

The K-POP Phenomenon: Analyzing Success Secrets of S.M. Entertainment in Global Fandom

Wei Li^{1,a,*}

¹*S.I. Newhouse School of Public Communications, Syracuse University, Syracuse, 13244, The U.S.
a. caroliwei007@gmail.com*

**corresponding author*

Abstract: Korean-pop (K-pop) lead a global phenomenon over the world, K-pop music, Korean TV dramas and Korean movies and other entertainment culture permeates every corner of our life. With the popularity of PSY's Gangnam Style on YouTube in 2012 and BTS attend American Music Awards as the first Korean idol group in 2017, bringing K-pop to more people and attracting more loyal fans. They see their idols as spiritual salvation, buying albums, attending concerts and vote for charts. Behind these loyal behaviors, the sophisticated marketing model of Korean entertainment companies is inseparable. This research will take S.M. Entertainment, one of South Korea's top four entertainment companies, as an example to explore the secrets of K-pop develop strong fandom in the worldwide. To be specific, this research will analyze the strategies of South Korean entertainment companies to build a strong fan empire from four perspectives: business model, social media marketing, cultural branding, and fandom community. By implementing a comprehensive marketing strategy, Korean idols have successfully driven the fan economy and made K-pop grow on the international stage.

Keywords: Korean POP, K-POP entertainment culture, brand management, fandom, social media, cultural branding, community marketing

1. Introduction

In 2012, the song "Gangnam Style" released by Korean rapper PSY became the first video to reach 1 billion views on the YouTube platform [1]. In the decade, Korean-pop (K-pop) has grown rapid and made global phenomenon. According to the survey conducted by Statista Research Department (2022) in 18 countries/regions, about 39% of respondents said that the genre K-pop is "very popular" in their country [2]. BTS is passionately loved by fans around the world, and their highly dedicated fan base, known as ARMY, helped BTS beat the likes of Justin Bieber and Selena Gomez at the 2017 Billboard Music Awards for Best Social Artist [3]. S.M. Entertainment has a lot to do with the global success of K-pop today. In 2003, singer BoA and boy band TVXQ who is managed by S.M. Entertainment were the first K-pop idols to successfully break through the Japanese market [2]. S.M. Entertainment dominates the K-pop industry for two decades, with sales revenue of about 612 million won in 2018, making it the highest K-pop Entertainment company [4].

KPOP is taking off all over the world, and thousands of people around the world are just as crazy about it as BTS fans. Over the decades, KPOP has attracted new consumers and turned them into

loyal fans. This research aims to study the strategies of entertainment companies to build loyal fans worldwide for rethink the commercial value of KPOP based on the case of S.M. Entertainment, a South Korean Entertainment company. In addition, this research explores the word of mouth and brand management strategies of Korean entertainment companies in an era of media fragmentation.

2. Strategy Analysis

S.M. Entertainment is a South Korean independent record label and talent agency. It is one of the largest entertainment companies in South Korea and was founded in 1995 by record executive and record producer Lee Soo-man [5]. S.M., is a abbreviate for "Star Museum", aims to build the company into a star cultivating factory that cultivates and popularizes numerous KPOP stars [6]. The company operates as a music production and publication, talent agency, event management and record label [7]. Over the years, S.M. Entertainment has been leading the Korean Wave as a pioneer of K-pop, gaining a huge global fan base. Currently, its artists include EXO, Super Junior, Girl's Generation, NCT, Red Velet, SuperM, BoA, F (X), aespa, and other artists [8].

2.1. SWOT Analysis

S.M. Entertainment has thrived on its vast business diversification and steady global expansion, becoming one of the most important entertainment companies in South Korea. According to the current situation, S.M. Entertainment's primary strength is the strong brand recognition. S.M. Entertainment is one of the top four entertainment companies in South Korea, former peer to Y.G. Entertainment, J.Y.P. Entertainment, and Hybe Entertainment (formerly Big Hit Entertainment) [9]. In the past 20 years, the success of S.M. Entertainment has enabled it to recruit more than 500 producers, writers, directors and creators, and open branches in many places around the world, like SM Japan, SM USA, SM Entertainment Indonesia, etc [10]. These international talents can help the company expand and enter new markets. In addition, S.M. Entertainment has a high consumer conversion rate. The high switching costs the company has accumulated over the years in its star products and services combo have led to high consumer retention rates, converting new consumers into loyal fans. According to Statista Research Department, SM Entertainment's global sales revenue was 701.6 billion won in 2021. The company's revenue has been growing steadily since 2014, with album sales of its artists occupying an important position in the total revenue [11].

However, no leaf can be perfect on both sides. S.M. Entertainment also has some downside. Although S.M. Entertainment generated a high revenue of 701.6 billion won in 2021, according to their financial statements, both net profit and ROE showed a significant decline, with an average annual loss of 24.4 billion won and an annual ROE of -3.8%. As a result, such losses led the Korea Exchange to announce on May 4 that S.M. Entertainment was downgraded from a blue-chip company to an ordinary mid-sized company [12]. According to Korea Exchange, the sole stock exchange operator in South Korea, if a company's share capital exceeds 70 billion won (\$62,342,476) and its average market capitalization exceeds 100 billion won (\$89,060,680), then a company will reach the blue-chip level within the last 6 months These companies also need to maintain a net profit of 3 billion won (\$2,671,750.80), sales of more than 50 billion won (\$44,529,180) and an average return on equity of 5% over the past 3 years [13]. As a result, a downgrade from the Korea Exchange and poor financial results could discourage S.M. Entertainment from investing in new projects and even affecting its main businesses, such as production and distribution of star products.

In terms of opportunity, S.M. Entertainment can use digital technology and artificial intelligence to build a more comprehensive ecosystem and build new star products and services. Like aespa, the company's new girl group launched in 2020, which introduced the concept of a virtual idol in the future era of artificial intelligence. The project reflects the company's ambitious vision for the future

of the digital age. At the time of the female group's debut, Lee Soo-man, founder and chairman of S.M. Entertainment, said æspa is "the beginning of the future of Entertainment" where real-life idols can coexist with virtual avatars [14]. In the era of artificial intelligence, S.M. Entertainment utilize artificial intelligence and digital to build more comprehensive star products and services for consumers. Finally, the decline in consumer confidence caused by COVID-19 and its impact on the demand for S.M. Entertainment are important factor in threats. Reduced job security, higher living costs, higher interest rates and other factors brought about by COVID-19 will encourage people to save higher income, thus reducing spending and demand for entertainment. These are threats to the existence of S.M. Entertainment.

2.2. Business Model

In terms of entertainment fields, the business model of S.M. Entertainment mainly develops with idol as the center. Income from new albums, concerts and fan meetings released by idols every year, TV series, movies, variety shows and advertisements for the idols are the main income of the company.

In addition, S.M. Entertainment also creates a unique brand image for idol, produce merchandising related merchandising and establish celebrity shop. In addition, S.M. Entertainment will open the licensing of artists' IP and cooperate with other entertainment companies to produce IP. In 2020, as SM's new boy group SuperM release their first full-length album, Super One, the company announced a partnership with Marvel to release unique merchandise that combines SuperM members with hero characters from Marvel movies [15]. On the new media side, S.M. Entertainment has also developed its own fan community applications, Karaoke application and mobile rhythm action game, which are all products derived from the main company idol. In addition, SM Culture & Contents, a subsidiary company, is in charge of entertainment, movie, TV drama production and tourism.

3. Social Media Marketing

In the KPOP world, the emotional bond between idols and fans is strong. If a company wants to stand out in the competitive market, it should skillfully use business-to-consumer marketing (B2C) or business-to-business marketing (B2B) strategies to create market niche [16]. B2C refers to the process of enterprises selling products or services directly to consumers, which is a kind of marketing strategy. B2B, on the other hand, refers to enterprises selling products and services directly to enterprises [17]. Social media marketing, including Instagram, Facebook, Twitter, YouTube, TikTok are all B2C strategies. B2C sales are also the basis of album and merchandise sales. The Korean music industry creates product packages by adding artists' photos, photo cards and posters in album set, which is also a B2C strategy [16]. In the digital age, social media provides a convenient way for fans to check their idols' latest photos or artists' albums anytime and anywhere. South Korean Entertainment companies such as S.M. Entertainment have taken advantage of this by using social media to allow artists to increase their media exposure and build long-term interactive relationships with fans.

3.1. Instagram V.S. Twitter

Instagram, a social platform for photo and video sharing, has long been dominant among young people. According to the social media research conducted by Pew Research (2021), 71% of people aged 18 to 29 say they have used Instagram, and 76% of young people aged 18 to 24 especially like to use Instagram [18]. Korean record and entertainment companies often post concept photos of new albums, music video trailers, and artist introduction packages on Instagram. This consistent strategy not only allows fans to learn about the artist and the upcoming album, but also can mobilize fans to release information about the new album, achieving the effect of secondary communication.

So far, S.M. Entertainment's Instagram account 'SMTOWM' has gained 14 million followers, which share various content about artists and communicate with people around the world [19]. In addition, most SM artists also have their own Instagram accounts, where they can share photos of their lives and live stream them on Instagram to get closer to their fans.

Twitter is more of an information platform than Instagram. K-pop dominates conversations on Twitter worldwide due to the platform's real-time and fast-paced nature. Fans turn to Twitter to connect with their favorite K-pop artists and the #KpopTwitter community around the world. In the most recent year, between July 1, 2020, and June 30, 2021, there were 7.5 billion tweets about K-pop, setting a record for the highest number of K-POP-related tweets per year [20].

Part of the fun for Kpop fans is to re-create whatever they are interested in and share it on social media, and Twitter is the world's largest platform for K-pop fans to share and discuss their ideas. Moreover, K-pop is an industry that indirectly benefits from this creative content, as blogs and fan-fiction sites that share fan-created content can draw attention to previously unnoticed groups [16]. Therefore, S.M. Entertainment takes advantage of this by releasing more interesting content to attract fans, in addition to the usual trailers for artists' new albums and TV series. For example, During the promotion the new album of NCT 127, S.M. curated "texting" on Twitter, in which fans could text and engage with their idols by subscribing. This kind of "fake close" fan service makes fans feel that they are no longer far away from their idols, but can have a real connection with him, and thus become more willing to like their idols.

4. Cultural Branding

Fictional universes have been a trend in the K-pop world in recent years. It is not uncommon for idol groups to have their own universe. YG Entertainment, JYP Entertainment and other companies have begun to carry out joint marketing activities with some relatively mature Metaverse game platforms to promote artists and works by holding Metaverse book signings and uploading Metaverse choreography videos. Over the past few years, S.M. Entertainment has also built its own multiverse for its boy bands EXO and NCT. In the months of leading up the artists release new album, S.M. Entertainment usually announces its artists' schedules in advance. In just a minute or two of tease which contain tons of information and filled with hints and details, the company presented fans with a multiverse full of imagination. This mobilized online communities that gathered on platforms like Reddit to speculate and hype the release. Promotional trailers goals circulated online, making fans feel like they can actually have a positive impact on an artist's career [21].

Past ventures have given S.M. Entertainment a lot of success experience, with the debut of its new girl group Aespa, S.M. Entertainment has steadily revealed S.M. Entertainment's own Marvel-style multiverse, the SM Culture Universe (SMCU) [22]. In this universe, SM's artist groups will be incarnated as different characters with unique identities, plots and stories. S.M. Entertainment will build stories through music, concept videos, and more to shape the SMCU's buzz and impact, thereby establishing the story or concept IP of the brand meta-universe. On the other hand, S.M. Entertainment has partnered with KAIST, one of South Korea's most prestigious science and technology universities, in the fields of artificial intelligence (AI), robotics and cultural technology [23]. With the gradual improvement of the concept of SMCU stories, S.M. Entertainment also began to focus on promoting the realization of the metaverse from the level of the underlying technology. Since 2021, S.M. Entertainment has gradually introduced XR and other new technologies in its concert label "Beyond Live" to innovate stage presentation and communication forms, which has laid an important foundation for the actual implementation of the metaverse [24].

5. Fandom Community

Building fan communities is also an important way for South Korean entertainment companies to build solid fandom. Community marketing is a brand growth strategy that focuses on bringing customers together in an engaging and non-intrusive way that puts customers first around a theme that is consistent with or directly related to the brand [25]. In K-pop, community marketing is all about building a community of fans. Fandoms help artists achieve their comeback goals and encourages companies to invest in artists. There are all kinds of charts in the Korean music industry, whether it's the annual awards or the streaming charts for new album releases, all need the help of fans. Honors and awards can help increase artists' streaming and chart positioning and encourage companies to invest in artists by showing the financial strength of fans.

One direction of devotion and love from fans has a way of running out. As a result, Korean record companies have opened fan clubs. Fan clubs are like forums where fans can freely discuss anything related to their idols. Upon subscription, fans can also view exclusive photos released by the artist, and receive annual official membership cards, kits, and pre-reservation for concerts and other benefits. With the development of technology, S.M. Entertainment has created a more intimate service for fans by opening the KWANGYA CLUB. On the basis of viewing exclusive photos and receiving membership gifts, fans can get more intimate interaction with artists here. By subscribing, fans can receive messages from artists at any time, and they can reply to messages from artists as if they were really chatting with their idols [26]. This "fake intimacy" is a powerful force because fans feel closer to the artist, which makes it feel special, leading to further community engagement.

6. Conclusion

K-pop continues to create greater impact worldwide. Having a great marketing strategy to capture fans is the key to every entertainment company's success. As a representative of Korean Entertainment companies, S.M. Entertainment has attracted a steady stream of fans through its strong marketing team and resources from the three aspects of social media, brand culture and community marketing and has continuously strengthened its fan base. It is hoped that in the future, S.M. Entertainment will continue to combine with new technologies and integrate VR, AR and other cutting-edge technologies to bring fans a more immersive experience.

References

- [1] History.com Editors. (2019) "Gangnam Style" Becomes the First YouTube Video to Reach One Billion Views." www.history.com/this-day-in-history/gangnam-style-first-youtube-video-to-hit-one-billion-views.
- [2] Statista Research Department. (2022) "Popularity of South Korean pop music (K-pop) worldwide in 2021." www-statista-com.libezproxy2.syr.edu/statistics/937232/south-korea-kpop-popularity-worldwide/.
- [3] Benjamin, J. billboard.com, (2018) "BTS at the 2017 AMAs: The Overwhelming Fan Response You Didn't See on Camera." [billboard.com, www.billboard.com/music/music-news/bts-fan-chants-dna-2017-amas-fan-reaction-not-on-camera-8039706/](http://billboard.com/music/music-news/bts-fan-chants-dna-2017-amas-fan-reaction-not-on-camera-8039706/).
- [4] The Wall Street Journal. (n.d.) "041510.KR | SM Entertainment Co. Ltd. Annual Income Statement - WSJ." The Wall Street Journal, www.wsj.com/market-data/quotes/KR/041510/financials/annual/income-statement.
- [5] S.M. Entertainment. (n.d.) "S.M. Entertainment-Introduction." www.smentertainment.com/Overview/Introduction.
- [6] Sharma, K. (2021) "The story of S.M. Entertainment." SOBRE K, sobrek.com/958.
- [7] S.M. Entertainment. (n.d.) "S.M. Entertainment-Strength." www.smentertainment.com/Overview/Strength.
- [8] S.M. Entertainment. (n.d.) "S.M. Entertainment-History." www.smentertainment.com/Overview/History.
- [9] Moya, J. (2021) "Who are K-pop's big 4? Get to know JYP, SM, YG, and HYBE." Tatler Asia, www.tatlerasia.com/power-purpose/business/k-pop-industry-big-4.
- [10] S.M. Entertainment. (n.d.) "S.M. Entertainment-Affiliate." www.smentertainment.com/Overview/Affiliate.
- [11] Statista Research Department. (2022) "Sales revenue of SM Entertainment worldwide from 2014 to 2021." www-statista-com.libezproxy2.syr.edu/statistics/917181/south-korea-sm-entertainment-sales-value/.

- [12] Miller, K. (2021) "SM and YG entertainment downgraded from top-level companies to mid-size companies due to their poor performance and increased losses." JazmineMedia, www.jazminemedia.com/2021/05/sm-and-yg-entertainment-downgraded-from-top-level-companies-to-mid-size-companies/.
- [13] Jay, G. (2021) "YG Entertainment & SM Entertainment downgraded as businesses by Korean Exchange." allkpop, <http://www.allkpop.com/article/2021/05/yg-entertainment-sm-entertainment-downgraded-as-businesses-by-korean-exchange>.
- [14] Liew, K. (2021) "Future of entertainment? Avatars could be K-pop's next superstars." CNBC News, <http://www.cnbc.com/2021/01/11/future-of-entertainment-avatars-could-be-k-pops-next-superstars.html>.
- [15] Kim, L. (2020) "SM And Marvel Announce Launch Of Partnership Starting With SuperM." Soompi.com, www.soompi.com/article/1427664wpp/sm-and-marvel-announce-launch-of-partnership-starting-with-superm.
- [16] Bland, E. (2019) "How "Smart" Are K-Pop Fans: Can the Study of Emotional Intelligence of K-Pop Fans Increase Marketing Potential?" *Culture and Empathy: International Journal of Sociology, Psychology, and Cultural Studies*, vol. 2, no. 2, 2019, pp. 105-115, doi.org/10.32860/26356619/2019/2.2.0004.
- [17] Kenton, W. (2003) "Business-to-Consumer (B2C): What You Need to Know." Investopedia, www.investopedia.com/terms/b/btoc.asp.
- [18] Brooke, A., Monica A. (2022) "Social Media Use in 2021." Pew Research Center: Internet, Science & Tech, www.pewresearch.org/internet/2021/04/07/social-media-use-in-2021/.
- [19] S.M. Entertainment. (n.d.) "SM Entertainment-SNS." www.smentertainment.com/NewMedia/SNS.
- [20] Kim, Y. (2021) "K-pop Sets Another Record on Twitter with 7.5 Billion Tweets in a Year." Twitter Blog, blog.twitter.com/en_us/topics/insights/2021/kpop-sets-another-record-on-twitter-with-7-billion-tweets-in-a-year.
- [21] Borg, J. (2022) "5 Ingenious K-pop Marketing Strategies." AmplifyYou, amplifyyou.amplify.link/2022/05/k-pop-marketing-strategies/.
- [22] Daly, R. (2021) "SM's Culture Universe Could Be K-pop's Most Ambitious Alternative Universe Yet – but Can It Be Pulled Off?" NME, www.nme.com/features/music-features/sms-culture-universe-pop-most-ambitious-alternative-pull-it-off-2995464.
- [23] Dong, S. (2021) "SM Entertainment Signs MOU with KAIST for 'metaverse' Research." Koreatimes, www.koreatimes.co.kr/www/art/2021/06/732_311043.html.
- [24] S.M. Entertainment. (n.d.) Beyond LIVE, beyondlive.com/.
- [25] Abe, S. (2021) "Community Marketing: Why Building a Community Around a Brand Fuels Growth." AdRoll, www.adroll.com/blog/community-marketing-fuels-growth.
- [26] Kim, J. (2022) "SM to Start Fan Community "KWANGYA CLUB" on September After Test Operation." Yonhap News Agency, m.k-odyssey.com/news/newsview.php?ncode=1065591911277097.