

The K-pop Success: How Big and Why So Fast?¹

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ABSTRACT

“K-pop” has enjoyed amazing success across the world. From its first forays into Pacific Asia, it has now spread to the rest of Asia, the United States, Europe, Latin America, and even the Middle East. This paper analyses the main economic forces behind this remarkable evolution. Firstly, it presents new evidence on the scale of K-pop’s success in comparison to other countries. It does so by looking not only at its entertainment activities with a price tag, but also at those without a price tag (YouTube or Naver). Secondly, this paper focuses on the two key actors behind such a success: K-pop firms and the Korean government. It begins by giving a sense of the strategic opportunities provided by public support for an early, widespread, and state-of-the-art internet infrastructure in Korea. Next it emphasizes the central role of the three small leading K-pop firms that have been able to exploit these opportunities because they have been careful to produce performances in line with Korea’s comparative advantages in the entertainment sector. Finally, this paper turns to the markets in order to explain why such a success has been so fast. It highlights three major factors: a very high level of competition in the K-pop market; low online prices in Korea relative to CD prices generating stronger incentives to create multiple “variations” on a given title when compared to other countries; and very low online prices relative to those prevailing in other major countries, thus making foreign markets extremely attractive to K-pop companies and their stars.

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Introduction

In 2012, Psy's *Gangnam Style* made the entire world aware of "K-pop"—a subset of the Korean pop-music sector focused on boy and girl "idols" groups that feature singer-dancers.⁴ However, K-pop was already flourishing long before *Gangnam Style*, drawing in huge crowds in Japan and across South East Asia since the early 2000s. And since the late 2000s, it has been making deep inroads into the rest of Asia and of the world, including unexpected regions such as the Middle East.

K-pop is not the first emergence of Korea in the global entertainment sector. Since the 1950s, Korean movies have attracted international praise, one of the latest illustrations being the 2012 Golden Lion awarded to *Pieta*. In TV dramas, the first big success occurred in 2002 when *Winter Sonata* became a major hit in Japan. This opened the door to many similar success stories in East Asia [Russell 2008], the latest being in China with the 2014 hit drama *A Man from the Stars*. All these successes share one feature: they either remain limited in quantity (movies) or in geographical scope (TV dramas so far have only been really successful in East Asia).

K-pop differs in many respects from these previous successes. First, it has already been around for at least 15 years—longer than the golden years of the Hong Kong movies (from the late 1980s to late 1990s) or of the Japanese "J-pop" wave (during the 1990s). Second, it has witnessed enough K-pop groups consistently scoring regular hits in charts around the world for Billboard to open a "K-pop Hot 100" world chart in 2012 and YouTube to add a specific "K-pop" entry to its existing musical entries. Lastly, K-pop is attracting a very diverse audience in all the countries concerned: not only teens and twenties (as often believed) but also and increasingly their parents, and not only the native populations but also the immigrants in regions such as the US or Europe. All this triggers a sense of a true "cultural" tidal wave.

This paper uses economic analysis first to better assess the magnitude of this success and then to better understand its sources. An economic approach makes sense because the existing explanations have serious limits. K-pop success cannot be explained by a sudden surge in

⁴ "Idols" is the most frequent term used in Korea for referring to the members of the famous K-pop groups.

artistic skills as the talent of many Korean pop musicians has been recognized by their international peers since the 1950s.⁵ Explanations based on “cultural proximity” (“Asianess” or Asian “values”) do not fit the geographical expansion of K-pop way beyond Asia in the recent years [Parc and Moon, 2013]. The argument focusing on generations (K-pop attracting young generations with a different life-style) ignores the large and growing crowd of fans in their 40s and beyond, a crowd that indeed has been targeted very early by K-pop companies and idols. Last but not least, robust factual evidence does not support the assertion that public policy has played any notable role in the success of the Korean cultural industries [Parc, 2015a]. Therefore, there is a need to explore economic factors. As the most remarkable feature of K-pop’s success is undoubtedly its international dimension, this paper focuses on an economic analysis centered on international trade.

This paper is organized into three sections. Section 1 presents new evidence on the magnitude of the two main facets of K-pop’s rapid success: the booming size of the whole Korean music industry (a measure based on goods and services with a price tag) and the surprisingly high international “visibility” of K-pop idols (a measure taking into account the free access to performances thanks to internet-based technologies). Section 2 shifts the attention to the actors that have been critical in the making of K-pop’s success: first, the Korean government, ahead of the rest of the world, invested greatly in a state-to-the-art internet infrastructure which provided strategic opportunities to the K-pop firms (though this public effort was not intended to support K-pop); second, and more decisively, the three leading K-pop firms, initially very small, have excelled at harvesting the benefits from this internet infrastructure because they were able to select the “right products” to produce—meaning delivering performances well in line with Korea’s comparative advantages among the huge array of global entertainment industries. Finally, section 3 examines the most intriguing aspect of K-pop’s export success: its amazingly rapid pace. This section argues that key market-based factors—the high level of competition in the Korean entertainment market, the very low online prices in Korea—have exerted enormous pressure on K-pop idols and companies to “go global” as quickly and as widely as possible. The conclusion presents two important issues—the long term sustainability of K-pop’s success and inter-actions between

⁵ For instance, the guitarist Shin Joonghyon has been the sixth guitarist in the world (first in Asia) to receive the prestigious Fender Tribute, placing him alongside Eric Clapton and Stevie Ray Vaughan among others who have received the award.

commercial success and the cultural aspect of its “Koreanness”—that also deserve an economic analysis.

Section 1. Measuring K-pop’s Success

This section shows first the impressive growth of the Korean domestic music industry as a whole during the last decade and its comparison with other countries. However by definition, an industry-based approach focuses exclusively on goods and services with a price tag. This presents a serious limitation in today’s entertainment business where so many distribution channels exist with no price tags, such as YouTube or Naver. As a result, this section provides new evidence on the “visibility” of K-pop idols around the world in this highly important “price-free” sector. It concludes by drawing two preliminary lessons for public policy.

The Korean music industry: booming and catching up

Table 1 presents the domestic sales, value added, exports and imports of the Korean “music industry”. In what follows, the term Korean music industry covers both its K-pop idols segment (its highly visual variety centered on dancing boy or girl groups) and its non-K-pop segment (the variety of Korean popular music more centered on songs, ballads, etc.).

Table 1. The Korean music industry, million US dollars

	2006	2007	2008	2009	2010	2011	2012	2013
Domestic sales	1224.6	1287.4	1195.1	1098.7	1387.7	2074.2	2205.3	2534.1
Value Added	801.6	847.5	859.9	802.2	989.2	1442.8	1477.7	1557.1
Exports	16.7	13.9	16.5	31.3	83.3	196.1	235.1	277.3
Imports	8.3	9.8	11.5	11.9	10.3	12.5	13.0	13.0
Exports/sales (%)	1.4	1.1	1.4	2.8	6.0	9.5	10.7	10.9
Imports/sales (%)	0.7	0.8	1.0	1.1	0.7	0.6	0.6	0.5

Source: MCST and KOCCA (2013; 2014). Note: These data include all music-related business (K-pop and non K-pop) except Karaoke sales.

The total sales and value added of the Korean music sector (K-pop and non K-pop) exhibit high annual average growth rates of roughly 11-12 percent over the period 2006-2013 [MCST and KOCCA 2013; 2014]. This is three times the annual average growth of the Korean GDP.

This impressive growth may simply reflect a low initial basis. As a result, it is important to compare the size of the Korean music industry to its equivalents in the developed countries having broadly the same economic size than Korea, such as the large European countries. International comparisons are always difficult in such matters. Table 2 compares the size of the Korean and French music industries, as defined by the national accounts of the two countries (for “production and distribution of recorded music”).⁶ The small number of years covered in Table 2 (2009-2011) is not a severe problem since the bulk of the size change of the Korean music industry occurred precisely during this period (see Table 1).

Table 2 shows that the Korean music industry was roughly half the size of the French sector in 2009. In 2011, it was 86 percent of its French counterpart—the result of an average annual growth rate of 11-12 percent in Korea and 2 percent in France. Taking into account the stagnant French market and the continuing growth in Korea since 2011, the Korean music industry is almost certainly larger than the French one today.

Table 2. A comparison of the Korean and French music industries, 2009-2011

	2009	2010	2011
France	2078.9	2252.5	2409.5
Korea	1098.7	1387.7	2074.2
in % France	52.8	61.6	86.1

Sources: MCST and KOCCA (2013; 2014); INSEE (2016).

The growth of K-pop exports has been even more impressive than the sales growth: 17 times between 2006 and 2013—an average growth rate of 62 percent per year. There is a consensus that this boom has consisted almost entirely of the K-pop idols segment. Once again, it could be argued that this export growth is remarkable because the baseline was extremely low. However, two observations show the limits of this argument. First, the ratio of exports to sales has increased even though the denominator of the ratio (domestic sales) has so much increased itself. Second, a comparison with France is again instructive: current K-pop exports have roughly the same size than French exports of music which are estimated to 300 million of dollars in 2011 [INSEE 2016].

⁶ The small number of years involved is imposed by the French national accounts for two reasons. First, the methodology was slightly different before 2009. Second, such detailed information is not available for the years after 2011, except under the form of estimates.

Finally, to our knowledge there is no available systematic data on the last key aspect of the growth of the K-pop idols segment: the internationalization of its production process. It is very unfortunate because it did not take much time for the leading small K-pop companies to realize that they could not rely on a purely Korean production base if they really wanted to “go global”. As a result, they have devoted many efforts to build their “global value chains” in a two-step sequence: they first hire Korean-Americans in their groups for reaching the “globalization” stage (late 1990s-early 2000s), and then they include performers from Thailand or China for targeting specific local markets (mid-2000s), a process called “glocalisation” [Oh 2013, Parc, 2015b].⁷ This internationalization process has also been pursued for all the other crucial factors of production of K-pop: songwriters, choreographers, and designers.

K-pop idols bands: an impressive visibility by world standard ⁸

Evidence at the level of the whole industry suffers from a severe limitation: it takes into account only goods and services with a price tag. Hence, it does not provide an accurate measure of the “visibility” of performers in a digital economy that produces many performances freely available all over the world. In such a context, an indicator such as the number of clicks on YouTube gives, despite its limitations, a much better sense of what is going on. It is also enlightening from a cultural perspective because free access to YouTube videos minimizes economic constraints, contrary to pricey CDs or DVDs, making by the same token the culture of a country much more accessible worldwide.

Table 3 shows the number of clicks for a few of the biggest hits from Korea, the United Kingdom/United States, Japan, and France. The result is striking: not only do the K-pop groups shine strongly when compared to French and Japanese performers, but they also fare well when compared to those superstars that perform in English.

⁷ In 2011, this “glocalisation” strategy was best illustrated by SM Entertainment’s launch of EXO, a boy-band of 12 performers divided into two teams—one of Korean performers (EXO-K, K standing for Korean) and one of Chinese performers (EXO-M, M standing for Mandarin)—who perform sometimes together and other sometimes separately. There are unconfirmed rumors that K-pop firms have begun to look at Korean-Europeans.

⁸ This entire section relies on Messerlin [2015a].

Table 3. Pop-Music Visibility in a Digital World: Selected Biggest Hits

Performers	Year	Titles	Clicks YouTube (million)	Native speakers (million)	Clicks per native speaker
Mega-hits					
Psy	2012	Gangnam style	2463	56	43.98
Justin Bieber	2010	Baby	1247	360	3.46
Stromae	2013	Papaouti	308	74	4.16
UK/USA					
Adele	2010	Rolling in the deep	765	360	2.13
Adele	2015	Hello	545	360	1.51
Justin Bieber	2015	What do you mean	380	360	1.06
Justin Bieber	2015	Sorry	230	360	0.64
<i>Total</i>			<i>1920</i>	<i>1440</i>	<i>1.33</i>
Korea					
BigBang	2012	Fantastic Baby	187	56	3.34
BigBang	2015	BangBangBang	83	56	1.48
2NE1	2011	I am the best	138	56	2.46
Girls Generation	2011	The Boys	129	56	2.30
Girls Generation	2013	I got a boy	148	56	2.64
Girls Generation	2015	Party	47	56	0.84
<i>Total</i>			<i>732</i>	<i>336</i>	<i>2.18</i>
France					
<i>Music benefiting from the French radio-quotas policy</i>					
Johnny Hallyday	2007	Je te promets	10	74	0.13
Mylène Farmer	2010	Oui mais non	7	74	0.09
Stromae	2013	Formidable	131	74	1.77
<i>Music not benefiting from the French radio-quotas policy</i>					
Daft Punk	2013	Get lucky	237	360	0.66
David Guetta	2014	Dangerous	105	360	0.29
Japan					
AKB48	2010	Heavy Rotation	121	125	0.97
Exile	2014	24 World	12	125	0.09
E-girls	2015	Anniversary!	11	125	0.09

Source: Messerlin (2015a) based on YouTube sites, as of December 6, 2015.

The mere number of clicks on YouTube videos still misses a key factor for developing a good sense of the visibility of the performers. Despite its international nature, pop-music still possesses domestic roots. The most important of which is language. This dimension can be taken into account by defining the “natural” audience of a song as the number of native-speakers of the language of the song. It has the additional advantage of reflecting some broad economic factors related to the supply side of the music industry, such as the size of the domestic markets and the intensity of competition among firms.

The “visibility ratio”—the number of clicks divided by the number of native speakers-- reveals an even more surprising result: K-pop groups have on average a 60 percent higher visibility ratio than English-language performers.⁹ This result deserves two questions before being fully accepted.

First, could this result simply reflect the fact that Korean consumers are more prone to using the internet than consumers in the other countries listed in Table 3 because they have had longer exposure to a more efficient internet infrastructure? The answer is no. The data in Table 3 was collected in December 2015, and covers a period lasting from 2010 to 2015. The “first-mover” strategic advantage that Korea enjoyed in the early 2000s was much smaller by the early 2010s. Indeed, adjusting the visibility ratios shown in Table 3 by the current ICT Development Index (published by the International Telecommunication Union) of the countries listed would only reduce the gap from 60 to roughly 55 percent.

Second, could this result simply reflect the fact that Korean consumers are biased towards their national idols? Table 4 suggests a negative answer. It is based on a multi-country database of clicks on K-pop videos on YouTube collected during the year 2011 [Seo 2012]. This period of observation has the advantage of not being distorted by the turbulences created by “*Gangnam Style*” (released only in July 2012) and by the curiosity in the world about K-pop following this success. In other words, it assesses K-pop international visibility at a still relatively low ebb, meaning that Table 4 is likely to over-estimate Korea’s weight in the world. However despite this potential bias, no less than five countries exhibit “click indexes” higher than Korea’s index (click indexes are the number of clicks per inhabitant in a given country relative to the number of clicks in Korea which is set at 100).

This surprising low ranking of Korea suggests several remarks. Focusing on Korea, it reflects the fact that many Koreans are not interested in the K-pop “idols” segment, but rather in the other segment of the Korean pop music, much more focused on songs than on dance. Focusing on the rest of the world, Table 4 provides several insights. First, it shows how attractive K-pop is among countries of Chinese culture. Second, it lists some unexpected countries with no cultural ties with Korea: Saudi Arabia, Chile or Peru. Third, it shows that

⁹ For Korea, native speakers exclude North Koreans who have very limited access to the Internet.

the Japanese share in K-pop performances with no price tag (21 percent in Table 4) is much smaller than the Japanese dominant share in K-pop exports with a price tag (70-80 percent, see Table 6 below). This result is interesting in two respects: it underlines the very wide coverage of K-pop in the world, and at the same time it reflects the Japanese strong bias in favor of buying CDs and DVDs (a feature that makes the Japanese market so important for K-pop financial results). Finally, there are good reasons to believe that all these observations would be stronger if data on China Mainland were available (their absence under-estimates the K-pop outreach outside Korea). In short, Table 4 stresses the robustness of Table 3 results.

Table 4. The wide geographical distribution of K-pop visibility, 2011

Countries	Nbr of clicks (million)	Click index [a] (Korea=100)	Countries	Nbr of clicks (million)	Click index [a] (Korea=100)
Singapore	68.5	397	Saudi Arabia	42.7	46.3
Hong Kong	76.9	336	Canada	46.5	41.7
Taiwan	189.0	260	Australia	27.1	36.6
Thailand	224.8	107	Peru	25.5	26.4
Japan	423.7	106	Chile	13.8	24.7
Korea	155.3	100	USA	240.7	23.8
Malaysia	90.7	96	France	26.6	13.1
Vietnam	177.4	61	Britain	22.7	11.4
			Mexico	34.2	8.9
Philippines	74.3	24	Germany	20.1	7.8
Indonesia	81.1	10	Brazil	21.1	3.3
East Asia [a]	1406.4	111	Total above	521.1	16.7

Notes: [a] The “click index” of a country is the number of clicks per inhabitant in the country relative to the number of clicks in Korea which is set at 100. [b] Excluding Philippines and Indonesia. Source: Seo 2012 for the number of clicks, UN data for population.

To conclude, the high visibility ratios of K-pop idols in Table 3 reveals how well K-pop firms have been able to go global: they reflect a better (in relative terms) outreach to non-Korean-speaking markets than is the case for English-speaking titles in non-English-speaking markets. Indeed, this result echoes the booming K-pop exports as measured in Table 1.

This is an amazing result for a K-pop industry that only fifteen years ago was struggling for its survival and secured its niche only a decade or so ago. Moreover, this result goes far beyond a narrow economic perspective: K-pop firms and idols have been able to attract the wide attention from the world that the Korean culture, largely unknown two decades ago, is enjoying nowadays. By the same token, it illustrates the fact that global success in cultural

matters can happen even if the country is relatively small and initially “at the periphery” of the world cultural industry.

Preliminary lessons for public policy

This result presents also with two important implications in terms of public policies. First, it strongly suggests that innovative business strategies are what counts most. All the K-pop performers listed in Table 3 (including Psy) are associated with two small Korean entertainment firms (SM and YG, see below). These firms had very limited assets and industrial networks when they started two decades ago, have received no notable support from the government, but have made the “right” choice in terms of the type of performances to produce, as underlined in section 2.

Second, comparing K-pop, French and Japanese visibility ratios shows how “protective” policies are inefficient and costly—including for their alleged beneficiaries. Since 1996, France has imposed increasingly tight “radio-quotas” that reserve a percentage (40 percent) of prime-time radio broadcasting programs to French-speaking songs. The very low visibility ratios of the best hits of the top French stars (such as Johnny Hallyday or Mylène Farmer) strongly suggest that French “radio-quotas” have induced French performers to stay confined to the French music market—cozy but increasingly smaller by global standards. In other words, a protective public policy may hurt not only listeners, but also the performers that it is supposed to support, as has also been observed in the French film industry (Messerlin 2014).

By contrast, French performers, such as Daft Punk or David Guetta, who decided to perform in English (hence have been excluded from prime time radio-quotas in France) confirm that what counts are innovative business strategies: not only do their visibility ratios fare very well by international standards,¹⁰ but, ironically, they enjoy the fame of conveying the “French touch” around the world. An interesting case is Stromae, a Rwandan-Belgian artist who sings in French. He enjoys a much higher visibility ratio than other French-singing performers, partly because his original style has attracted attention from non-French speaking

¹⁰ Note that Table 1 measures the visibility ratios of these performers on the basis of the language of their songs, not of their native language. This basis seems the most accurate, even if it may have to some extent an under-estimating bias.

audiences, notably in Sub-Saharan Africa. However, the huge gap between the visibility ratio of Stromae's and Psy's mega-hits is interesting to note: it is very likely to reflect the much higher visual-intensity of Psy's performance than that of Stromae's.

Japanese (sometimes very) low visibility ratios are not directly related to "protective" direct public intervention *à la française*. Rather they reflect restrictive private practices, in particular Japan's overly strict copyright regulations which has gone hand in hand with increasingly outdated business practices that are focused on DVDs and offline sales.

Korean policies tend to be friendlier to consumers and at the same time to innovative producers than protective public policies or restrictive private practices. However, what characterizes them the most is that they are much more hostile to rent-seekers than their European or Japanese counterparts. Copyrights offer a good illustration of this last point. Korean copyright regulations have a much "better balance" between authors, publishers or labels, and readers or listeners than the stringent regulations enforced in the U.S. or in Europe. For instance, they impose a duration of only 50 years (compared to between 70 and 110 years) and they have no provision for imposing a private copy regime [Parc, Messerlin and Moon 2016]. Hence, they do not generate the excessive rents for performers that such long duration and private copy regime nurtures. As a result, they spur future creativity more than they reward past achievements.

Section 2. Private strategies exploiting public infrastructure

The success of K-pop has been driven by two actors. The Korean government has developed an internet infrastructure way ahead of the rest of the world and was much more ambitious in terms of size and the use of advanced technology. This program did not have in mind the K-pop industry which was insignificant at the time that the internet infrastructure project was launched in the late 1990s. However, the K-pop firms were able to exploit the strategic advantage of this infrastructure through one key reason: they have made the "right" choice in the type of performances to produce by being careful to comply with Korea's comparative advantages in the world entertainment sector. Of course, this "right" choice would not have been as successful as it is today without the early development of Korea's internet

infrastructure; yet at the same time, this infrastructure would have been insignificant for the K-pop industry had it not have made the “right” choice in terms of production.

The online strategy of K-pop firms: earlier, faster, and deeper

Parc [2015b] provides a thorough analysis showing how Korean music companies have been the first in the world to fully realize the potential of the new internet technologies for the distribution and marketing of K-pop performances. Korean firms have moved much quicker than Western-pop companies to exploit online strategies for several reasons. First, Korean electronics companies have become leaders in internet-related hardware, making the small K-pop companies more aware, and much more quickly, of the latest and future technological opportunities than their competitors in other OECD countries.¹¹ Second, Korea was the most wired OECD country until 2004 (twice more than its immediate follower) and is still among the top 4 since 2010 [OECD, various years]. Third, contrary to the Japanese entertainment companies, the small K-pop businesses were not running plants producing CDs or DVDs, hence they had no vested interests in sticking to this technology. Fourth, the new internet-based technologies with their smaller requirements in terms of investment and their lower entry costs were much friendlier to small businesses like the leading K-pop companies (see below) than the technologies prevailing in the late 1990s.

Last but not least, the 1997-1998 Asian financial crisis hit the Korean economy at the same time as the rapid emergence of new technologies by Korean producers of information goods and services. This huge macroeconomic shock triggered a decline in the CD market much earlier and made it much more dramatic in Korea than in any other industrial country. For instance, CD sales in Korea fell from index 100 (1997, the peak year in Korea) to 85 (1998) to 69 (2002). For comparison sake, the CD sales in the United States reached their peak in 2000, and fell to the index 69 in 2007.

Table 5 shows how, as a result of all these forces, the online sale market has emerged much earlier and faster in Korea, and how it is still much more developed in Korea than in the other major OECD countries. The online sales share in the five other countries in 2012 was roughly

¹¹ The K-pop wave has benefited from the direct role of some members of the Samsung family [Russell 2008; Lee, 2009].

the equivalent of the Korean share in the early 2000s, reflecting a lag of almost a decade. In 2012, the value (in US dollar) of online sales in Korea is still 1.5 times larger than the value of online sales in the United States—despite the fact that the US music market is globally almost six times larger than Korea’s. In value terms, the Korean online market in 2012 is still three times larger than the German or French markets.

Table 5. Share of online sales in total domestic music sales, selected countries

	Share in total sales (in %)							Lag [a]	Value 2012 [b]
	2006	2007	2008	2009	2010	2011	2012		
A. Online sales									
Korea	80.7	84.4	86.7	87.7	88.4	87.6	87.6	--	952
USA	15.9	24.8	33.6	39.5	44.9	51.1	56.9	9	3610
Japan	11.6	16.2	20.0	22.3	23.3	25.0	27.1	10	1182
Britain	5.1	10.1	18.1	25.6	31.4	38.5	46.2	9	927
Germany	4.6	5.6	6.6	9.0	12.0	14.8	18.5	11	368
France	7.0	10.0	17.7	18.2	21.8	26.5	31.3	10	311
B. Offline sales									
Korea	19.3	15.6	13.3	12.3	11.6	12.4	12.4	--	135
USA	84.1	75.2	66.4	60.5	55.1	48.9	43.1	9	2732
Japan	88.4	83.8	80.0	77.7	76.7	75.0	72.9	10	3182
Britain	94.9	89.9	81.9	74.4	68.6	61.5	53.8	9	1081
Germany	95.4	94.4	93.4	91.0	88.0	85.2	81.5	11	1623
France	93.0	90.0	82.3	81.8	78.2	73.5	68.7	10	682

Notes: Online sales: download, streaming, mobile service, etc. through online distributional channels. (Offline sales: albums, CDs, DVD, VHS, LP, cassette tapes, etc.). *Sources:* MCST and KOCCA (2013; 2014).

K-pop firms strategies

The key role of the small entertainment companies in the success of K-pop has already been emphasized by the literature (Shin and Kim 2013). But what is missing is the main reason for such a key role. Messerlin (2015b) argues that these leading companies have been able to play such a role because they made the “right” choice in selecting the type of performances to produce—meaning that they have first discovered and then exploited Korea’s existing comparative advantages among the vast array of global entertainment activities. They have progressively realized that they should focus on delivering visual-intensive performances—more stress on dancing than on singing—because they could rely upon Korea’s excellence in dancing which was stronger than its excellence in singing, and because visual-intensive performances was a forgotten niche market among entertainment industries in the 2000s.

Embracing so forcefully Korea's internet infrastructure would have been useless if the K-pop firms had not made this critical strategic choice—simply because efficient internet-based distribution cannot transform inadequate production choices into profitable operations. This choice happens to be all the more appropriate because internet technologies have made possible the permanent “visuality” of the visual-intensive entertainment activities via web portals (Naver, Daum, YouTube, Youku, and others.) thanks to ubiquitous portable screens like smart phones and tablets [Lee, 2009] and because they have flourished among a host of “social networks” [Jung and Shin 2014].

That being said, there are notable differences among the strategies followed by the three leading K-pop idols firms.¹² Before looking at these differences, Table 6 shows that the three K-pop companies share one common feature: they have very few (to say the least) economic features similar to the large Western majors, such as Universal or Sony. Compared to these organizations, the K-pop companies are small, in terms of revenues as well as in the number of employees. As a result, they have often been short of capital throughout most of the years covered by this paper—even if they are now traded on the Seoul Stock Exchange. It is only recently that one of them, YG, can now count on having the world's largest luxury firm LVMH as one of its investors.

All the other features presented in Table 6 underline how diverse the three strategies, and their results, have been. First, the revenue per employee (a crude proxy for productivity) is three times higher for YG than for SM (see Table 6). The main markets and operations are also very different: (i) the core business for YG and SM is still mostly centered on Korea, (ii) YG and SM continue to focus on the Japanese market which could present a risk in the event of political tensions between Korea and Japan, and (iii) a very different breakdown of operations exists among the companies, between CDs and online sales and other revenues (from concerts, TV-shows, advertising, and other areas.). Finally, it would be interesting to

¹² Of course, the success of these three companies has attracted new ones in the sector, as will be outlined in section 3 below. Some of these entrants are offshoots of the three leading companies: they have been founded by former or active K-pop stars, such as Rain Entertainment (2007) or C-JES (2009), who were trained in one of the three leading companies. Most of these offshoots have a size similar to YG or JYP. However, a few subsidiaries of the huge Korean conglomerates or *chaebols* have entered the K-pop market, the best illustration being CJ E&M (Core Content). Founded in 1996, it is a subsidiary of the CJ Group, formerly a branch of Samsung, which operates a diverse range of activities from food products to home shopping. But, the three small K-pop companies are still considered as the leaders.

get a better sense of whether (and if yes, how) these firms have pursued different internationalization of the K-pop production process—recruiting K-pop idols, songwriters, choreographers, and designers from all over the world.

Table 6. A few indicators on the three leading K-pop firms

	SM	YG	JYP
Global figures, 2012			
Revenues [a]	154	91	15
Nbr of employees	1065	254	64
Revenue per employee	0.145	0.358	0.234
Breakdown by market, 2011 [b]			
Korea	56.4	74.1	39.4
Japan	30.6	20.8	0.0
Rest of World	13.0	5.1	60.6
Breakdown by operations, 2011 [b]			
CDs and online	65.3	34.2	11.1
Others [c]	34.7	65.8	88.9

Notes: [a] Sales in millions of US dollars. [b] In percent of sales. [c] Revenues from management such as concerts, use of portrait rights, advertising, and other entertainment activities (TV shows and dramas, musicals, and films) other than music sales. Sources: Investment prospectus Korea Financial Supervisory Service, DART (Data Analysis, Retrieval and Transfer System: <http://dart.fss.or.kr>) data

At the same time, K-pop companies have also pursued an energetic policy of entering into other visual-intensive activities. In particular, they have been very active in entering the advertising sector, particularly its most “visual” segments, such as cosmetics, fashion and food products, by inducing their idols to become models—a solid basis for ever deeper links between K-pop idols firms and large fashion firms (such between LVMH and JYP). Not only has this diversification brought significant additional revenues to the K-pop companies and their idols, but it has also contributed greatly toward creating “brands”—both at the firm and group level—increasingly recognizable in the world, hence increasingly difficult to copy.

Section 3. Why Such a Rapid Export Success?

A particularly intriguing aspect of K-pop’s export success has been its extremely rapid pace. The existing literature often explains this feature through two arguments that are not very convincing. First is the small size of the Korean music market and the resulting scale economies when going abroad. Yet the Korean market was even smaller from the 1960s to the 1990s when there was no export success; moreover, this argument suggests that the rapid

growth of the whole Korean economy (GDP) compared to other industrial economies should have rather reduced the incentives for exporting K-pop, and increased those for remaining local. The second explanation is the emergence of internet technology that helps to disseminate more quickly and cheaply new audio and visual performances. However these technical opportunities have been available to every company in the world, and their mere existence does not explain why K-pop businesses have used them so well. As argued in the previous section, increasing returns to scale at the distribution stage are a powerful source of success if and only if the “right” choices have been made at the production stage.

As a result, this section examines three alternative explanations to K-pop fast export success which reinforce each other. First is the high level of competition in the K-pop mass market when compared to other OECD markets. Second, the online prices compared to CD prices in Korea have generated stronger incentives to create “variations” within the broad variety in Korea than in other countries. Lastly, the online prices prevailing in other countries compared to the online prices in Korea have induced K-pop firms and their idols to perform in foreign markets as often as possible since they earn much more outside Korea than inside. This section provides evidence supporting each of these explanations.

The Korean K-pop markets: a high level of competition

A relatively high level of competition in the Korean domestic market should be expected to have two self-reinforcing effects boosting exports. Firstly, it should increase the pressure on K-pop firms to be more innovative in the domestic market, hence to be more competitive in non-Korean markets. Secondly, it should also induce K-pop firms to go to “quieter” markets in other parts of the world, that is, to markets where successful titles last longer than in Korea.

Table 7 documents the relatively high level of competition in K-pop markets.¹³ It is divided into two blocks. Block A looks at the concentration in terms of titles and K-pop groups: it reflects thus the level of competition viewed from the perspective of the Korean final consumers. Block B examines the concentration in terms of K-pop companies: it is thus

¹³ Table 7 summarizes very detailed tables that the authors would happily provide to interested readers.

better suited to capture the market power of K-pop firms, in particular with respect to the upstream contributors to the K-pop production, such as songwriters and choreographers.

Table 7 identifies five musical segments which are inter-connected but obey to different economic logics. Prices are very different among these markets: they are substantial for the CD markets, very low for the download and streaming markets, and nonexistent for the YouTube segment. The three online segments are “testing” markets by excellence: Korean consumers can listen to every new K-pop title (the only constraint is their time) since it is very cheap to listen to and/or watch new releases. By contrast, the CD markets tend to be for the “fans,” where consumers satisfy their profound preferences and show their loyalty to a favored K-pop group or idol.¹⁴

Focusing first on the final consumers’ side (block A) provides two main observations: (i) a high level of competition when taking into account all the titles (a low Herfindahl index) and (ii) only some signs of concentration at the C4 level in the CD segment.¹⁵ Shifting the focus to the K-pop companies and their upstream contributors (block B) suggests a slightly lower level of competition, though some market power in the #1 hits segment.

Table 7. Market concentration from the perspectives of consumers and producers

	(1)	(2)	(3)	(4)	(5)
	CD	CD	Downloads	Streaming	YouTube
	#1	Top10	Top10	Top10	Top10
	2010.1-2012.12 (Monthly)	2010.1-2013.3 (Monthly)	2010.1-2012.12 (Annually)	2010.1-2012.12 (Annually)	2010.1-2012.12 (Annually)

A. Concentration from the K-groups (final consumers) perspective

Number of groups	16	88	23	24	12
Number of titles	31	270	30	30	20
Herfindahl index	0.1361	0.0715	0.0553	0.0480	0.4055

Four most successful groups

¹⁴ K-pop companies have a very elaborate policy with respect to their fans in order to create the strongest possible links between them and their favorite K-pop groups. These relations are crucial because the “fans” can have a huge power in some circumstances. In the legal dispute that opposed SM and JYJ (see above) the threat of a petition filed by 120,000 members of the TVXQ fan club supporting JYJ was a key factor.

¹⁵ The period chosen is particularly interesting because it gives enough room to Gangnam Style (hence suggests some hint at the most likely “normal” peak of concentration) without including the period when Gangnam Style was becoming viral (an “abnormality” that will occur probably very rarely) Eliminating the obvious outlier of Psy’s “Gangnam Style” in the YouTube Top10 reduces the Herfindahl index to a low 0.1371, quite in line with the other markets.

Group 1	Super Junior	Super Junior	T-ara	Sistar	Psy
Group 2	Girls Generation	Girls Generation	Sistar	IU	Big Bang
Group 3	Big Bang	Big Bang	Big Bang	Busker	2NE1
Group 4	TVXQ	TVXQ	Miss A	T-ara	Girls Generation
C4 coefficient	64.6	42.1	34.8	28.7	82.6

B. Concentration from the K-companies (upstream contributors) perspective

Number of companies	9	47	16	16	6
Number of titles	31	270	30	30	20
Herfindahl index [a]	0.4371	0.1439	0.0850	0.0938	0.6328
Herfindahl index [b]	0.3111	0.0639	0.0822	0.0911	0.3200
<u>Four most successful companies</u>					
Company 1	SM	SM	YG	YG	YG
Company 2	YG	YG	JYP	JYP	SM
Company 3	C-JES	C-JES	Core Content	CJ E&M	Cube Ent.
Company 4	Rain Ent.	FNC Music	Starship Ent.	Starship Ent.	DSP
C4 coefficient	88.5	58.1	47.9	49.6	97.0

Notes: The Herfindahl index is the sum of the squares of the market shares of the groups/titles or companies. It ranges from 0 (perfect competition) to 1 (monopoly). A Herfindahl index lower than 0.15 is generally considered as a sign of an unconcentrated market, and a Herfindahl index higher than 0.25 as a sign of some dominance. The C4 coefficient is the sum of the market shares of the four largest groups or companies. [a] The Herfindahl indexes are calculated on the market share (sales) of the titles. [b] The Herfindahl indexes are calculated on the market shares held by the companies having produced the titles pertaining to the #1 hits or to the various top 10 entries.

Sources: Gaon Chart for the CDs, Downloads and Streaming columns (provided by KMCIA (Korea Music Content Industry Association) and YouTube. Authors' calculations. Detailed data and calculations are available upon demand.

The level of competition in the K-pop markets observed in Table 7 appears thus higher than in most Western markets when it comes to mass sales (this is not true when it comes to “indies” sales). For instance, only a few dominant companies (Sony, Universal, EMI, BMG or Warner) and independent labels appear in the monthly top-10 of CD sales in the Western markets—compared to 47 companies in Korea (block B, column 2). Such a wide difference in the level of competition between Korean and non-Korean markets can only induce K-pop companies and idols to go to foreign “quieter” markets where their successes could last longer.

The K-pop markets in Korea: a strong push for producing “variations”

What follows focuses on the first set of relative prices, namely the online prices in Korea relative to the CD prices in Korea. Modern societies are characterized by an almost endless appetite for “differentiation”—different “variations” co-existing for any given product or

service. In this respect, the fast and resolute choice for online sales in Korea has been accompanied by a remarkable—maybe unintended and unexpected—feature in its markets compared to the rest of the world: the online sale prices relative to CD prices is much lower in Korea than the corresponding relative prices in other industrial countries. As will be explained in more detail below, this difference in relative prices generates stronger incentives to create “variations” in Korea than in other countries.

Columns 1 and 2 of Table 8 provides evidence supporting this argument by presenting the number of songs (on iTunes or Amazon) that a typical consumer can buy in Korea with the money that he/she would save by not buying a CD. And it provides the same information for a few other selected countries. Instead of buying a CD, a Korean consumer could buy roughly 270 (13.5 divided by 0.05) titles (iTunes early 2012) to 150 (13.5 divided by 0.09) titles (Amazon early 2013). By contrast, a consumer in the other countries mentioned could buy only 10 to 15 titles. In other words, the relative price structure in Korea (online prices relative to CD prices) offers consumers the potential access to roughly 13-20 times more titles than it does for consumers in other industrial countries. Of course, this conclusion assumes that everything else is constant, in particular that Korean consumers do not decide to use part of the money saved when they decide not to buy a CD in order to buy other goods and services than K-pop titles.

Table 8. The K-pop market: huge pressures for more varieties

	Push for varieties: number of down- loads per CD in Korea compared to other countries		High incentives for K-pop to go global: price in a country relative to the Korean price	
	iTunes	Amazon	iTunes	Amazon
	1	2	3	4
Korea	254	145	1	1
Japan	9	9	48	27
Britain	10	12 to 15	29	11 to 13
France	12	10	30	21
Germany	10 to 13	13	24 to 31	14
USA	8	9 to 13	25	10 to 14

Notes: Columns 1 and 2: number of downloaded titles that a consumer could buy if he/she does not buy a CD in Korea and in other countries. Columns 3 and 4: comparing online prices outside Korea to the domestic price (set to 1 for simplicity sake).

Sources: Calculations are based on prices drawn from the following sources. For iTunes prices: Stop Dumping Music Campaign, June 2012. Exchange rates are nominal exchange rates. Authors' calculations. Detailed data and calculations are available upon demand.

Such a price structure in Korea puts a lot more pressure on K-pop companies to produce more titles and groups (“variations”) in order to feed the Korean consumers’ appetite than the price structure prevailing in other industrial countries. This strong pressure for more varieties provides an additional explanation for the surprisingly fast growth of K-pop exports to the rest of the world: Producing more variations for the Korean market increases the capacity and the chances of K-pop titles and groups to satisfy a wider range of tastes and consumers in foreign countries.

In this context, one should interpret carefully the term “variations.” This term does not necessarily mean “originality” or widely different songs or groups. Even a tiny difference between two songs or two groups can be enough to get attention from consumers insensitive to the initial song or group. In other words, “variations” in this context is consistent with the accusations of “*déjà vu*” or lack of imagination that are often addressed to K-pop. This observation deserves a final remark. As stressed in the introduction, a fascinating aspect of the K-pop wave has been its capacity to penetrate so many different societies—Japan as well as the United States, Europe, Middle East as well as Latin America—and so very different groups (age and origin) within each of these societies. A possible explanation for such a capacity is simply the many more “variations” that K-pop companies have pushed as a result of Korea’s domestic price structure. In short, a title may be successful in one region while another title with only slight differences may be more successful in another region.

The world pop markets: high incentives for K-pop to go global

What follows focuses on a different set of relative prices, namely the online prices in Korea relative to the online prices in other countries. This second set of relative prices is thus defined on an international basis. A low relative price in Korea implies that K-pop companies and idols face greater pressure to go global than their foreign counterparts.

Columns 3 and 4 of Table 8 show the ratios of the average online price per title in selected countries compared to the Korean average online price (normalized at 1 for simplicity). They reveal the huge differences between Korea and other selected countries. For instance, the

same K-pop title earns 20-30 times more when bought in the EU or US than when purchased in Korea, and almost 50 times more when bought in Japan.¹⁶

Such huge price differences are likely to be the most direct and strongest force behind the boom in K-pop exports. Clearly, in these circumstances, the most desirable strategy for K-pop companies and idols is to first go as quickly as possible to Japan—by far the most profitable market—then to go the EU markets, and then to the United States. In reality, the US-EU ranking is reversed because the US market is bigger than any individual EU Member State market (there is no EU integrated entertainment market) and because it generates larger reputational effects than any individual European market. These conclusions fit perfectly the observed behavior of K-pop companies and idols [Cho 2012].

Concluding remarks

The above economic analysis on the success of K-pop provides two lessons of utmost importance for countries eager to mimic *Hallyu* (the Korean Wave) in pop-music. Firstly, *Hallyu* has been largely driven by a few very small companies which have been able to make a sound assessment of their comparative advantages in very crowded global entertainment markets, and then took full advantage of the massive scale economies and low distribution costs allowed by internet technologies. Secondly, public support specifically targeting the K-pop idols segment has played no notable role. It has mostly consisted of sponsored public events (indeed when success was already there), such as festivals, invitation of foreign K-pop fans, and other events, raising the question of who is the ultimate beneficiary of these subsidies. As stressed in the case of the Korean film industry by Parc (2015a), K-pop idols did not need this public support because they were already successful, while government officials had strong incentives to engineer the reputation of K-pop idols for their own success.

This issue of success raises two particularly interesting questions for further research. First is whether K-pop is sustainable in the long run. The available answers differ a lot—between

¹⁶ These ratios rely on prices expressed in US\$ based on nominal exchange rates. However, exchange rates based on purchasing power parity would not change so much these ratios because the Korean online price is so low. The PPP exchange rate of the won with respect to the US\$ is roughly 1.40 the nominal exchange rate (for the period covered). The most noticeable change would be the Korea-Japan relative price which would decrease from 48 to 34. This is a substantial decline but it still leaves a huge gap.

those who predict its continuous success and those who argue that a fall will come soon. But, to our knowledge, none of them utilizes economic analysis. Further research based on the economic factors examined in this paper would thus be a useful addition to the existing literature.

The second much debated question is whether *Hallyu* provides any message about Korea or its culture to the rest of the world—in short, its “Koreanness.” Koreans are often skeptical: K-pop is often viewed as simply a small branch of Western-pop music [Lie 2012].

Paradoxically, non-Koreans seem more convinced about K-pop’s “Koreanness”. Maybe, it is due to the fact that, for many of them, K-pop has been a unique opportunity to “open the door” to a Korean culture that they would have never noticed without the energetic help of some K-pop groups and idols. On a priori grounds, economic factors look less decisive for addressing this issue than for the first one. However, as outlined in section 1, cultural aspects, such as language, can interfere deeply with economic factors, hence it deserves some economic analysis.

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