its training program from their country and cultivates new stars in China. This approach is somehow borrowing the idea of US NBA player selection. In order to develop business in China, some NBA teams sign Chinese players to play NBA games. The same, YG Company cultivates their Chinese artists to generate more attention from the local market.

8.2.3. Initiate New Communication Channel

As YG artists become increasingly popular in China, at the end of 2012, YG Entertainment launched the first e-shop in China. Consumers can buy artist merchanides and also DVDs and photo books. The reasons for YG to set up e-shop in China are first to generate more income as YG second quarter 2013 merchandise sales grew 56% year on year, second, to increase brand awareness and third to retain customers’ loyalty.
9. [Proposal]

9.1. China Music Industry Analysis

9.1.1. Background

The music industry is experiencing great change all over the world. Sales of CD industry market are falling down while sales of digital music are rising in Mainland China. The scale of CD industry is shrinking, which had fallen to 69.4 million in 2007. It fell 62% in the market share. In the income of mainland singers, the profit from traditional record is almost zero. On the other hand, digital music, which has a rapid growth since 2008, became to dominate the market today. Sales dropped from 160 million to 37.7 million during just 4 years since 2003, and the market share of digital music had increased to 46% of all the music industry in Mainland China in 2007.

According to the “Internet music survey report”, which was done by over 10 music service website in 2008, 50% consumers rarely or buy CD, only 12% of them still keep the habit of purchasing CD. Instead of this phenomenon, over 70% consumers prefer to use music search engine to meet their needs.

In the global jukebox era, China has 221 million Internet users, which is the biggest mobile users market and the second largest broadband users market. With the development of internet, there are much more channels to get music. As a result, it is more difficult for traditional music industry to satisfy consumers.
Traditional CD industry had to change its business model to adapt to the new market.

Today, there are new ways for them to get profit.

- Sale CD
- Sale digital CD
- Reparations from copyright
- Authorization fee
- Income from Mobile ring-tone
- Work with music website to share the revenue from advertisement
- Hold music concert

Until the end of 2012, there are 575 legal Internet music enterprises in Mainland China, which had increase 27.2% since 2011. The scale of the internet music industry had achieved to 4540 million, including online music market reached to 1820 million and wireless music market came to 2720 million.

(Figure.17 Scale of online music in China)

9.1.2. Consumer Analysis
The music business is so widely spread in China market, and the music industry’s success depends upon the sales of concert tickets as well as the sales of music, both physical and digital. But those who don’t buy music should still be considered as the music consumers, and the music industry do also concern about the consumers who do not buy physical albums and do want to sell music to them. In this section, we will analyze the different market segments of Chinese music consumers.

According to Anna and Brittana (2009), there are various ways to approach the segmentation of the music consumer market:

- **Demographically.**
  Chinese music consumers can be categorized by age groups: Teenagers, Young Adults, and the “Over-35” and seemingly neglected market segment.

- **Psychographically.**
  The Chinese music consumers can be identified based upon the extent of their enthusiasm for music and their tendency to adopt or reject new technology.

  Segmenting via attitudinal factors, the market could be divided depending on the preferred music elements.
These defining factors aren’t necessarily mutually exclusive and can define a broad spectrum of music consumers in China. Each segment has their own unique set of needs and responses. College-aged students are developing a new interest in higher quality music products. Younger listeners are looking for a deeper connection with the music they love. This is also apparent through the music target market’s newfound need for quality products. This is consistent with the music quality, social networking, and eco-friendly and customization initiatives. Social networking is a great form of word-of-mouth marketing and it is one of the best forms of advertising and promotion. The tech-savvy target market is very receptive to internet-based marketing initiatives and becomes greatly involved in the music scene via social networking sites.

There are a few key Chinese websites that the music industry has used and should continue to use to keep a solid relationship with the college-aged consumer. Weibo, QQ Music, Xiami and Douban Music.

9.1.3. Music Regulation in China
Dates back to year 2002, the 16th CPC National Congress first raised ‘the reform of the cultural management system’ and advocated to develop culture business and culture industry. Since then, the reform of Chinese culture industry started. CPC and Chinese government reinforced this strategy on the 17th CPC National Congress and released ‘China’s Cultural Industry Promotion Plan’, as a programmatic and guiding document. With the support from China government, the culture business and culture industry flourished.

According to the ‘China’s Cultural Industry Promotion Plan’, culture business related policy was released. First, China reduces barriers for several of entities to enter culture business, especially for the non-public capital and foreign companies. For them, China government advocates single proprietorship, joint-venture or cooperation way to enter culture market. Second, China government and local government would invest more on culture industry via finance loans discount, subsidy for programs, or pump capitals to support on developing latest technology, major projects, and cross-regional integrations, etc. Third, implementing preferential policy of tax revenue to support the development of culture business. Forth, to expand support on financial investment. China government advocates banks and financial organizations to develop financial products that can provide loan guarantee to cultural entities. Also, cultural entities are encouraged to enter the BIOS or GEM market to seek for financing. Fifth, China culture industry investment fund is set up and is operated by market, aim to motivate the development of China’s culture industry.
Lately, a series of policies were released for further support. March 14, 2014, the State Council issued the ‘Several Opinions on Boosting Cultural Creativity and Designing Industry’. In the statement, the State Council advocates on encouraging the production of culture, the digital and networked integration on communication and consumption. And the ministry of culture will associate with China Central Bank and the ministry of finance to release the ‘Several Opinions on Financial Cooperation in-depth and the Opinion on Supporting Small Culture Business’ recently.

From the active actions we can see from China government, the development of culture market and culture industry of China is promising and positive. And this would definitely help China music industry and the related entities to gain benefits.

9.1.4. Competitor Analysis----SM in China(4P's Marketing Mix)

SM is the most successful and influential Korean entertainment company in China. Exo, one of SM boy band provides about nearly 100 millions revenue from China market a year, let alone Girl’s Generation, Super Junior and TVQX combined.

As the first Korean entertainment company targeting Chinese audience, the marketing strategy of SM is quite effective.

- **product.**

During training period, they intentionally pick Chinese members and require other Korean member to learn Chinese as part of their training. In 2005, SM started to put
one Chinese member, Hangen in Super junior. It was an experiment to test the potential of Chinese market and it turned out to be more profitable than they expected. After that, Chinese market becomes the most important foreign market to SM and they make more efforts to appeal Chinese buyers.

Take Exo for example, there are four Chinese members and the group is split into two sub-groups——Exo-K and Exo-M, which M stands for Madarin, that perform in Korea and China respectively. And all their hit songs like “MAMA”, “History” and “Growl” were released in Chinese and Korean version to cater both group of audience. Besides, Super Junior and F(x), the two groups spend nearly 50% of their time performing in China.

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**promotion.**

In 2006, SM set its Beijing office to focus on its business in China. And soon they realized that resources they have in terms of media, agency, and understanding towards local audience were too limited. So they made a decision to corporate with Taihe Rye, a famous Chinese music development corporation. Taihe Rye is responsible for marketing activities for SM artists, like launching press conferences, organizing concerts, and promoting new alums and drama series. With the help of local company, SM is able to reach out its target customers in width and depth.(Jung-min, 2012)

Besides, SM is the only Korean entertainment company that has their artists joins Chinese TV programs shows. Super Junior, F(x) and Exo have been to “Happy Camp”, the most popular and watched live show made by Hunan Tv Station. By
continuously attending talk shows in China, the popularity of SM artists increased dramatically.

- **place.**

So far, activities of SM artists are held mainly in Beijing, Shanghai and Guangzhou because of rich media network and huge number of fans.

They sell their songs mainly through music softwares like QQ music, Kugo and Kuwo. These music platforms pay copyright to SM and then potential buyers can listen online or download.

SM also takes good use of social media like Weibo. EXO, Girl’s Generation and Super Junior, they all have an official Weibo account to interact with their fans and release latest news. Moreover, SM opened a SM Town Channel in Youku, where fans can watch music videos and concert records of their idols.

- **price.**

The most profit-making parts are concerts and album selling. Compared with Korean artists from other companies, SM artists have an advantage in popularity, which directly leads to relatively high price in concert tickets. Super Junior, for instance, is the most popular Korean band in China and they get paid for more than 1 million RMB for one show. SM holds more than 20 concerts in China per year.

Speaking of sales of albums, EXO's 1st full-length album 'XOXO' has sold a total of 1,007,577 copies including 471,570 copies of its first full-length album and 536,007
copies of its 1st full-length repackaged album. Since the implementation of the online music market in 2005, EXO are the first artist of this era to accomplish this remarkable feat. And Chinese fans are the main contributors to these great sales. Despite the high price of albums from Korean, the strong buying powers of Chinese customers and huge numbers of Chinese fans provide numerous profits to SM.

9.2. Data Analysis

9.2.1. Data Sources and Methods of Collection

In order to gather the information of Chinese audiences’ opinion, we designed a questionnaire in the internet by using the professional questionnaire web portal ‘sojump’ (http://www. sojump.com/). After study two papers about Korea music in Taiwan, and the consumption habit research “The development of success factors of Korea POP music in Taiwan”, and “商品音乐消行为特性之调查研究-大学生群体为例”, we designed questions of the questionnaire survey for our project. Because our target market is Mainland China, we sent our questionnaire via internet to mainland young people who are our target consumers.

We have utilized qualitative, orientation analysis, and SPSS analysis to measure the data of our questionnaire.

Another data source of our project is personal interview. We spoke to CHEN QING CHI David face to face. He is the Project Director of Ascent Sports & Culture
Development Co., Ltd. He gave us a lot of useful information about the concert industry in Mainland China, and the cooperation mode about working with Korean entertainment company.

We interviewed Guo Dan, the vice president of QQ digital music, via mails and telephone as well. According to her interview, we got the current situation of digital music market in Mainland China, and the model of working with the foreign CD companies. Besides, we also talked about the copyright problems in Mainland China.

9.2.2. Data Analysis and Conclusions

Through an investigation of mainland consumers, 143 effective questionnaires have been got. About 90.21 % are done by mobile phones, and 9.79 % are done via web links. (Figure.19)

Through 24 questions, we aimed to find the following problems in different perspectives of Korea music in China:
basic information of the respondents.

Over 77% of all the respondents are females, and about 45% of our respondents are students, and 47.55% of them are at work. (Figure.19, 20)
The case of YG Entertainment
2014 May

- **the major consumer for Korea music.**

About 51.74% among the respondents are like Korea music very much, and people who do not like it take about approximately 25%. (Figure.21)

![Bar chart showing likeliness of Korea music](image)

(Figure.21 The likeliness of Korea music)

Through a cross analysis, we find that middle school students are the major fan boy of Korea music. In this group, over 90% of them are the loyal fans. (Figure.22) Besides, 40% of them have followed moving of Korea music more than 3 years and 40% of them became to pay attention to Korea music more than 1 year. (Figure.23) On the other hand, the high number of who are willing to spend more than 3 hours to enjoy Korea music is College students and people at work. (Figure.24)
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2014 May

(Figure 22 Likeliness of different groups)

(Figure 23 Years of listening to Korea music in different group)

(Figure 24 Daily time consumption of different group)

59
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2014 May

- the impression of Korean songs in China.

<table>
<thead>
<tr>
<th>行标题</th>
<th>平均值</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>独特的舞蹈</td>
<td>3.22</td>
</tr>
<tr>
<td>歌手的特别打扮</td>
<td>2.56</td>
</tr>
<tr>
<td>简易的歌词</td>
<td>2.73</td>
</tr>
<tr>
<td>媒体反复地播放</td>
<td>2.99</td>
</tr>
<tr>
<td>原本就有注意该歌手（团体）的歌曲</td>
<td>2.27</td>
</tr>
<tr>
<td>其他</td>
<td>1.68</td>
</tr>
</tbody>
</table>

小计: 19.2 平均: 2.74

(Figure.25 Consumers’ impression of Korean Songs)

From the average data of each option, we can figure out that most of the audience feels more impressed by the catchy melody, which makes audience addicted to the repeated chorus. For example, the lyrics of “Oppa gangnam Style” are the most memorable and recognizable part of Gangnam Style. The data is 3.76/5.0. Also, the unique and characteristic dancing is also attractive and impressive, scoring 3.22/5.0.

By analyzing with SPSS, we have found out the key components of the impressions as follow:
KMO and Bartlett’s test of sampling adequacy.

<table>
<thead>
<tr>
<th></th>
<th>Kaiser-Meyer-Olkin</th>
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</thead>
<tbody>
<tr>
<td>Bartlett’s sphericity test</td>
<td>253.023</td>
</tr>
<tr>
<td>df</td>
<td>21</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

KMO (.658) is larger than 0.5, and the significant is 0.000, therefore, it is significant to analyze the correlation between the varieties.


covariance matrix

<table>
<thead>
<tr>
<th></th>
<th>initial</th>
<th>extracted</th>
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<tbody>
<tr>
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<td>.410</td>
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<tr>
<td>VAR00002</td>
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<td>.659</td>
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<tr>
<td>VAR00004</td>
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</tr>
<tr>
<td>VAR00003</td>
<td>1.000</td>
<td>.613</td>
</tr>
<tr>
<td>VAR00005</td>
<td>1.000</td>
<td>.634</td>
</tr>
<tr>
<td>VAR00006</td>
<td>1.000</td>
<td>.711</td>
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<tr>
<td>VAR00007</td>
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<td>.553</td>
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</table>
公因子方差

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<th></th>
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<tr>
<td>VAR00004</td>
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</table>

提取方法：主成份分析。

解释的总方差

<table>
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<tr>
<th>成份</th>
<th>初始特征值</th>
<th>提取平方和载入</th>
<th>旋转平方和载入</th>
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</thead>
<tbody>
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<td>合计</td>
<td>方差的 %</td>
<td>累积 %</td>
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<tr>
<td>7</td>
<td>.299</td>
<td>4.276</td>
<td>100.000</td>
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</table>

提取方法：主成份分析。

a. 使成份相关联后，便无法通过添加平方和载入来获得总方差。
### 成分矩阵

<table>
<thead>
<tr>
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<th>2</th>
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</thead>
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<td>VAR00003</td>
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<td>.308</td>
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<tr>
<td>VAR00001</td>
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<td>VAR00005</td>
<td>.600</td>
<td>-.524</td>
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<tr>
<td>VAR00007</td>
<td>.115</td>
<td>.735</td>
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<tr>
<td>VAR00006</td>
<td>.460</td>
<td>.707</td>
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</tbody>
</table>

提取方法：主成分分析法。

a. 已提取了 2 个成份。

Two components are selected to explain the subject.

### 模式矩阵

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<thead>
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<th>2</th>
</tr>
</thead>
<tbody>
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### 模式矩阵

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</table>

提取方法：主成分分析法。

旋转法：具有 Kaiser 标准化的斜交旋转法。

a. 旋转在 7 次迭代后收敛。

### 结构矩阵

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### 结构矩阵

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<td>VAR00007 其他</td>
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提取方法：主成分分析法。

旋转法：具有 Kaiser 标准化的斜交旋转法。

### 成份相关矩阵

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</thead>
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</tr>
</tbody>
</table>

提取方法：主成分分析法。

旋转法：具有 Kaiser 标准化的斜交旋转法。

According to the structure metrics, variety 1 (中毒性的旋律), 2 (獨特的舞蹈), 4 (簡易的歌詞) and 5 (媒體反復地播放) are considered as component 1. Variety 6 (原本就有關注該歌手) and 7 (其他) are considered as component 2. Also, variety
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3 (歌手的特別打扮) is considered as not significant to both components.

In this way, we can conclude that the audience generally pays attention to two kinds of components, one is about the nature of the music, the other one is about the loyalty to the singers.

- the awareness of YG in China market.

First, we found that the most famous Korea music is GANGNAM STYLE, which is good news for YG. However, not all the people know this singer belong to the YG Entertainment Company. Only 44% of them give the answer “Yes, I know it”. (Figure.27) Surprisingly, there is an interesting phenomenon is all of the middle school students have already known YG, while in the other groups this number are only nearly 50%. (Figure.28)

(Figure.27 The percentage of people who know about Gangnam Style)
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(Figure.28 the percentage of people who know about YG in different groups)

- **via which channel they know and share Korea music.**

As shown in the following picture, music software, music web portal and TV programs are the favorite ways to enjoy Korea music.(Figure.29)

(Figure.29 % By which channel people use to listen Korea music)
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- how much do Chinese consumers like to pay for Korea music.

Only 41% of all the respondents choose to meet stars through commercial performances, which means they like to pay for the performance. (Figure.30) As the bar picture shown, over 75% mainland consumer do not want to spend money on the Korea music. (Figure.31)

(Figure.30 % by which mean people like to reach K-pop stars)

(Figure.31 Willingness of spending on K-pop products)
Among this people who would like to spend money on buying music, CD, concerts tickets and related products are the main consumption goods. (Figure.32)

Comparing with the number they spend on Korea music, middle school students are the main force although they are not have earning ability indeed. (Figure.33)

(Figure.32 % by which mean people like to purchase K-pop products)

(Figure.33 Willingness of spending on K-pop products in different groups)
In terms of the products they like to buy, related products got most in middle school students group, and all the groups show their interest in music concerts. (Figure. 34)

(Figure. 34 % by which mean people like to purchase K-pop products in different groups)

- **the effect of Korea music brings to them.**

About 75% of people who likes Korea music admit that it brings some effect to their lives (Figure. 35), and from the chart we can see that Korea music do get a lot of potential tourist for Korea. What is more, Korea celebrity effect also helps the Korea product brands to get a lot of costumers. (Figure. 36)

(Figure. 35 % of people who being affected by Korea music)
9.2.3. Data Limitations

Most of respondents are from cities in the Southeast of China, including Guangzhou, Shenzhen, Shanghai, Suzhou, Guangxi, Beijing, Tianjin, inner Mongolia, and so on. We do not have enough samples from north parts of Mainland China.

Males are much fewer than females. Most results of this questionnaire are based on the females’ perspective, because we only get about 30 samples from male respondents.

The age of respondents has not been considered in this questionnaire. The main way we pass our questionnaire is Internet, so we sent this to our college alumni groups and relatives in the Mainland China. We assume that most of respondents are in the 15-30 years old.
9.3. Problems

9.3.1. Low Brand Recognition

Last year, according to Korea Creative Content Agency, China is the second largest cultural content export country. Korea had exported cultural contents at a total value $4.4 billion US overseas. And China market accounted for 27.6% at $1.2 billion. However, one of the big problems we observe YG Company is that seldom Chinese know about YG, instead, many Chinese people know some of the artists who developed by YG. There are few factors to explain why YG entertainment gets low brand awareness.

9.3.2. Late Entrance

SM Entertainment was the first Korean Entertainment firm entering Chinese market. SM came in 2007. Comparing to SM, YG worked with Chinese third largest cosmetics company Guangzhou Huanya Cosmetics Technology Co and started its business in China in 2013. Hence, a late entrance is one of the factors that contribute low brand awareness.

9.3.3. Weak Brand Consistency

People have heard of Big Bang. People may know about Psy. People may even get familiar with 2NE1. However, when there is not very common people would refer YG Entertainment. As YG had put no effort on making their artists under its
company name, people may think that these artists are belong to the company set up by them. Some may be confused that artists came from other entertainment companies.

9.3.4. *Decentralized Resource Allocation*

From our observation, there are several kinds of activities that YG Company used in Chinese market to interact with their audiences. Korean entertainment companies increase its brand awareness by using k-pop concerts, fan meeting, and special TV programs.

Besides, YG tried to enter different markets at one time. Japan is the major market while YG also allocate resources in United State and European countries to generate consumption. China is a big country with large territory. YG choose several big cities to hold concerts, such as Beijing, Shanghai, Guangzhou, Hong Kong, and these cities are located at the eastern part of China. YG does not continue to allocate more resources at other parts of China. It will contribute imbalance of information flow that weaken the process of enhancing brand awareness.

9.3.5. *Added Cost of the Chinese Concert Industry Supply Chain*
According to a new analysis from trade publication Pollstar, thanks to near-record prices of the concerts and a huge number of shows by major acts, the demand for live entertainment is growing. Therefore, artists and promoters get savvier about marketing shows directly to likely ticket buyers and pricing them accordingly. Ticket prices remained stable, but stable high.

According to the 2012 Chinese Show Market Annual Report, concerts of Korean pop singers keep increasing. More than 30 teams of Korean singers had hold their personal concerts and fans’ meeting show in Mainland China and the number of audience has reached over 500,000. Also, as the Korean concert supply chain is relatively mature, many artists expand their derivative products when holding concerts. Take the Korean Pop singer concert for example, each ticket price is 500RMB, the sales goes up to 10,000, then the total revenue is 5,000,000 RMB. Meantime, the derivative accounts for 100RMB, and the total revenue of derivatives can go up to 3,000,000 RMB. This is common in not only foreign countries but also in HK and Taiwan, but since the concert supply chain in China is just at the beginning stage, 90% of the derivatives in Chinese concerts are counterfeited, therefore it is irrelevant to the agencies and singers. Because of the lack of protection to the original derivatives, agencies do not prefer to invest in the development and sales on the derivatives, therefore they over rely on the concert ticket revenue. And that is exactly the reason why the ticket price keeps stable high.

Comparing to the Japan and American songs’ content, Korean songs are easier to pass the investigation of the Chinese Culture Department. And the Korean artists are more active in showing up in the Chinese market.
One dilemma lies in this situation, considering the consumers and target audience of the Korean music concerts, as most of the target audience are ages between 15~30, students or young on-job generations, who are not financially dependent, it is relatively expensive for the audience to pay for the concert tickets.

On the other hand, the Korean artist entertainment company does not take the risk of selling the concert tickets, and they just get the playact fee. So it is profitable for the company to hold the concerts. But it is relatively risky for the agencies.

Source: Administrational News Department, Taiwan Pop Music Industry Survey, 2010

(Figure. 37 Supply Chain of the Korean Entertainment industry)

According to the structure of the concert industry supply chain, one level under the entertainment company is the Korean agency. Korean agencies are professional at estimating the Chinese local agency, negotiating about the show plan and
implementing the show. Most of the big scale concerts are packaged as the touring performance in different parts of the country, so they need to cooperate with different local Chinese agencies.

Since the Korean agency is very strict with the cooperation criteria, requirements of each section in their cooperation, especially for the stage, are clear stated before contracts. When it enters the Chinese music and concert market, the Chinese Culture Department is also strict with the content of the songs and the artists. In this part, the Korean agency needs more adjustment to get through the investigation. In order to get more information and save more relationship cost, here comes the role of the Chinese agency. According to the interview of David, the Project Manager of Ascent Cultural Management Agency, we found out that most of the resources are controlled by the Chinese agencies and it is their asset to grab interest from the entertainment company. The Chinese agencies are paid to deal with the balance between the Chinese market and the Korean agency, as the Chinese agencies hold the resource of public security, stage field issues and other local resources. All of these add cost to the concert.

9.4. Marketing Strategy
9.4.1. Seek for More Film and Television Performance Opportunities

Base on the survey we done, consumers would like to approach Korean stars via watching film or television programs. In China television market, there are lots of entertainment programs that are popular. Almost every provincial satellite TV channel has their own core entertainment program. For example, ‘天天向上’, ‘快樂大本營’ of Hunan provincial satellite channel, ‘年代秀’ of Shenzhen satellite channel and ‘最強大腦’ of Jiangsu provincial satellite channel.

Among those, the show ‘快樂大本營’ of Hunan provincial satellite channel occupies the highest market share in average. This program was set up in 1997, a weekly program on every Saturday prime time. In recent years, their host group and performing process are gradually become stable. During common episode, the program invites popular stars to do interviews and play games. They also have special editions for certain festivals or super stars.
The rankings of provincial satellite channels in China in first-half year of 2013

快樂大本營 should be Korean stars’ first choice not only because it owns the highest market share in average but also the majority audience of this program are young, age between 4-44, energetic and own relatively strong purchasing power. This shares similarity in potential Korean star supporters.

The top two entertainment programs of prime time in China in the first-half year of 2013
For TV series and films, more and more cooperation between China and Korea can be seen in recent years. For instance, ‘华丽的冒险’ and ‘爱情闯进门’ are the two hit TV series produced by China and Korea, cast by popular actors and actresses from these two countries. In movie, in the year of 2006, Korean pop star Choi Siwon cooperated with Andy Lau to shoot movie ‘墨攻’. The cooperation itself is the first attractive point of this movie, both Chinese and Korean audience would like to enjoy the cross-over.

**9.4.2. More Chinese Elements Should be Injected**

More commonly, Korean stars are presented in a group format rather than individual. If there are Chinese members within a group, it will certainly arouse more Chinese attention. Nowadays, we can see several examples from Korean pop groups. Like Victoria Song, the leader of F(x), Zhou Mi and Henry from Super Junior M, Jia and Fei from miss A, and other 4 Chinese members in a twelve-people group EXO.
To have Chinese members in can not only attract Chinese market’s attention, but also bring benefits to the group and company. Once they enter China market or frequently visit China later, having Chinese members can better solve problems on communication, and help the entire group to have a better understanding of Chinese culture and customers’ behaviors.

In addition, YG can release Chinese version for title songs or add some Chinese lyrics in albums to attract Chinese audience. Both China and Korea share similar culture background, the meaning of lyrics can be highly understood by both Chinese and Korean. If Chinese version can be provided, it can be more welcomed by Chinese audience.

9.4.3. Cut Intermediary Agencies and Find a Powerful One

At present, Korea singers’ main activity in Mainland China is holding concerts. In this business, Korea entertainment company is paid by a fix number of appearance fee. As a result, Korea entertainment company do not care about the price and attendance of the concert. At the same time, they cannot control the range of audience.

Based on the interview of David, the Project Manager of Ascent Cultural Management Agency, we found that Korea Entertainment company have to work with China local agencies to start to do promotion and communicate with other media platforms. Because of the obstacle of languages and distance, Korea entertainment company need to rely on the local agencies to be the third party to deal with all the work. Besides, sometimes not only one agency can do all the work by itself, so they
find another agency to help them. Therefore, the ultimate price to the consumer is very high. If Korea entertainment could try to cut some agencies in this process, the price of the concert would be lower, which means more potential target consumers can afford the tickets and have the chance to see the performance, and it will definitely enhance the visibility of the company.

Another much more effective way is to find one local company to be the only one experienced representative to represent the principal in mainland China area and give more authorization. For instance, like we have mentioned before, SM Entertainment holding Taihe Rye Music Co.Ltd’s hand, which is the biggest record company in Mainland China, is a pragmatic and efficient successful cooperation.

Of course, the best way is to establish a new subsidiary in Mainland China. In different areas, there are local people to do the communication and promotion, allowing better resource allocation. However, since it is hard to get resources in China market at this stage, Korea entertainment company do not have enough power to control the market. Therefore, we suggest that Korea company invest a local powerful entertainment to be a joint venture firstly. As such timing and the condition are ripe, China local subsidiaries will be pushed on progressively.

9.4.4. Open New Fashion Tide Shops to Complete the Product Line

According to our questionnaire, about 74.29% respondents would like to buy related products.
At the same time, from the research of YG in Japan market, related products bring great interests for YG. In today’s China, young people are more sensitive and have more loyalty to the brand than before, and their consumption capability have also greatly enhanced. It is a good opportunity for YG to open new fashion tide shops in China. All the related products should be more branded and professional. At the same time, physical stores may help to cut down fake products in China. The fashion tide shop is targeting young people who are fond of YG’s artists. In the shop, fans can buy souvenir about their pop stars including clothes, shoes, accessories, and pictorial books. With the artist expand his/her career in China, this shop could sell some product which use the artist to be the spokesman. And according to our questionnaire, over 40% respondents like to buy the product that their idols use.
To complete the product line, consumers will have more channels to meet YG artist, and YG company will have more interacts with China consumers directly. With a better understanding of the market needs, YG can adjust their market strategies and products to expand Mainland China market more quickly.

9.5. Action Plan

From our point of view, according to the suggestions we made above, an action plan for YG to execute is presented as following. YG has set its own vision and mission already. According to their official website, the vision of YG is ‘Witness the change’ and mission is ‘Become a brand that brings a valuable change to the lives of everyone around the world based on YG spirit. (Introduction Retrieved April 25, 2014) Base on this, we come up with an action plan of three stages. The first stage is about the first three years, the second stage is about the third year to the fifth, and from the fifth year is stage three. During each stage, different strategies are provided collectively.
9.5.1. **Step 1. Year 1 to 3-- Expanding Influence**

As we have mentioned in the previous chapter, the brand awareness of YG’s should be enhanced. And one of the solving methods is to increase Chinese elements. This include recruit more Chinese members, attend TV shows, TV series and films more frequently, and also hold more concerts in China.

- **other than Beijing, Shanghai, Guangzhou, YG can choose Chongqing, Qingdao and Wuhan as their new destination for holding concerts.**

At present, concerts are commonly seen in Beijing, Shanghai and Guangzhou, because first, these three cities have strong geographic advantages, Beijing is the center of China and especially in North China region, Shanghai has always been the import and export port in the east and Guangzhou is the center of South China region with strong economy.

However, more and more potential cities can be considered for expanding influence, for example, Chongqing, Qingdao and Wuhan. They are selected for three reasons: first, China is a large size country; Chongqing, Qingdao and Wuhan have strong geographic advantages for digging deep into China market. Chongqing is not only one of the municipalities directly under the central government but also the center of Southwest China region. Qingdao relies on the east coast of China and locates to the north of Shanghai. And Wuhan is the provincial city of Hubei Province, the center of Central China region. Second, according to the newly released GDP ranking list among China in 2013, Chongqing, Qingdao and Wuhan have good economic
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performance. Chongqing ranked number 7th, Wuhan ranked number 9th and Qingdao ranked number 13th (2013年中国城市GDP排名 Retrieved April 15, 2014.). All the three cities have an increasing ratio for more than 10% per year which means the development space are huge. Third, the quantities of universities in these three cities are large. More universities mean more young people there and these cities are energetic. And young people are more likely to become supporters of YG.

(Figure.42 The rankings on GDP of China in 2013 )

- other than ‘快乐大本营’ of Hunan provincial satellite channel, ‘音乐风云榜’ of Zhejiang provincial satellite channel and ‘最强大脑’ of Jiangsu provincial satellite channel should also be YG’s choice.
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‘快樂大本營’ is one of the most welcomed entertainment programs in China, the public is often discuss about the guests ‘快樂大本營’ invited for every episode. So if artists from YG can be invited to join the program, it will strongly help to expanding influence. ‘音樂風雲榜’ of Zhejiang provincial satellite channel is a music professional program, aims at to build up the China Grammy Awards. It is a daily program and since June of 2011, this program can be seen on more than 100 TV channels in China every day. To have a large covering scale means that this program can reach a great amount of audiences, and more importantly, there is an annual award ceremony of ‘音樂風雲榜’. From both the attribute of this program and the influence of it, it is a good choice for YG to expand its influence. Also, ‘最強大腦’ of Jiangsu provincial satellite channel should be one of the selections. It is a newly educational program with high ratings. During each episode, this program will invite top artists to be judges to participate in the show. It is worth mentioning that, ‘最強大腦’ has already invited Korean artists before, and we believe this show is opened more welcomed to have Korean artists.

● guest post——to participate in more Chinese TV series and films.

‘愛情闖進門’, ‘華麗的挑戰’ and ‘墨攻’ are examples of cooperation between China and Korea. We suggest that, more similar cooperation should be taken place more often. And we suggest YG to choose situation comedy to cooperate with. Nowadays, situation comedies are popular among Chinese young people, for instance, ‘愛情公寓’ and ‘Diors man’. The positioning on audiences of situation comedies and YG is similar. They target on young people and the people who like pop culture. In addition, to have guest posts within situation comedies is a commonly seen issue. It
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is not hard in operation and also brings attractiveness to audiences. For artists, they do not need to spend a long time while comparing to shoot a complete TV series but can receive concerns as well.

- to have a better engagement with audiovisual platforms.

According to the survey we done, we find out people are more likely to get access to Korea pop via audiovisual platforms.

(Figure.43 % By which channel people continue listen to Korea music)

(Figure.29 % By which channel people use to listen Korea music)
According to the statistics from iiMedia Research, the number of users on wireless music system reaches more than two hundred million in last year (2013Q2 中国无线音乐市场季度监测报告 Retrieved April ,3, 2014.) Duomi Music, Kugou Music, Tiantian Music and QQ Music are the top four music platforms with the most active users. And when comparing with satisfaction surveys, Kugou Music, Kuwo Music, 163 Music and QQ Music are the top four. And they should be chose by YG with priorities.
While at video platforms side, first, YG should keep managing its official website at Youku. In recent years, Youku has combined with Tudou to build strength. Before the combination, Youku and Tudou are the top two dominators of the video platform world, and after combination it is a more powerful platform. Second, to build up relationships with Aiqiyi, PPS, and Leshi. These are the newly and substantial competitors in the video platforms market (张朝阳：争视频市场份额比盈利更迫切 Retrieved April 28, 2014)

- **to build up relationships with social media platforms.**

There are dozens of social media platforms in China, but among them, we suggest YG should build up relationships with Weibo, Renren and WeChat. Weibo lately is being listed in the US, and it ranked the top at social websites rankings. According to the statistics from Tencent, the number of monthly active users and daily active users of Weibo is 1.29 hundred million and 61 million (新浪微博关键数据：月活跃用户1.29亿 Retrieved April 28, 2014) People use Weibo to release original post and following information. On Weibo platform, artists can open its official website personally or by their company or fans club. YG should well open official account on Weibo and will manage it, so that can inform more and more people about the information of YG.

To compare with Weibo, Renren is more popular among students. The number of registered users of Renren is 2.8 hundred million, among them, the proportion of age under 24 is 15% (2013年人人网用户属性数据分析 Retrieved April 28, 2014). And daily original posts on Renren are 1.7 million. Similar to Weibo, Renren also provides
official platforms for artists, supporters can choose to ‘follow’ the platforms the like, and they will automatically receive the latest information via Renren platform.

WeChat is more like a communicating tool than social media platform while comparing to Weibo and Renren. However, as more functions are added to WeChat and the huge amount number of users. We also recommend WeChat to YG. Although WeChat has not announced the exact number of their users, the industry estimates the number should be around 5 to 6 hundred million. As WeChat gradually adds more and more function, its social attributes are also obvious. YG could set up official accounts for the company and for artists individually. To compare with Weibo and Renren, WeChat relies more on mobile devices and it will increase the accessibility for users.

9.5.2. Step 2. Year 3 to 5—Cooperation and Diversification

- cooperation— to form a new band with Chinese members.

To form a band with Chinese elements is YG’s next objective. After training the contestants who were picked out 3 years ago, it is the time to check out the result. There will be 5-8 members in this band, and 1 or 2 of them are Chinese. The main active market of this band is mainland China. Because of the Chinese member(s), this new band does not need translator to communicate with fans. They can interact with fans directly. What is more, it is easier for them to do promotion through Chinese TV program.
In terms of the style of this new band, it is more local adaptation. Although Korea production team makes most of its compositions, they can try to mix Chinese elements in their works. For example, they can use Chinese lyrics and Korea music, which will not lose the essence of YG music style and can be easily sung by Chinese fans.

- cooperation—to establish a joint venture with EE media.

In order to get more market resource and pave the way for subsidiary corporation in future, the next necessary stage is to establish a joint venture in mainland China.

Considering the market source and target consumers, we strongly recommend YG work with EE Media. EE media is a professional entertainment media corporation founded in 2004, which has many young mainland idol stars, and most of them are from talent shows in China. Their target consumers are just as young as that of YG. Since it was wholly owned by Hunan TV station, it has a good relationship with Hunan TV, which is the most popular TV station among China.
According to the market research of October 2013, Hunan TV took half of the best 10 rating shows of all the variety show programs in mainland China. (10月卫视排行榜出炉快乐大本营居榜首 Retrieved 12th November, 2013) Working with EE media, artists of YG would have more chances to participate in the current popular TV shows to increase the media exposure. YG also can use this platform to try to launch their programs in China.

At the same time, they can share the resources both in China and Korea. They can learn and work with each other. Artist from YG and artist from EE media can be trained in both China and Korea, and via the corporation they will get each other’s fans. For example, Zhangjie, a signed artist of EE media, is very popular among young generation. Because loyal fans would listen to every song from their idols, YG can make a song sang by one YG artist and Zhangjie to introduce more YG artist into China market.
● *diversify current business.*

We recommend YG artists enter other business segments in order to diversify its current business structure.

The importance to diversify its current business is to enhance YG influence and further develop its brand image. Second, as it will increase its competitiveness, it is the need to maintain sustainability in later development. Third, it further develops its revenue stream so as to support business of other areas, for example, it gives finance support to R&D field of company.

We also suggest two specific fields to diversify current business. The first area is to cooperate with advertising business. YG Company has developed various styles of artists groups. It enables the possibility to represent different industries. One of the critical points we observe is that YG should focus on multichannel advertisement to create a sense of being everywhere.

Another field we suggest that YG should have more engagement with expo. For instance, hotel expo, luxury brand expo, and other cultural industry expo, YG artists have great opportunity to demonstrate in order to build connection with these business opportunities.
9.5.3. Step 3. *After Year 5*

As for the long-term five-year plan for YG, YG can consider to set up subsidiary corporation in China. As YG has already planned to cultivate artists in China, also, by that time, YG have got some experience to manage artists from both Korea and China. Therefore, we plan YG to set up a pure Chinese group in domestic market to generate more consumption.
10. [Conclusion]

The rising of K-pop is ignorable and Korean entertainment companies are the one behind this phenomenon. The marketing strategy they’ve been practicing has proved intelligent and effective so far and their ambitions to overseas market remain growing. China, as the biggest country in Asia and has the largest population in the world, poses great number of audience and consumers for foreign cultural products. For a successful entertaining company, conquering China market is a necessarily and a matter of time.

YG, as one of Big Three entertainers in Korea, has already planned on entering China. With strong support from government, sufficient groundwork made by predecessors of music industry such as SM Entertainment, YG has a solid foundation to open up Chinese market. However, it’s also faced the objective conditions of China immature music industry and complicated media relationship management, which are difficult for a new comer from different background to digest. YG’s success in Japan market can’t be copied in China as for differences in music business system, language approximation and culture.

Thus, YG needs a clear and practical marketing plan to eliminate the obstacles and strengthen its strengths. Increasing brand recognition as a whole is step one because audiences become curious about something at the premise that they know it. After that, cooperation with Chinese artists and bringing Chinese elements into their artists and productions would elevate public likability and connection with Chinese audience. The ultimate objective for YG is to naturally integrate into Chinese music community.
and to establish its subsidiary company in China. And this marketing strategy is quite
different from what YG has done in Japan but shares some similarity with the practice
of SM entertainment in China. The unique brand positioning and music style will
provide YG strength and limitation in business expansion and requires adjustment
during implementation.

YG is not the first Korean entertainment company to enter China market and won’t be
the last. With growing K-pop business and saturation of Korean local market,
eventually they all will come to join the big party. The coming of K-pop will
stimulate and diversify China music industry and provide more options for Chinese
audience. However, it also poses a strong threat to local music companies. They need
to learn experiences and ambitions from our Korean friends, otherwise they will be
out of game.
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