THE GLOBALIZATION OF K-POP:
THE INTERPLAY OF EXTERNAL AND INTERNAL FORCES

Master Thesis presented by

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Sworn Statement

I hereby solemnly declare on my oath that the work presented has been carried out by me alone without any form of illicit assistance. All sources used have been fully quoted.

(Signature, Date)

Abstract

This thesis aims to provide a comprehensive and systematic analysis about the growing popularity of Korean pop music (K-pop) worldwide in recent years. On one hand, the international expansion of K-pop can be understood as a result of the strategic planning and business execution that are created and carried out by the entertainment agencies. On the other hand, external circumstances such as the rise of social media also create a wide array of opportunities for K-pop to broaden its global appeal. The research explores the ways how the interplay between external circumstances and organizational strategies has jointly contributed to the global circulation of K-pop. The research starts with providing a general descriptive overview of K-pop. Following that, quantitative methods are applied to measure and assess the international recognition and global spread of K-pop. Next, a systematic approach is used to identify and analyze factors and forces that have important influences and implications on K-pop's globalization. The analysis is carried out based on three levels of business environment which are macro, operating, and internal level. PEST analysis is applied to identify critical macro-environmental factors including political, economic, socio-cultural, and technological. On the industrial level, major forces that shape the music industry in which K-pop's business operates are evaluated based on the framework of Porter's Five Forces. External environmental analysis is followed by the review of the global strategies of major Korean entertainment companies in achieving their organizational objective of turning K-pop into a successful global business. We identify all the key value-creating activities ranging from talent acquisition to customer relationship management in the value chain of K-pop's industry, and analyze how each of these activities have contributed to K-pop's success in the global market. In conclusion, the recent success of K-pop on the global stage can be understood as the rewards for the capability of its internal strategy to anticipate and capitalize new opportunities in external environment.

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First of all, I would like to express my deepest gratitude to my supervisor, Professor Dr. Paul Taylor, for his useful guidance, insightful comments, and encouragements throughout this thesis. He gave me the freedom to explore and learn, and at the same time the guidance to steer me in the right direction. Besides, I would also like to sincerely acknowledge Professor Dr. Christoph Mergard as the second supervisor of this thesis. I am also grateful to Program Director Pia Schächterle, all the other Professors who have taught me in the MBA program, and also my classmates for their incredible support during my study in Furtwangen University. Last but not least, I would also like to express my heartfelt gratitude to my family and my friends in Germany and Hong Kong.

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1   Introduction

Globalization enables the transmission of popular culture around the world through a wide array of entertainment and consumer goods such as movies, music, television shows, fashion, and food. In the terrain of popular culture, over the past few decades, South Korea – a relatively small country with a population of 50 million has blossomed into a new cultural powerhouse and become one of the major exporters of entertainment products in the international markets. The meteoric rise in popularity of Korean drama and movie started out in neighboring Asian countries around mid-1990s has been described as "Korean Wave", which literally means "flow of Korea". The recent rise of "K-pop", the abbreviations for "Korean Pop Music" in the last decade have catapulted the Korean Wave into the global consciousness, as its popularity continue to expand outside of Asia and reaching the rest of the world. The business weekly Forbes picked K-pop as one of the 20 Trends Sweeping the Globe in 2009, while TIME magazine described K-pop as "South Korea's Greatest Export".

K-pop is characterized by covering a wide range of musical styles, a standard formula of combining catchy melodies with signature dance moves performed mainly by a group of boy and girl bands, leveraging social media as the major distribution channel. The K-pop act "Wonder Girls" first broke into the U.S. market in 2009 and toured with the Jonas Brothers. Their footsteps were followed by Girls' Generation ventured off to the States, with a performance on the high-profile television program "The Late Show with David Letterman" and a guest appearance on "Live! With Kelly!" in 2012. In the same year, the international smash hit "Gangnam Style" propelled K-pop's global popularity to new heights. It was the first video in the world to reach one billion views in the history of YouTube. In 2013, Super Junior carried out its international tour "Super Show 5" across Asia, South America, North America, and Europe. On the other hand, Billboard has launched "K-Town", a column that is dedicated to bring the latest K-pop news and songs. K-pop reached an important milestone in 2014, for the first time a K-pop act has notched an entry on the annual ranking on Billboard, achieved by 2NE1 and their album "Crush". K-pop thrust into the global spotlight again in 2016 when readers voted BIGBANG as the

second place on TIME Magazine's Top 100 Most Influential People. It is evident that K-pop has become a growing global phenomenon.

Against this background, K-pop has become an increasingly important research area because the rapid growth in its international success has stimulated many researchers and scholars to theorize and explain this new transnational phenomenon. The growing popularity of K-pop has important implications for the increase counter-cultural flow from East to West in terms of extensity and intensity, as well as the mutual enrichment between the East and the West. Therefore, the research topic has been explored most intensively in the field of cultural studies. However, from a business perspective, the recent success of K-pop can also be understood as an interplay of the organization's internal factors and the external environment circumstances. Starting in the niche, how the K-pop business can leap-frog the intense competition within the global music industry, at the same time constantly making its way into the mainstream has captured scholar attention as well. Given that K-pop is a relative new research field, the present of unfilled gaps within published literature is clearly worthy of further investigation. This thesis aims to contribute to the existing research by providing reflections on significant issues that are not fully addressed in the current literature, through the accomplishment of the following research aims and objectives.

2   Aims and Objectives

This thesis aims to provide a comprehensive and systematic analysis about the recent rise of K-pop's international popularity and global circulation. On one hand, the international expansion of K-pop can be understood as a result of the strategic planning and business execution that are created and carried out by the entertainment agencies. On the other hand, external circumstances such as social trends and the rise of digital media also provide a wide array of opportunities for K-pop to broaden its global appeal. The research intends to explore the ways how the interplay between external circumstances and organization's internal strategies has jointly contributed to the global spread of K-pop.

These above aims will be accomplished by fulfilling the following core research objectives:

1. Provide a general overview describing the characteristics of K-pop, the intention to export K-pop to the overseas, the association of K-pop and the Korean Wave, and K-pop's demographics.
2. Measure and assess the international popularity and global recognition of K-pop.
3. Analyze factors and forces that influence K-pop's globalization in a systematic way based on three levels of K-pop's business environment which are macro, operating, and internal.
4. Apply PEST Analysis to identify critical macro-environmental factors including political, economic, socio-cultural, and technological factors.
5. Analysis the industry in which K-pop operates and evaluate important industrial forces via the framework of Five Forces model.
6. Identify and evaluate a sequence of value-adding activities along the K-pop's value chain that configured by the entertainment companies to pursue its organizational objective.

3   Literature Review

The growing popularity of Korean pop culture in many parts of the world has captured considerable international attention in recent years. The globalization of K-pop has been an area of concern of scholars and researchers, and considered as a research subject worthy of academic consideration. In an attempt to analyze K-pop as an increasing global phenomenon, existing studies have focused on a wide range of factors from systematic idol training system, hybrid music genre and identity, the active use of social media, to government support. In the following, we will present key literature sources that have been published on the topic in an organizational way. Current studies will be grouped and discussed thematically, in terms of topics and issues that are important to the research.

Much of the work highlighted the important role that played by the entertainment companies in driving the globalization of K-pop. Keith Howard (2014) characterized the Korean entertainment companies as a multi-functional organization which act as talent agencies that recruit and train singers; production agencies who control all important assets such as composers and lyricists, and promotion agencies to use social media to develop fan bases. (2014, p.404). John Lie (2015) emphasized K-pop as an export-oriented business that carried out by the entertainment companies. He shed light on the production formula that contains various international elements such as techno beat, catchy refrain, and signature dance move; and also the strategic formation of K-pop group, as the major reason for K-pop's global commercial success. (2015, p.105) John Seabrook (2015) put the focus on "SM Entertainment", the biggest entertainment agency and its "cultural technology" that is applied to produce idols along an assembly line within a sosphicated factory system. The ways how the idols look, perform, and behave are under the full control of the entertainment companies to serve its business objective. While most of the studies have focused on a separate set of factors that are considered to be important, Seo Min-Soo (2012) has connected these factors into a chain of production that consisted of four stages, which are casting, training, producing, and global promotion.

Some studies, however, have taken a different approach by providing an analysis on K-pop globalization from a cultural perspective. Hyun-key Kim Hogarth (2013) described the globalization of Korean pop culture as the reaction of Asia against Western-domination in the global culture, such as Asian groupism that reflected in large K-pop group size as opposed to Western individualism. (2013, p.145) John Lie (2012) argued that the "Koreaness" in K-pop has been minimized to adapt for overseas markets. While Sarah Leung (2012) characterized K-pop as a hybrid and fusion form between global and national identities to facilitate its transcultural consumption.

On the other hand, the supportive policy of South Korean government in favor of the global spread of Korean pop culture has long been emphasized in many literature sources. Mark Ravina (2009) noted the support of government in terms of subsidies and low-interest loans in facilitating the growth of cultural industry. Keith Howard (2014) explained how the shift of government's role from maintaining tight censorship to sponsoring and promoting its cultural industry has contributed to the rise of K-pop. Nick Desideri'13 (2013) pointed out the possible influence that popular culture may have on the cultivation of soft power and the improvement of national branding of South Korea. While some of the other studies put the focus on the rise of social media opened up opportunities for the rapid spread of K-pop worldwide. Ingyu Oh & Gil-Sung Park (2012) emphasized the role of YouTube as a global mechanism that allows K-pop to expand its global reach as well as the shift of the focus from traditional monetization methods to ad-based revenue model.

While the current literatures have provided valuable insight into the globalization of K-pop, there are several limitations in the existing studies. In the first place, K-pop is assumed to be a global phenomenon mainly based on observation, very few researchers or scholars have tried to apply a quantitative method to assess and verify the extensity and intensity of the globalization of K-pop. Second, while internal factors such as the global strategy implemented by the entertainment companies have greatly influenced the global spread of K-pop, it is also important not to treat the globalization process as if it is operating independently from external factors. The K-pop industry does not exist in a vacuum, instead, the complex external environment in which K-pop business operates has a great

influence upon it. Although several studies published have highlighted few important external factors such as the rise of social media and its contribution to the dissemination of K-pop worldwide, very few literatures have been able to provide a more comprehensive assessment of the impact of external environment on K-pop globalization by using analytical tools. Besides, consumers also play a vital role in the rapid spread of K-pop in every part of the world, which is enable by the increase in consumer power brought on by the digital age. However, existing studies have rarely mentioned about the role played by international fans' communities, which is worthy of academic attention. The research presented in this thesis aims to fill the gaps in the existing literature by shedding light on these significant issues that are not addressed in the current studies.

4 Methodology

This section will be dedicated to the explanation of types of research that were undertaken to achieve the research objective. The research is based on the use of secondary data sources that are collected to serve the research interest. The secondary data were derived from the findings stated in the published academic literature that are related to the research problem, including both paper-based as well as electronic sources. Relevant scholarly literature was obtained from reliable electronic database and digital library including Business Source Premier via EBSCO HOST, Safari Books Online, Springer Link, Statista, Google Scholar, VitalSource, as well as Furtwangen University Library and Hong Kong Public Libraries. In addition, relevant information was collected from prominent publications and organizations, including Music Week, Billboard Magazine, TIME Magazine, Forbes Magazine, Harvard Business Review, International Federation of the Phonographic Industry, Samsung Economic Research Institute, and Korean Culture and Information Service, to ensure the authenticity and reliability of the data.

The research has employed a combined approach of both qualitative and quantitative methods to provide a more complete picture of the issue being addressed. The quantitative approach focused on obtaining valid and reliable data to measure and assess the popularity and brand awareness of K-pop. Data was obtained from Google Trend to assess and measure the search term popularity of K-pop over time; as well as the comparison of K-pop with other relevant search terms. In addition, numbers collected from YouTube Music Insights are used to assess the popularity, the geography of the fan base of a particular artist, and the music trend in a particular location on YouTube. On the other hand, interviews that are collected from secondary source made up the qualitative method to gather descriptions and observations of the interviewee in the K-pop industry who are important to the research, including the management, the composers, the producers, and the artists in major Korean entertainment companies. Also, a qualitative analysis of performance elements in K-pop music videos was carried out.

Besides, several prominent analytic tools or models were applied to achieve a comprehensive and well-organized analysis of the research topic. PEST Analysis was used as the framework to evaluate and assess the important factors in the external macro-environment. Porter's Five Forces Analysis was applied to analyze the five competitive forces that shape the industry in which K-pop operates. Also, the Value Chain model was used to identify and evaluate the sequence of value-adding activities that K-pop business goes through to deliver product or service.

5   A General Descriptive Overview of K-pop

Outside the concert venue of "Big Bang", one of the most famous Korean boy bands, there was an interesting scene that captures attention and interest – stacks of rice bags, decorated with ribbons and photos, were lined up like shrines to the K-Pop gods who were about to go on stage. Fan rice is a unique way for K-Pop fans to show their support and devotion to K-Pop idols –buying bags of rice and donate to their favorite bands, who will then donate to charity. The 12 tons of rice which were donated by K-Pop fans coming from over 60 countries can feed 60,000 people. It is one of the examples demonstrating the success of K-Pop as a growing global phenomenon.

K-Pop is an abbreviation that is used to refer to Korean Pop Music. This specific type of pop music, originated from South Korea, is characterized with extremely catchy melody, energetic beats, fun dance moves, incredibly handsome and pretty idols with amazing physiques, colorful and vivid music video with insane production quality. K-Pop is amongst the fastest growing global sensation and phenomenon. It successfully conquered the Asian music market and now making its way into the western market. Time Magazine described K-Pop as "South Korea's greatest export", Japanese business journal Nikkei commented this pop-cultural export as "The Next Samsung". It is undeniable that K-pop is expanding overseas at an incredible speed, just as Japan's international success with Hello Kitty and animations such as Sailor Moon and Dragon Ball.

The global influence of K-Pop is not only limited to music industry. The commercial potential to extend to its spin-off industries such as tourism or Fashion is enormous. One might wonder how such a small country likes South Korea, could have been so successful in the globalization of their cultural products. The first chapter opens with a general descriptive overview of K-Pop that serves to contextualize and visualize this new cultural and entertainment export with increasing global appeal.

5.1   What is K-pop

With the increasing popularity of K-pop worldwide, Oxford English Dictionary – the world's most widely used dictionary, has officially added the word "K-Pop" into its vocabulary. Oxford defines K-Pop as, "The Korean pop music: the band has a style that mixes European music and K-pop". K-pop is a fusion of synthesized music, sharp dance routines, fashionable and colorful outfits. K-Pop tends to have a large size of idol bands and groups rather than solo singer. The average size of K-Pop band is around 5 members, and it can be even more. The leading boy bands Super Junior and EXO both have 12 members, and the ever popular girls group Girls' Generation also has 9 members. Because of the large group size, roles can be divided according to member's strength, and members are complementing each other to achieve the possible best outcome. K-Pop is a fusion of synthesized and catchy music, energetic beats, and repetitive choruses. It covers a wide range of music elements of electro, disco, rock, R&B, rap and hip-hop. It is very common to use an English song title, and English words often appearing in the repetitive choruses in order to appeal to the international audience. Take "Sorry Sorry", one of the most popular K-Pop songs as an example, the English word 'Sorry' appears 16 times throughout the song. Here is an extract of the lyrics:

Sorry Sorry Sorry Sorry

Naega naega naega meonjeo

Ppajyeo ppajyeo beoryeo **baby**

Shawty Shawty Shawty Shawty

The catchy and hook melody is always accompanied by synchronized dance movement. The dance moves are designed skillfully so that they are perfectly matched with the song. Also, the dance would not be too difficult for fans to imitate and dance along to have fun, even though they may not understand the language. For example, the "horse riding dance" in "Gangnam Style" and the hand movements for apologize in "Sorry Sorry". Besides, visual is also a very important component of K-pop. The music videos are often presented as colorful, extravagant and vivid.

The K-Pop idols are always handsome and beautiful with excellent physique. It is very common for Korean idols to undergo cosmetic surgery to attain a more attractive appearance with big double-lidded eyes, straight rose, and white skin that resembles the definition of beauty in the west and the aspiration of Asian to look like westerners. Even the personality and the behavior of K-Pop idols are tactically designed. On one hand, K-Pop singers are often presented as cute, innocent and humorous but with stronger personalities than the idols from other Asian countries such as their Japanese counterparts. On the other hand, they are also sexually appealing but not as provocative and erotic as the American pop stars. They strike a good balance in order to appeal to both the more conservative Asian markets and the more open-minded Western markets.

Therefore, with all these ingredients that integrated in K-Pop, audience does not necessarily need to understand the language to be able to enjoy K-Pop. K-Pop is an export-oriented entertainment product that is carefully designed and arranged in order to be universally appealing to the global audience.

5.2   Why do K-pop Go Global

To understand the globalization of K-Pop, we shall start with the following question: why export K-pop overseas and what is the intention behind K-pop's globalization? Compared to Japan, the world second largest music market, the Japanese entertainment companies mainly focus on its local market and have no need or intention to export its entertainment product outside Japan. For example, Johnny's Entertainment, which is the leading entertainment company in Japan that trains and produces groups of male idols, has no official YouTube channel. The few music videos of their artists which one can find on YouTube are unauthorized uploads from their fans, and these videos are regularly removed from the sites due to copyright infringement. iTunes Store offers over 43 million songs, which technically means that user can purchase everything from Chinese pop to South African rap on iTunes, but not the latest song from Johnny's Entertainment. Their artists don't operate official Facebook, Twitter or Instagram account. One will need to pay and join the fan club in order to get the latest news, only in Japanese language. Instead, the spread of J-pop aboard was largely a demand-driven and organic development: avid, astute

listeners sought interesting and intriguing tunes and created a subculture of fandom across East Asia. (Lie, 2015) Although K-pop also capitalize on the audience network to go viral, behind K-pop's success is a concerted strategy for its exportation. K-pop is an export-oriented business – they want to sell something that is globally appeal. The reasons for K-Pop to go global can be attributed to realistic economic and political consideration.

(i)   Favorable Government Policy

Business is keenly affected by government policy. Government creates the rules and frameworks in which businesses operate in. Government policies can create and also destroy business opportunity, and it will change over time which may turn a former attractive industry to less attractive, or vice versa.

The government in South Korea has long been taken the censoring and controlling role that limited both the size of the music market and its potential profits. It was until the late 90's, when South Korea was badly affected by the huge financial crisis across Asia, the government realized that the local economy was over relied on national's chaebols – business conglomerates, and it had to be diversified. They started to look for alternative and foresee export potential in the creative and cultural industry, which were perceived as an important vehicle of economic growth and national image building. The aim is to develop a new revenue stream via cultural exports and tourism, in the belief that popularizing and promoting soft culture board will bring tourists to Korea and led to consumers buying products such as Samsung and LG's phones.

The intervention of Government was illustrated by the tremendous increase of financial budget allocated to the creative and cultural industries over years. There are also subsidized loan with low interest rate provided to the entertainment companies to help financing the huge expenses required for promoting and expanding K-Pop in the world. All these favorable government policies make the music industry more attractive for investment and new entry. The commitment of the government in supporting the continuous development of creative and cultural industry became the backbone of K-Pop to reach out across Asia and beyond.

(ii) Small Domestic Market

Music industry is a business characterized by high fixed costs and low marginal costs. The financial cost of creating, distributing and marketing entertainment products all translate into high up-front capital costs. Digital music distribution across regional boundaries denotes that competition can emerge from almost anywhere. The Korean entertainment companies will need to invest huge sum of capital in order to produce globally competitive entertainment products. Since the Korean domestic market is relatively small with population around 50 million, in comparison to the markets of Japan or China. Added to the fact that Bubblegum pop is an expensive business, the local market is comparatively small to represent enough sales to justify the huge investment. Therefore, the focus must be putting on exporting to foreign markets as a way to increase sales potential.

(iii) Financially More Beneficial

Sometimes the price that consumers are willing to pay for the same products or services will not be the same in all markets around the world. It may vary due to difference market conditions or external circumstances. A company can gain a higher profit in overseas markets if the export pricing is higher than the domestic pricing. The underpricing of legal digital music download in an attempt to tackle the problem of piracy has long been an unresolved problem for all the players in the music industry. However, the situation was even worse in Korea because digital download is much cheaper in Korea than in other countries. Until 2013 when the major music streaming service such as MelOn has agreed to double the fees, consumers in Korea only need to pay around 63.9 won to download a single track. It cost just a few cents in US dollar, in comparison to iTunes a single track costs at least $0.99. (SEO, 2013) Because music is heavily discounted in Korea, it is more financially beneficial and the entertainment companies can enjoy a higher profit margins in the overseas market (The Economist, 2012)

5.3   K-pop as a Part of the Korean Wave

It is also important to understand K-Pop as a part of the Korean Wave, also known as Hallyu, which literally means the "flow of Korea". According to the Ministry of Culture,

Sports and Tourism, the Korean wave refers to the phenomenon of Korean entertainment and popular culture rolling over the world with pop music, TV dramas, and movies. The term was first coined by the Chinese press in the late 1990s to describe the growing popularity of Korean pop culture in China.

Korean Wave can be divided into two stages chronologically, each with different characteristic, demographics and driving force. (Table 1) The first Korean Wave began in the late 1990s when the Korean drama started to gain popularity in the Asian region. The dispersion was mainly driven by mass media such as television broadcasters. It was followed by the new Korean Wave, which started from the late 2000s, and is mainly lead by K-Pop and the idol groups. The new wave is supported by younger generation in their 10's and 20's, who tend to be tech savvy and contribute greatly in spreading Korean Wave across the world through voluntary evangelism among local fans. In the later section, we will also have a deeper look at how K-Pop take advantage from social media and capitalize on consumers to go viral and spread much more quickly and widely than the first Korean Wave.

	Korean Wave		New Korean Wave
Genre	Mostly dramas		More genres such as K-pop
Location	Asia	→	Across the world
Leaders of the trend	Mass media-led dispersion		Voluntary evangelism among local fans

Table 1. Comparison of the first Korean wave and the new Korean wave (AHN, 2011)

5.4   K-pop's Demographics

Demographics are important because it helps us to understand the characteristics including age and gender of the target audience of K-pop. With a clearly defined target audience, it will also facilitate our understanding of the current global circulation of K-pop. The Korea Tourism Organization has carried out an online survey in 2011 to collect visitors' demographic data and their feedback regarding Korean popular culture. (Kim, 2011) The

survey has received 12,085 responses from non-Korean visitors from 102 countries. The result is illustrated in figure 1 as below:
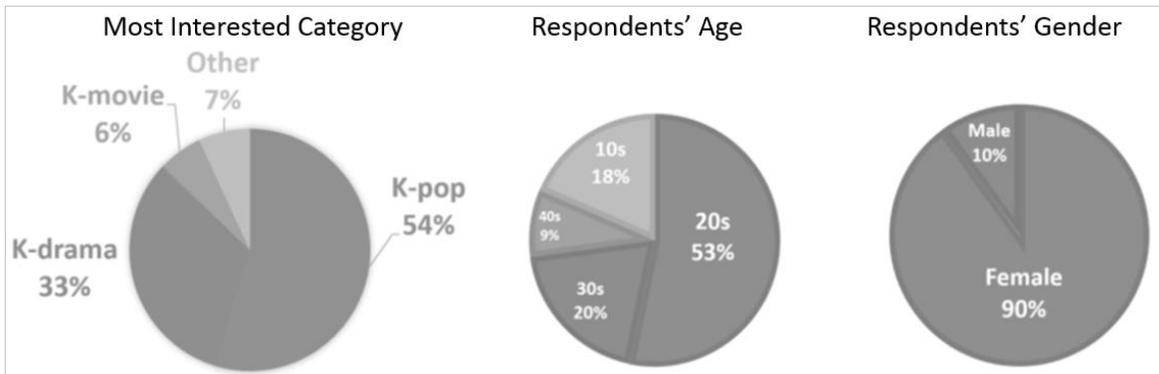
Figure 1. Online survey by the Korean Tourism Organization 2011 (Kim, 2011)

More than half of the respondents show interest in K-pop, indicating that K-pop has become the major force driving the global spread of Korean popular culture in recent years. Most of the respondents (53%) are in their 20's, followed by 30's (20%), 10's (18%), and 40's (9%). The age breakdown indicates that K-pop is targeting the younger generations, therefore, the design of the content shall be appealing to young people, and also selecting the right distribution channels that are able to reach the target audiences effectively, such as social media. On the other hand, young people have a higher tendency to be "tech-savvy" who are frequent users of social media, which may also suggest that K-pop has a higher chance to leverage its online community to drive worldwide circulation. Lastly, the majority of respondents (90%) are female, which may imply that they are more likely to be loyal customers if they feel a connection with the artists. Therefore, building emotional connection and creating sense of belonging is important in K-pop's business.

6 Visualization of K-pop as a global phenomenon

The rise of K-pop in the global music industry has been recognized by mass media with abundant coverages about K-pop has become a global phenomenon and sensation from media in every corner of the world. To name a few, the business weekly Forbes picked K-pop as one of the "20 Trends Sweeping the Globe" in 2008; and Time magazine called K-pop as "South Korea's greatest export" in 2012. Yet, objective measurement and assessment of the brand awareness and worldwide popularity of K-pop is inadequate in the existing studies. This chapter attempts to fill this gap by providing an objective overview on the global spread of K-pop in a quantitative way. We will use the following metrics to track and measure the extent of recognition for the brand "K-pop". The first metric is to measure the volume of K-pop specific searches, because search volume is a useful indicator of people's interest towards a specific topic. We will use Google Trends, which is an analytical tool based on Google Search, the world's most popular search engine. Google Trends can measure how K-pop's search interest has changed over time, and also the relative popularity of K-pop against other music genres. The second metric is to measure with YouTube, the online video platform which accounts for a substantial share of the global music consumption. The volume and characteristics of K-pop's video and music consumption can be a great indicator of the global recognition of K-pop. Besides, the tool also provides useful insight such as breakdown of the total views of a K-pop act by country. Therefore, we can also get to know the geographical reach of K-pop. As a result, this chapter will provide a quantitative approach to measure K-pop's popularity and brand awareness in the world and declare to what extent K-pop can be justified as a global phenomenon.

6.1 Google Trends

As the most popular search engine worldwide, Google Trends is a useful tool for measuring and comparing the popularity of search terms and trends. According to the explanation on the official website (https://support.google.com/trends), Google Trends measures people's interest on a search term over time based on the search volume of the search term done on

Google over a certain period of time. For example, if we search "pop music", Google Trends will then analyze a percentage of all searches for "pop music" and the result is presented in figure 2.1. As we can see, the relative popularity of "pop music" as a search term is stable and constant over the past ten years. Although Google Trends has several limitations, such as it does not fully indicate the popularity of a search term in China where Google is partially blocked. Still, Google Trends can serve as a useful tool to provide important insight on the development of K-pop's popularity in the last decade.
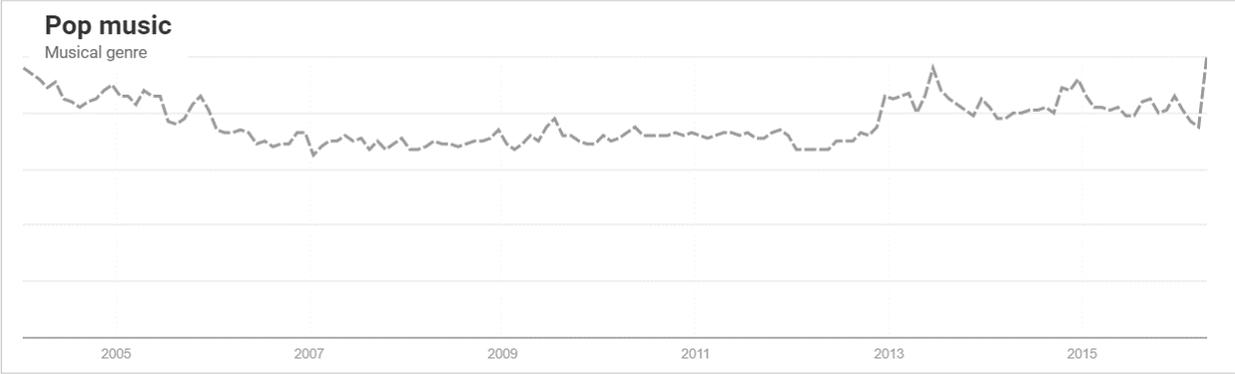
Figure 2.1. The change in search interest of "pop music" over time (Google Trends, 2016)

(i)   K-pop's Search Interest in Worldwide

To gain an understanding of how K-pop's popularity has changed over time, we start out by querying with the keywords "K-pop" worldwide. Also, we measured search interest in the topic of "musical genre" to filter out unrelated searches in order to provide a more accurate measurement. It resulted in the following graph:
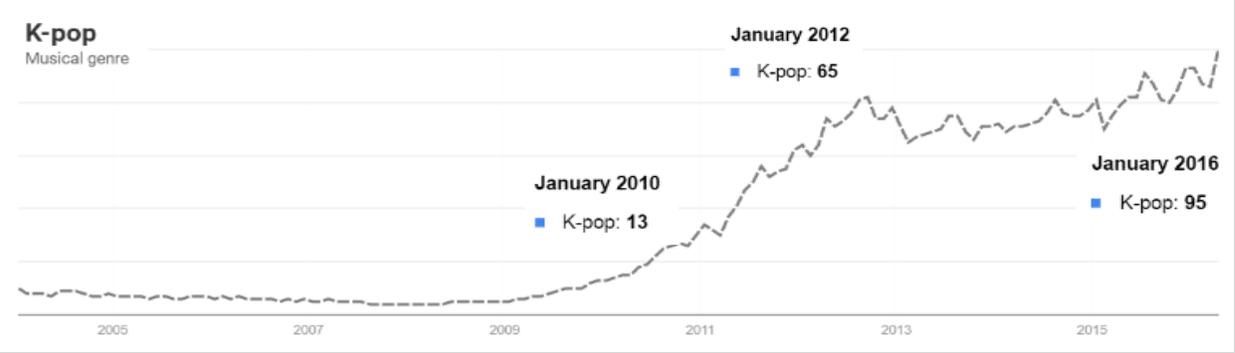
Figure 2.2. The change in search interest of "K-pop" over time (Google Trends, 2016)

Figure 2.2 shows the term "K-pop" and its popularity over the years. The number shows the total searches for the term "K-pop" relative to the total number of searches done on Google. The line going upward indicates that K-pop's relative popularity is increasing compared to other searches in the past ten years. It shows that the growth of K-pop is a relatively recent phenomenon. During the 2000s, people's interest level for K-pop was relatively low. Although several of the industry's biggest names, including TVXQ, Super Junior, and Girls' Generation have made their debut in 2003, 2005, and 2007 respectively. In this period of time, K-pop was still a local sensation. The year of 2009 marked the early attempt of K-pop's act to enter the international stage, when one of the K-pop's top girl bands "Wonder Girls" officially made its debut in the United States, and at the same year they became the first Korean singers to enter the top 100 of the main Billboard chart with their viral song "Nobody". Since 2010, we can observe a rapid growth of K-pop's popularity that was stimulated by several significant events in the K-pop's history. For instance, the leading Korean entertainment company "SM Entertainment" has held its first sold-out concert "SM Town Live '10 World Tour" in Los Angeles in 2010, the first time outside Asia. In 2011, K-pop fans in Paris have organized a flash mob protest in front of the Louvre to request for an extra date of the sold-out concert and captured the media attention. (BusinessKorea, 2011) In the same year, the boy band "BIGBANG" was selected as the 2011 MTV Europe Music Award for "Best Worldwide Act". In 2012, we can see the search interest has reached the first peak. It was the year when the international smash "Gangnam Style" was released, and its music video was the first video to reach a billion views in YouTube history. After Gangnam Style, the search interest of K-pop has been stagnant for a while, and then continued to grow in a steady pace. It indicates that "Gangnam Style" is not a one-hit wonder, instead, it has opened the doors for other K-pop's artists to cement their position in the global music scene, and they sustained the growth of K-pop. In 2013, the girl group "Girls' Generation" was awarded the "Video of the Year" at the YouTube Music Awards for their music video "I Got a Boy", followed by another girl band "2NE1" and their song "Gotta Be You" won the 2014 MTV lggy's "Song of The Year". To conclude, the search interest of the term "K-pop" over the last decade has proved that K-pop are skyrocketing in popularity and interest levels since 2010, and still continues to grow.

(ii) Compare K-pop with other Asian Music Genres

Next, we compare K-pop with other Asian music genres in order to figure out how popular they are relative to each other over time. We have selected J-pop, Cantopop, and Mandopop for comparison purpose. They are the abbreviation for Japanese pop, Cantonese pop, and Mandarin pop music respectively. The comparison result as shown in figure 2.3 contains two graphs. On the left is a bar chart of the overall average that shows the relative popularity of one to the other. It is clearly evident that K-pop is significantly more popular than the search for the other Asian music genres on average. The bars of Cantopop and Mandopop are barely seen, and the index "0" means that both search terms have very low volume. The low search volume can be attributed to the English terms "Cantopop" and "Mandopop". The terms are rarely used amongst people who speak Chinese, added to that, the popularity of Cantonese and Chinese pop music is limited to local audience.

On the right is the graph that shows the changes over time. J-pop had its commercial peak in the late 1990s and 2000s, and the graph also indicates that in the late 2000s, the search term "J-pop" was relatively more popular than "K-pop". Since 2009, there was a gradual increase of the popularity of K-pop, and finally K-pop has surpassed J-pop in 2010. After that, the gap has been steadily increasing. The widening gap shows that K-pop's popularity compared to J-pop is rising year after year, and the gap is few times larger than the times when J-pop was at its peak.
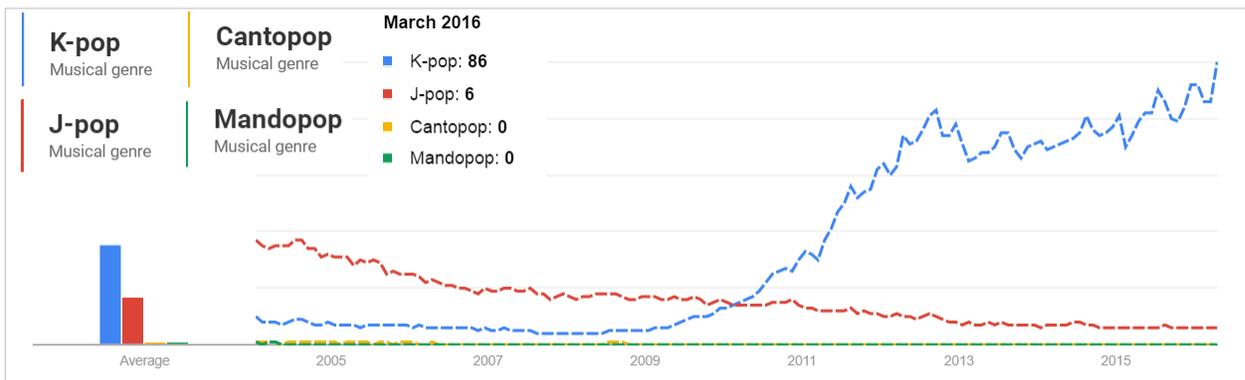
Figure 2.3. Comparison of the search interest of K-pop and other Asian music genres (Google Trends, 2016)

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(iii) Compare K-pop act against best-in-class benchmarks

In addition to the generic term "K-pop" that represents the musical genre as a whole, in this section, we will compare the relative popularity of a K-pop boy group against two selected best-in-class performers who are drawn from the same sector – boy band in pop genre. The purpose is to assess to what extent the popularity and awareness levels of the K-pop act are up to the best-in-class standard by comparing them against the leading players in the same industry. First, "EXO" is selected to represent the K-pop bands, they are the most searched K-pop's boy group during the period from 1/1/2015 to 12/10/2015 according to Google world data. (Google Asia Update, 2015) Then, for the best-in-class comparison purpose, we chose "One Direction", the iconic English pop boy band who is clearly on the leading edge in the world music market. We also selected "J Soul Brothers", the Japanese boy group who ranked the second in the top artists chart in Japan based on YouTube video views from 7/4/2015 to 7/4/2016. Figure 2.4 shows the comparison result of the three boy bands in worldwide. We can see that One Direction is much more popular in terms of search interest against the two other groups on average. However, the gap between EXO and One direction has been decreasing over time, which suggests that the K-pop act is catching up as the rising global phenomenon. In contrast, the J-pop group "J Soul Brothers" has a low search volume on a worldwide scale.
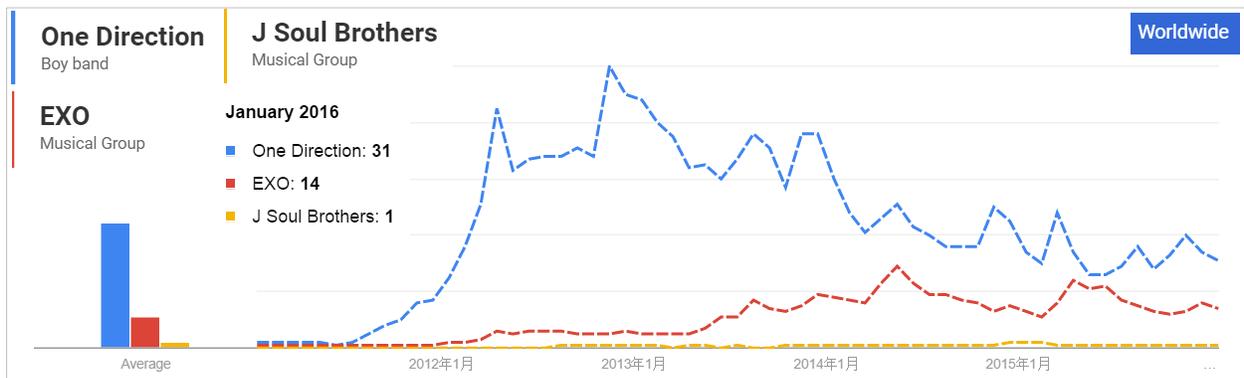
Figure 2.4. Comparison of the search interest of EXO, One Direction, and J Soul Brothers worldwide (Google Trends, 2016)

Behind the global figures, regional breakdown may present a mixed picture because the music industry is not a single coherent worldwide market, the level of popularity can vary significantly between countries. Figure 2.5 shows the result that limit the search from Japan only. In Japan, J Soul Brother enjoy the highest search interest level on average, which proves their popularity in the domestic music market. EXO and One direction are close to J Soul Brothers as well. This implies that both of them are foreign artists who have achieved similar level of awareness as the domestic artist in Japan. Besides, it also explains the dominant local popularity cannot compensate the lack of attention in the rest of the world, which result in a very low search volume of J Soul Brother relative to One Direction and EXO on the global scale.
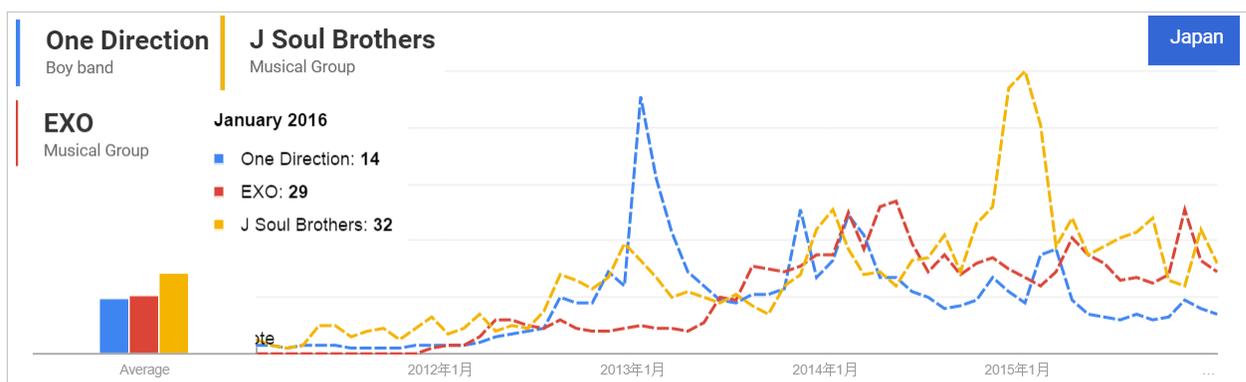
Figure 2.5. Comparison of the search interest of EXO, One Direction, and J Soul Brothers in Japan (Google Trends, 2016)

Finally, we also compared the three bands in selective countries and summarized the result in figure 2.6. In Asian regions such as Vietnam, Thailand and Taiwan, EXO is comparatively catching more attention than the other two bands. But still, One Direction makes its presence known in Asia. In contrast, J Soul Brother is barely known in Asia except Japan which is their domestic market. When we study the trend in the United States and the European countries, the situation is reversed. One Direction is significantly more popular than the rest. But still, EXO is seen or noticed in the western countries compared to J Soul Brother. In the Middle East where it is a more neutral area for comparison, it is interesting to see that EXO is very close to One Direction. In conclusion, J Soul Brother has a very low search volume relatively across all the countries except Japan, which

suggests that they are domestic artists without an international following and cannot be justified as a global brand. On the other hand, the K-pop band "EXO" resembles the pattern of the international big name "One Direction". They are known and noticed in different parts of the world while enjoy varying degrees of popularity in Asia, United States, Europe and Middle East. This comparison proves the growing acceptance and popularity of K-pop acts outside South Korea. EXO demonstrates a surge in popularity in Asia, and they have also expanded their reach outside of Asia to Europe, Middle East, and North America.
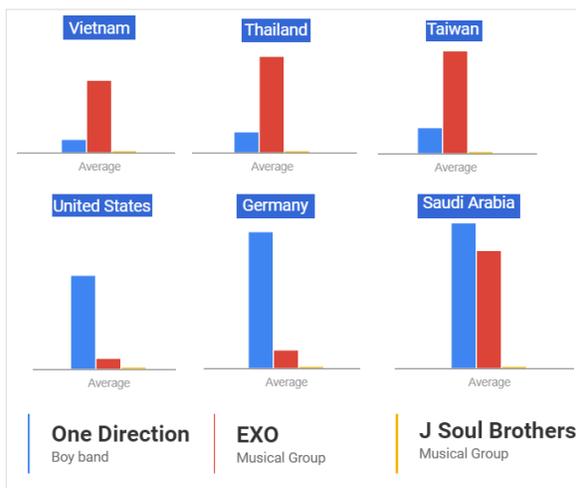
Figure 2.6. Comparison of the search interest of EXO, One Direction, and J Soul Brothers in selective countries (Google Trends, 2016)

6.2   YouTube

The second metric to assess and measure the brand awareness and worldwide popularity of K-pop is based on YouTube. It is undeniable that YouTube is one of the most popular methods of music consumption nowadays. According to the IFPI's digital music report, among the 6 billion hours that people spent on watching videos on YouTube in 2013, music videos solely accounted for 38.4 percent. (IFPI, 2016) It is estimated that YouTube accounts for 40% of total online music consumption. (Owsinski 2016) YouTube also plays a catalyzing role in K-pop's growth in worldwide. It is the primary channel where people from non-Korean countries first discover K-pop. They share user-generated contents such as cover dance, interacting with one another and gradually grow into an online fan community that facilitate the circulation of K-pop contents and contribute to the global spread of K-pop. Hence, gathering data from YouTube will provide meaningful insight into the development of the popularity of K-pop in terms of music and video consumption.

(i)   Geographic Breakdown of the Total Views of K-pop Videos in 2011

The Korean daily "JoongAng ilbo" featured a global map that breakdown the total number of views of K-pop videos geographically to see where the views came from in 2011. (Figure 3) Deep color indicates where the views were higher, and light color represents where the views were fewer. Countries with the number of views over 100 million are Japan (423 million), the United States (240 million), Thailand (224 million), Taiwan (189 million), Vietnam (177 million) and Korea (155 million). Five out of these six countries are within Asia except the United States. In 2011, Asia still accounted for more than half of the K-pop's viewership on YouTube (72%), but it is evident that K-pop has already started to spread outside Asia. North America was the most popular non-Asian region, which accounted for 13% of the total viewership.
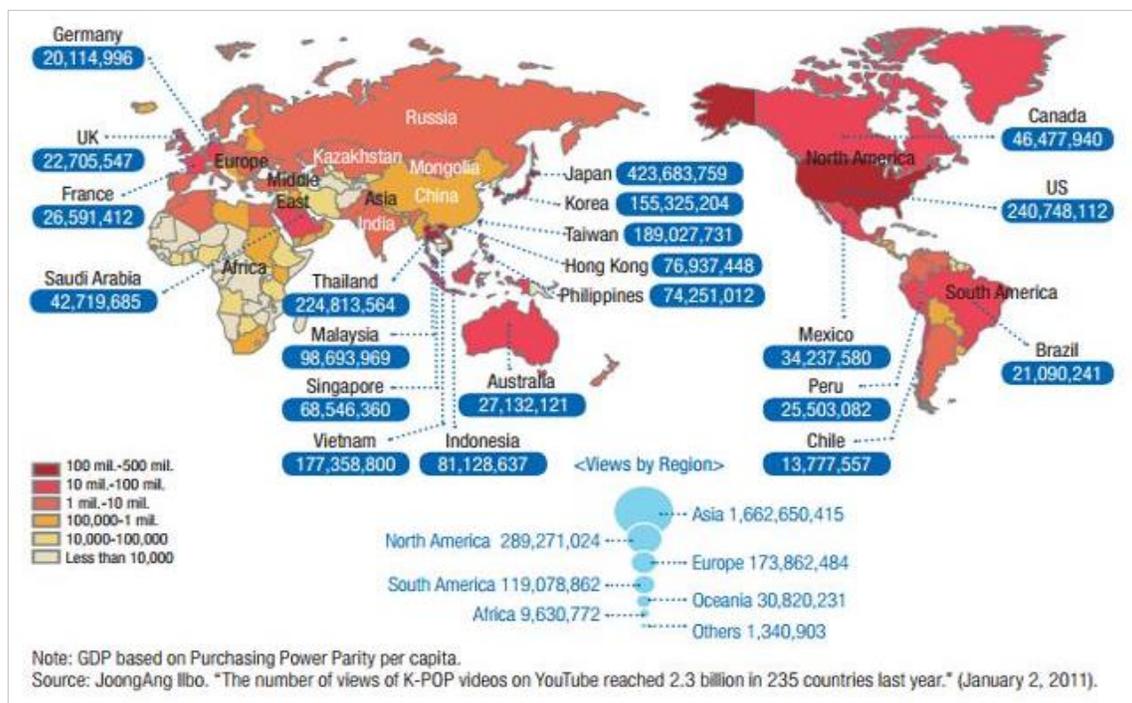
Figure 3. Geographical breakdown of the total number of views of K-pop videos on YouTube in 2011 (Korea JoongAng Daily, 2011)

(ii)   Radical Increase in the Total Views of K-pop Videos after 2011

YouTube Trends have provided two useful graphs for us to continue the study. Figure 4.1 shows that the viewership of K-pop music videos on YouTube has exploded over time, going from around 700 million in 2010 to 5.5 billion in 2013. (Stapleton, 2014) The total number of views has jumped almost eight times within four years. As discussed before, in 2011, Asia still accounted for more than two-third of the total viewership of K-pop videos. The situation is reversed after the release of the international smash "Gangnam style" in 2012. As we can see in figure 4.2, in 2013, the majority of the watching took place outside the Asia-Pacific region. According to YouTube, 91% of the total viewing was outside South Korea. (Allocca, 2014) These two figures proves the rapid growth of consumption of K-pop videos on YouTube, and the popularity has spread beyond Asia as we can see the center of gravity in K-pop consumption has shifted away from Asia to the rest of the world.
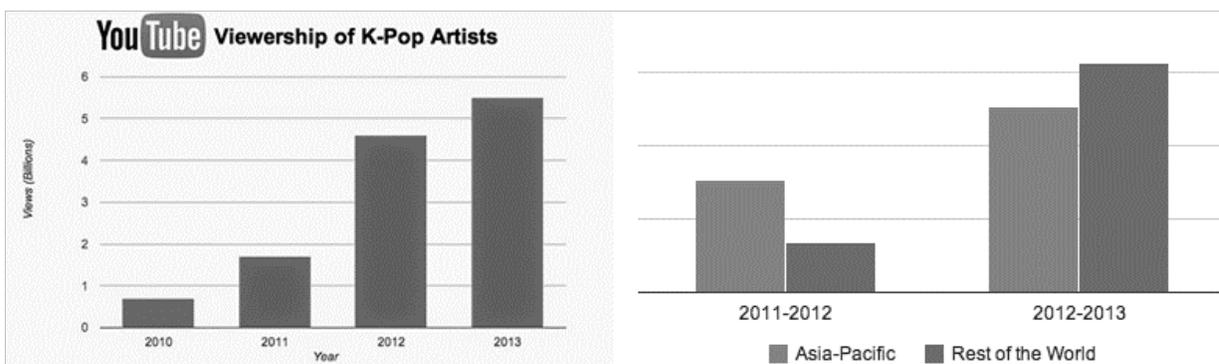
Figure 4.1. Viewership of K-pop artists from 2010 to 2013 (YouTube, 2014)

Figure 4.2. Viewership of K-pop artists in Asia and rest of the world (YouTube, 2013)

(iii) Music Insights – Top 20 Artists with the most views in Selected Countries

Furthermore, YouTube has launched a new tool called "Music Insights" in 2015 which allows us to search and filter viewership data by two criteria - locations and artists. Music Insights reflects data collected since September 2014. Not only taking into account the official music video, a track's total views also reflect views of relevant videos such as live videos, fan videos, and commercials to provide a more comprehensive assessment. First, we will have a look at the top artist chart in selected countries. The top artists chart is

calculated based on the combined views of all the tracks associated with the artist. For the Asian regions, we have selected Japan and South Korea, which are the first and second largest music market in Asia. Besides, we also picked Hong Kong to represent the Chinese-speaking audience because YouTube is not available in mainland China. The results of the top 20 artists with the most views in these three countries are summarized in table 2. There are several points that are worth mentioning. First, it reflects the importance of domestic artists in their home markets. In all the countries, the domestic music repertoire accounted for more than two-third of the total viewership. It is most extreme in South Korea where the YouTube consumption is dominated by domestic artists, the only foreign artist who gets into the chart is Maroon 5 who are in the 20th place. Second, we can observe that there are four artists who chart in the top 20 artists in all three countries. Three of them are K-pop acts, which are "BIGBANG", "Girls' Generation", and "EXO"; and the last one is the American pop band "Maroon 5". Taylor Swift also make the chart in Hong Kong and Japan. They are the artists who have the capability to develop and maintain popularity outside their home market, and appeal to a wider audience across geographical boundaries. It also indicates the dominance of K-pop act's popularity across Asia. As a point of comparison, all the top 20 artists in Hong Kong and Japan are absent outside their local chart, which means their popularity is still restricted to their home market. If we review the chart outside Asia, we found that none of the K-pop's acts can make themselves on the top 20 artists chart in the United States, Germany, and the United Kingdom, which are the 1st, 3rd and 4th largest music market in the world. It means that although K-pop acts have become a household names in much of Asia, there still have some distance to cover if they want to be the mainstream outside Asia.

Rank	Hong Kong		Japan		South Korea	
1	Eason Chan	Hong Kong	One Ok Rock	Japan	Yiruma	South Korea
2	Joey Yung	Hong Kong	J Soul Brothers	Japan	Kim Yong Im	South Korea
3	Jay Chou	Taiwan	AKB48	Japan	EXO	South Korea
4	Twins	Hong Kong	B'z	Japan	BIGBANG	South Korea
5	BIGBANG	South Korea	BIGBANG	South Korea	Bangtan Boys	South Korea
6	Juno Mak	Hong Kong	ゲスの極み乙女	Japan	IU	South Korea
7	Alan Tam	Hong Kong	Taylor Swift	United States	Gfriend	South Korea
8	Pakho Chau	Hong Kong	AAA	Japan	Apink	South Korea
9	Janice	Hong Kong	One Direction	UK	Girls' Generation	South Korea
10	Leo Ku	Hong Kong	Perfume	Japan	Red Velvet	South Korea
11	Girls' Generation	South Korea	E-girls	Japan	AOA	South Korea
12	Maroon 5	United States	Mr. Children	Japan	EXID	South Korea
13	Miriam	Hong Kong	Exile	Japan	Lee Sun-hee	South Korea
14	Justin Lo	Hong Kong	Girls' Generation	South Korea	Sistar	South Korea
15	EXO	South Korea	EXO	South Korea	PSY	South Korea
16	Hacken Lee	Hong Kong	Spitz	Japan	Girls's Day	South Korea
17	Hebe Tien	Taiwan	Maroon 5	United States	Mamamoo	South Korea
18	Hins Cheung	Hong Kong	Superfly	Japan	Kin Kwang-seok	South Korea
19	Taylor Swift	United States	Glee Cast	United States	Twice	South Korea
20	Danny Chan	Hong Kong	モーニング娘	Japan	Maroon 5	United States

Table 2. Top 20 Artists in Hong Kong, Japan, and South Korea, based on total views from 7/4/2015 – 7/4/2016 (YouTube Music Insights, 2016)

(iv) Music Insights – Fan-base Overview

Last but not least, Figure 5 shows the fan base overview of the selected artists to see where they have the biggest fan base based on the number of views. We have selected two representative K-pop girl bands "Girls' Generation" and "2NE1", the iconic J-pop girl

group "AKB48", and the international name "Taylor Swift". We can see that Taylor Swift, Girls' Generation, and 2NE1 have a more geographically diverse fan base. Local fans only accounted for a small portion (2NE1 10%, Girls' Generation 9%, Taylor Swift 16%). Most of their fans are international fans and their fan base is present in many different countries around the world. In contrast, AKB48 has a more homogeneous fan base, 71 percent is local fans while international fans only comprise less than 30 percent. In addition, Asian still remain the majority group in the fan base of the K-pop's artists. However, several non-Asian countries such as the United States and Mexico are increasingly important as well. For example, 2NE1 has the fifth largest fan base in the United States. A racially or geographically diverse fan base indicates that K-pop is catapulting to international recognition.
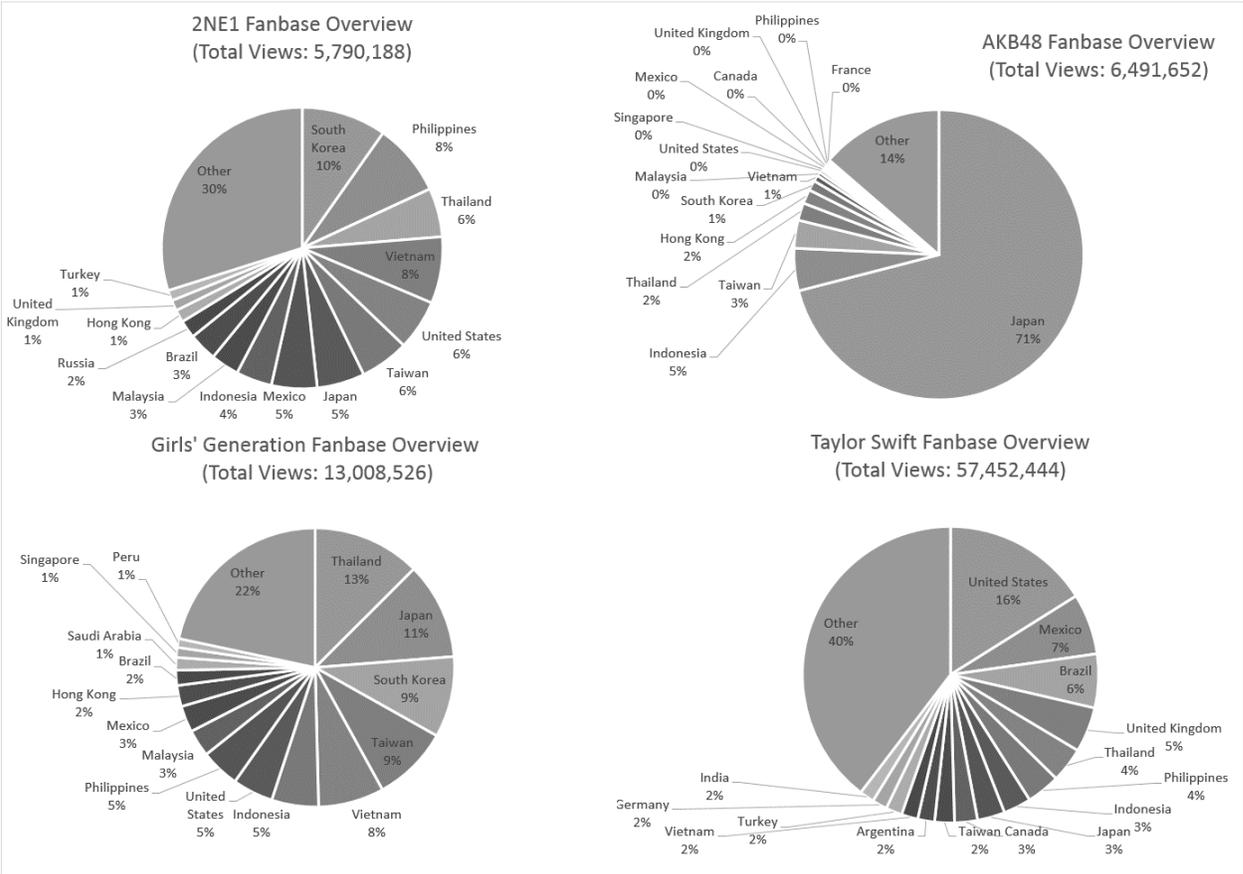
Figure 5. Fan base overview of selected artists, based on total views from 7/4/2015 – 7/4/2016 (YouTube Music Insights, 2016)

In conclusion, this chapter has used different metrics to measure and assess the international brand awareness and popularity of K-pop. While various methods of measurement are used, they all point to the same implication that K-pop's worldwide popularity has grown rapidly in the last decade. It is obvious that K-pop's recognition is spreading outside other than its home market – South Korea. K-pop has a high-level of brand awareness throughout Asia. Still, there have some distance to cover if K-pop wants to be the mainstream music genre worldwide. Having said that, it is undeniable that K-pop has become an increasingly globalized phenomenon.

7   External Analysis – Opportunities and Risks

Before we begin to analyze and assess the internal strategy that contributed to the recent global success of K-pop, it is important to step back and consider the external factors in the market environment. The K-pop business does not operate in a vacuum but within an ever-changing global environment with a high level of complexity. K-pop's global success is not only a result of the successful strategy implementation by the Korean entertainment companies, which are the direct driving engines of the global spread of K-pop, through acquiring and training international talents, producing globally appealing pop songs and dance, and executing international marketing strategy. We argue that the success of K-pop's global expansion is a combination of internal competence and external opportunities – the capability to exploit opportunities and shape the forces to its favor. The external environment includes all the factors outside the Korean entertainment organization that can create opportunities and also pose threats to K-pop's globalization. Positive external influence such as favorable government policy in promoting cultural industry overseas may strengthen K-pop's globalization strategies and increase the likelihood of success. On the contrast, external environmental threats will also have negative impacts to organization's capability in achieving its goals. For example, the censorship over the internet in China such as national bans on YouTube may prevent K-pop from achieving success in China or increase the level of resources required to reach the Chinese audience. We can also observe the effort of the Korean entertainment companies in reshaping the external force to their advantage. Facing the rising power of consumers, K-pop companies react by offering copyrightable content for free and encourage consumers to express themselves through cover dance or making parody, which subsequently projecting a positive impact on K-pop's media presence overseas due to the increase of consumer-driven circulation. As a result, we need to understand what factors make up the market environment surrounding K-pop business, and how each factor exerts influence on K-pop globalization.

7.1   The Three Levels of the Environment

The general environment is broad in scope and extremely complex, with a multitude of interrelating factors influencing the globalization of K-pop on different levels. Therefore, we shall focus on how the Korean entertainment organization reacts in the three levels of environment which commonly segmented by analysts into (i) the general or macro environment, (ii) the operating environment, and (iii) the internal environment. (Bensoussan and Fleisher, 2008) Figure 6 shows the three levels of the environment and the relationship of these levels to each other.

Figure 6. The three levels of the environment (Bensoussan and Fleisher, 2008)

Macro and the operating environment constitute the external environment outside the organization. The Macro environment is the wider external environment that exists in the economy as a whole, beyond a particular industry or sector. In general, the macro environment will include conditions such as government policy, legal regulations, technological inventions, social trends, etc. These are the uncontrollable external environmental factors that fall outside the direct influence of the organization, but will affect the organization by posing opportunities or threats. In order to understand what important factors are influencing the globalization of K-pop in the wider external environment, we will apply PEST analysis, which is a framework commonly used to

identify the organizations external macro environment. PEST Analysis breaks down the macro environment into four areas, which are political, economic, socio-cultural, and technological. We will scan the wider external environment to identify key factors in each area that are of the most important to K-pop's global expansion.

The middle circle is the operating environment. The operating environment relates to a particular industry within which a company operates. Every industry includes stakeholders such as suppliers, competitors, distributors and customers. An organization has almost no influence on the forces in the macro environment, but it has some degree of control over its operating environment. For example, for entry to Japan market, K-pop companies have formed a strategic partnership with major record labels to facilitate the distribution of K-pop in Japan, which holds the second largest music market in the world. To obtain a complete picture of the industrial environment in which K-pop operates and competes, we will begin with doing an industrial analysis of the current market trends in the global music industry. Following that, we will apply Porter's Five Forces model, which is developed and popularized by professor Michael Porter of the Harvard Business School, and still one of the most widely-used analytical tools for assessing the industrial environment. The Five Forces model will be used to evaluate the opportunity and risk in the global music industry based on five key factors, namely the threat of entry, the power of suppliers, the power of buyers, the threat of substitutes, and the rivalry among existing competitors. (Porter, 2008) These five competitive forces define and shape the market structure of the music industry. By doing industrial analysis, it will enable us to identify favorable and unfavorable market forces. Favorable market forces provide opportunities that can be exploited. For example, the decreasing power of mass media such as television and radio as the gatekeeper of music flow can be a chance for K-pop to reach a wider audience. On the other hand, K-pop firms shall also defend against unfavorable industrial forces, such as the high barrier of entry due to the highly concentrated market that will have a negative influence on K-pop's globalization.

The third level is the internal environment, including human resources, capabilities, core competencies, and other internal factors of K-pop companies. The companies have a greater degree of practical control over its internal environment. These areas generally are subject to the discretionary decision-making of the organizations executives and influenced by managerial attention and action. (Bensoussan & Fleisher, 2008) The major players of the internal environment are the Korean entertainment companies. One of the major business objectives is to bring K-pop to the world. We will focus on SM Entertainment, YG Entertainment, and JYP Entertainment, collectively known as "big three"; they are the three biggest talent agencies in which K-pop is produced. They function as a talent agency which engages in casting, training, and managing K-pop artists, a production agency which is involved in planning and production of music records and videos, and a promotion agency which distributes and promotes K-pop to the world. (Keith, 2014) Value chain analysis will be adopted to identify the sequential organizational activities, ranging from talent acquisition to customer relationship management, which ultimately creates and delivers value to the customers and serves the purpose of globalizing K-pop. More importantly, we will also pay attention to the interplay of its internal strategy and external environment.

Besides, it is also important to understand the interrelationship between the three levels and how they are influencing each other. For example, the advent of the digital era has enhanced the power of online music distributors such as iTunes and YouTube at the expense of conventional physical stores, and hence created a new opportunity for K-pop acts to reach the largest possible audience ever. Also, the internal competency to create visually-appealing music video combined with the strategy to distribute freely on YouTube have achieved the best fit with the external environment. As a result, the capability to capitalize on external opportunities contributed to the global spread of K-pop. Finally, before carrying out the external analysis, we need to define the scope or geographical boundary of the external environment of K-pop business. Our analysis will base on general global perspective view, and in addition, to highlight regional differences because situations can differ between countries. Considering K-pop's geographical reach, we will

include South Korea and its major overseas markets which are Japan, the United States and China in the discussion.

7.2   Macro Environment - PEST Analysis

K-pop's success primarily depends on how well it deals with changes in the external environment. When the Korean entertainment companies develop their globalization strategies, there are dozens of important factors they have to consider. For example, how will new regulations and governmental policies affect them? What technological changes are likely to help or hinder their progress? These are all things that are outside the control of the organization but can really impact the likelihood of K-pop's success. Therefore, in the following pages, we will use PEST analysis to visualize the macro environment surrounding the K-pop industry. PEST is a tool for analyzing the external environment, the word PEST stands for political, economic, socio-culture, and technological. We will identify key factors that are most important to the K-pop industry in each of the four areas. This will provide us an overview of the general environment in which K-pop globalization takes place. The capability of adapting to the opportunities which the external environment creates, and to manage potential threats, is the key to success of K-pop globalization.

7.2.1 Political

The political environment can influence business organizations in many ways. Governmental decisions affect the attractiveness and the potential of the business environment to a great extent. For example, favorable government policies can help the industry to grow, while increased tax or duty will adversely affect the revenue generated in the whole industry. In the K-Pop industry, influences from its local government, as well as the foreign government in its major overseas markets; shall be taken into account.

(i)   Favorable Domestic Policies

The Korean music industry is greatly influenced by the role of its government. Partnerships between a censoring and controlling government have limited both the size of the market and potential profits of the local music industry. Before the 1990s, the music industry in

South Korea was characterized by a closed market under top-down political censorship. Songs that were considered to threaten national security or causing social discourses of ethics and morality were banned. For example, "Bohemian Rhapsody" by the British band "Queen" was banned in South Korea because of the lyrics "Mama, just killed a man". (Keith, 2014) This was considered as unacceptable violence that may pose threats to the national security. Besides, rap was not permitted as well. Any songs containing rap would not pass the censoring. As a result, the music industry remained small and largely a closed system with limited influence from the outside world such as western pop music. (Keith, 2014) Only since the 1990s, with the establishment of a democracy as a key factor, has the market opened up to allow hybrid arts like K-pop to blossom.

During the presidency of Kim Dae Jung (1998-2003), the Korean government saw export potential in the music industry. The fundamental logic of soft power rests on the assumption that popularizing soft culture will stimulate the demand for other Korean products such as Samsung and LG phones, TVs and computers, and also brought tourists to Korea. The commercial potential was described in a government report which highlighted that the Hollywood film "Jurassic Park" (1993) has generated foreign sales in the worth of selling 1.5 million Hyundai cars. (Leung, 2012) Korean government started supporting the growth of its culture and creative industry. Domestic institutions and government policy are a source of comparative advantage in terms of national competitiveness, and government influence can be seen in various aspects.

First, the removal of censorship and control opened the Korean music industry up to the world and allowed creativity to grow. The spreading of foreign music such as western pop has enabled Korean companies to develop global vision so that the local music industry could be integrated into the global community and be in line with the international standard. Second, financial support and subsidiary systems by the government were established. Music industry has large fixed costs, and therefore the accessibility to external sources to finance the up-front investment is crucial. Low-interest loan and subsidies create a more favorable business environment and encourage more investment which subsequently

stimulates market growth. Right in the beginning, the music industry in South Korea had a relatively weak position in comparison with strong incumbents such as the United States and Japan which are the worldwide cultural powerhouses. For the growth of a new industry, government support is very crucial because it allows time for the domestic industry to stand firm before they grow and built up the competence to compete in the world market. Third, government regulations against illegal downloads help securing revenue to flow back to the entertainment companies from the customers. (IFPI, 2011) Increased profit means more investment is willing to be made and hence led to a more thriving music industry which can attract more talents and produce more competitive products. Besides, the government also adjusted their age restriction after the general public has complained about the adult-only rating on "Right now", a hit song by Psy. The adult-only rating had reduced the chance for this new song to be exposed to music fans across the globe. (The Korean times, 2012)

Last but not least, Korean government also set up responsible bodies to promote Korean soft culture abroad. The Korea Creative Content Agency (Kocca) was established in 2008. In reference to Kocca's official website (http://eng.kocca.kr), it is a government agency which is in charge of the promotion of creative industries overseas. This agency provides support to host overseas K-pop showcases and music festivals. For instance, Kocca is the organizer of the event "K-Pop Night Out at SXSQ", an annual K-Pop concert held in the United States. (Oak, 2013) The coordination and support offered by the government associations has facilitated the promotion of K-pop overseas. To conclude, the censoring government of earlier decades no longer arbitrates, but rather picked up the role of sponsoring and promoting the activities of Korea's soft culture entrepreneurs. (Keith, 2014) Favorable government policy is a major source of competitive advantages for K-Pop to spread both at home and overseas.

(ii)   Tight Media Censorship in China

China is one of the major export destinations of Korean cultural products but the tight media censorship has posed a potential threat. Media regulatory risk in China is high, numerous restrictions and changing interpretation of regulations make the approval process

unpredictable. Due to the complex and unique media environment, understanding the Chinese government policy and the unique local situation is critical to the success in Chinese market. Censorship and control on media can be seen in a multitude of areas. A massive surveillance and censoring system called "great firewall" is implemented to block people's access to foreign websites that are considered as a threat to social stability by the government. According to the "Freedom on the Net 2012" report, issued by Freedom House, China was ranked as the third most restrictive country in the world in terms of internet access. (The Economist, 2013) The worlds' most widely-used media tools such as Google, YouTube, Facebook, Twitter, and Instagram are all blocked in China. Instead, China has its homegrown equivalents. If a recording label wants to distribute a music video online in China, they have to do with Tudou (www.tudou.com) or Iqiyi (www.iqiyi.com), the Chinese-version video sharing sites. If a celebrity wants to update their fans about the schedule of an upcoming concert, they first need to have an official account in Sina Weibo, the Chinese equivalent of Twitter. It implies extra cost, resources and expertise required for K-pop companies to develop in the Chinese market.

Apart from the great firewall, the Chinese government also has tight censorship on the distribution of content on television and online platforms. In 2016, the Chinese government has issued new guidelines which contain a catalog of eight pages listing forbidden subjects that are banned from appearing on TV programs. Any depictions that are considered to undermine social stability and moral ethics ranging from homosexuality or one-night stands to time travel are prohibited to show on domestic television. (Beech, 2016) For example, four US shows – The Big Bang Theory, The Good Wife, NCIS and The Practice are removed from Chinese internet streaming sites on the censors' order. (Chang, 2014) However, China has 680 million internet users, the highest number in the world, and a huge potential market. (Statista, 2016) The 2016 big hit Korean drama "Descendants of the Sun" has achieved more than 2.4 billion views on video streaming website "Iqiyi.com" in China. The rights to broadcast one episode in China costs about $250,000, which doesn't include multiplier effects of boosting other business sectors. (Lee, 2016) For example, the sales of the lipsticks that are worn by the main actress in the drama has risen 360 percent since the

drama began airing. In order to pass the censorship and fulfill regulations, several scenes were cut and some scenes were altered to produce a version especially for Chinese broadcasting. For instance, a fight between South Korean and North Korean soldiers, and the scene depicting a Chinese soldier being treated by the main actress, are taken out in the Chinese version.

However, the regulatory risks are always there and the impact to the business is enormous. J-pop girl group "TWICE" is banned in China, after its Taiwanese member introducing herself as Taiwanese and waved a Taiwanese flag in a TV program. All videos related to the girl group were removed from the online streaming platform. The Chinese government also put the girl group into the blacklist and related researches on social media platform are blocked. The scene of the girl group winning the rookie award in the Golden Disk Awards is also cut when the ceremony aired live in China. Artists from JYP Entertainment have had to stop all Chinese promotions and activities. This regulatory risk which is uncontrollable and hard to predict, may cause K-pop companies to suffer from business loss in China.

7.2.2 Socio-Cultural

K-pop business is operating in an ever-changing society. Changes in both social and cultural structures can influence the growth of K-pop in many different ways. The social aspect focuses on the forces within the society, and these factors can affect the attitudes, preferences, and interests of people, which subsequently impacts the business performance. Change in the lifestyle and taste of people will affect what is their most desired product or service. When the preferable way of consuming music changed, advantage was given to online streaming services which can satisfy the consumers new demand for unlimited access to music rather than ownership of music media. The Social influences in the external environment are extremely important to the music business because its products are largely consumed on the basis of taste preferences in the society. These tastes include particular songs, kinds of music, performances, and how to consume the products. (Hull et al., 2011) Social change has economic value, and trends unlock opportunities for K-pop business. The K-pop industry can better position itself in the global market by delivering what customers want via understanding new social trends in people's behaviors, attitudes, and preferences.

(Mason and Reyes, 2015) Unable to keep up with social trends may lead to business failure. There are several important social factors, such as the raise of participatory culture and social media, which have created a favorable environment for K-pop to grow. In the following pages, we will go through these important social factors one by one.

(i) Participatory Culture

Participatory culture is a term that is often used to describe the shift in power relations between media industries and their consumers. In the advent of digital age, consumers and audiences are empowered, they have much more influence on the business than ever before. Participatory culture is a culture in which consumers are invited to actively participate in the creation and circulation of new content. (Burgess and Green, 2009) The popularity of participatory culture is closely related to the emergence of new media and technology such as YouTube and Facebook, which removed the technical barriers for consumers to production means and online sharing. Participatory culture can be seen in various cultural spheres such as music, film, online games, and can be manifested in different forms including affiliations, expressions, collaborative problem solving, and circulation. (Jenkins, 2009) Music fans create and upload their own cover versions of their favorite songs to express how much they love them, or teenagers write and publish fan fiction based on Harry Potter to make their own stories for their favorite characters. All this can be classified as creative form. On the other hand, active engagement of users in fan communities is a form of affiliation. It brings together people with common interest in online communities in which members interact, create, and sharing contents and information. Members have established some degree of social connection with one another, and they tend to believe their contributions matter for the communities. (Jenkins, 2009) With the spread of participatory culture, those who had been limited as passive audiences in the past could now become creators and contributors. The excitement and motivation generated from this new cultural and social experience encourage consumers to become more active participants in the media. (Burgess and Green, 2009) In other words, the culture is driven by the desire of consumers to express themselves, to be more social and creative.

The rise of participatory culture has several important implications for the music industry. It gives rise to a new consumer trend with new behavior, attitude, and expectation. Consumers want to do more than just listening to the music. As Wikström (2009, p.149) states, "They want to sing along or even play their own versions of their favorite songs; they want to share their feelings and musical experiences with their peers and the world; and they want to learn about every detail of the life of the celebrities." This social change and new trends unlock opportunities for the global music industry. K-pop, by providing music content that is designed and produced with consumer participation in mind, is better positioned in the new music economy because it meets up with the new social trends. K-pop is a music genre that is strategically designed to incorporate various internationalizing characteristics that can engage user participation across geographical and language boundaries. Dance choreography and signature dance moves are replicable, allowing cover dance memes that create communities of fans via social networking sites, which subsequently increase public circulation flow. The best example is the horse-riding dance in "Gangnam Style", the most viewed K-pop music video on YouTube, there are tons of parodies made and uploaded by fans on YouTube. The impact on public circulation is huge, for example, one of the parodies which is called the "Mitt Romney Style" (https://www.youtube.com/watch?v=yTCRwi71_ns) has achieved over 60,000,000 views and received over 80,000 comments.

In addition, as participation becomes easier, the diversity of voices that can be heard also increases. Different from the old way when the mainstream media controlled most of the information flow to the public, now everyone can spread information around the world through the internet. In the past, there was a high barrier for Korean entertainment companies to reach overseas markets due to the dominance of mainstream media as a gatekeeper who control the dissemination of information. Now, conventional media such a radio and television is not the only way to reach the audiences anymore. The emergence of participatory media increases accessibility and provides the chance to reach more potential users. The global spread of "Gangnam Style" is not started from traditional media but rather a consumer-driven phenomenon through people sharing online. (Kingsley, 2012)

Active consumer participation in creating and sharing parodies has promoted the original music video virally enough to catch the attention of the mainstream media for reporting and featuring, which consequently reached even more audience, and lead to a global phenomenon. This bottom-up model shed light on the importance of the high potential of interactive and participatory consumer behavior and suggests a new way of marketing and promotion. As Miller (2011, p.87) stated, "with the advent of convergent new media and the plethora of choice in sources for information, as well as the increased capacity for individuals to produce content themselves, this shift away from producer hegemony to audience or consumer power would seem to have accelerated, thus eroding the producer-consumer distinction." The term "prosumer" is coined to describe a new type of consumer, who do not act as consumer only, but also as contributor and promoter. It provides the opportunity for K-pop to capitalize on consumers to extend its global reach, and we will further explain the importance of the consumers' involvement in the value chain of K-pop later.

(ii) **The Rise of Global Culture**

Over the past decade, the world has become increasingly connected which have been made possible by technological advancement. The shift toward globalization can be seen in the harmonization of tastes worldwide through the massive transfer of food variations, artwork, music, literature and fashion. Such processes represent a "multi-culturalization of society, and also the advanced globalization of capitalism." (Vertovec and Cohen, 2002) In the terrain of music industry, there is not just a market in France and a market in China; there is a global music market and individual sub-markets. The same recordings by the same artists can be major hits across a large number of countries. (Hull et al., 2011) However, the rise of a global culture does not mean that consumers all share the same tastes or values, rather, it gives rise to a global identity that is not bound by any national territory, and gives the freedom to adopt and incorporate it within personal consumption habits. Consumers ascribe certain characteristics to global brands and use those attributes as criteria while making purchase decisions. (Holt, Quelch and Taylor, 2004) This lead to the opportunity for K-pop to adopt a global approach of production and marketing that can appeal to a huge group of

audiences across the geographical and language boundaries. Target market is no longer defined by geographical area. In the socially-networked world, people from every part of the world can connect with each other based on common interest. The emergence of online community and virtual identity that based on personal preference across national boundaries made it possible for K-pop to target a worldwide segmentation through effective building and communicating its global value and identity. For example, the CEO of SM Entertainment Lee soo-man said "SM town citizens already exist in all corners of the world, from Europe to South America and Asia". (Chung, 2011) Instead of classifying fans according to their nationality such as Japanese fans or Chinese fans, everyone who are interested in SM's artists are SM citizens.

(iii) **Anti-Korean Sentiment**

Anti-Korean sentiment refers to the general dislike, hatred, and opposition against Korea, ranging from people, politics, and culture. It is a very complicated and complex social sentiment that stems from a multitude of sources including history, political issues, nationalism, economic rivalry, etc. Anti-Korean sentiment is mainly present in Asia starting from Japan, China and Taiwan to Vietnam. Japan, the worlds' second largest music market, is one of the major foreign markets targeted by K-pop companies. Ironically, the anti-Korean sentiment is amongst the highest in Japan.

According to a survey conducted by the Japanese government in 2014, almost 70 percent of Japanese people do not have friendly feelings towards Korea, the highest figure since the survey was first carried out in 1975. (Kang, 2014) The reason for this is most likely the recent dispute between Korea and Japan regarding the sovereignty over the island "the Liancourt Rocks" which has evoked anti-sentiment to a new height. The negative feeling of Japanese people against Korea is represented in hate speech and violent protests. The negative sentiment is not only against politics but also spread to culture and entertainment spheres. In 2011, about 6000 people have gathered in front of the headquarter of Fuji Television in Tokyo to protest because in their opinions the national television has broadcast too many Korean shows such as TV drama and music programs. To comfort the social discontent, the two biggest national television providers Fuji Television and TBS

have promised to reduce Korean programming. (The Chunichi Shimbun, 2015) Now, the broadcasting of Korean programs is restricted in the national television. Instead, cable television providers such as BS and CS now focus on providing Korean programs but it is only accessible to audiences who are interested and willing to pay for the subscription. The possibility of attracting new potential consumers is low. The growing anti-Korean sentiment has influence on the decisions of the mass media and limits the exposure of Korean entertainment to reach a broader audience, which is a threat to the globalization of K-pop.

7.2.3 Economical

This factor takes into consideration the outside economic condition that can affect a company's ability to be profitable and successful. Economic issues that can play a role in a company's success include economic growth, economic stability, resource costs, exchange, inflation and interest rates. Companies should also consider the economy of both their local and foreign markets where they operate.

The music industry is a leisure time or entertainment industry, relying on the use of discretionary time and income from consumers for listening to and watching music performances and for purchases of recordings and live performance tickets. (Hull et al., 2011) The industry is monetized from leisure time, which is limited and opportunity cost occurred because something has to be given up to enjoy leisure time, such as the earnings from work. Demand for leisure goods tends to be highly income elastic, which implies that the revenue in the music industry is more sensitive to people's income level. Demand increases with economic growth, but declines with economic downturn when people have less discretionary income and free time. On the other hand, B2B revenue is also a major income source for K-pop, which includes advertising, sponsorship revenues, synch-licensing fees and other secondary revenue sources. B2B spending such as advertising expenditures also has a high tendency to decline rapidly during economic recessions.

The importance of the overall economy to the music industry internationally can be seen in the huge impact on the recording industry during the economic downturn in the early 2000s

and again in 2007-2008. Income level can be indicated by GNI per capita, which is the dollar value of a country's final income in a year, divided by its population. It reflects the average income of a country's citizens and also gives a general overview of the economic condition. (The World Bank Group, 2011) Figure 7 shows the GNI per capita of South Korea and the top three overseas markets of K-pop as discussed before, which are Japan, United States, and China. As K-pop is an export focused industry, it is important to also consider the economic situation of its major overseas market. We can see that there was a decline in 2007-2008 when the world was hit by financial crisis. After that, there is a steady increase of GNI per capita and overall economic growth.
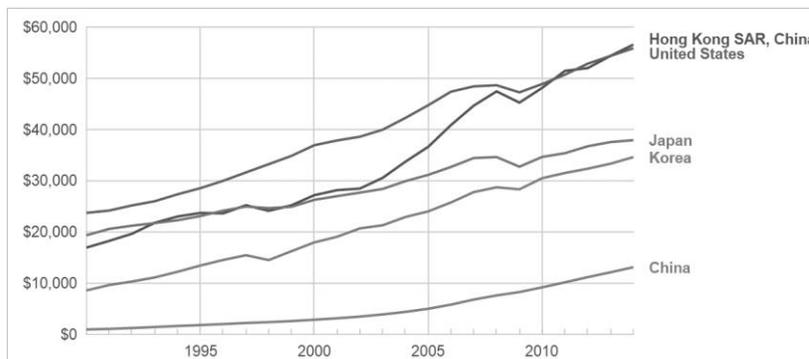
Figure 7. GNI per capita of China, Korea and Japan (worldbank, 2016)

South Korea remains one of the fastest growing economies among developed countries. The country has remained the world's 14th largest economy by GDP for five consecutive years up to 2013. (Chung, 2014) In 2012, South Korea is the seventh member to join the "20-50" club – surpassing the threshold of US$20,000 gross national income per capita with a population of 50 million, after Japan, United States, France, Italy, Germany and United Kingdom. (Chiou, 2012) Stable economic growth helps to secure domestic revenue and hence built a strong foundation to support the foreign expansion of K-pop business.

On the other hand, among K-pop's export destinations, the entertainment industry in China has seen explosive growth in recent years, at a rate faster than the overall economy. The disposable income has grown from US$760 per person in 2000 to US$3440 by 2011. (Dezan Shira & Associates, 2015) More people entered the middle class, and they have more discretionary income to spend on entertainment. According to "McKinsey 2016 China Consumer Report" in figure 8, Chinese consumers are increasingly willing to spend on

luxury items like travel and entertainment. The shift of the focus of Chinas economy from heavy industry towards consumers and services is an opportunity for K-pop to further grow in the Chinese market.

The Chinese music market is still small in size but remains of enormous untapped potential. Although on the direct-consumer level, illegal down loading of content is still prevailing and a considerable amount of time is required for the education of legitimate downloads of music to be effective; intermediate buyers such as television broadcasters' spending on licensing foreign music shows and expertise in this area is increasing rapidly. The local production and supply of entertainment cannot catch up with the increasing demand of the consumers who want something new and exciting. More and more franchises of Korean music programs including "I am a Singer", "K-pop Star", "Superstar K", and "Hidden Singer" were sold to Chinese broadcasters to remake a Chinese version. K-pop artists' appearance on varies TV show become more frequent, and K-pop songs are played as the background music of shows. K-pop's future potential can be explained by the strategy to get ubiquity and user-base first instead of focusing on short-term profit maximization. If companies don't have market share now, they are not going to have revenue later. In other word, without exposure in the media, there will be no audience action, which ultimately is what is feeding the business. (Wikström, 2009)
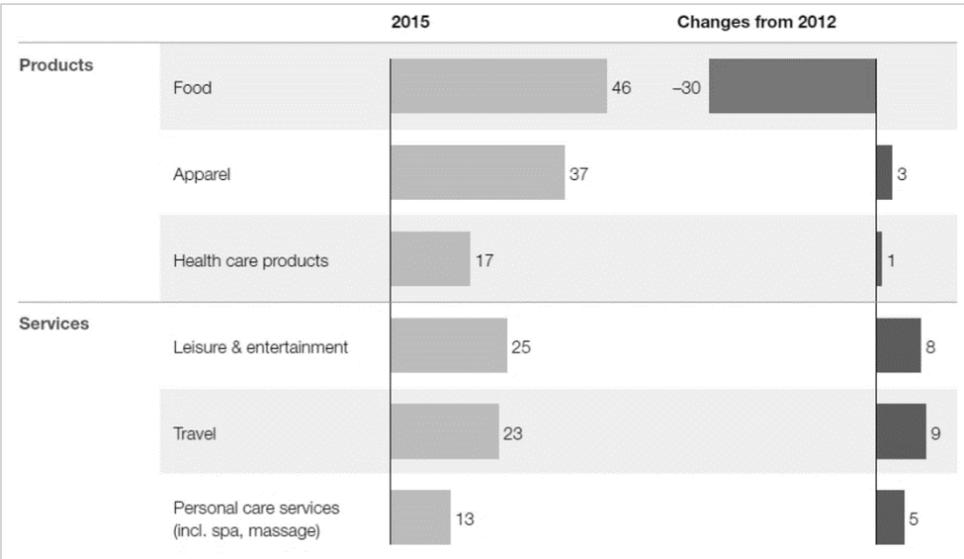
Figure 8. China consumer report 2016 (McKinsey, 2016)

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7.2.4 Technological

Technological advancement is perhaps the most significant factor that radically changed and transformed the music industry. It affects how music is produced, delivered and consumed in the marketplace. The music industry is going through a period of immense transition brought about by the digital revolution. Technological changes have brought opportunities, for example, the global reach of music is almost limitless and now artists have more opportunities to reach the widest possible audience, thanks to the digital revolution. However, the ease of access to networks brought by technological advancement also created the widespread problem of illegal downloading that is destroying the music industry. In the following pages, we will go through the challenges and opportunities facing K-pop business as a consequence of the digital upheaval in recent years.

(i) Growing Popularity of Digital and Social Media

The music industry heavily depends on media as a promoter and distributor of its product. Media is the link between music and audience, it is the communication channels through which music are disseminated. The dynamics of the interplay between the media, the music, and the audience can be illustrated by the "audience-media-engine" model. (Figure 9)

According to Wikström, media presence represents the number of distribution outlets, such as television shows, radio shows, websites, etc.) where the artists appear. Audience reach represents the percentage of the total audience that the firm is able to reach through its media presence. Audience approval means the audience who respond positively when they encounter the music. Consequently, it triggers audience action, such as the purchase of a song. Audience action also has a feedback effect on media presence. For example, album which has the highest sales entitled to greater exposure by topping various music charts, and hence contribute back to media presence. (Wikström, 2009)
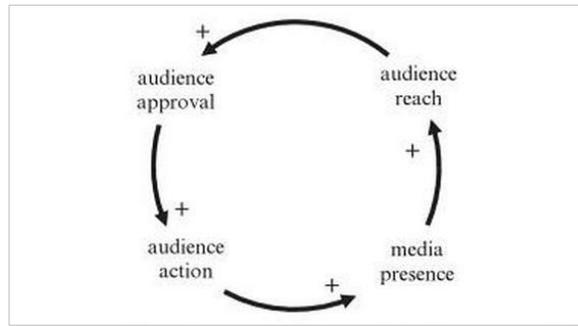
Figure 9. The audience-media-engine (Wikström, 2009)

Based on the above model, we can conclude that whether K-pop can reach a wider audience in overseas depend greatly on the capability of K-pop acts to develop media presence there. Before the digital age, traditional media outlets such as radio and television are the primary means of communication used by music industry to maximize exposure. It is based on the old model of top-down information flow, in other words, information is disseminated to the mass audience from several gatekeepers at the top. If a record label wanted to get their recorded music heard by the majority of people, they will need to make as much appearance as possible in high-profile media outlets such as famous TV music program. Traditional media outlets have limited broadcasting time, and therefore the accessibility to those high-profile media is restricted to major record labels and mainstream music. The limitation of traditional media as compared with digital media can be summarized on table 3 below.

	Radio/Television	YouTube
Restrictions	- Require audience's presence at exact time and space - Gatekeeper control the flow of information	- Anytime and anywhere with internet connection - Anyone can upload and share on YouTube
Participation	- Top-down dissemination of music - Audience is passive receiver	- Multi-direction flow of music - Audience is also provider
Community	- None	- Interactive online community

Table 3. Comparison of conventional media and digital media

As a consequence, the barrier for Asian music to enter into western market used to be very high. The resources and expense required to build up awareness in foreign market was enormous. The hierarchical structure of the old media has posed a constraint for K-pop to develop media presence outside Asia, which subsequently limited the geographic reach of K-pop. Since there was nothing to link up the audience, one-way flow of information has limited people's choice. Mass media was very powerful as a tastemaker that greatly influence the preference of general public.

The limitation and constraint can be seen in the amount of time and resource that were required for the K-pop artist "BoA" to break through in Japan decade ago. After her debut in 2001, it took few years for BoA to make a name in Japan. She was signed to Japanese label "Avex Trax", and has spent most of her time in Japan to appear in various local music and variety shows, at the same time also hosting her own radio program, in order to generate enough public exposure to build up impression. (SEO, 2016) The technological revolution has dramatically changed the way media works and how information flows to the audience. After a decade, Girls' Generation has topped the Oricon chart on the same day that their first album was released in Japan. The immediate success can be attributed to their strong presence on social media, that they have already cultivated huge popularity and built up a strong fan-base before their official debut in Japan.

Digital and social media have enabled K-pop to have more opportunities to reach the widest possible audience that one cannot imagine decades ago, when the gateway to develop media presence was still largely controlled by radio and television. In the digital era, the importance of mass media has been radically reduced, while the importance of digital and social media has exploded. The rise of digital and social media has few important implications. First of all, because of the rapid growth of social media, the barrier that had previously restricted the capability to distribute K-pop to formerly hard-to-reach markets such as the United States and Europe has been reduced to a large extent. The rapid growth of social media has allowed a wider range of music to be shared around the globe. Music has become more searchable and more findable. This changed people's listening habits, and they are more willing and more capable to discover new music. K-pop company now

bypassed the traditional media outlets, and actively leverage on social media. YouTube is now responsible for a large amount of music consumption. With a combination of visual and audio, and the availability of subtitle and audio transcription services, YouTube serves as a global media platform for K-pop to reach audience across geographical and language boundaries. For non-Korean fans, K-pop is the primary media where they first get to know about this music genre.

Besides, social media also provide a limitless, unmediated space for people to communicate instantly with one another. The international online community has enhanced the transnational flow of K-pop. The spread of K-pop outside Asia is largely driven by audience action. Technological revolution has improved music fans' capability to create and upload user-generated-content such as cover dance and parodies. In the digital age, more audience actions would contribute to the overall exposure of the artists and add to their aggregated media presence. (Wikström, 2009) In other word, the power of audience to have a positive impact on media presence is greatly enhanced. Their role as collective tastemakers becomes stronger at the expense of the top-down promotion from record labels and rights holders. (Wikström, 2009) The success of K-pop to reach globally can be explained by its competence to support its fans' desire to express themselves through music, hence significantly raise its media presence. For instance, the K-pop group "BigBang" is ranked the second place in Time magazine's "100 most influential people" from an online readers' poll, surpassed other influential entertainers including Taylor Swift and Leonardo DiCaprio. In one hand, it is an evidence of the far-reaching popularity of K-pop acts, on the other hand, it also demonstrates the power of the online fan-base in improving media presence of K-pop by their active participation in supporting their favorite artists.

(ii)   Illegal Download

The ease of distribution of music online also come with great price. The widespread illegal downloading problem has almost destroyed the music industry. According to IFPI, it is estimated that for every track legally download online, 20 songs are being illegally downloaded from peer-to-peer networks. (IFPI, 2008) The development of technology has made it significantly more difficult to convert information goods including music into a

rival good by distributing on a physical format such as CD, thus can create an artificial supply deficit, and hence control the distribution and uphold the consumer price. (Wikström, 2009) Before the digital era, people can also enjoy music without paying via radio and television. However, it is not an on-demand access to music because people can't select which music to be played in radio and television. Therefore, the radio and television is a promotional platform where people can experience the music, if they want to listen anytime as they want, they will need to purchase music in physical format such as CDs which is limited in quantity and also provide overwhelming value because people can get the ownership of music. However, this well-established formula that the industry has relied on for decades to monetize from music is no longer valid due to the technological revolution. In the digital age, people can access music anytime and anywhere easily. The economic value of providing access to music is greatly reduced and music is perceived as free. This means that although there are more audience actions have a positive impact on media presence, but at the same time, there are also fewer audience actions that actually generate immediate revenues for music company. (Wikström, 2009) To seek a way out of this dilemma, one of the strategies that K-pop companies used is to secure revenue from where they can have a higher degree of control such as advertising or licensing businesses that based on the artists' ability to attract audience attention and enthusiasm. For example, Girls' Generation appeared in the Intel advertisement to promote Intel Core i3, i5 and i7 across Asia in 2011.

7.3   Operating Environment - Industry Analysis

While the previous section focused on key external factors in the broad environment, in this section, we will turn the attention to the operating environment, which is the industrial level with components that generally have more direct and specific influence on the potential and prospects for globalizing K-pop. We will start out by providing an industrial overview and giving an account of present important trends of the music industry over recent years. After that, Porter's Five Forces model will be applied to identify and analyze those major industrial forces that will influence K-pop's potential in the global market. By combining macro-environment and industry analysis, they together will provide an accurate, objective insight into the significant issues and forces that surround and impact on K-pop firms. As a result, this chapter as a whole will provide sensible links to K-pop's internal strategies and will also help us to achieve a better understanding on the interplay between the external and internal environment. It will reinforce our argument that K-pop's internal competences and strategies, which in concert with its external environment, are seen as the critical elements of K-pop's competitive advantage and success factor.

7.3.1 Overview of Global Music Industry

In order to understand the business strategy of K-pop, it is important to know how the music industry works. As Keith (2014, p.389) stated, "the global music industry has typically been theorized as a recording industry which embraces and controls the creativity of artists while simultaneously seeking to influence the tastes of consumers in order to generate profits." In other words, it finds and contracts artists through talent scouts, agents and managers, producers and sound engineers, and it controls the recorded products that it then promotes and distributes. Same as any other businesses, the music industry is also a value delivery system. It creates and delivers music that has value to consumers, for which they are willing to pay the price. If we look at the history of the music industry, it is a history of transformation that is closely connected to the advancement of technology for the recording and dissemination of music. Every time when a significant technological revolution takes place, the old industry structure is being challenged and the core product of

the music industry is changed. The advent of new technology in 1980s has created a new format of music consumption – CD, and the music industry has undergone unprecedented growth in sales stimulated by the superior value that CD can deliver to consumers. Physical musical format has been prevailed for several decades as the dominant revenue source of the industry, and was not challenged until the arrival of digital music distribution in 2000s. In the digital era, the music industry is evolving at a rapid pace. The very existence of the old music economy that derived most of its revenue from the manufacture and the sale of physical products has been challenged. There is no doubt that the technological improvement has created new opportunity for music firms to reach markets that it could not reach before through physical retailing. However, the widespread illegal distribution of music via the internet has clearly curtailed the physical sales. Sales of recording dropped from a high of $14.6 billion in 1999 back to $8.5 billion in 2008, recorded a decrease of over 40 percent. (Hull et al., 2011)

The global music industry has entered a new era in which traditional business model is challenged to reinvent, and old rules are no longer valid. The high level of uncertainty about the most desired products and services that will satisfy customers makes decision making difficult. Developing strategies and configuring business model corresponding to drastic technological change is a daunting challenge. The music industry is facing the challenging of managing the transitions from physical to digital, PC to mobile, and download to streaming at the same time. (IFPI, 2016) And it is important to keep in mind that the globalization of K-pop is operating within an industry that undergoing radical changes. Within the ever-changing music industry, we can identify several key characteristics of the new music economy.

(i) Highly Concentrated Industry

The music industry is still a highly-concentrated industry. Since the 2000s, the global recorded music market has been concentrated in five countries. Refer to figure 10, we can see that the two biggest markets, which are U.S. (33%) and Japan (17%), together accounted for 50 percent of the global market. Added to Germany (9%), U.K. (9%), and

France (6%), the five largest markets are responsible for 74 percent of the global music sales. In 2014, the South Korean music market ranked the 8th place in the world, compared to the 21st place in 2010.
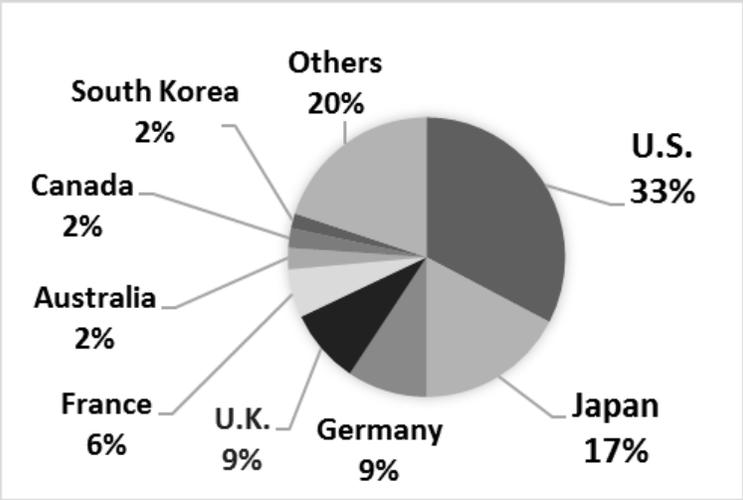
Figure 10. Share of the global recorded music market (IFPI, 2016)

On the other hand, to a great extent, the international market is controlled by a small number of multinational companies. These transnational conglomerates which have substantial control over the resources of production, distribution, and promotion have been referred to as "majors", while other smaller music firms are referred to as "independent". The seven majors operating in the 1990s have fused into three by the end of 2011. As we can see in figure 11, Universal Music Group (34.1%), Sony Music Entertainment (22.5%), and Warner Music Group (16.7%), together they accounted for 73 percent of the digital and physical revenue worldwide in 2014. The majors produce international repertoire that are globally appeal across different markets, and the music industry is truly an international business.
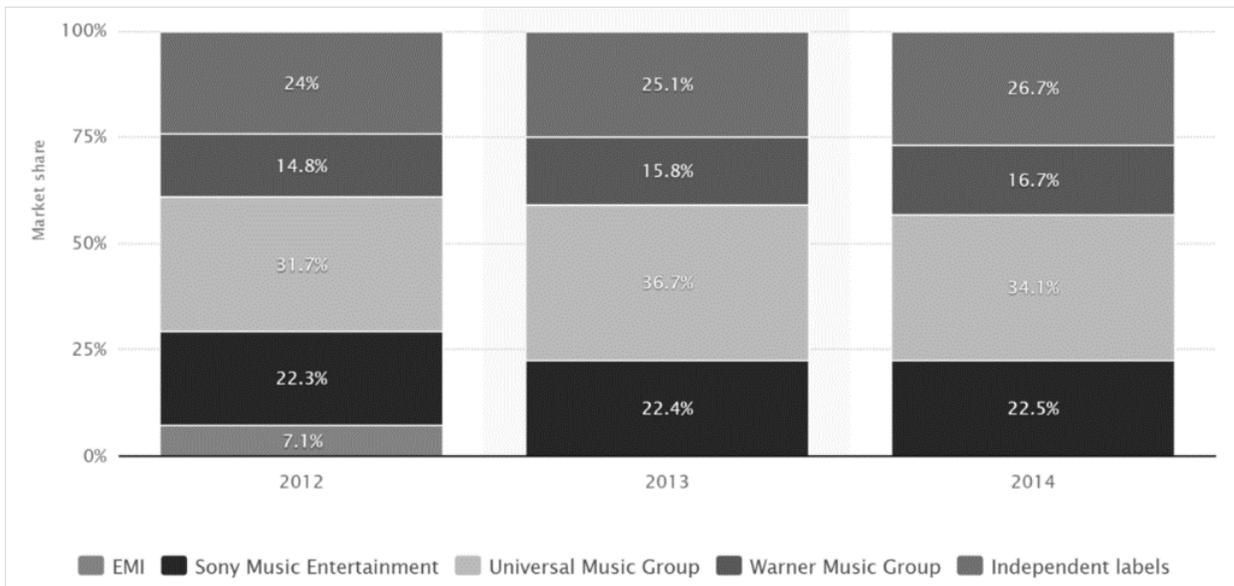
Figure 11. Digital and physical revenue market share of the largest record companies worldwide from 2012 to 2014 (Statista, 2016)

(ii) Proliferation of New Business Models

Music continues to be a multi-format business, with revenues generated from a diverse range of products and services. However, the old music economy that was based on creating a sense of ownership is subjected to constant challenge with the advent of internet and digital distribution. The physical products such as CD, once made up a substantial share of the total revenue in the industry, has been declining steadily. In an attempt to meet up new customers' demand, the industry has developed numerous legitimate digital services, each experimenting different revenue and business model. The emergence of various digital music services also has different implication for the new music economy.

To compensate the loss in the income from the sales of physical products mainly in the format of CD, a number of new models emerged. Digital download is dominated by Apple's iTunes store. It gives consumers flexibility to download single music track instead of purchasing the whole album. By allowing consumers to purchase single songs, the new business model breaks the well-established practice of bundling a set of songs into an album. Apart from download, music streaming service is also a new revenue source with

increasing importance. Music streaming service such as Spotify is based on the underlying logic of "all-you-can-eat" business model. By paying a monthly subscription fee, consumers are granted unlimited access to a large music catalogue. Consumers paid to get an access to music on-demand but within a certain limited time period, they lost the access once they stopped the payment. Music streaming reinvented the old business model that derived revenue from providing a permanent license or ownership to consumers that once they purchased, they can listen as many times as they want. It also implies the transformation from the old music economy that focused on manufacturing and delivering physical products, to a new music economy with a concept of music as a service. More importantly, music streaming service is run on a freemium model. Freemium is used to describe a monetization model that offers a mix of both "free" and "premium" service. Apart from the premium service that granted unlimited access to the music library by charging a subscription fee, they also provide free service which consumer can access to the core service without charge, but with advertisements and limited functions. This ad-based model serves as a more competitive alternative against illegal download, by creating a new experience that consumers can enjoy music for free, the incentive to use illegal service has been largely undermined. Instead of charging directly from customers, consumers now serve as an audience to receive advertising message that will indirectly generate advertising revenue to the provider. It also marked another major shift taking place in the new music economy from B2C to B2B revenue stream.

(iii) Shifting Balance in Revenue Power

The industry's center of gravity has moved away from physical sales towards other revenue sources. As we can see in figure 12, the global digital revenues have been steadily increasing year on year. In 2014, the global digital revenues increased by 6.9 percent to $6.85 billion. The increase was largely fueled by the continued strong growth in music streaming revenue, rose 39 percent to $1.57 billion. Digital downloads still make up 52 percent, more than half of the global digital sales. However, subscription income now accounted for 32 percent, up from 18 percent in 2013. Downloads and subscription together made up 84 percent of the total digital revenues, the rest is shared by the advertising

revenue of streaming service (9%), mobile personalization such as ringtone (3%), and miscellaneous. (IFPI, 2015)
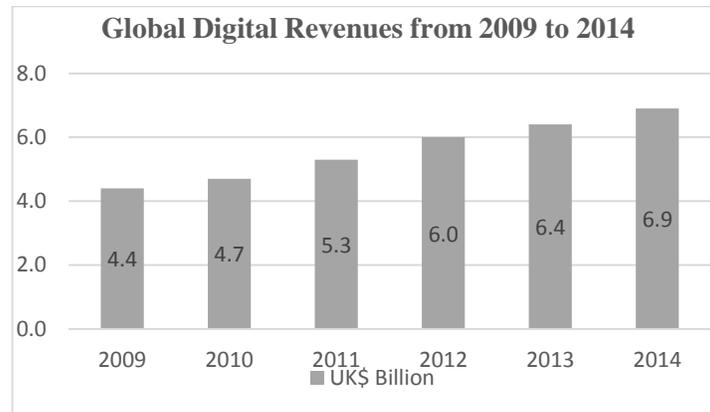
Figure 12. Global digital revenues from 2009 to 2014 (IFPI, 2016)
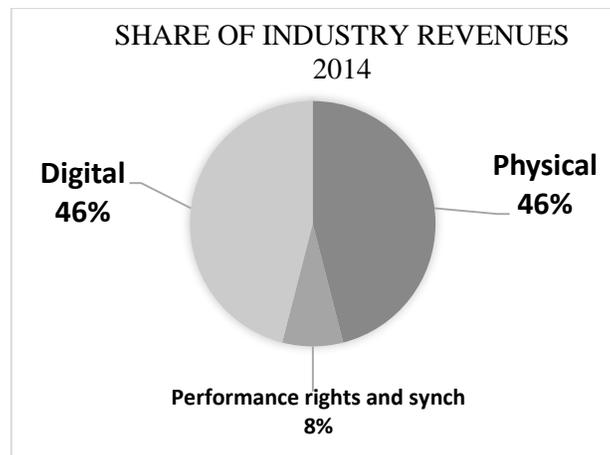
Figure 13. Share of industry revenues 2014 (IFPI, 2016)

The balance of revenue power in the music industry has firmly shifted. For the first time, digital sales (46%) and physical format sales (46%) shared the same proportion of industry revenues. (Figure 13) It indicates the increasing importance of digital sales as the consumption choice for the customers, and hence the revenue source for the music business. However, the increase in the sales volume of new products will reduce the demand for the established products if they both appeal to the same market segment. As a result, music streaming and subscription has cannibalized the revenue of physical sales and download

sales, and there was an 8.1 percent fall in physical sales, and an 8 percent drop in download sales. (IFPI, 2016) At the end of the day, the growth of digital sales was not able to compensate the decline in the physical sales and download sales, which consequently led to an 0.4 percent decline to US$14.97 billion in the overall recorded music revenues. Although the decline rate in music sales has been slowed down, sustainable growth is still not achieved. (Figure 14) All the players in the music industry is still searching for the magic receipt of the best business model configurations that can restore the good old days.
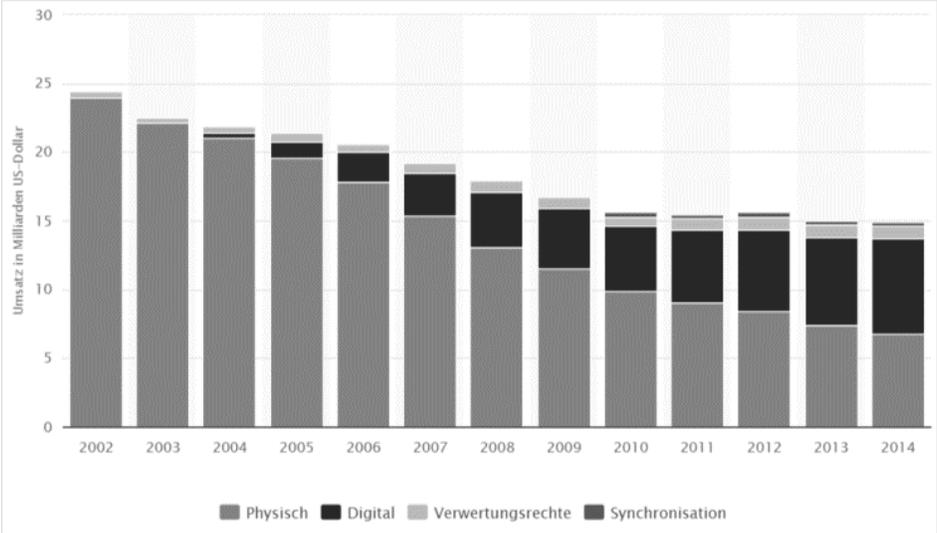
Figure 14. Global music sales from 2002 to 2014 (Statista, 2016)

7.3.2 Regional Picture - Music Market in South Korea

Behind the global figures, regional breakdown presents a mixed picture because music markets are moving at different speeds with diverse trends. It is essential to give an account of the music market in South Korea where K-pop comes from. The music market in South Korea shares similarity with the global trends, but at the same time has its distinctive features. First of all, the music market in South Korea is also a highly concentrated market. The market is dominated by three largest entertainment companies, namely SM Entertainment, YG Entertainment, and JYP Entertainment. Together, they are known as "Big 3". Each of them functions as a talent agencies to source, recruit and train potential artists; a production agencies to control composers, lyricists, arrangers to produce the end products; and a promotion agencies to sell the artists and the songs to various channels and gain explosure. (Keith, 2014) They sign 360 degree contract with their artists to control every possible revenue streams. South Korea is not a new star in the global music scene. It was once the 15th biggest market in the world date back to 2001. (IFPI, 2011) However, the market started to shrink in 2002, because of the collapse in recorded sales due to the widespread of illegal downloads. South Korea has almost the fastest broadband in the world because the government has invested a considerable amount of money in the improvement of the internet infrastructure. (Cardew, 2011) The profileration of illegal download and the lack of legal regulation were the culprits behind the market decline. South Korea's ranking in the world music market dropped radically from 15th in 2001 to 30th in 2007.

However, the market is growing steadily again since the boom of K-pop in the late 2000s. SM Entertainment Co., Ltd. (041510.KQ) reported annual profits on rising sales since 2012 according to the company's income statement as shown on Yahoo! Finance (http://finance.yahoo.com). In 2014, South Korea was the 8th largest music market in the world. (figure 16) In contrast to a decline of 0.4 percent on global average, the South Korea music market has grow by 19.2 percent, from 223 million in 2013 to 265.8 million in 2014. (Figure 15) It was the strongest overal growth within the top 10 markets. As a point of

comparison, the following markets in the top 10 has experienced various degree of decline: Japan (-5.5), UK (-2.8), France (-3.4), and Canada (-11.3). (IFPI, 2016)
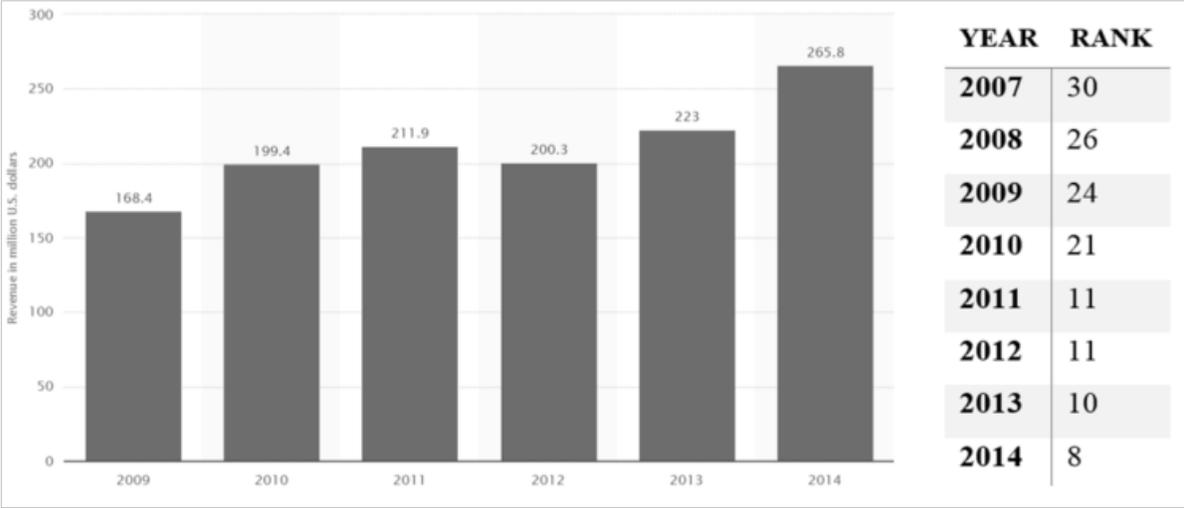
Figure 15. Recorded music industry revenue in South Korea from 2009 to 2014 in million U.S. dollars (Statista, 2016)

Figure 16. South Korea's music market rankings with music sales (IFPI, 2016)

The recent success in South Korea is one of the key rewards from the improved legal environment. With effective government regulations against pirate downloads, it started to bring back revenue from consumers to the entertainment companies. In return, it triggered a positive feedback loop and the companies invest more on artists and music production, which subsequently improve the product quality and its competitiveness against international repertoire. With the boom of K-pop since the late 2000s, domestic repertoire which is used to account for 60 percent of the recorded music sales has climbed to new height. (IFPI, 2016) In 2013, the local music accounted for 100% of the top 10 best-selling albums in South Korea. (IFPI, 2016) The combination of strong repertoire sales in its home country and increasing export revenue generated from foreign markets jontly contributed to steady market growth in recent years. Besides, South Korea is also a pioneer in riding the new tide in the digital age. It is one of the earliest market in which digital sales have surpassed physical sales. In 2014, 70 percent of the total sales are derived from digital sales in South Korea, compared to the global average figure of 46 percent. (IFPI, 2016) South

Korea is also an early adopter of music subscription services. Subscription streams accounted for 91% of the total digital revenues in South Korea. (IFPI, 2016)

There are several factors that contribute to the fast-growing digital sales in Korea. According to the the International Telecommunication Union, South Korea has the fastest internet connection in the world. (compared to Japan and US, which ranked 11th and 15th accordingly) (Fitzpatrick, 2015) Besides, it also stands out as the country with the highest smartphone penetration rate, in which 88% of its population own a smartphone. (Poushter, 2016) Better technology infrastructure coupled with higher smartphone penetration together stimulated the rapid growth of digital music sales in South Korea at a rate faster than the rest of the world. On the other hand, the local government also attempt to fix the value gap problem stems from the underpricing of digital music service which has diminished the revenues that should be returned to the music industry. According to Korea Joongang Daily, the leading streaming service "MelOn" has followed the government new guideline and doubled the monthly fee to $5.60 in 2013. (Seo, 2013) Providers without complying to the new price may be subjected to suspension. Securing the revenues that should be returned to the industry contribute to sustainable development in the future.

7.4   Operating Environment - Porter's Five Forces Analysis

The operating environment consists of a particular set of competitive forces that define and shape the structure of the music industry. There is a multitude of factors in the industrial environment that create both threats and opportunities for K-pop's globalization. Porter's Five Forces model is a widely-used model to address this perspective. This model is developed by a professor at the Harvard Business School named Michael E. Porter. The aim is to evaluate the potential level of opportunity and risk in an industry based on five key factors, which are the threat of entry; the power of suppliers; the power of buyers; the threat of substitutes; and the rivalry among existing competitors. (Porter, 2008) Industry analysis will provide a complete picture of what forces in the industry are influencing K-pop's potential and prospects for establishing itself in the global market. In the following pages, we will examine the underlying drivers of the five competitive forces by taking the perspective of a new entrant, so that the analysis can be ready to apply to the situation when K-pop entered the global music scene as a new player.

7.4.1 Threat of Entry

The threat of entry in an industry depends on the height of entry barriers, which are manifest in the advantages that incumbents have relative to new entrants. (Porter, 2008) As discussed before, the global music industry has been concentrated in five countries (US, Japan, Germany, UK, France) and they together constitute approximately three-quarters of the global market. Besides, the international market is controlled by three largest multinational companies which are Universal Music Group (34.1%), Sony Music Entertainment (22.5%), and Warner Music Group (16.7%). They are the existing players who enjoy a certain extent of advantages which can form a barrier hindering K-pop from getting a foothold in the global market. There are five major sources of barriers to entry.

The first is to do with the supply-side in economies of scale. Scale economies in finance and marketing are probably the key barrier of entry in the music business today. Music industry is a high risk business due to highly dynamic environment and rapid changes in

consumer taste. The failure rate of recorded music is extremely high. Over 90 percent of the albums do not make a profit. (Hull et al., 2011) The underlying cost structure is to produce a few highly popular hits that will compensate the losses from the rest of the less successful products. Therefore, music industry required huge amount of investment to maximize the chance of success. IFPI's Investing in Music report 2014 revealed that US$4.3 billion, which accounted for 27 percent of record company revenues, were invested in A&R and marketing in 2013. (IFPI, 2014) The majors can benefit from the economies of scale in finance and risk bearing, by spreading their investment over a wide array of artists, thus reduce the exposure to risk. In addition, incumbents can also enjoy economies of scale in marketing by cross-promoting new artists with their successful artists because they have built up a larger portfolio of star singers. (Towse, 2011) However, since the advent of digital era and online distribution of music, some conventional source of scale economies have been eliminated, for instance, the manufacturing and distribution of CDs. Besides, the cost of promotion and marketing on digital media is also considerably lower than traditional outlets such as radio and television. The online environment has lowered the entry barrier and provides a more favorable industrial environment for K-pop to establish itself in the global market.

The second is that the incumbents also enjoy the demand-side benefits of scale which is known as network effects. It arises when "a consumer's willing to pay for a company's product increases with the number of other consumers who also patronize the company." (Porter, 2008). Music industry is influenced greatly by the trends of consumer preferences and musical taste. Pop music includes an aim to have wide appeal and typically distributed to large audiences. Consumers may value being in a network with a larger number of fellow consumers who also listening to the same artist and the same song. When the value of a goods or service to one user depends on how many other users there are, it exhibits network effects. (Shapiro and Varian, 1999) For example, music video on YouTube which have a higher view counts will tend to draw more audience to watch it. The majors have built up stronger brand identity and bigger fan-base, which leads to greater value for consumers who like following trends. As Porter (2008, p.3) explained, "demand-side benefits of scale

discourage entry by limiting the willingness of customers to consume from a newcomer until it builds up a large base of customers." From this perspective, we can argue that the domination of American pop music in the global market has formed a barrier against non-US music, including K-pop, to enter the mainstream in the global market. This is a barrier that K-pop needs to overcome.

Third, it relates to customer switching costs. Costs may arise when a buyer switches the suppliers. If the switching costs is high, it is more difficult for an entrant to gain new customers. (Porter, 2008) The switching costs for customer is almost non-exist, particularly when the consumption is taking place in the internet. Technically, consumers can simply shift from one song to another song by one-single-click on streaming platform such as YouTube and Spotify. The lower switching cost and consumer's willingness to discover new music have created an opportunity for K-pop to gain new audience.

The forth one is capital requirements. Music industry requires huge up-front capital costs. According to IFPI, the costs of breaking an act in a major market is between $500,000 and $2 million. Recording spending is in the average between $150,000 and $500,000, with music video production costing from $50,000 to $300,000, while marketing and promotional costs are between $200,000 and $700,000. (IFPI, 2014) The entertainment companies are the major investor on artists. Expenditures on research, development and up-front advertising are recoverable only after the artist has become popular and started generating revenue. The incumbents, which are multinational conglomerates, have enough resources to finance huge capital required to produce competitive products in the global market. The huge capital requirements reduce the likeness of new entrants. However, the situation began to change, with the advent of online distribution and the proliferation of social media, the cost required to distribute and market online is much lower than the cost of physical distribution and conventional marketing through radio and television broadcasters. On the other hand, the Korean government also provides significant financial support such as subsidiary to K-pop firms so that they can have adequate financial resource to overcome the entrance barrier and reach the global standard. Investment on artists and

production allows K-pop to create globally appealing products that are competitive in the international market.

Finally, incumbent can also benefit from the unequal access to distribution channels. During the peak of physical sales, the majors have tied up with retail channels, thus formed a strong barrier against new entrant to enter into the business. Due to the limited shelf space in the store, priorities were given by the retailer to the mainstream music. It was a huge challenge for K-pop to compete with these mainstream and fast-selling records for the space on shelf. However, the digital age and online distribution has changed the whole picture. For example, everyone can distribute their music worldwide on iTunes, you just need to register an account in TuneCore, and pay the music distribution fee, selling a single only costs US$9.99. Digital distribution has enabled K-pop to distribute worldwide and reach the widest possible audience ever at a cost dramatically lower than before.

To conclude, the global music industry used to have a strong barrier of entry, which is derived from multiple sources of advantages that were enjoyed by the incumbents, such as the advantages on manufacturing, marketing and distribution that were not available to new rivals. In the digital era, the barrier of entry is significantly reduced. It serves as a great opportunity for K-pop to enter into the global music market. In addition, if we assess the barrier in relation to the capabilities of K-pop firms, certain internal competence such as connection to finance source and global talent pool can also offset the entry barrier. Still, there are barriers that K-pop firms need to circumvent in the future, such as the domination of American pop music in the international market.

7.4.2 The power of suppliers

In the music industry, artist is the most important suppliers who deliver the biggest value to the company. In general, the power of a new artist is low. Although nowadays, new artists have more opportunities to be heard and gain exposure, the majority still seek to be signed to a major record company. In 2014, IFPI partnered with The Unsigned Guide to survey unsigned artists, and 70 percent of them revealed their desire for a record deal. (IFPI, 2014)

The music company is still the major investor on an artist's career. They provide financial support and professional help that simply cannot be obtained by the artist alone. However, successful artists do have much higher bargaining power. Industry participants face switching costs in changing suppliers, especially if companies have invested heavily, the switching costs is higher. (Porter, 2008) As we have discussed before, music industry tends to invest a large sum of money to develop artists. The initial investment will be recouped only after the artists started making money. Besides, majority of revenue tends to generate from a small group of successful artists. A successful and well-experienced artist provides unique value and cannot be easily substituted. It is not uncommon for legal disputes between artists and their respective record labels. Voiding the contract can be disastrous.

In South Korea, K-pop artists tend to have lower power than their counterparts. Entertainment companies provide all-rounded and long-years of training to potential artists. In return, the artist is subjected to the binding of a restrictive and long-term agreement, which is described by the media as "slave contract". The contract tends to control the artist in every possible aspect to the advantages of the entertainment companies. The duration of the contract can be as long as 13 years, with unequal distribution of revenue. The K-pop artists have less power in charging a higher price. According to the Korea's National Tax Service, the average yearly income of K-pop singers is about 47 million won, approximately US$42,000 in 2013. (Figure 17) Besides, shifting to competitive companies is almost impossible because the long-term contracts have very likely already covered the peak of the career life cycle as an artist.
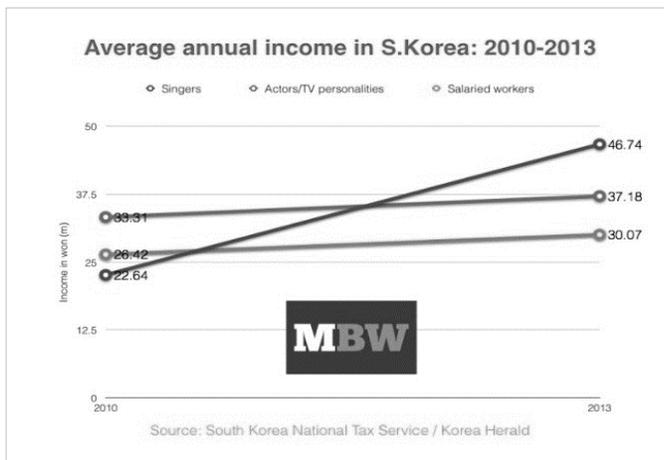
Figure 17. Average annual income in South Korea (South Korean National Tax Service, 2015)

7.4.3 The power of buyers

As Porter (2008, p.5) states, "powerful customers can force down prices, demand higher quality or more service, and play competitors off against each other – all at the expense of industry profits." In the new age, consumers have amassed far more power within the music industry. First, the proliferation of peer-to-peer sharing and illegal download has significantly driven down the perceived value of music. In economic terms, music, like other information goods, also share the characteristic of a public good as being non-excludable and non-rival. (Frith and Marshall, 2004) These characteristics can lead to free-rider problem, which means some people may be benefit from a public good without paying their share of the cost. (McJohn, 2009) Therefore, copyright exists in order to overcome the free-rider problem with public goods. Copyright grants a monopoly that last for a limited time to creators so they can make money and hence be encouraged to create more works, which in return contribute back to society. (Hull et al., 2011) Copyright has been conveying significant financial benefits in music industry, in which the intellectual property often constitutes a major part in the total revenue. However, in the advent of digital age, the widespread of illegal online music sharing and downloads have shifted the balance of power to the hands of consumers. Consumers are more price sensitive, and have a higher tendency to consider music as free and disposable. This greatly undermines the perceived value of music and the monetary value associated with music. New business model such as single track download and online streaming are invented to provide an alternative for consumers to illegal download. However, to compete with unauthorized download, downward pressure on music price has resulted in the underpricing of music, at the expense of industry profitability. This is the primary reason why despite the music industry is offering consumers better choice, access and value than ever before, the industry has not yet achieved sustainable year-on-year revenue growth. (IFPI, 2016) The right holders have lost their control of the distribution of their intellectual properties to the consumers. Music firms try to protect the value of their assets by regaining the control of the distribution. However, the level of control also has an inverse relationship with the level of accessibility. One of the key factor behind K-pop's success is the capability to reshape

the forces of consumer to their favors. K-pop greatly capitalize on the audiences who are mainly tech-savvy for global circulation. By offering music video for free on social media, it is easier for consumers to access and gain awareness of K-pop content; positive audience feedback will trigger audience actions such as sharing the video, and more audience action will improve the media presence of K-pop and hence help K-pop to reach more people.

Apart from direct consumer, intermediate buyers also gain significant bargaining power. Compared to traditional retailers, online music distributors such as iTunes and Spotify enjoy a higher bargaining power against the record companies. Take music subscription as an example. It is a highly concentrated sector, with major players such as Spotify solely accounted for 49% of the market share in 2014, which further reduces the labels' bargaining power. (Ingham, 2015) The major aim of the streaming platform is to provide a wide array of content in order to build a vast user-base, because the value of their service is based on the scale of their business. From the perspective of the music firms, record labels want to secure royalties from new digital service to compensate the loss in physical sales. Conflict of interest can be seen in the relentless negotiation regarding what is the fair price of digital music between the two parties. The mismatch between the value that digital distributors have extracted from music, and the value returned to rights owners, are the most critical issues affecting the business environment for music industry today. All the existing industry players are constantly facing a high level of uncertainty about the changing customers' needs, and the best business model configurations to deliver the most desired products and services that will satisfy customers. However, challenges are great opportunities for new entrant such as K-pop firms if they can find a creative way to satisfy consumers' needs better or in a different way.

7.4.4 The threat of substitutes

The revenue from physical sales used to generate a substantial part of total revenue in the music industry. With the arrival of online distribution, illegal download has become a powerful substitute to legitimate music purchase. Digital format has a better relative value over physical format, which explained why the shift in consumer's choice and the fall in

music price happened so rapid. To provide competitive alternative to unauthorized downloading, wide-range of choices in multiple formats such as single-song download, subscription-based online streaming, or ad-based free streaming have emerged, each experimenting different business models. However, the introduction of a new product in the industry has reduced the sales of an existing product because they are close substitute to each other. Same as all the industry players, K-pop business is equally impacted by the threat of substitutes. Consumers' desire for digital formats substitutes the demand for physical products. New option of accessing to unlimited music via online streaming substitutes the needs to purchase and own a song. All in all, illegal download substitutes all kinds of legal purchase that is the bread and butter of the music industry. K-pop companies have tried multiple approaches to react to the cannibalizing problem. They try to create extra value on physical products, for example, K-pop CD albums usually come with more lavish packing, a big photo booklet with hundred pages, and sometimes a collection card with artist signature will be given at random. The logic is to maximize the perceived value of the physical product that can differentiate it from digital format and generating demand. In addition, they also tried to find a different point where profits can be made through more easily controlled uses, such as license and advertising that based on artist capability to attract audience attention and enthusiasm.

7.4.5 Rivalry among existing competitors

High rivalry limits the profitability of an industry. As Porter (2008, p.7) states, "the degree of rivalry depends first on the intensity with which companies compete and second, on the basis on which they compete." Slow industry growth will lead to a higher intensity of rivalry. The global music industry has experienced decline in revenues in the last decade. For example, Japan, one of the major foreign markets for K-pop, has declined by 16.7 percent in 2013, and 5.5 percent in 2014. (IFPI, 2016) Market stagnation or decline means that K-pop needs to fight for a slice of a static or shrinking cake, in an increasing competitive business environment. In addition, high investments also lead to high exiting costs. This implies that existing companies may still stay in the industry even they may be earning less because the opportunity cost of exiting the industry is much higher than

continue operating in the industry, which contribute to more intense rivalry. However, in K-pop's domestic market, the situation is different. The sale of the music industry in South Korea is on uptrend and it has seen the highest growth rate of 19.2% in 2014. (IFPI, 2016) Market growth implies that there is an expanding pie for all existing players. Positive domestic market provides a solid foundation to support K-pop expansion to the world.

8   Globalization Strategy – K-pop Industry Value Chain

In this chapter, we will use value chain analysis to identify all the key value-creating activities in the value chain of K-pop's industry, and analyze how each of these activities can contribute to K-pop's success in the global market. (figure 18) The global strategy of the Korean entertainment companies is the guiding force behind K-pop's global spread. SM Entertainment, YG Entertainment and JYP Entertainment, collectively known as "Big Three", are the major players in the K-pop industry. Each of them function as talent agency to recruit and train K-pop acts; production agency to form K-pop groups and create content with global appeal; promotion and marketing agency to enhance K-pop's global presence and geographical reach; and customer management agency to connect and communicate with international fan communities. To facilitate K-pop's transnational flow, the entertainment agencies have strategically incorporated its global strategies in every part of the value chain that aims at maximizing the chances for K-pop to reach the widest possible audience. On the other hand, the configuration of K-pop's global strategy also favors the strategic fit with its external environment to capitalize on new opportunities and shaping the forces in their favor that in return would reinforce its global strategy. As a result, this chapter will provide important insights into how the interplay between external circumstances and internal strategies has contributed to K-pop's global expansion.
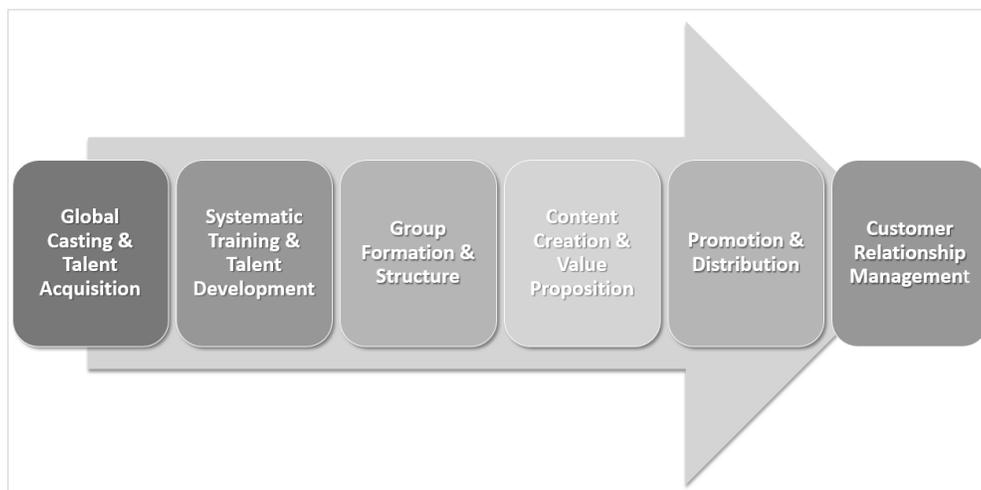

Figure 18. The value chain of K-pop's industry

8.1   Global Casting and Talent Acquisition

K-pop's business begins with talent scouting - recruiting the right people. The talent acquisition strategy shall complement and align with K-pop's global strategy to secure new talent to achieve success. Talents in each field of music production including artists, composers, dancers, lyric-writers, and producers are the important entity who eventually would determine the success of the K-pop's business. Among all, K-pop's artists are the core function with the highest strategic importance, and are in the key positions which the entertainment companies need to discover the best people in the market. The acquisition process shall discover high-quality candidates who demonstrate huge potential in physical appearance, singing, dancing, and personality to become a future K-pop's star. Although artists are of the highest importance, the talent availability is limited and very specific, their positions are difficult to re-fill. Compounding the challenge, recruiting global talents from different countries to form multinational idol groups are crucial for enhancing K-pop's global appeal. Therefore, the Korean entertainment companies have designed an effective, aggressive and active global recruiting strategy, to discover and secure new talents to meet their business objective.

Global audition is held regularly to recruit the diamond in rough from different parts of the world. The ultimate goal is to build a diverse talent pool in which they can draw the top of the top for debut. Take the leading entertainment company "SM Entertainment" as an example, their 2016 global audition is ongoing throughout the whole year to recruit talents including artists, composers, and dancers in six countries (Korea, China, USA, Japan, Australia, New Zealand) and twenty-seven cities. (Table 4) In addition, monthly auditions are held at the United States and Japan. According to Kim Young Min who is the CEO of SM Entertainment, out of the 30,000 candidates who participated in the audition, 100 candidates were chosen to receive training. (Soompi, 2011) Selected applicants will be offered the exclusive contract and SM Entertainment will cover all the expenses during the training period. It demonstrates the organizational effort to optimize global recruiting processes by sourcing candidates locally to build up connection to the talent pool in key markets. In their official website, the audition page is available in five languages, which are

Korean, Traditional-Chinese, Simplified-Chinese, English, and Japanese. In addition, they also implement the right recruiting model to ensure their hiring processes are effective to their target groups. Given that social media is one of the major driven forces behind the success of K-pop, SM entertainment collaborates with the popular karaoke app "everysing" to provide positive candidate experience. People from all over the world can download the app, recording the songs they sing, sharing with friends, and applying for SM audition any time. (everysing, 2016) The audition experience is also consistent with K-pop's brand image which is fun, social, and engaging.

Country	City	Duration
China	Xian, Wuhan, Shanghai, Wenzhou, Guangzhou, Hong Kong, Beijing, Jinan, Shenyang, Taipei, Harbin, Chengdu, Tianjin, Chongqing	2015 December – 2016 March
Korea	Seoul, Daegu, Busan, Jeonju, Gwangju, Daejeon	2016 January
USA	Los Angeles, San Francisco, New York, Chicago	2016 February
Japan	Tokyo, Nagoya, Osaka	2016 March – 2016 April
Australia	Sydney	2016 April
New Zealand	Auckland	2016 April

Table 4. The schedule of 2016 S.M. Global Audition (SM Entertainment, 2016)

The proactive global talent acquisition plays a key role in establishing competitive advantages and core competencies for K-pop to succeed in worldwide. By cultivating a reliable and consistent source of talent, the Korean entertainment companies can ensure that they will have ready candidates prepared to assume the key position and capitalize quickly on new opportunities. The product life cycle in the global music market is particularly short due to the rapid change in the tastes and desires of consumers. It is highly difficult for a hit song to keep selling after months on the charts, or for a pop band to remain popular beyond five years or so. Especially in the business of pop idols, the term "five-year mark" is used

to describe the general phenomenon that idol groups begin to falter after they have debuted for five years. On one hand, the entertainment companies try to prolong the idol groups' life span by all means; on the other hand, the production of new acts is essential to keep up with market trends and changes. Under the companies' expectation, most of the revenue is generated from those popular groups who are in their commercial peak which would only last for a short period of time. Therefore, the entertainment companies must ensure having successors ready to be the next K-pop stars. If the entertainment companies have not produced these new pop groups in time, they would encounter difficulty to sustain their business growth in near future. The effective recruitment strategy helps K-pop to establish competitive edges against its competitors. Added to the fact that South Korea is a small country with a population of about 50 million people, compared to its competitors, Japan has 127 million and the United States has 316 million of populations. The human resource pool is relatively small, and therefore, the entertainment companies must take a proactive recruiting strategy to be competitive internationally. The capability to launch new groups in meeting new demand contributed to K-pop's widespread success in Asia and made their foray into the international market.

In addition to the internal recruiting system, K-pop's companies also created an external talent strategy that is essential to its global success. The management complements the in-house production with external expertise and competence. By developing a network of external talents, they can bring in new knowledge, skills, and experience that are necessary to create the hybrid and global sounds. For example, SM Entertainment has been working closely with Pelle Lidell, the European executive of A&R at Universal Music Publishing, who is known for signing a string of successful songwriters and selling hit songs to artists such as Britney Spears, Jenifer Lopez, and Celine Dion. (Ferguson, 2005) They jointly held a multi-day "songwriting camps", where some of the Universal's best songwriters can collaborate with senior members from SM Entertainment to create the next K-pop's hit. (Fuhr, 2015) Bringing in talent minds outside can accelerate innovation and improve speed to market so that the K-pop's acts can maintain their output in frequency of releasing a new song every two or three months. Besides, combining external diversity of ideas with

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internal competence also contributes to the creation of K-pop's hybrid sounds with universal appeal. (Oh and Park, 2012) Table 5 demonstrate K-pop's innovation efforts to involve external talents with the production of K-pop's songs. Strategic partnership with external expert on the target market can contribute to K-pop's advancement into overseas markets. For instance, Teddy Riley, the Grammy Award-winning American musician, has produced "The Boys" which is the U.S. debut song for Girls' Generation. 2NE1 also worked with Will.i.am for their first English album. (Garibaldi, 2012) There is no doubt that the capability to attract and maintain good relationship with external expertise in the global talent pool is one of the key factors behind K-pop's global success.

Korean Partners	Producers	Composers	Choreographers
	Name/K-pop Singers	Name/K-pop Singers	Name/K-pop Singers
SM Entertainment	Teddy Riley/Girls Generation Polow da Don/Girls Generation	Busbee/Girls Generation Alex James/Girls Generation KalleEngstrom/Girls Generation Oslo Recordings/Super Junior Jeff Hoeppner/f(x) Thomas Troelsen/f(x) Willem Laseroms/f(x) NaoKanata/BoA RyojiSonoda/BoA, TVXQ Thomas Troelsen/SHINee	Nick Bass/Super Junior, SHINee Misha Gabriel/BoA, SHINee
YG Entertainment	will.i.am/2NE1 Rodney "Darkchild" Jerkins/SE7EN	Daishi Dance/BigBang Nagao Dai/SE7EN	
JYP Entertainment	Nick Cannon/WonderGirls	Claude Kelly/WonderGirls	Jonte/WonderGirls
Pledis		Daishi Dance/After School, Orange Caramel	
iHQ		Jeff Hoeppner/Jay Park	Andrew Baterina/Jay Park
NH Media		Ryan Jhun,JD Relic/U-KISS	
KEYEAST	Steven Lee/Hyun-Joong Kim		
Musicfarm		Andy Platts, Jodie May Seymour/John Park	
A StarEntertainment	DJ Cloud/AZIATIX		
C-Jes Entertainment		Kanye West/JYJ	
DSP Media		Daishi Dance/Rainbow	
JS Prime Entertainment			Jonte/Sori
YYJ Entertainment			Andrew Baterina/TOUCH
DR Music	Teddy Riley/RaNia		
GP Entertainment	Melvin Brown/JQT		
Wellmade STARM		Daishi Dance/AA	

Table 5.   Global production team in K-pop (Oh and Park, 2012)

8.2   Systematic Training and Talent development

After getting high-quality candidates in the door, the entertainment companies see the next step in the dedicated cultivation and training of talents to bring out the best in people. The success of K-pop can be attributed to the highly systematic and comprehensive training system, often described as K-pop's star-making factory, to produce the next global K-pop star. The training system is closely aligned with the company's strategic plan and business needs to turn K-pop into a successful export industry. First of all, the primary aim of this training system is to build a diverse talent pool of ready-to-go K-pop stars who are equipped with the right competencies and all essential skills that are needed to succeed in the global market. For example, foreign language skills are a must for the artists to communicate better with their oversea audiences or record the songs in foreign languages. Besides, in order to gain competitive advantage in the global market against worldwide competitors, K-pop's artists have to be trained intensively so that they can reach the international standard in both singing and dancing. Also, K-pop's artists are trained to be well-rounded, skilled and capable in a broad array of activities and areas. JPY Entertainment claimed that their agency's training center offers as many as sixty-seven different subjects for their trainees. (Lie, 2015) The training program covers all important areas, including singing, dancing, acting, foreign languages, personality, communication skills, and plastic surgery. Instead of being just a good singer, K-pop's idols also display good acting skills in dramas and movies, showing sense of humor as the regular cast members in the variety shows, or taking the main role in hosting a radio program. Mark Lee, an American trainee in SM Entertainment told ABC news that, "What I realized is that the entertainer isn't just about singing and rapping. You have to be able to entertain people, you have to be able to speak fluently, you have to be funny and humorous so that people can like you." (Herman, 2015) This diversity of roles or functions is an attempt to involve K-pop's artists in as many revenue streams as possible in order to maximize security and profitability in the new music economy when revenues are no longer depends on the sales of records.

Besides, the training program is intentionally designed to be highly challenging and competitive in order to identify high potential talent. Trainees are subjected to long hours of daily practice in a tight and busy schedule. GFriend, a girl group which was formed in 2015, has revealed during an interview that before debut they practiced 14 to 15 hours every day. (Arirang Issue, 2015) The training program can start as early as the age of then, the length of training period varies among trainees. But they all face the high level of uncertainty because there is no guarantee that they will receive an opportunity to debut after they have gone through all the hardships and the stresses. Compounding that, trainees are subjected to regular review and assessment, for those who cannot live up with the expectations, they will be kicked out from the company. For example, EXID's Jyunghwa revealed that before debut under LOEN Entertainment, she had been a trainee under JYP Entertainment for four years but was kicked out at the end. (Soompi, 2015) The entertainment agencies strategically created a highly competitive environment where every trainee is aiming for the same goal will naturally push all the candidates to exceed their normal limits and engage them to outdo each other. The former SM trainee Stella Kim talked about her trainee days in an interview, she revealed that all the heavier girls were asked to stand in a line and go on the scale, "they will call out what your weight is in front of all the girls and all the guys, and if your weight has not gone down from the week prior, then you will get bashed on." (Lefilm, 2016) Competitive pressure, peer pressure, and constant comparison spur a commitment to continual self-improvement and every trainee strike to do the best in order to get a seat in the new group. It is the painstaking training and the fierce competition that the K-pop's artists are facing before they can debut equip them with a competitive edge in the global market. Operating in the high risk music industry where no formula can predict success, the entertainment companies try to minimize risks by ensuring that only the one who is able to reach the world-class standard and also have enough mental and emotional maturity to endure all the hardship and competition during the training period can be successfully debut at the end.

In addition to the highly competitive atmosphere, the average length of training period is long, usually between three to five years. (Lie, 2012) G-Dragon, a member in the top boy

group "BIGBANG", has trained around five years at SM Entertainment, another six years at YG Entertainment, and finally received the chance to debut after a total of eleven years of training. Long years of training allows the company to continue monitor and evaluate all the trainees and develop a deeper strategic insight into the competences, skills and potentials of each of them. In return, the companies can make consistent and quantifiably decisions and put the right members to form the group that can best serve their business goal. To sum up, the huge investment in human resources have contributed greatly to K-pop's global success. Systematic training and developing of talent pipeline makes it possible for new K-pop's acts to be introduced on a regular basis to meet consumer demand. The entertainment agencies are more prepared to capitalize on a new opportunity because, having an internal talent pool comprises of high-performing trainees who are equipped with the right competences and skills, their artists are ready to get on the stage and launch as marketable new groups when opportunity comes up. This flexibility and adaptability enables K-pop to respond quickly to new market trends, execute strategies faster, and stay competitive in the global market.

As the above discussion attests, K-pop's artists are the major sources of competitive advantage in sustaining K-pop's global growth, therefore, talent retention is critically important for all the entertainment agencies. One reason is that turnover is very expensive, the costs mainly arise from the huge investment in training K-pop's acts and the replacement costs of talent acquisition. According to Kim Young Min, the CEO of SM Entertainment, finding and training each member in Girls' Generation costed around $3 Million dollars per member. Moreover, music industry is a high risk sector with low successful rate, profits are generated from few highly popular products. (Hull et al., 2011) It means that the business performance is largely driven by several top-performing acts. To minimize the retention risk, the K-pop's companies have entered into exclusive agreement with K-pop's acts as early as they were admitted into the training program. The contract is often described as "slave contract" because of two reasons: first is the long-term contract that ties the artist to the agency for many years, and second is the restrictive terms that seek to control the artist in all possible aspects. Usually, even within the same group, different

members will have different contract length. Table 6 summarized the contract lengths of major K-pop's groups who signed with the three largest entertainment companies.

Entertainment Agency	Group Name	Contract Length
SM Entertainment	TVXQ	13 years
	Super Junior	5 – 13 years
	Girls' Generation	5 – 13 years
JYP Entertainment	Miss A	7 – 9 years
	2PM	10 – 12 years
	Wonder Girls	8 years
YG Entertainment	BIGBANG	5 years
	2NE1	5 years

Table 6. Contract lengths of selected K-pop's groups (Now news, 2009)

The intention is to cover the commercial peak of the career life cycle as a pop idol so that the agency can secure the income from the artist's peak earning years. In addition, the clauses are also described as restrictive which tend to control the artist in every possible aspect. In the famous Korean talk show "Strong Heart" aired on 13th October 2009, CL from 2NE1 revealed that, they have been forbidden to have a boyfriend for five years after their debut for business reasons. If they are engaged in a relationship, it will break the illusion of being the ideal boyfriend or girlfriend to their fans. As K-pop's artists are not just a singer, they are a manufactured fantasy who attempt to satisfy their consumers as many ways as possible to maintain their brand loyalty. K-pop is not only selling music, but also selling a consistent and unique brand – the image and reputation of the artists. If the consumers think that the K-pop's artists did not live up to their expectation, they will decide to stop buying their products. For example, K-pop male singer "Se7en", revealed in a talk show that his fan club instantly dropped by about 100,000 members after the announcement of having a girlfriend. (Sit, 2013) The situation becomes tougher especially in the digital age, when social media can spread news around the world like wildfire, a minor mistake can cause huge damage to artist's reputation, and it is increasingly difficult

and costly to control reputational crises. To minimize business risk arising from human factors such as misbehavior, that is why the agencies tend to monitor and control their artists very closely.

8.3　Group Formation and Structure

The entertainment agencies strategically create and form K-pop groups that can serve the purpose of turning K-pop into a successful global business. In general, K-pop artists are organized and conducted in a group instead of performing as a solo singer. The average size of a K-pop group is between 4 to 6 members, but some groups come in even bigger size and are very successful. For example, at the time of debut, "Super Junior" and "EXO", the two most popular boy groups under SM Entertainment, each consisted of twelve members. One of the most famous girl band "Girls' Generation" also had nine members originally before Jessica's departure. There are several reasons for the entertainment companies to decide to form groups and units. First of all, K-pop group is strategically formed by the management in order to facilitate division of labor and role specialization. This strategy only works when picking the right combination of members. The trick is to arrange K-pop artists into a group according to both individual and collective qualities. The members in the same group should not be completely alike and indistinguishable so that roles can be divided according to member's strengths. Moreover, each member should have their specific roles, tasks and positions inside their respective group, and at the same time, they can complement each other and together they form a cohesive whole with the greatest potential for success. (Lie, 2015)

In general, there are several typical roles that can be found in a K-pop group. Each of the members is assigned to perform particular roles depending on their capabilities, skills, appearance, and personality. "Visual" is the one who have supreme beauty in the group, among them the one who has the best-looking is assigned the position of the "face of the group". The "visuals" usually stand front and appear in the center on album cover or music video. They are the center of the group, who are often invited to plenty of variety shows and chosen as spokesperson for commercial advertising. Because they are always in the public eye, they are recognized as the well-known face of the group and bring the most publicity to the group. "Main vocalist" is the member with the strongest vocal abilities and whose voice is the most prominent in a performance. They are responsible for the choruses, solo parts and vocally challenging parts (i.e. high pitch) of the song and are assigned with

more lines to sing in a song. "Main dancer" are the one who have the strongest dancing skills. They are responsible for solo dance parts in the music video and on the stage, and also take the leading role so that the other members can follow to achieve a very high level of synchronization. Apart from singing and dancing, rap is also an essential element of K-pop music to create a hybrid of sounds that can eventually increase its global appeal. "Main rapper" is the one with the best rapping skills and who get most of the rapping parts.

On the other hand, in addition to their ability and function in the performance, each member is also tied with distinct roles that can represent their unique image and personality. The role of "maknae" is always given to the youngest member in the group. They are cute and innocent, with a lot of "aegyo" (which means cute display of affection in Korean), and always taking care of their fellow older members such as cooking dinner for the whole group. There is always a member who is the "leader" of the group. Sometimes they are the oldest one and they are expected to be the role model for the group who is respected by all the members. They are expected to be responsible, mature, and charismatic, who can unite the group and motivate the members to give their very best. By distinguishing their roles, each member can excel at certain areas, and develop their own charm by showing their uniqueness and talents in their own ways. Dr. Shin Dong Kim, a professor at Hallym University explained, "As fans' taste and preferences are diverse, the more a group has members, the better it can serve the fans' tastes. In other words, you can find at least one or two boys or girls of your own taste from the large groups." (KpopStarz, 2014) As a result, each member can separately appeal to different groups of consumers and lure in potential fans respectively, but together as a group they can cover a wide spectrum of fan demands, and they jointly contribute to the overall brand awareness and help creating a solid fan base for the whole group. Beyond the diversity of roles or functions, it is also common for K-pop group of having a multi-national team composition. The non-Korean members can bring in new skills and knowledge which might be national specific, such as the fluency in the local language and familiarity with the local culture. This can facilitate K-pop's entry into foreign market and also enhance their reputation and presence in overseas.

Second, a large K-pop group, especially when they have reached enough success and recognition, can be divided into subunits – a smaller group formed among existing members, usually two to three people in the original group. The entertainment agencies break down the groups and form subunit to allow flexibility so that members can be utilized in many different ways to serve various purposes. Primarily, subunits are created to target a specific language market. "Super Junior-M" is a subunit of the eleven-member boy band "Super Junior", with the letter "M" represents "Mandarin", means they are targeting mandarin-speaking audiences. The subunit consists of six selected Korean members who can either speak better Chinese or having a higher popularity in the Chinese and Taiwanese markets. Besides, two additional members, a Canadian Taiwanese and a Chinese are added to the subunit to facilitate the recording of Chinese songs and the promotion on the local variety shows. Subunit allows selected members to have long stay in Taiwan for several months to focus on album promotion and drama filming. Frequent TV appearances and promotions can foster greater brand awareness in the target market. On the other hand, the subunit duo "Super Junior- D&E" is formed to reach out to Japanese fans. The selected two members are the most popular bromance pairings in the group, that best suit the "shipping" fan culture and consumers' tastes in Japan. As we can see, splitting into subgroups allow flexibility in marketing and promotion, so that the K-pop act can spread and promote simultaneously in multiple markets, and the increased popularity of the subunits will be contributed back to their parent group as a whole. It is especially important in the fast-moving global music industry, where speed to market is critical for competitive positioning and success. Besides, the entertainment company also utilize subgroup for alternative music style or more experimental release such as testing a new image or style. For example, "Super Junior-K.R.Y" contains three main vocalists in the parent group, and focus on soft vocal ballad, in contrast to the typical electronic music and signature dance move. In this way, subunit can offer artists a fresh direction and attract new audience by showing a different side and attraction of the member. It can also prolong the life cycle of the group by constantly offering audience something new and exciting through the diversity of music genre and image.

Last but not least, performing in groups can also minimize business risk. Music industry is a high risk industry due to the huge investment and unpredictable changes in consumers' taste. Creating a large K-pop group is like building a diversified portfolio which can reduce investment risk and volatility. Every artist faces with their individual ups and downs in their career cycle. The emphasis of collective effort in K-pop can reduce the dependence on an individual artist. (Lie, 2015) There are times when a certain member does not perform well, such as feeling sick, or being involved in some form of scandal, but in most of the case, not all members move up and down in their performance at the same time. Therefore, diversification allows K-pop group to achieve a more consistent performance under the fluctuations on a wide range of conditions. In addition, group structure allows flexibility so that the group can continue performing even when one or few of its members are absent. In South Korea, military service is mandatory for all male citizens aged 20 to 30 for a minimum period of twenty-one months. While some of the members are serving in the army, the remaining members (younger one or the older one who already returned from the army) can still continue to perform and maintain the group's popularity. In extreme cases, diversification of portfolio can allow the entertainment agencies to manage their risk by spreading out their investment. For instance, when Jessica's departure from Girls' Generation in 2014 for some undisclosed reasons, the group still managed to continue their activities and release new songs.

8.4   Content Creation and Value Proposition

The cornerstone of K-pop's global strategy is to design and create music product and content that aims to achieve universal appeal. In the first place, the Korean entertainment companies adopt a global strategy to develop products for potential worldwide distribution. K-pop's product development process begins with producing music that is globally appealing enough so that the same song can make a hit in South Korea and also resonates throughout Asia and worldwide. To enhance foreign appeal, K-pop attempts to capitalize on the commonalities of consumers' preference and needs across geographical and cultural boundaries. As a whole, K-pop is a hybrid musical genre that combines and mixes different pop sounds from a wide range of global sources, including rap, rock, hip-hop, electronica, R&B, and more. (Leung, 2012) One typical example that can illustrate its hybrid feature is "I Got A Boy" by Girls' Generation, one of the K-pop music videos that have reached 100 million view on YouTube. According to Billboard's track-by-track review, the song is described as a fusion of "five completely different sounds" that combine elements of "minimal drum and bass, funky and clunky electronic production, hyper hipster dupstep, dramatic vocal showcase, and sounds like xylophone". The whole album also contains tracks that covered a diverse musical genre including "forward-thinking EDM, classic and modern R&B, '80s new wave, and more", that "should more than satisfy not only K-pop fans but also listeners of all types of popular music", as said in Billboard Magazine. (Benjamin, 2013)

In addition to K-pop's hybrid sounds, visual diversity also cater to a wide range of consumers' needs and tastes. In the music video for the song "Cheer Up" by the girl group "TWICE" which has surpassed 7 million views in two days after its release, each of the nine members are assigned with distinctive image and role, such as Japanese sailor uniform, Korean Hanbok (traditional Korean dress), Western cowgirl, and Audrey Hepburn-esque socialite. In the chorus part, all the members are brought together in harmony in the form of a cheerleading squad that looks like "High School Musical". (Figure 19) K-pop's capability of incorporating international popular styles and blending diverse elements from West and

East into a musically and visually satisfying whole is tremendously important for its transnational appeal.

Figure 19. Screenshot captured from the music video of TWICE's Cheer Up (JYP Entertainment, 2016)

Moreover, K-pop also emphasis on the combination of music and images. During the development process, visual element is given the same importance as audio element. Instead of depending mainly on the song's lyrics to convey emotion or meaning, which limits transnational appeal due to language barriers, K-pop puts the same weight on visual components such as choreographed dance, colors, body movements and facial expression to communicate and express moods, emotions and story. (Kim, 2011) K-pop's audio-visual musical performance seeks to elicit positive emotional responses in its audiences. It is evident in a research done by Kpop Kollective, in which 100 responses of 18- to 30-year-olds show that fans find K-pop to be a source of happiness, hope and motivation. Respondents describe, "it always put me in a good mood and makes me feel energized", "the music is always so free and fun to dance to", and "It simply makes me happy". (Anderson, 2012) In fact, there are several key features that are used in K-pop to convey positive feeling. In terms of audio elements, K-pop hit songs are often composed in fast tempo and upbeat rhythm. With reference to 8tracks radio, an online platform where users can explore playlists handcrafted by other users, we can see that over one thousand K-pop songs are tagged with "upbeat". The use of up-tempo beat helps to convey the feeling of happiness and excitement.

In the aspect of visual presentation, energetic dance choreography, attractive and youthful appearance, colorful fashion, and moving picture in vivid colors all together stimulate positive and joyful feeling. Typical K-pop dance choreography consists of two important elements, which are synchronized dance routines and signature dance moves. The dance is always performed in a large group, and every member is trained to dance perfectly in sync with each other. The dance moves match seamlessly with the song, but the steps are skillfully composed to be simple, fun, and repetitive so that it is recognizable and repeatable by audiences. As K-pop artists always dance as a group, it also helps portraying an interactive experience and engage fans to dance together with their friends. On the other hand, most K-pop idols have a youthful and attractive look which sometimes is achieved by cosmetic surgery. They generally have small face, big eyes, straight nose, high cheekbones, pale skin, and long legs. Meeting the eyes of beautiful appearance and body can also cause positive feelings of pleasure. Besides, the use color is also optimally aligned with the music to communicate emotions. The music video scene always shots in rich and vivid colors. Artists are dressed in trendy and brightly-colored outfits and positioned against a multicolored backdrop. The colorful visual performance often evokes feelings of optimism, energy and happiness. The capability of K-pop to capitalize on the commonality of consumers' emotional needs worldwide enable K-pop to travel cross-culturally and marketable to the widest possible consumers. K-pop offering of visual pleasure and entertainment greatly reduces the language and cultural barriers because it is not necessary to understand Korea's culture and language in order to enjoy the music, the dance, and the overall performance. (Kim, 2011)

Finally, in terms of language use, with English being the world's most widely used language, K-pop songs often employ English in order to market to the widest audience around the world. Most of the K-pop songs have English titles. If we take a look at M Countdown's weekly Korean pop chart, we can see that all the top 10 songs are provided with English title. (Table 7) Instead of using romanized title that translates the pronunciation of the original language into Latin letters (i.e."会いたかった" and "Aitakatta", "君はメロディー" and "Kimi wa Melody") which is a common practice in J-pop and C-pop,

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K-pop's use of English song title has greatly reduced the language barrier and make it easier for foreign audience to remember and search on the internet. Besides, easy-to-remember English phrases and words are often used in the repetitive chorus. As the above discussion attests, the ability to cater for a variety of audiences worldwide by capitalizing on the commonality of consumers' tastes and needs across geographic and language boundaries has contributed greatly to K-pop overseas expansion.

1	FIRE / BTS	2	CHEER UP/ TWICE
3	RE-BYE/ Akdong Musician	4	Dream Girls/ I.O.I
5	Pretty U/ SEVENTEEN	6	Destiny/ Lovelyz
7	Dynamite/ VIXX	8	My Star/ Lee HI
9	The 7th Sense/ NCT U	10	WITHOUT YOU/ NCT U

Table 7. Top 10 in M COUNTDOWN Chart of week 2016.05.02 to 2016.05.08 (MWave, 2016)

On the other hand, part of the appeal of imported brands is often their foreignness. If adapting too much to the global market, K-pop may run the risk of losing its uniqueness and hence barely differentiated from the existing international competitors. (Lathrop and Pettigrew, 2003) Apart from the exotic language or the Asian looks of the artists, K-pop also keeps its distinctive Asian values. K-pop put emphasis on the beauty of collectivism and the importance of group harmony. The group dance is perfectly synchronized and every member is assigned with their own role and responsibility. Instead of praising the individual achievement, emphasis is put on the collaboration amongst team members and the sacrificing of self-interest for the group to achieve the best possible outcome. For instance, during a live performance, few members in the girl group "GFriend" suffered repeated falls while dancing due to the wet stage after heavy raining. One of the members has slipped over eight times during the four-minute song, but every time she got up immediately and continue her part so that it won't affect the whole performance. (Regan, 2015) Group harmony is also an essential feature in K-pop. The personal relationships among members are carefully constructed. After debut, members are typically living

together in dorms and interact with each other on daily basis. When filming variety show, they are well-prepared to tell interesting stories that happened between members to show off their friendship and bonds. The intimate relationship between members are appreciated and shipped by their fans, which resulted in different combination of pairings and fan-fictions that depicts imaginative story about K-pop idols. In addition, the entertainment agencies also train the K-pop artists to embody, behave and deliver Asian virtues such as politeness, respect towards senior, filial piety, hard-working and humility. (Ho, 2016) For example, K-pop artists always do 90-degree bow to their seniors and fans to show their respect. (Figure 20) As one of the executive in the A&R department at Interscope Records commented about his experience in attending a K-pop concert, "It is all about humility. Look how they bow to their fans. That's a big part of it." (Seabrook, 2015) The Asian values embodied in K-pop resonate with consumers throughout Asia, and at the same time, also make the brand of K-pop recognizable and differentiated from its competitors such as the American pop band. By striking a good balance to achieve a right degree of commonality and the right amount of local uniqueness is tremendously important for K-pop global circulation. As foreign audiences latch onto the familiar and more global aspects of K-pop, they become more willing to accept and appreciate the stranger and more local sides of the genre. (Leung, 2012)

Figure 20. K-pop artists bow to the audience at the end of the concert (SM Entertainment, 2016)

Last but not least, in addition to the global product development strategy that aims for worldwide distribution, K-pop also tailor certain features to broaden its local appeal in specific markets. Localization effort have been made to cater local consumers' tastes and preferences more precisely. The main songs are released in multiple languages, particularly in English, Chinese, and Japanese. Given that the Spanish-speaking fan base is getting bigger, more songs are using Spanish title and incorporated with Spanish phrases, such as "Mamacita" by Super Junior and "Me gustas tu" by GFriend. Besides, locally desirable flavors are added to create a sense of familiarity and connection with audiences. For example, the girl group "T-ara" have recorded a Korean cover version of the Chinese viral hit "Little Apple" in their Chinese album to make the release more attractive to the Chinese customers. The title of the Chinese album "Too Perfect" (Tàiwánměi) of Super Junior-M also has a similar pronunciation to "Taiwanese girls" (Táiwānmèi) in Mandarin to show their appreciation for the Taiwanese fans. More importantly, in markets with strong local players such as Japan, the pressure to adopt a localized strategy to better position itself in the host market is usually intense. When Girls' Generation made their entry into Japan, the group image is repackaged to tap into a new market segment. Instead of using the cute and innocent image that coincides with the J-pop groups who already dominated the male segment, Girls' Generation adopted a more mature and strong identity that appeal to female fans. In contrast to their Korean fan base, around eight percent of the Japanese fans are female in their 20's and 30's. (Oricon Style, 2010)

8.5   Promotion and Distribution

Global appealing brand and product are not enough if K-pop cannot reach its customers worldwide. One of the critical factors in K-pop's global expansion lie in the adoption of a global marketing strategy that enable K-pop to better reach international audiences and increase its global presence on the world stage. The most important element of K-pop's global marketing strategy is social media. The Korean entertainment companies were a fairly early adopter of social media. They are able to identify the new opportunities ahead of the others by early recognition of the growing importance of social media for massive exposure due to its worldwide access, international user base, and sharing mechanism. Instead of sticking to the same old mechanism in the old music economy that based on the limitation of distribution for creating artificial scarcity, copyrightable K-pop contents are distributed freely on social media. YouTube is utilized as the primary promotion and distribution channel for K-pop contents to reach the rest of the world. The official YouTube channel of BIGBANG was created on October 2005, the same year when YouTube was founded. "SMTown", the official channel of SM Entertainment with a total of 1730 videos, was set up on March 2006 - two years ahead of its Japanese counterparts (Avex Japan/September 2008, Universal Music Japan/March 2008). Early adoption gives K-pop a certain degree of first-mover advantages so that K-pop can leverage these early gains to expand its global presence faster. By capitalizing on the power of social media, K-pop can reach audiences much wider and faster than through the use of conventional media such as television and radio. Not only tapping into the massive, international user base of YouTube - over a billion users who come from more than 88 countries, with just a single click, the content is shared through an extensive social network with no boundary. (YouTube Press, 2016) Besides, YouTube's emphasis on visual imagery and the availability of subtitles and automatic transcription function also greatly reduce the language barriers and facilitate the transnational spreading of K-pop. It is undeniable that YouTube and other social networking platforms have provided the most cost-efficient way for K-pop to reach the widest possible audience including those who were formerly hard-to-reach, with a speed that did not exist before.

To achieve maximum exposure, K-pop videos are optimized for SEO (search engine optimization) to enhance their discoverability. Metadata that contains all the contextual information about the video is optimized to make K-pop videos more search friendly on YouTube. We will provide an analysis on the music video "FIRE" by the boy group "BTS" that can give a clear understanding of how this works (Figure 21). First of all, the video's title and description are translated into multi-languages so that it is easier for international audiences to find and enjoy the video. The title of the video "[MV] BTS(방탄소년단) _ FIRE (불타오르네)" consists of few specific keywords – the group name and the song title, in both English and Korean. It also reflects the effort spent on creating the English group name, which is called "방탄소년단" in its original language, pronounce as "Bangtan Sonyeondan", and literally means "Bangtan Boys". Direct translation based on either pronunciation nor meaning could be difficult for foreign audiences to remember. Therefore, "BTS" – the three-letter appellation for the Korean name was adopted, which is much easier for non-Korean to remember and to recognize, and hence enhance the discoverability. Besides, the lyrics is translated into English and added as closed caption to open up the content to a larger audience. Description that provides useful information about the video such as music style or album concept is also translated into English and Japanese. At the top of the description, iTunes link is added to direct customers to the purchase page. To raise the brand awareness, the logo of the record labels "1theK" is used as the channel icon. Given that foreign users may not be familiar with the record labels in Korea, tagline "Worldwide K-POP CH" is added below the logo so that whoever come across with the channel on YouTube can immediately associate it with K-pop. Annotation that says "Subscribe to 1theK" is also placed at the top left corner inside the video to trigger the action of turning audience into a loyal follower.
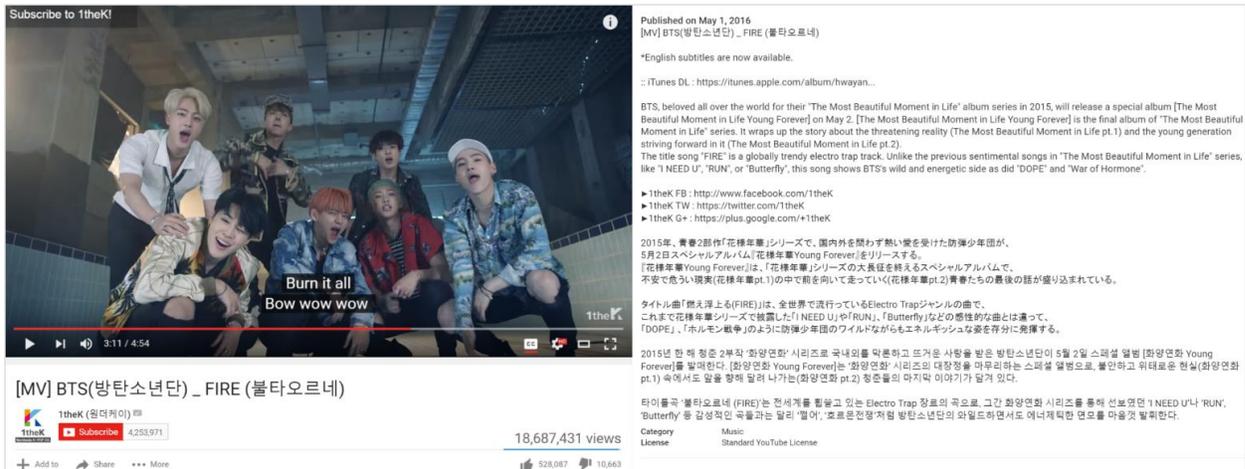
Figure 21. Screenshot captured from the music video of BTS's FIRE on YouTube (LOEN

Entertainment, 2016)

Apart from the optimization for discoverability and visibility, the ability to gain audience interest on social media also contributes greatly to the explosion of K-pop popularity on the internet. Conventional media such as television and radio is a closed system with one-way communication to the audiences who are passive receivers of a monologic media messages. (Stone and Desmond, 2007) Departure from traditional marketing environments, the advent of social media gives the choice to audiences who can actively select what they want to watch on demand from a million of entertainment videos. (Sinclair, 2012) Therefore, getting attention and hook audiences is of the most important part of social media marketing because interested users can eventually be converted to prospective or paying customers. In this regard, the capability to offer compelling contents that are able to evoke interest and capture attention upfront is very critical to the global spread of K-pop on social networks. K-pop music videos are skillfully incorporated with memorable hooks that can take the form of repetitive chorus and lyrics, catchy combination of melody, and signature dance move. As commented by Will Simms, the composer and producer of several K-pop hits, "what's good with K-pop especially is that the songs can almost only have hooks. The verse can be a hook, and then the pre-chorus can be a hook, and then you can have the chorus that's the hook as well". (seoulbeats, 2013) Added to this, the videos are visually stunning, often with movie-like effects like fireworks and explosion or stimulating scenes such as male idols taking off their shirts. Hooking viewers musically and visually can catch

both the ear and the eye of the audience, therefore, the performance has a higher chance to stay in the audience's head and contribute to bringing audience back time and time again. More importantly, before the release of the full-length music video, usually a teaser will come first to build excitement and interest. For example, the thirty-second teaser of "FIRE" is released three days before the launch of the full-length music video, and had successfully captured two million views on YouTube. As a majority of foreign audiences tend to have their first encounter with K-pop on YouTube or other kinds of social networking platforms, by offering a compelling and irresistible first-time experience, there is a higher chance to convert viewers who watch K-pop videos for the first time to regular viewers and eventually loyal K-pop fans. It also means a greater chance of being shared and going viral on social networking platforms such as Facebook and Twitter for greater exposure to a larger number of global audiences in minimal time.

The global spread of K-pop is also complemented by a more specific local marketing strategy to gain a deeper penetration in the target markets. Although the rise of international social networks and digital distribution channel enabled the K-pop industry to take a global marketing and distribution approach across countries, one size may not fit all due to certain distinctive characteristics that are largely country-specific. For example, the uniqueness of a country's digital distribution channels due to the originality of its market structure or legal regulations. Some of the widely-used K-pop's social network platforms such as YouTube and Facebook is unable to reach the vast majority of Chinese audiences because of the national ban on foreign social media companies to operate in China. Making K-pop available on Spotify can tap into over 60 million active monthly users in 58 countries worldwide, but not including Japan – the biggest export destination of K-pop, because the service is not available yet. (Peoples, 2016) In this regard, the capability of the entertainment companies to identify and cope with the difference by establishing partnership with local distributors greatly contributes to the increase of accessibility and availability of their products in specific market environment. For instance, YG Entertainment (the home to top K-pop acts including BIGBANG, PSY, 2NE1) has established an exclusive distribution agreement with "QQ Music" – a legal online music

streaming service that based on QQ instant messaging platform, as provided by "Tencent", one of the largest Chinese internet service portal. (Tencent, 2014) By leveraging Tencent's massive user base with over 850 million monthly active users, it can greatly enhance the presence of YG's artists in China. (Statista, 2015)

Apart from that, certain important fields such as physical music distribution, national media presence and live performance require highly specialized expertise, resources, and knowledge of the local marketplace. Major physical distribution channels are mostly controlled by major record labels in a particular market; holding a concert oversea will also need to comply with local regulations and laws. In this sense, active engagement with local partners can facilitate the spread of K-pop because of their unique competences and connections that are necessary to success. For example, YG Entertainment has established a strategic partnership with Avex group to facilitate their activities in Japan. "YGEX" was established as a joint record label between YG and Avex for album release and promotion of all YG's artists in Japan. (YG Entertainment official website, 2016) Avex Live Creative operates BIGBANG's fan club and official goods shop in Japan. The connection of Avex Japan with local broadcast television also ensure massive exposure of YG artists by frequent appearance in high-profile music programs such as Music Station, Music Japan, and Music Hour. (BIGBANG official website Japan, 2016) The same formula applied to Girls' Generation when they made their debut in US. They are signed with Interscope Records to expand their music in the States, along with Polydor France for their album released in French market, both labels are subsidiaries of Universal Music Group. (Benjamin, 2015) Table 8 summarized the major partnerships established by the Big Three to accelerate business expansion in target markets. To sum up, a marketing approach that balanced global and local strategies enhance circulation and consumption flow of K-pop transnationally.

SM Entertainment		
Baidu	China	Online music distribution on "Iqiyi" - Baidu's online video platform. Develop K-pop online communities on "Baidu Tieba", one of the largest SNS sites in China
Alibaba	China	Alibaba purchased a 4% stake in SM. Online music distribution, marketing and merchandising
Media Asia	China	Film and TV production
Universal Music Japan& Avex	Japan	Publishing SM's karaoke applicationthat allows user to sing duo with SM's artists "Everysing" in Japan
Interscope Records	America	Management deal for Girls' Generation's American debut
YG Entertainment		
Tencent	China	Exclusive publishing deal on QQ music streaming service
Avex Group	Japan	Joint record label, publishing and promotion
Warner Music Group	China, Taiwan	Publishing and promotion
Bec Tero Music	Thailand	Promotion and organization of music concerts
Trinity Optima Production	Indonesia	Artist management and publishing
Warner Music Group	Hong Kong, Taiwan, China	Publishing and promotion
JYP Entertainment		
China Music Corporation	China	Exclusive online music distribution
Eastern Entertainment Group	China	Collaborative production of Chinese movie
Sony Music Japan	Japan	Publishing and promotion
Jonas Group	America	Management deal for the Wonder Girls. Wonder Girls joined the Jonas Brother's World Tour to kick off their US debut

Table 8. Major partnerships established by the Big Three (SM Entertainment, YG Entertainment, JYP Entertainment, 2016)

8.6   Customer Relationship Management

The last build block that constituted K-pop's value chain is customer relationship management. K-pop's highly engaged and loyal international fan base is one of the biggest contributing factors to K-pop's success in global expansion. Customer relationship management concerns the development and management of the relationship between customer and company in order to create a long-term relationship with satisfied customers who tend to be more loyal and supportive. (Malhotra, 2007) Since the advent of digital age and the proliferation of social media, the relationship between the music companies and their fans is entering a new phase. The consumer is now offered a wide array of choices, and empowered consumers are termed as prosumers who have far more influence over the success or failure of a business than ever before. Rather than simply consuming products, they spread messages, influence people around the world, and drive demand through their involvement as social networking participants, bloggers, and forum posters on the social web. (Gunelius, 2010) In this regard, the capability to leverage the power of consumers who now play an important role as promoter and brand advocate greatly contributes to K-pop's widespread and rapid dissemination around the world. To achieve this, the entertainment companies attempt to build a close relationship with their customers, through the creation of a strong emotional connection with their global fans, as well as empowering them by making them feel involved and engaged.

K-pop is not only a consumption of music and dance, it is also a consumption of the emotional connections that formed between these K-pop idols and their fans. To build a sense of belonging, various efforts have been made to strengthen the feeling of connection to the K-pop idols as well as the sense of belonging to the group. The most fundamental element in one's sense of belonging is the possession of collective identity, which is resulted from the attachment to the group as a cohesive whole, whose members share mutual recognition and connection. To build the group identity, each K-pop fan club is assigned with its own official name and symbolic color. For example, the fan club of Super Junior is called "E.L.F." which means the idols would be everlasting friends with their fans, while fans are described as fairies who will always be the side of the members. Their

official color is "pearl sapphire blue". The name of Girls Generation's fan club is "S♥NE", which is pronounced as "So One" to imply that the girls will always be one with their fans. Their official color is pastel rose. Defining the group name and color can heighten the sense of collective identity in multiple ways. First of all, the K-pop artists can use the unique name when referring to their fans in public occasions. For example, when they want to say thank you to fans' support, instead of using the generic term "fan", they can use their own fan club name that will create a stronger and more personal connection. Also, from the perspective of K-pop fans, although they may speak different languages or coming from different cultural background, they share the same identify as "E.L.F", "S♥NE" or any other fan communities. Besides, the fan club color also provides a visual way for the fans to show their belongings and pride in the group. During the concert, fans will flail the light sticks to create the "fan color oceans" of light which stimulate strong feelings of love and loyalty as a part of the group. (Figure 22) This emotional connection can break the geographical and cultural boundaries and create a transnational culture that binds fans from every part of the world together in a global community.

Figure 22. The sapphire blue ocean in Super Junior's concert & the pastel rose ocean in Girls' Generation concert (SM TOWN, 2016)

In addition, social networking platforms have also made it exceptionally easy for the artists to connect with their fan bases. K-pop artists are actively engaged on various social networking platforms as a more personal and direct lines of communication with fans from

all corners of the world. Apart from announcing new releases or upcoming events, they also utilize the social media as a medium to show a more private side of themselves such as uploading personal photos, sharing funny things in their everyday lives, and sending thanks to fan's support. In the following, we will take the K-pop act "Choi Siwon" as an example to explain how social media is used to connect with fans. Choi operates his official account across multiple platforms including Twitter, Instagram and Weibo (Chinese equivalent of Twitter) to ensure a global reach out. If we take a look at his latest hundred posts on Instagram (www.instagram.com/siwon1987), we can see that more than half of the posts are aims to provide regular updates to encourage anticipation in his fan base. A good balance is strike between work-related and personal topics to serve fans' diverse interest - 35 posts are work-related (i.e. the announcement of album release or showing pictures when he was filming drama), while 33 posts are about his private life (i.e. pictures of his puppy or friend gathering). The rest of the posts are in direct response to his fans to reward and recognize fan's loyalty, such as showing his gratitude to fans' support in sending food truck to his drama's filming location, or sharing funny fan art. The active use of social media helps solidifying relationship with fans through direct communication and recognition.

Apart from that, the overall K-pop experience is also about consumers' participation. Instead of being a passive consumer, fans are opened up with a wide array of ways to create user-generated contents and getting involved. The sense of engagement and involvement can eventually evolve to an intimate relationship that further strengthen the brand loyalty. Given that group dance, as an integral part of K-pop, is a body language with no language barriers that international fans can also learn and enjoy. Dance practice videos are uploaded on official YouTube channels to enable viewers to take a detailed look at the choreography. Fans who are interested are encouraged to participate by doing a dance cover or making a tutorial video to teach the others. To encourage enthusiasm, fans are given the chance to show off their talents. Since 2011, the K-pop Cover Dance Festival is held annually in Seoul. Everyone in the world can participate by simply uploading their dance cover to YouTube. According to the official website of K-pop cover dance festival

(http://www.coverdance.org), the winners will get a free trip to Seoul to experience the life of being a K-pop star, like taking photoshoot, joining dance lesson, performing on stage, and meeting the K-pop act. (Figure 23) In 2016, the contest has received a total of 1958 participation videos, mainly come from Asia (867), Europe (841) and North America (153).

Figure 23. Winners of K-pop Cover Dance Festival 2013 on the performance stage (left) Winner having professional photoshoot (right) (K-pop Cover Dance Festival's official website, 2016)

Besides, the uniqueness and visual attraction in K-pop music video also entices viewers to create reaction videos, in which they share to others their emotional reactions when watching it, such as demonstrating their excitement when the idols are doing some sexy poses. User-generated contents also take the form of fan art (artworks created by fans that are derived from K-pop artists), fan fiction (friction written by fans to depict their imaginative story based on K-pop artists) and fan cam (footage of K-pop acts taken by fans). To recognize and appreciate fans' effort, it is common to see K-pop artists sharing fan art or fan cam on their social sites. Apart from that, K-pop fans are also involved in the live performance in the form of "fan chants" - an organized way of shouting during live performance. Fans chant to the songs such as shouting the group's name or some supportive slogans all together at a specific timing that are planned and designed beforehand when the K-pop groups are performing in music show or concert.

Because of the strong emotional connection and relationships that formed between K-pop acts and their fans, the affinity created with fans are strong enough to convert them into

prosumers, who advocate for K-pop to their networks, helping K-pop to achieve rapid growth through word-of-mouth. Indeed, K-pop has one of the most loyal and strongest fandom worldwide, which is proved by numerous international awards, for example, Super Junior's fandom "E.L.F" has beat the fandom of some international big name acts like "Directioners" (Fandom of One Direction) and "LittleMonsters" (Fandom of Lady Gaga) and won the "Choice Fandom" at "Teen Choice 2015". BIGBANG's fandom "V.I.P" also won Fuse TV's "Battle of the Pop Fans 2016", in which they were competing with other huge fan bases of international pop stars such as Britney Spears and Adele. The transnational fandom tremendously contributes to the global expansion of K-pop in many different ways. In the first place, the global fan communities assist the transcultural and translinguistic flow of K-pop contents, through their voluntary mediation by providing fan translation, subtitling, and cultural footnoting to another language. (Duits, Zwaan and Reijnders, 2014) Each fan site has volunteer members who take specific roles such as content providers, translators, timers and editors. Members who live in Korea and have real-time access to the information source (i.e. interview on magazine or video clip of local television program) provide the original content, then it will be shared through the extensive fans' network so that bilingual members who can speak Korean and another language can start working on translation. As a result, K-pop fans who cannot speak Korean or have less accessibility to K-pop content due to geographical limitation can also enjoy immediate access to relevant news and content online. It also eventually grew into several professional portal sites who provide instant K-pop news. The biggest English based K-pop new site is called "Allkpop", according to its official website (http://www.allkpop.com), it has10 million unique visitors and 120 million page views per month. The transnational passionate fan communities' mediation and distribution greatly contribute to the widely circulation and seamless delivery of K-pop contents to overseas fans online in terms of volume, reach, and speed.

More importantly, the capability of K-pop to engage fans and create strong emotional connection with them also greatly enhance the chance for K-pop to take a bottom-up approach to develop a groundswell of interest at the consumer level that spreads through

word of mouth. (Hull et al., 2011) The process can be described as viral marketing, which means "the communication and distribution that relies on customer to transmit online to other potential customers in their social sphere and to animate these contacts to also transmit the products." (Helm, 2016) Consequently, it can trigger rapid multiplication and snowball effect to spread the content to a large number of people within a relatively short period of time. For instant, PSY's Gangnam Style" has gone viral on YouTube and quickly became a global phenomenon that is mainly driven by consumers, and still the most viewed video on YouTube. (Jang, 2016) On the other hand, audience action also has a feedback effect on media presence, one common way is the interplay between record sales and digital download and the corresponding position in the music chart, the more the purchase, the higher the rank, and the greater the exposure. (Wikström, 2009) The capability of K-pop to get this audience-media loop to work in its favor tremendously contributes to the increase of its brand awareness and recognition in overseas. One typical way that fans' action can contribute to media presence is their votes for K-pop acts in various international awards. Girls Generation's "I Got a Boy" won the "Video of the Year" in the "YouTube Music Awards 2013", which is based on the number of shares of the nomination video on social networking platforms. BIGBANG won the second place on "TIME 100 poll 2016", where readers can cast their votes to the most influential people in the year. Super Junior won the "International Artist" in "Teen Choice 2015", also a vote-based global ceremony. In other words, the winners are determined completely by the degree of fans engagement. The winning of these international awards successfully captured the media spotlight, because the K-pop group beat some international big names such as Lady Gaga, Justin Bieber, and Taylor Swift, given the fact that K-pop is much less known in western countries. The result was then reported by various high-profile news media including USA TODAY, Billboard, and TIME Magazine, and shared rapidly on the internet, which eventually greatly aid in K-pop's global exposure and recognition. In this regard, the active participation and involvement of fans as promoter and brand advocate tremendously facilitate the distribution and increase the brand awareness of K-pop on global scale.

9 Conclusion

This research provided a comprehensive and systematic analysis about the increasing popularity and global circulation of K-pop in recent years. We have adopted a systematic approach to identify and analyze key trends happening in the external environment that shape the industry in which K-pop operates, and consequently how the entertainment companies can anticipate these trends and changes in their internal strategies to facilitate K-pop's global expansion and growth. This thesis indicated that the globalization of K-pop is a process of the interplay between external circumstances and internal organizational factors. Over the past decade, the world has become increasingly connected due to the advent of social media and digital distribution which have been made possible by technological advancement. Unlike conventional media such as television and radio, the emergence of global online video platforms such as YouTube allows transnational flows of media content which has made possible for music to reach the widest possible audience ever. The proliferation of social media has greatly empowered consumers who have far more influence than ever before. Instead of the traditional top-down dissemination, new media facilitates consumer-driven bottom-up flow of musical content and related information. Social networking platforms coupled with transnational online communities become the first medium where people from every part of the world connect and interact, instantly share, discuss, or deliver music. Despite the physical distance between the globe's individuals, the emotional connection between artists and audiences have become far closer in the socially-networked world. In this context, the music industry has truly become a single global market. Despite the new opportunities, these game-changing disruptions also challenge conventional business model to reinvent, and old rules are no longer valid. However, at the same time, huge rewards are promised for those who are best able to anticipate and capitalize new opportunities.

Starting from niche, K-pop have seized these opportunities and taking the world by storm. To make K-pop's global expansion possible, the entertainment companies have strategically incorporated its global strategies along every part of the value chain including

talent acquisition and management, group formation and content production, promotion and distribution, and customer management to ride global trends and capitalize on new opportunities and new needs. The activities in the value chain also complement and reinforce each other to effectively deliver global appealing content to worldwide audiences. YouTube provide the first mechanism for K-pop to reach the widest possible audience ever with much lower barrier compared to conventional media. To capitalize on YouTube to maximize potential global reach, the formula of K-pop put the same emphasis on visual as on audio. K-pop scene's dedication to catchy melodies, eye-popping choreography, visually attractive group of boys and girls, colorful and vivid colors to achieve a positioning that would be effective for transnational consumption. Coupled with this, K-pop also mix a wide array of global pop sounds and musical styles and incorporate repetitive English lyrics into the chorus that would further minimize the language barrier. To facilitate online circulation, apart from SEO optimization to make it more search-friendly for non-Korean audiences; hooks are incorporated in almost every part of the song to grad and hold the attention of the viewers so that there is a higher chance for them to keep coming back and eventually convert to regular or loyal customers. More importantly, all of these are made possible by effective global recruiting and the building of global network of talents to ensure diversity of ideas and new innovation can be brought into the production process that will result in global appealing content.

On the other hand, social media has made possible the growing of online communities and virtual identities that connected people in every corner of the world with common interest which can transcend geographical and cultural boundaries. To ride the wave in the socially-networked world, K-pop's appeal is broadened by tapping into universal needs and values. The delivery and communication of happiness, youthfulness and energy enhance its universal appeal as well as creating the sense of intimacy and emotional connection with audiences across cultural boundaries. Embedding consumer participation and involvement in K-pop's culture also strike a chord especially with new digital generation who demand for more active roles as active participants rather than passive consumers. In return, the consumer-driven circulation of K-pop's user-generated contents such as cover dance and

reaction videos greatly enhance K-pop's global exposure across the world. In addition, K-pop artists are actively engaged on social media which enable a more personal and intimate relationship to be built between artists and international fans. Loyal and engaged fan communities contribute back to K-pop's worldwide media presence through a wide array of actions such as casting a vote in international award and downloading music to push up the rank on music chart, which successfully create a trend and capture the attention of high-profile media. It is clearly that the recent rise of K-pop in the world is a result of the interplay of external influences and internal factors through internally leverage strengths that allows K-pop to capture external opportunities.

Along with the growing popularity of K-pop worldwide, there merged a new global consumer segment who perceive South Korea as a new cool country and are ready to adopt Korean lifestyles and consumption patterns ranging from fashion, cosmetics, language to food. The commercial potential to extend the global recognition and popularity of K-pop to its spin-off industries such as tourism is enormous. Further studies would be recommended on this direction.

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