



SM ENTERTAINMENT

Soo-man Lee, the producer of SM Entertainment, smiled while reading an article on his smartphone. On July 20, 2014, various press media were reporting on the success of an SM artist group's first exclusive concert tour in Shanghai. The group gaining so much attention was EXO, a boy band that represented not only the entertainment company but also the entire K-pop genre. Having staged a comeback in May with a new mini album, *Overdose*, EXO was on an exclusive concert tour, called "Exo from Exoplanet #1—The Lost Planet," in major Chinese cities, including Wuhan, Chongqing, and Chengdu. In a two-month period, it was EXO's second visit to the Mercedes-Benz Arena concert venue, after its comeback show on May 11. Just a week earlier, EXO had staged a sold-out, two-day (July 11 and 12) concert in the Taipei Arena in Taiwan. The Chinese fans were very excited about EXO. Minimum ticket prices for EXO's China tour were set at 780 CNY, three times higher than normal concert ticket prices in China.¹ With tickets sold out for all concert tours months in advance, even the Chinese news media provided major coverage of EXO's tour.

EXO made their debut in April 2012, with a single, "Mama." Their first regular album, *XOXO*, was released in June 2013 and sold more than a million copies—the only million-seller in the Korean music industry for the past 12 years.² EXO was created to target the Chinese market. SM scouted members from China and split the group into two subunits, EXO-K (Korea) and

¹ In China, concert ticket prices are generally set between 280 and 1,280 CNY. Even the ticket price for concerts of Chinese star Andy Lau or the American rock band, The Killers, start from 280 CNY.

² The first regular album of EXO was released in Korea as the "Kiss" version and in China as the "Hug" version, and the total sales of the two versions [recorded on December 27, 2013] were 1,007,577 copies (471,570 of the regular album and 536,007 of the repackaged album). The album received the 'Best Album' in the 2014 Golden Disk Awards and 'Album of the Year' in Mnet Asian Music Awards.

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EXO-M (Mandarin), establishing a fan base in both countries. However, producer Lee's goal was yet to be accomplished since EXO-M still had a greater reliance on its Korean members.

In fact, EXO was one of the artist groups that were trained and managed in a way that SM deemed an ideal star management system. Producer Lee, the founding chairman and the one who established the current management system, dreamed of creating a company not just managing artists, and also exporting a proprietary management system. He explained the idea as follows:

A Chinese singer, who sings a Chinese song, written by world's best songwriters, and grows as a global star beyond China. Behind the success story of this singer, however, there exist the know-how and system of SM.³

This was the direction in which SM Entertainment had been moving. The critical target of such a strategy was obviously China, which would be the biggest market in the future. That is to say, EXO was an initial step towards Lee's longstanding vision and, thereby, EXO's achievements represented much more than just their popularity in China. In Lee's view, inclusion of Chinese members in the group lowered the psychological barriers of Chinese consumers, enabling them to view EXO as different from other artists in SM. In line with producer Lee's vision, EXO was a step towards the plan of building a worldwide 'virtual music nation' with SM firmly in the center.

K-Pop

The Korean Wave, Hallyu

On the evening of June 10, 2011, the first European tour of Korean idol groups was held in Paris, France and had a huge success. The 'SMTOWN Live World Tour' concert was first planned as a one-time event for the '2012 Visit Korea Year' campaign. Yet with European fans demanding tickets and organizing a flashmob rally in front of the Louvre Museum in Paris, SM Entertainment immediately set up an additional concert to meet more fans from European nations. For both nights, all tickets were sold out within 10 minutes. The unprecedented popularity of K-pop drew public interest from various media sources. More than 20 European broadcasters, including French state media and the Franco-German TV network Arte, as well as Asian reporters from Sankei Sports and Fuji TV gathered to cover the story. The success of the Paris concert demonstrated the elevated status of K-pop in the global market beyond Asia (**Exhibit 1**). Also important was that the majority of the audiences were not Koreans living abroad, but Europeans, who occupied more than 90 percent of the seats.

As K-pop has gained popularity around the world, Hallyu has moved away from dramas and movies to Korean idol music (**Exhibit 2**). Hallyu, or the Korean Wave, is a compound word of 'Han (韓),' which refers to Korea, and 'Ryu (流),' which means flow.⁴ The term was first coined in 1999 by a Chinese newspaper, *Beijing Youth Daily*, to describe the heated demand among Chinese audiences for Korean cultural products. By 2014, it had become a generic term

³ Subsequent quotes are from interviews unless otherwise noted.

⁴ The Romanization of Korean converts the word Han and Ryu into Hallyu.

for the proliferation of South Korean culture in foreign countries.

The origin of Hallyu could be traced back to the broadcast of the drama ‘What Is Love (사랑이 뭐길래: Sarangyi Mwogilrae)’ by China’s state television broadcaster CCTV in 1997. During this period, the SM boy band H.O.T.’s sold-out concert in Beijing was the initial spark for K-pop concerts to attract widespread teenage audiences and the impetus for radio programs to start introducing K-pop. Hallyu evolved from a regional to a global phenomenon, with Korean dramas attracting large audiences, a major portion of which were foreign. The first television drama of this kind was *Winter Sonata* (겨울연가: *Gyeoul Yeonga* in Japan and the next was *Jewel in the Palace* (대장금: *Dae Jang-geum*) in China, Hong Kong, and Southeast Asia. By the late 2000s, a ‘New Korean Wave (New Hallyu, 新韓流)’ centered around K-pop emerged and the movement spread further into Central Asia, Africa, and the United States. While many governments introduced anti-Hallyu policies for the protection of their own national culture, such policies could not fend off young fans using social networking services (SNS) such as YouTube, Twitter, and Facebook. Korean pop music videos on YouTube drew tens of millions of teenage and young adult viewers around the world.

As a new driving force of Hallyu, K-pop initially gained popularity in the Southeast Asian market with Korean musicians such as BoA, TVXQ!, SHINee, Girls’ Generation, and Rain forming an idol craze. The presence of different nationalities in Korean idol groups helped them gain popularity in their country of origin. Starting with SM boy band Super Junior’s Chinese member Han Geng, other K-pop bands followed the local recruiting model by finding local members, thus increasing popularity in the local markets. An example is Nichkhun, a Thai member of boy band 2PM. In addition, girl groups such as Girls’ Generation and Kara became heartthrobs in Japan and created a following of their dance, makeup styles, and fashion.

Producer Soo-Man Lee & SM’s Producing System

Behind the development of K-pop lies the unique production system created by producer Lee of SM Entertainment. Lee observed that the American music industry, in general, is run by companies that distribute records such as Universal Music, Sony Music, and Warner Music; agency companies (also known as talent agencies) that act as agents for artists such as CAA, WME and UTA; and, in some cases, management companies that take care of artist activities. In Lee’s view, under such an industrial structure it is difficult to expect long-term, sustained investment in talent by a company, and there are also limits to the revenue that an individual company can reap from a particular revenue model. Consequently, when Lee established SM Entertainment in 1995 he introduced a systematic and scientific production system (**Exhibit 3**). SM’s production system integrated the functions of record distribution, agency, and management and enabled the company to make long-term investments in talented artists. The adoption of a new ‘sustainable growth model’ led SM to emerge as the leader in the Korean entertainment industry. While other major Korean entertainment companies such as YG Entertainment and JYP Entertainment followed the same system of SM Entertainment, SM further established an organized production system and a global network of world-class songwriters and choreographers, which in Lee’s view was the source of SM’s competitive edge.

SM’s talent development process consisted of four stages: casting, training, producing, and