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The Success of K-pop

How Big and Why So Fast?

*Patrick A. Messerlin**

Sciences Po Paris

Wonkyu Shin

Kyung-Hee University

Abstract

Over the past decade, a specific form of Korean popular music—K-pop—has enjoyed huge success around the world. Previous explanations have mostly focused on the demand side, such as intra-Asian cultural relations. This paper shifts the focus onto the supply side. Firstly, it presents new evidence on the scale of K-pop’s success in markets—with price-tags or no price-tag. Secondly, it argues that K-pop firms have been successful because they have made the “right product selection”: They have delivered the performances that have best exploited the comparative advantages that Korea has in global entertainment markets. Finally, this paper examines three major factors explaining the rapidity of this success. Two of them—level of competition and online prices relative to CD prices—have taken place in Korean markets, but have had indirect effects on K-pop’s attractiveness in foreign markets. By contrast, the third factor has taken place directly in foreign markets.

Keywords

cultural industries – music industry – K-pop – YouTube – audio vs. visual inputs – comparative advantages – trade in services – online vs. offline sales

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Introduction

In 2012, Korean rapper Psy's smash hit "Gangnam Style" brought to the attention of the world "K-pop"—a form of Korean popular music based on boys and girls "idol" bands.¹ It was not the first time that Korean products have emerged in the world entertainment sector though. Since the 1950s, Korean movies have attracted international praise, one of the latest illustrations being the awarding of the Golden Lion to *Pieta* at the 2012 Venice Film Festival. Simultaneously, TV dramas have also been promising. The first big Korean success occurred in 2002 when *Winter Sonata* became a major hit in Japan, opening the door to many similar success stories in East Asia. The 2014 drama, *A Man from the Stars*, a big hit in China, is the most recent example. However, despite their success, Korean cinema and TV dramas remain often too limited either in quantity (movies) or in geographical scope (Korean TV dramas have so far only been really successful in East Asia).

K-pop is different. First, it has enjoyed a continued run of success for the past 15 years—a longer span of time than the golden years of the Hong Kong movie industry (from the late 1980s to late 1990s) or the Japanese J-pop wave (during the 1990s). Second, it has drawn in huge audiences in Japan and across Southeast Asia since the early 2000s, paving the way into the rest of Asia and other parts of the world since the late 2000s. Last, but not least, a significant number of K-pop groups have achieved regular chart hits around the world, prompting Billboard to launch a global chart entitled "K-pop Hot 100". Furthermore, YouTube created a specific K-pop entry to its existing musical entries. All combined, these trends give the impression that the popularity and success of K-pop are developing into a true global force.

While the success of K-pop is obvious, the reasons for it are less so. Why has it become so popular and how was it able to spread around the world so quickly? To answer these two questions, this paper will present its analysis in four sections. Section 1 will briefly review the three main reasons suggested so far: cultural factors, Korea's political and economic environment, and the role of the Korean government. These explanations are not so convincing when one focuses, as this paper does, on K-pop idol boy and girl groups—an entertainment sector distinct from other forms of Korean popular music, such as ballad, rock and other genres that are very lively in Korea but so far little known outside of the country. Section 1 argues that these explanations are

1 "Idols" is the term most frequently used in Korea to refer to the members of famous K-pop bands.

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than as representatives of Korean popular culture or as ambassadors of the national brand. Indeed, many Koreans do not recognise these stars or groups as channeling strong elements of “Koreanness” (Lie, 2012).

Economic Factors and Trade Theory

The limits of the above explanations suggest exploring other reasons that may explain the success of K-pop idol groups. The factor that emerges as most important is related to economic issues, namely the specific role of (a few) Korean firms and markets in the entertainment industry—a point left aside or only briefly or superficially evoked in the previous explanations.

The introduction of this economic factor began a decade ago with papers using Porter’s diamond model (Ko, 2005; Lee and Lee, 2007). However, the most convincing analysis based on this model is a recent study by Parc and Moon (2013). They use a generalised double-diamond model that relies on four key determinants (factor conditions, demand conditions, related and supporting sectors, and business context) with the incorporation of international activities needed for achieving international success. Their study then develops a systematic analysis for picking up key variables that could be associated with each of these determinants and that could explain and assess the current success of the Korean Wave and its sustainability. Although this analysis focuses on Korean dramas and films, it seems easily transferable to the K-pop idol groups.

From a broader context, this paper adopts a more specific economic approach. First, it measures in a more precise and economically-sound way the magnitude of K-pop’s success, an effort that has not been pursued enough in previous studies. Next, it concentrates the analysis on supply factors, particularly those related to international success. This means that trade theory, as a branch of economic analysis, is particularly well suited toward examining the behaviour of the main actors—first and foremost the K-pop firms. Finally, it examines three special features of the pop music industry in which K-pop firms have operated as a way to better understand why its success has been so rapid.

Section 2. Measuring the Success of K-pop

Most studies on K-pop underline the large scale of its success. However, they provide little evidence of such growth. This section will aim to address this lack of information. It will first show the impressive growth of the Korean domestic music industry as a whole over the last decade and compare it with other countries. The fact that by definition such an approach focuses exclusively on

TABLE 1 *The Korean music industry, million us dollars*

	2006	2007	2008	2009	2010	2011	2012	2013
Domestic sales	1,224.6	1,287.4	1,195.1	1,098.7	1,387.7	2,074.2	2,205.3	2,534.1
Value Added	801.6	847.5	859.9	802.2	989.2	1,442.8	1,477.7	1,557.1
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

Note: These data include all music-related business (κ-pop and non κ-pop), except Karaoke sales.

SOURCE: MCST AND KOCCA (2013, 2014).

goods and services with a price tag is a serious limitation. Today's entertainment industry is one where a diverse range of distribution channels exists, often with no price tags, such as YouTube or Naver. In this regard, this section will provide evidence on the "visibility" aspect of κ-pop idol groups around the world in this highly important "price-free" sector. It will conclude by providing two preliminary lessons for public policy approaches.

The Korean Music Industry: Growing and Catching Up

Table 1 presents domestic sales, value added, and exports and imports of the Korean "music industry". This term covers thus both the κ-pop idol groups, on which this paper focuses, and the rest of the Korean popular music (ballad, rock, etc.).

The total sales and value added of the Korean music industry (κ-pop and non-κ-pop) exhibit high annual average growth rates of roughly 11–12% over the period 2006–2013 (MCST and KOCCA, 2013, 2014). This is three times the annual average growth rate 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 counterparts in developed countries that broadly have a similar economic size to Korea, such as some large European countries. Table 2 compares the size of the Korean and French music industries as defined by the national accounts of the two countries ("production and distribution of recorded music").² The small time period

² The small number of years involved is imposed by the French national accounts for two

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TABLE 2 *A comparison of the Korean and French music industries, 2009–2011*

	2009	2010	2011
France	2,078.9	2,252.5	2,409.5
Korea	1,098.7	1,387.7	2,074.2
in % France	52.8	61.6	86.1

SOURCES: MCST AND KOCCA (2013, 2014); INSEE (2016)

covered in Table 2 (2009–2011) is not a significant problem since the development 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 corresponding French sector in 2009. In 2011, it was 86% of its French counterpart—the result of an average annual growth rate of 11–12% in Korea, compared to 2% in France. Taking into account the stagnant French market and continuing growth in Korea since 2011, the Korean music industry is almost certainly larger than the French one today.

The growth of κ -pop exports has been even more impressive than its sales growth: 17 times more between 2006 and 2013—an average growth rate of 62% per year. There is a consensus among the observers of the Korean music industry that this boom has been driven almost entirely by κ -pop idol groups. Once again, it could be argued that this export growth is only remarkable because the baseline was extremely low. However, two observations reveal the limitations of this argument. First, the ratio of exports to sales has increased even though the denominator of the ratio (domestic sales) has greatly increased itself. Second, a comparison with France is again informative. The current exports of κ -pop have roughly the same size as French exports of music that were estimated to be worth US\$300 million in 2011 (INSEE, 2016).

To our knowledge there is no available systematic data on the last key aspect of the growth of κ -pop idol groups: The internationalisation of its production process. It is very unfortunate because it took very little time for the leading κ -pop companies to realise that they could not rely on a purely Korean production base if they really wanted to go global. As a result, they have devoted

reasons. First, the methodology was slightly different before 2009. Second, such detailed information is not available for the years after 2011, except as estimates.

much of their efforts toward building their own “global production chain”—hiring performers from East Asia and South East Asia in order to target specific local markets, as well as songwriters, choreographers and designers from the United States and Europe (Parc, 2015b).³

K-pop Idol Groups: Impressive Visibility by Global Standards⁴

The above evidence does not provide an accurate measure of the “visibility” of artists in a digital economy that delivers many performances at low cost all over the world. In such a context, an indicator such as the number of clicks (views) on YouTube provides, despite its limitations, a greater sense of what is going on. It is also informative from a cultural perspective because the free access to YouTube videos minimises economic constraints contrary to pricey CDs or DVDs, hence enables the culture of a country to be 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 K-pop bands perform strongly when compared to French and Japanese artists, they also fare well when compared to those superstars that sing in English.

The mere number of clicks (views) on YouTube videos 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 a specific song.

The resulting “visibility ratio”—the number of clicks divided by the number of native speakers—reveals an even more surprising result. K-pop idol groups have on average a 60% higher visibility ratio than English-language performers, an outcome that reflects a better (in relative terms) outreach to non-Korean-speaking markets than is the case for English-speaking titles in non-English-speaking markets.⁵ This result deserves two comments before being fully accepted.

3 In 2011, this 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 either together or separately. There are unconfirmed rumors that K-pop firms have begun to look at Korean-Europeans.

4 This entire section relies upon the analysis from Messerlin (2015).

5 For Korea, in Table 3, native speakers exclude North Koreans who have very limited access to the Internet.

TABLE 3 *Pop-music visibility in a digital world: Selected biggest hits*

Performers	Year	Titles	Clicks on YouTube (million)	Native speakers (million)	Clicks per native speaker
Mega-hits					
Psy	2012	Gangnam style	2,463	56	43.98
Justin Bieber	2010	Baby	1,247	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>			1,920	1,440	1.33
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>			732	336	2.18
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 6 DECEMBER 2015

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visibility during a relatively low-ebb period, meaning that Table 4 may not fully reflect 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).

The surprisingly low number in Korea has several implications. Arguably, it shows that many Korean consumers are not interested in κ -pop idol groups, but are rather more interested in the other forms of Korean popular music (ballad, rock) that are not covered in this paper. Turning to the rest of the world, Table 4 provides several further insights. First, it shows how attractive κ -pop is among countries of Chinese culture—echoing the cultural proximity argument. Second, it lists some unexpected countries that hold no cultural ties with Korea: Saudi Arabia, Chile and Peru—in sharp contrast with the cultural proximity argument. Third, it shows that the Japanese share in κ -pop products with no price tag (21% in Table 4) is much smaller than those with a price tag (70–80%, see Table 6 below) of which Japan has a dominant overall share. This result is interesting in two respects: it underlines the very wide coverage of κ -pop around the world, and at the same time it reflects the strong bias the Japanese have in favour of buying CDs and DVDs (a feature that makes the Japanese market so important for κ -pop financial results). In other words, Table 4 confirms the reliability of the results from Table 3.

To conclude, the high visibility ratios of κ -pop idol groups in Table 3 confirms (indeed amplifies) the growth pattern of κ -pop exports as measured in Table 1—an amazing success for an industry that only 15 years ago was struggling for its own survival and secured its niche market only a decade or so ago.

Lessons for Public Policy Approaches

This result has two important implications in terms of public policy. First, it strongly suggests that innovative business strategies are what counts most. All the κ -pop performers listed in Table 3 (including Psy) are associated with two Korean entertainment firms (SM Entertainment and YG Entertainment) that had very limited assets and industrial networks when they started two decades ago. Furthermore, they did not receive any notable support from the government. Instead, they have made the right choices in terms of the type of entertainment performances to deliver, as underlined in the next section.

Second, comparing κ -pop, French and Japanese visibility ratios shows how protective policies are inefficient and costly—including for their intended beneficiaries. Since 1996, France has imposed increasingly tight "radio quotas" that assign a percentage (40%) of prime time radio programmes 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 their domestic music market—convenient and cozy but becoming increasingly smaller by global standards. In other words, a protective public policy may hurt not only listeners, but also the performers that it aims 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 chose to perform in English (hence, have been excluded from prime-time radio quotas in France) confirm that what counts are innovative business strategies based on cultural creativity matter. Not only do their visibility ratios fare very well by international standards,⁶ but, ironically, they are seen as emblematic of the “French touch” around the world. Finally, Table 3 documents the interesting case of 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 a lot of attention from non-French speaking audiences, notably in Sub-Saharan Africa. However, it is interesting to note the huge gap between the visibility ratio between Stromae and Psy: It is very likely reflective of the greater visual intensity of Psy’s performance than that of Stromae’s.

Japan’s (sometimes very) low visibility ratios are not directly related to “protective” policies or 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 approaches that are focused on DVDs and offline sales.

To conclude, Korean policies tend to be friendlier to consumers and, at the same time, to innovative producers by avoiding protective public policies and restrictive private practices. However, what may characterise them 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 more equal “balance” between authors, publishers or labels, and readers or listeners than the stringent regulations enforced in the United States or Europe (Parc et al., 2016). Hence, they do not generate the excessive rents for labels (and for the most successful performers) that occur with overly stringent copyrights. In short, they spur future creativity more than they reward past achievements.

6 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 most accurate, even if it may to some extent have an under-estimating bias.

Section 3. κ -pop's Recipe for Success: Private Strategies Benefiting from Public Infrastructure

The success of κ -pop has been driven by two actors. The crucial one has been the three leading κ -pop firms and their followers because they have succeeded in selecting the entertainment “products” (songs and performances) that are most in line with the comparative advantages that Korea enjoys in the world entertainment industry. An economic analysis particularly useful for examining rigorously this issue—the adequacy between the products delivered by the industry of a country and its productive capacities—is trade theory. This section, thus, begins by presenting a trade model that allows for an assessment on the extent to which the “product selection” of these κ -pop firms has been in line with Korea’s comparative advantages.

The other actor was the Korean government that developed the country’s Internet infrastructure ahead of anywhere else in the world. This project was very ambitious in terms of size and the use of advanced technology. It is important to underline that this infrastructure programme did not have in mind the κ -pop industry, which was insignificant when the Internet infrastructure project was launched in the late 1990s. But, as argued above, it was an essential component for κ -pop’s strong and rapid rise because κ -pop idol firms have quickly learnt how to use it—not an obvious choice given the slow pace at which Western entertainment firms have adopted Internet-based strategies. And, it happens to be all the more beneficial because Internet technologies have made possible the permanent “visuality” of κ -pop entertainment performances via web portals (Naver, Daum, YouTube and Youku, among others). κ -pop performances further benefited from ubiquitous portable screens like smart phones and tablets (Lee, 2009), as well as a host of “social networks” (Jung and Shin, 2014).

The assessment of these two actors deserves one final remark. Embracing forcefully Korea’s Internet infrastructure would have been of little help if the κ -pop firms had not adopted the right product selection. The reason for this is simple: Efficient Internet-based distribution cannot transform inadequate production selections into profitable operations.

*The Product Selection of κ -pop Firms: A Trade Analysis*⁷

The existing literature reviewed in Section 1 focuses on the demand side of κ -pop’s success: It argues that κ -pop has been attractive because it has been

7 This section relies upon Messerlin et al. (2015).

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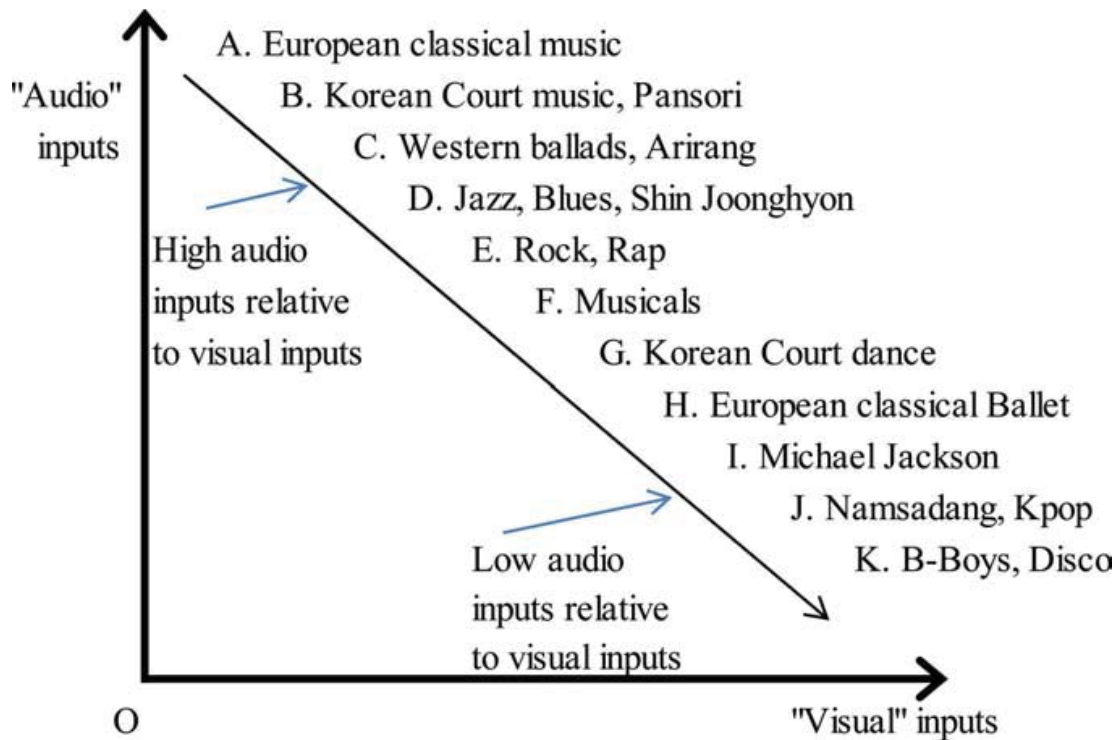


FIGURE 1 *Types of entertainment: relative intensity in audio and visual inputs*

inputs (relative to visual inputs) than other types. For instance, European classical music or Korean *pansori* (traditional storytelling performed by a vocalist and a drummer) are relatively intensive in audio inputs: listeners can fully enjoy these products even if their visual inputs are limited. At the other end of the spectrum, disco or B-boying requires more visual inputs relative to audio inputs: watchers can enjoy performances even if the audio inputs are limited. Such an approach makes it conceptually possible to rank all the different types of entertainment according to their intensity in audio relative to visual inputs. Figure 1 suggests an illustration of such a ranking for a few types of entertainment.

With such a ranking, most observers classify the idol K-pop music as a type of entertainment relatively intensive in visual inputs (Russell, 2008). The key question is whether or not Korea is richer in visual inputs relative to audio inputs when compared to the rest of the world. Before answering this question, it should be stressed that what is important for this trade model is “relative” abundance: The fact that Korea can be considered as “relatively richer” in visual than in audio inputs does not mean that it is poor in audio inputs. It may have a large pool of skilled singers, but it has an even larger pool of talented dancers, when compared to the two pools of inputs available in the rest of the world.

Five fact-based observations converge to suggest that Korea is indeed richer in visual than in audio inputs when compared to the rest of the world. First,

Korea excels in B-boying—a key ingredient in K-pop dancing. It has benefited from the fact that over the last 15 years Koreans have won half of the top world tournaments in B-boying, and a notable number of K-pop stars were previously B-boying performers. Second, Korea still has a very lively tradition in popular dancing. Indeed, K-pop groups utilise the various skills of its members in ways that echo the techniques of Korean traditional dance (*Namsadang*)—a parenthood that gives K-pop performances a distinctive flavour in the world entertainment industry. Third, the pool of Korean dancing skills extends even to classical dance, with many Korean dancers working in Western ballet companies. This implies that those young Koreans who may hesitate in choosing between K-pop or classical dancing could opt for the former if its revenues are attractive enough. Fourth, Korea's relative abundance in visual inputs has been exploited by K-pop idol firms at a time when there has been a marked decline of boy- and girl-groups in other parts of the world, amplifying by the same token Korean relative abundance in this area. Fifth, turning to the audio inputs, the Korean pool of talent is constrained by the language barrier, which is still crucial for conveying and sharing emotions around the world. Indeed, this last aspect is reflected by the large differences in the “visibility” of Korea's biggest hits depending on whether it is adjusted, or not, by the number of native speakers (see Table 3).

To sum up, K-pop idol firms have produced the type of entertainment that uses intensively the visual inputs that are relatively abundant in Korea—precisely the product selection that would ensure K-pop's sustainable success in international competition, according to the Heckscher-Ohlin trade model. This conclusion deserves one final remark. This adequacy has not been achieved rapidly and without serious effort. It has required a long and costly process of trial-and-error for K-pop firms. These difficulties are not specific to the K-pop case: Economic history abounds about producers of all types of goods and services misjudging the comparative advantages of their country, selecting the wrong products or services to export and, as a result, failing in world markets.

The Online Strategy of K-pop Firms

Once they have selected the right products to promote, the K-pop idol firms had to address the distribution and marketing issues. Parc (2015b) provides a thorough analysis showing how Korean music companies have been the first in the world to fully realise the potential of new Internet technologies for the distribution and marketing of K-pop performances.

Korean firms have moved quicker than their Western counterparts to exploit online strategies due to three main and mutually reinforcing reasons. First,

Korean electronics companies have become leaders in Internet-related hardware, making K-pop companies more aware, and earlier, of the latest and future technological opportunities than their competitors in other OECD countries.⁹

Second, these new technologies, compared to other formats prevailing in the late 1990s, were perfect for small businesses like the leading K-pop companies due to their much smaller requirements in terms of investment and their much lower entry costs. At the same time, the government made Korea the most wired OECD country by 2004 (twice as much as its immediate follower) and is still among the top 4 since 2010 (OECD, various years).

Last, but not least, K-pop companies were not running plants producing CDs or DVDs unlike their Japanese counterparts. Hence, they had no vested interests in sticking to this format when the huge macroeconomic shock of the 1997–1998 Asian financial crisis hit the Korean economy. The subsequent decline in the CD market was, thus, much earlier and 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) and 69 (2002). For a comparison, CD sales in the United States reached their peak in 2000, and fell to the index 69 only 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 more developed in Korea than in any other major OECD country. The online sales share in the five other countries in 2012 was roughly the equivalent of the Korean share in the early 2000s, reflecting a lag of almost a decade. In 2012, the value (in US dollars) of online sales in Korea was 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 in Korea. In value terms, the Korean online market in 2012 was three times larger than the German or French markets.

The Strategies of K-pop Firms

The three K-pop companies share one common feature: They are small or even tiny in terms of revenues, as well as in employees. This contrasts greatly with the large major labels, such as Universal or Sony. The K-pop companies have often been short of capital throughout most of the years covered by this paper—even if they are now trading on Korea's Stock Exchange. Recently, the world's largest luxury firm LVMH invested in one of them: YG. Naturally, the success of these three initial companies has attracted new ones in the

9 K-pop has benefited from the direct role of some members of the Samsung family (Russell, 2008; Lee, 2009).

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access to the advertising sector, particularly its most “visual” segments, such as cosmetics, fashion and food products, by inducing their stars to become models—a solid basis for ever deeper links between K-pop firms and large fashion firms, such as LVMH and JYP. Not only has this diversification brought significant additional revenues to K-pop companies and their stars, but it has also contributed greatly toward creating “brands”—at the firm level and even at the K-pop group level—increasingly recognisable in the world and, hence, increasingly difficult to copy.

Section 4. 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. If there were some truth to this argument, 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 performances more quickly and cheaply. However, these technical opportunities have been available to every entertainment company in the world. As argued above, the success enjoyed through the Internet was above all due to the right product selection, since production precedes distribution.

As a result, other reasons should be explored. This section will examine three alternative explanations that reinforce each other. First is the high level of competition in the K-pop mass market when compared to other OECD markets. Second, online prices compared to CD prices in Korea have generated stronger incentives to create “varieties” (different variations on a song or a dance move) within the K-pop idol group sector than in other countries. Lastly, because online prices have been higher in other countries compared to those in Korea, K-pop firms and their idols have been induced to perform in foreign markets as often as possible since they could earn much more abroad than at home. This section provides evidence supporting each of these explanations.

All these explanations focus on the supply side of K-pop’s success. However, they differ on one important aspect. The first two—competitive domestic market and strong push for varieties—examine indirect effects: The initial

cause occurs in the Korean market, but it has spill-over effects on non-Korean markets enhancing the export capacities of κ -pop firms. By contrast, the third explanation investigates a direct effect: It deals with the behaviour of κ -pop idol groups and firms directly in foreign markets.

High Level of Competition in the κ -pop Market

A relatively high level of competition in the Korean domestic market should be expected to have two effects on export capacities. These effects are indirect—they occur in Korea but have spill-over effects in the foreign markets. First, a relatively high level of competition in the Korean market should increase the pressure on κ -pop firms to be more dynamic producers in the domestic market. In turn, more dynamic κ -pop firms in Korea are likely to improve their export capacities to non-Korean markets. Second, it should also induce κ -pop firms to go to “quieter” markets located in other parts of the world, with the hope that successful titles in Korea could last longer in the foreign markets than they do in Korea. Both effects are related to the supply side, since they reflect the competitive behaviour of the κ -pop firms.

Table 7 documents the relatively high level of competition in the κ -pop market.¹⁰ It is divided into two blocks. Block A looks at the concentration in terms of titles and κ -pop idol groups: It, thus, reflects the level of competition viewed from the perspective of the Korean final consumer. Block B examines the concentration in terms of κ -pop companies: It is, thus, better suited to capture the market power of κ -pop firms, in particular with respect to the upstream contributors (songwriters and choreographers, among others) to the κ -pop production.

Table 7 identifies five inter-connected musical sections obeying different economic logics. Prices are very different among these markets: they are substantial for the CD market, very low for the download and streaming markets, and non-existent for the YouTube one. The three online segments are “testing” markets by excellence: Korean consumers can listen to every new κ -pop title (the only constraint is their time available for listening music) since it is very cheap to listen to and/or watch new releases. By contrast, the CD market tends to be for the “fans,” where consumers satisfy their profound preferences and show their loyalty to a favoured κ -pop group or idol.¹¹

¹⁰ Table 7 summarises very detailed tables that the authors are able to provide to interested readers upon request.

¹¹ κ -pop companies have a very elaborate policy with respect to their fans in order to create the strongest possible links between them and their favourite κ -pop groups. These

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TABLE 7 *Market concentration from the perspectives of consumers and producers (cont.)*

	(1)	(2)	(3)	(4)	(5)
	CD	CD	Downloads	Streaming	YouTube
	#1	Top10	Top10	Top10	Top10
	2010.1–2012.12	2010.1–2013.3	2010.1–	2010.1–	2010.1–2012.12
	(Monthly)	(Monthly)	2012.12	2012.12	(Annually)
			(Annually)	(Annually)	
B.	Concentration from the κ-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 higher than in most Western markets when it comes to mass sales (this is not true when it comes to “indie” music 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 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-

TABLE 8 *The K-pop market: huge pressures for more varieties*

	<u>Push for varieties: number of downloads per CD in Korea compared to other countries</u>		<u>High incentives for K-pop to go global: price in a country relative to the Korean price</u>	
	iTunes 1	Amazon 2	iTunes 3	Amazon 4
Korea	250	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.

pop companies and idols to go to the relatively “quieter” foreign markets with the hope that their success will last longer than in Korea.

The Strong Push for Producing “Varieties” in the K-pop Market

This second indirect effect is driven by a set of domestic relative prices, namely online prices relative to CD prices in Korea. Modern societies are characterised by an almost endless appetite for “differentiation”—different “varieties” 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 of the domestic Korean market compared to non-Korean markets: Online prices relative to CD prices are much lower in Korea than the corresponding relative prices in other industrial countries.

Columns 1 and 2 of Table 8 documents this point by presenting the number of songs (on iTunes or Amazon) that a typical consumer can buy in Korea—and in a few other selected countries—with the money that he/she would save

by not buying a CD. Instead of buying a CD, a Korean consumer could buy roughly 250 (13.5 divided by 0.05) songs (iTunes, early 2012) to 145 (13.5 divided by 0.09) songs (Amazon, early 2013). By contrast, a consumer in the other countries examined could buy only 10 to 15 songs. In other words, the relative price structure in Korea (online prices relative to CD prices) offers domestic consumers the potential access to roughly 13–20 times more titles than the foreign price structure in foreign countries offers foreign consumers.¹³

Such a price structure in Korea puts a lot more pressure on K-pop firms to produce more differentiated songs and groups—more “varieties”—in order to feed the appetite of Korean consumers than the pressure imposed by the price structure prevailing in other industrial countries. Producing more varieties for the Korean market, at the same time, is likely to increase the opportunities for K-pop idol groups to satisfy a wider range of tastes and consumers in foreign countries. This effect is thus indirect, and to a certain extent unintended—the success of K-pop in the Middle East was surprising for many observers. Once again, it is a supply effect: it is the increase of the diversity of the K-pop supply that triggers the effect, while the world demand is given.

In this context, one should interpret the term “varieties” carefully. 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 impervious to the initial song or group. In other words, variety, 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 literature, a fascinating aspect of K-pop has been its capacity to penetrate so many different societies. A possible explanation for such a capacity is simply the many more varieties that K-pop companies have produced as a result of the domestic price structure. A title may be successful in one country or region, while one of its—possibly only slightly—different varieties may be more successful in another country or region with a different culture.

Strong Incentives for K-pop to Go Global

The third effect is “direct”: It directly involves the foreign markets. It is based on a different set of relative prices defined on an international basis, namely the online price in Korea against the online price in other countries. A relatively

13 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.

low price in Korea implies that K-pop producers—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 (normalised at 1 for simplicity). They reveal the huge differences between Korea and other selected countries. For instance, the same K-pop song pays 20–30 times more when bought in the EU or the United States than when purchased in Korea, and almost 50 times more when bought in Japan.¹⁴ This situation does not mean that foreign consumers pay higher prices when they buy Korean songs or purchase tickets for K-pop events compared to what they pay for similar performances made by domestic entertainers. In most of the cases, they pay similar prices, once adjusted for quality or reputation. This situation simply means that K-pop groups and companies can charge more for their songs and events in foreign countries compared to what they can charge in Korea, again a supply-side effect.

Such huge price differences are likely to be the most direct and strongest force behind the boom in K-pop exports. In such circumstances, the more desirable strategy for K-pop companies is clearly to go abroad as quickly as possible: First to Japan—by far the most profitable market—then to the EU markets, and finally 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 the observed behaviour of K-pop companies perfectly (Cho, 2012).

Concluding Remarks

This paper has examined two important questions on K-pop—an entertainment activity centred on boy- and girl-bands. First, how successful has it been? This paper provides new and more detailed statistical evidence of the impressive magnitude of its success. In less than two decades, the Korean music industry has reached a size close to those of the industries of large European

14 These ratios rely on prices expressed in US\$ based on nominal exchange rates. However, exchange rates based on purchasing power parity would not change these ratios so much because the Korean online price is so low. The PPP exchange rate of the Won against 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.

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