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Sample Case Analysis #1

Qualification Round submission from the
2018 NIBS Worldwide Case Competition, Guatemala

Case: *CJ E&M: KCON Goes Global*

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CJ E&M: KCON GOES GLOBAL

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Executive Summary

CJ Entertainment & Media faces challenges on several fronts: low brand awareness, a risk of fading concept relevance, high production costs, and heavy reliance on sponsors. After developing and evaluating several options, we recommend a concept dubbed 'Digital Event'. We present an implementation plan and financial analysis which support the feasibility of our plan and quantify its benefits.

Introduction & Issue Identification

CJ Entertainment & Media created a new Korean music and cultural festival called KCON, which it has successfully expanded across the globe over the past five years thanks to a first mover advantage and the company's capabilities in planning and organizing large events. Vice Chairwoman Miky Lee is searching for the right strategy to expand the event on a global scale and increase the profitability of the concept. The challenge is to ensure the continuity of KCON and maximize its contribution to the CJ Group.

CJ E&M faces several obstacles in its efforts to grow the business. The first is finding sponsors; it is difficult to convince them that KCON is a beneficial investment. The second is low brand awareness; there are still many stakeholders that are unaware of KCON, which makes gaining revenue streams challenging. The third is the need to maintain relevance of the basic product concept because this market is highly sensitive. The last key issue is their high production costs; in some events these have increased by up to 50%.

Analysis

Internal

The Business Model Canvas (Appendix 2) highlights that, since the current customer base is relatively small, **brand awareness** should receive extra attention. The company should aim to increase the visitor return rate from 36%. Also the **dependence on sponsorships** creates tension on profitability. Due to the **general low margins** within this branch, financial resources are limited.

Stakeholder analysis (Appendix 3) clarifies that the parent company, **CJ group**, is the most critical factor in ensuring the continuity of the events, as they provide the financing, expertise and logistical support. Furthermore, the target group—millennial K-culture fans—has not yet been fully tapped.

External

As SWOT analysis (Appendix 4) highlights, K-pop culture is becoming more popular. The success of KCON is heavily reliant on this, which has fuelled its appeal but also creates substantial vulnerability. To ensure sustained success, the **concept needs to stay relevant**. This suggests that the CJ Group should make every effort to support the continued growth of K-pop, while at the same time strive to carve out a distinct identity for the festival that will enable it to survive even if K-pop declines.

The SWOT analysis also clarifies that the market is challenging due to the **low industry margins** considering the general **high production costs** for organizing events.

Stakeholder analysis underscores the critical role of the media, which have a large impact on **ticket sales** due to their influence on potential visitors. **Sponsors** also have a direct and significant impact on revenues, so their needs must also be central to the strategy going forward.

Together these factors (see Appendix 1) form the cause of the core problem:

'Which growth strategy should CJ E&M implement for KCON as a means to increase profitability in order to ensure the continuity of the event.'

The key factors identified in the SWOT analysis imply specific design criteria (Appendix 12) that provide direction for the optimal solution. The most critical of these is to ensure KCON's continued relevance by focusing on market trends, leveraging digital communication tools, and addressing the lack of new artists. The solution will also need to decrease production costs (which are currently high) and increase margins.

Alternatives

We have identified three alternatives, each of which constitutes a viable but different path to achieve these ends. These appear below, and are elaborated in Appendix 5.

Event Tour

Create event tours through different continents, taking a group of artists on tour by bus. By contracting a fixed group of artists, CJ E&M can boost the profile of KCON while also maintaining tight control of costs. Because of the multiple events in high-value markets (across Europe, for example) sponsors will be more willing to invest.

Close to Home

To stay 'close to home', events in loss-making locations will be cut. This means that a limited number of events will occur, which will free up resources to improve the product. The events that will continue will also be prolonged. This will make it easier to build long-term relationships with suppliers.

Digital Event

One big event per continent, with smaller “satellite” events across the continent using YouTube stars, connected via livestream and holograms to the main event which will occur at the same time. The smaller locations still provide the K-culture experience, but the headliners will only appear through a hologram, not in real life. Scaling this event will create a high reachability for visitors and therefore increasing the attractiveness and benefits for sponsors.

In addition to these alternatives, we propose three new services to supplement the core product: a talent contest tied to the event, a shake-on collaboration wherein a social platform will be created during and after the event, and an expansion of merchandising (see Appendix 7).

Recommendation

We employed a decision matrix (Appendix 6), in which the alternatives were scored on key decision criteria: brand awareness, revenue increase, cost reduction, attractiveness to sponsors and recipe relevance. Given the high scores on sponsor attractiveness and recipe relevance, the Digital Event is recommended as the best fit.

Implementation Plan

CJ E&M should focus on the complete K-culture experience through digital events. This will involve a live link between the main concert and satellite locations in each continent, which will be selected based on attendance. We recommend that the company begin with main events in Los Angeles and New York, and subsequently expand to Europe, Asia and Australia (see timeline in Appendix 8). By implementing this solution, market penetration will be strengthened through further development of the existing product.

Strategy

Since a smaller number of artists will now be performing in only one location, costs for talent will be lowered tremendously. Robust digital connections will need to be established to ensure the availability of livestream holograms at the satellite events, and to support the platform that will be used to facilitate social networking. Increased merchandising through licensing will serve to increase revenues. All this will be accomplished through cooperation with key strategic partners, as shown in Appendix 10.

Operations

Operationally, the first step will be to introduce the shake-on bracelet at the Mexico event. Next, the livestream connection for holograms will need to be developed and tested to ensure the connection between these events. At this point, it will be possible to roll out the large events / satellite event combination. The next step is creating the talent contests, through partnership with Mnet and KCON.tv. Throughout this process, the company should also engage in a search for suitable partners to serve as licensees for merchandise, so that contracts can be signed and a supply chain established.

Information Technology

CJ E&M will need to create an application platform including forum and social network connections, working in collaboration with Samsung. This will be connected with the shake-on bracelet sold to audience members at the events. It will also create extra advertising options for sponsors and the CJ Group products.

Human Resources

Managers should be recruited for each continent to oversee the adaptation of the KCON event to local tastes, select appropriate satellite locations, monitor the licensing process, and oversee operations and

finances for their respective markets. A higher return attendance is accomplished through the platform, because visitors stay in touch with each other and the event through the platform. Merchandising creates bigger brand and culture awareness. Furthermore the branding is increased through the TV channel with the talent contest.

Finance

By retaining ownership of the main event, the full financial benefits are kept (see Appendix 11). If appropriate, the smaller satellite events can be licensed in order to reduce costs and risks. Merchandise will be sold by retail stores via licensing agreements.

Risk & Contingency

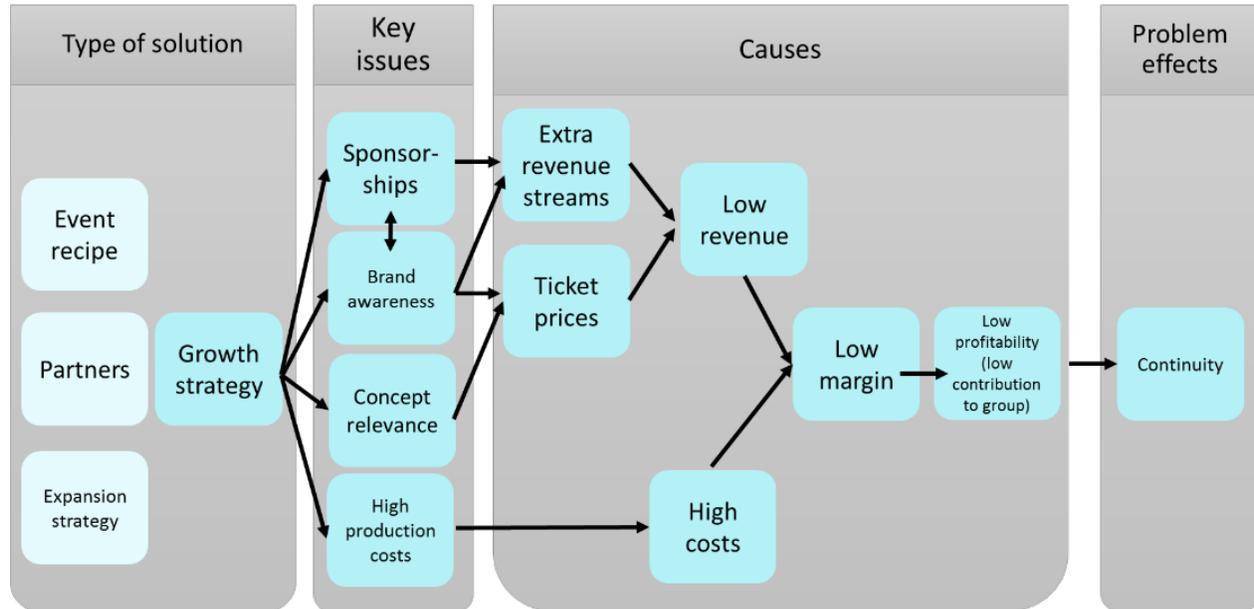
The biggest risk is that the small digital events will not fulfil expectations. It will be important to manage expectations via a lower price and fair marketing. It is also possible that the company may not be able to find a suitable partner to create the application, in which case CJ E&M will need to produce it in-house and fund its development internally. Technological issues can be solved by outsourcing. (See Appendix 9).

Conclusion

We believe that the recipe for success is the creation of 'Digital Events', which will allow KCON to expand globally at lower cost and lower risk while also benefiting from a differentiated new product offering. By implementing the shake-on bracelet and licensing merchandise, the company will also benefit from greater brand awareness, which will improve the product's appeal to sponsors. In the end this will conserve the concept relevance for the future ensuring the continuity of KCON and the hallyu culture.

Appendices

Appendix 1: Cause and Effect



Appendix 2: Business Model Canvas

| Key activities | Revenue streams | Customer segments | Customer relationships | Key Partners | Resources |
|--|---|---|---|--|--|
| KCON focusses on organizing events for K-pop fans. These events exist not only on K-pop acts but includes the complete Korean culture experience. | The revenue stream of KCON consists of sponsoring, ticket sales and other small revenue streams as merchandise and restaurant services. | KCON focuses on millennials. As we look at their events 90% of the attendees are female. Almost 40% is between the ages of 18-24. | 84% of the visitors of the events will recommend the events to others and 83% plans to revisit KCON, although the percentage of people actually returns is 36%. | The most important key partners for KCON are the sponsors, which are hard to attract. And the limited supply of K-pop artist. Besides that it's hard for KCON to find local partners for their events. | The resources for KCON are very limited due to the low margins in this industry. |
| So what? | | | | | |
| KCON perks itself to a very small customer group by organizing this kind of events. | KCON is high dependent on sponsors. There's a high variety in revenue due to days, ticket price and attendance. | KCON is focusing on one very small niche market, if you take a look at the target group. | KCON it brand is not strong enough that people will actually return. | The uncertainty about the key partners is a big threat | KCON does not have the right resources to create a sustainable future. |
| Key takeaway | | | | | |
| KCON's future is insecure due to the fact their customer group is very small, it's brand name is not strong enough, there's a lot of uncertainty about essential key partners and KCON has limited resources, due to the low margins in this industry. | | | | | |

Appendix 3: Stakeholder Analysis

| | Internal/external | Description of stakeholder | Influence/ needs of stakeholder | So what? |
|---------------------------|-------------------|---|--|---|
| CJ Group | Internal | As a mother company CJ Group decides what happened with KCON. | The influence is big. | Highest priority to keep the CJ Group satisfied. |
| Visitors of events | External | People who attend the KCON activities. | Visitor demands vary per country. | The recipe of events varies per country. |
| Sponsors | External | Sponsors form an instrumental revenue stream for KCON. | Sponsorships are necessary for KCON. They demand a high potential customer reachability. | Sponsors form a crucial form of revenue for KCON. It's important for KCON to find new ones and keep them satisfied. |
| Media | External | Media attendance is very important for KCON. | Media attendance is the key to sell tickets for KCON it's events. | KCON it's ticket sale is depending on external media attendance. |
| K-culture fans | External | Worldwide growing population of K-culture fans. | K-culture fans are willing to pay for K-pop events and merchandise. | KCON only reach a small part of this group by focusing on the events. |
| Artists | External | 2 categories of artist: K-pop artists and celebrities. | There is a limited amount of well-known K-pop artist. Digital celebrities need more recognition of the big audience. | K-pop artist are crucial for the events of KCON, the limited offer is a threat. Digital celebrities can be a an opportunity for KCON. |

Key takeaway

KCON is dependent on their stakeholders. Most of them has a huge influence in the question if there's a sustainable future for KCON. It's a huge risk that the most of these stakeholders are external.

Appendix 4: SWOT Analysis

| | Analysis | Strategic action |
|----------------------|--|---|
| Strengths | <ul style="list-style-type: none"> - Resources of Planning - First mover advantage - Globally - Wide range of services on events - Growing event attendance | Action: Keep the first mover advantages in treating the events as an experience, it is about more than the K-pop music. The events are about the whole K-pop culture. |
| Weaknesses | <ul style="list-style-type: none"> - Lack of sponsorships - No European partner - Low profitability - Unpopular eSports event | Action: Look for a European partner who knows the European market. Create a concept which suits the European market and which costs less. |
| Opportunities | <ul style="list-style-type: none"> - Digital communication is increasing - Amount of social networkers is increasing - Large fan base in Europe - Passionate + loyal fans - Popularity of "Korean look" (16%) - Growing Korean export (6,5%) | Action: Create a digital community via a platform to engage a K-pop community and secure visitors for your events. |
| Threats | <ul style="list-style-type: none"> - Media coverage - High market costs - Large amount of concert + events - Lack of K-pop artists - Artist travelling difficulty | Consider: Choosing for another way of marketing, where KCON is not dependent of external partners. Finding own talented K-pop artist will solve the lack of K-pop artists. |

Key takeaway

The K-pop community is getting more popular, especially in Europe. As first mover (organizer) of K-pop events this is a great opportunity for KCON. As well as the digital world, which can be used to reach more of the K-pop fans and to create extra revenue streams. To protect themselves from the fact that there are too little K-pop artist, KCON has to set up their own talent program, for example via a talent contest.

Appendix 5: Alternatives

| | Strategy | Pros | Cons |
|---------------|--|---|---|
| Event tour | Create smaller scale events that can be taken on a bus tour through a continent. By contracting fixed artists to the tour, their willingness can be improved. Partners will be more attracted because of the multitude of the events. | <ul style="list-style-type: none"> - Continent wide marketing - High K-culture availability - Stage & technology collaboration means cost reduction - Contract with artist means more willingness - Increases sponsor attractiveness | <ul style="list-style-type: none"> - No long term impact on concept relevance - Small events - High costs in setting-up event locations |
| Close to home | Letting go of the loss-making events and prolonging the current events. | <ul style="list-style-type: none"> - Ensure viable business → Continuity - Improve main events → Specialise - Long term relationship with suppliers | <ul style="list-style-type: none"> - Low scale operations - No long term revenues - Limited amount of events - No new incentives for new sponsorships |
| Digital Event | Scale up the activities by creating one big event in a continent with multiple smaller events that include the experience but not the real life head line artist. These will be included with livestream holograms. These smaller events will be licensed to local venues. | <ul style="list-style-type: none"> - Use of digital trends - High reachability - Bigger platform for upcoming talent - Scalable in all continents | <ul style="list-style-type: none"> - Not a 100% real experience within the smaller events - Technical challenges with the holograms |

Appendix 6: Decision Matrix

| Design criteria | Weight | Event tour | Close to home | Digital event |
|-------------------------------------|------------|------------|---------------|---------------|
| Increase global brand awareness | 15 | 8 | 1 | 6 |
| Increase revenue stream | 15 | 9 | 0 | 6 |
| Decrease costs | 10 | 2 | 5 | 3 |
| Increase sponsorship attractiveness | 30 | 10 | 5 | 15 |
| Recipe relevance | 30 | 10 | 4 | 16 |
| | 100 | 39 | 15 | 46 |

The weights of the criteria are determined by dividing 100 points over the criteria. The points appointed to the criteria than can be divided over the options. The higher the weight, the more important it is. How higher the scores, how better it is.

Appendix 7: Additions to Alternatives

| |
|--|
| Shake-on |
| Shake-on is a Dutch start-up which designed bracelets (the visitors will all where this bracelet) which connects people on a social platform via a handshake. |
| Talent contest |
| Via several talent contests KCON is able to create their own pool of talented K-pop artists, via broadcasting the talent contest, this talents will get famous quickly. The talent contest will be hold locally where the shows will be held, in that way the participants will be locally very famous. Via this way they will solve the lack of well-known K-pop artists as well. |
| Merchandise |
| Merchandise is the perfect way to increase the brand awareness. And besides that selling merchandise is the best way to reach the whole target group. The merchandise will be sold via licenses in shops all over the world, the focus is on shops in Europe since there are a lot of fans . |

Appendix 8: Implementation Timeline

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|------------|---|--|--|--|---|
| Partners | Partner with Shake-on | Use of shake-on on the different events | | | |
| | Partner Samsung for application | | | | |
| | Find merchandise partner through licensing for the clothing brand of KCON | | Revenue stream through licensing fee | | |
| | Find and select partners in La, NY, Europe, Japan and Australia for hosting the smaller events | | | | |
| Operations | Try-out shake-on in Mexico | | | | |
| | Create application with Samsung and monitor | | | | |
| | Roll out new festive model and connect concerts per area | | | | |
| | Start-up talent contest and qualification round. Finals per continent on digital events | | | | |
| | | Start La digital event: Returns every year | | | |
| | | | Start NY digital event: Returns every year | | |
| | | | | Start Europe digital event: Returns every year | |
| | | | | Start Japan digital event: Returns every year | |
| | | | | | Australia digital event: Returns every year |
| | K-Food and K-Beauty small pop events through the year. 3 times a year in the different continents | | | | |
| HR | Select responsible person per area | | | | |
| | Select person for updating the application | | | | |
| Marketing | Re-attendance in events through application platform and social networking | | | | |
| | Extra sponsors through more available space in app and small events | | | | |

* Events last for 2 days.

Appendix 9: Risk Analysis

| Risk | Likelihood | Impact | Mitigation | Contingency |
|---|------------|--------|--|---|
| No partner for the app. | Low | High | Offer benefits in the app. | Looking for an external investor to lend money. |
| Visitor don't like the new small events | Low | Medium | Make appointments with licensor to keep the company its values high. | Local K-pop performing. |
| Technological issues | Medium | Medium | Outsourcing. | Replace hologram with live stream. |

Appendix 10: Partnerships

| Partnership | Goal partnership |
|-----------------------------|---|
| Shake-on | Lend bracelets and implement software to create an extra community and advertisement space. |
| Samsung | Suggested partner for building the app. |
| Existing & new sponsorships | Offer new benefits of Shake-on experience. |
| Partner per continent | Responsible for set up contests and for the executive part events. |
| K-pop artists | Headliner of the big events. |
| Finalists talent contests | Supporting acts small and big events. |
| Clothing shops | Selling KCON merchandise. |

Appendix 11: Financials

| | Smaller events | Big Event | Financial assumptions | |
|-----------------------|----------------|----------------|-----------------------|--|
| | € | 2017 | | |
| Revenue | € | 39,0 | \$ 6.482,4 | 1 main event, 3 smaller events |
| Sponsorship | € | - | \$ 2.359,2 | Smaller events are licensed |
| License fee | € | 39,0 | \$ - | License fee: 20% of Last years LA profit = €39.000 |
| Event | € | - | \$ 4.123,1 | Attendance big event: 45000 |
| Ticket | € | - | \$ 2.883,2 | Attendance small event: 15000 |
| Other | € | - | \$ 1.127,2 | Sponsorships increase with 15% in new events (base: LA) |
| New merchandise sales | € | - | \$ 112,7 | Shake on costs: 25 cents rent per wristband + €5000 initial costs (convention) |
| Expenses | € | - | \$ 5.820,2 | Sponsorships stay ours |
| Production | € | - | \$ 5.041,8 | Artists cost decreases by 20% |
| Artists | € | - | \$ 796,8 | 10% increase in marketing costs (miscellaneous) |
| Concert | € | - | \$ 1.717,6 | Concert costs increase by 20% (IT functionalities) |
| Convention | € | - | \$ 1.297,2 | New merchandise delivers a new 10% of other income |
| Miscellaneous | € | - | \$ 1.230,2 | Initial investment IT: €500.000, covered after 2 events. |
| Sales Expense | € | - | \$ 778,4 | Other IT costs are maintenance |
| Profit | € | 39,0 | \$ 662,2 | |
| Total Profit | | € 701,2 | | |

Appendix 12: Design Components

| Design component | Design Criteria | Key Issues |
|------------------|---|--|
| Event recipe | Using the key trends in the markets like digital communication and their wide range of products to ensure the recipe relevance. | By ensuring the recipe relevance the concept relevance and brand awareness issues will be addressed |
| Partners | Use the growing attendance and market trends to improve the benefits for the partners. | By improving the partner benefits the sponsoring issue will be addressed to create more sponsor revenues. |
| Expansion | Using the increase in export of the Korean culture to and their global presence to look at a new industry model | In order to decrease the production costs, a new industry model could be implemented to shift these costs. |