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WORLDWIDE CASE COMPETITION

Sample Case Analysis #2

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

Submission prepared for the Qualifying Round of the
2018 Network of International Business Schools
Worldwide Case Competition
Universidad del Istmo

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Word count: 1,282

Executive Summary

CJ E&M is a globally recognized company that organizes the KCON Korean pop music festival. K-pop is an increasingly popular music category, but the number of highly successful artists is limited; this has created cost pressures as well as operational constraints on growth. In addition, the need for innovation has led to higher costs to organize the event, while lack of sponsorship has hurt revenues. The result is that KCON has struggled to make a profit. CJ E&M needs a strategy that will achieve the following:

- Create path towards consistent growth.
- Create a platform to discover talents.
- Expand the concept to new markets.

To achieve these objectives, we recommend that the company make better use of auditioning, target new locations in rotation, and acquire a cosmetics company.

Current Situation

CJ E&M is a holding company that operates KCON, a Korean themed festival that includes a K-pop concert and other Korean culture related activities. The festival's main attraction is the concert. K-pop is an upcoming music category with a main audience of teenage girls. The next KCON is slated to be held in Mexico.

CJ E&M also owns a Korean restaurant chain called Bibigo, which is growing fast—from \$23 million in 2012 to over \$100 million in 2016. The company aims to own 300 restaurants by 2020.

Internal and External Analysis

Internal analysis (see Appendix A) reveals that KCON has a strong online presence. The event attracts its desired audience through social media. Due to KCON's particularly strong appeal among core customers, fans also serve as a *de facto* marketing tool by sharing their experience through word-of-mouth. The company also has a remarkable ability to understand creative opportunities in new markets (see Appendix D). K-Pop is a major contributor to KCON, as the majority of the audience is attracted by the K-pop concerts and Korean artists. Growth and profitability of KCON have been constrained by a lack of sponsorship. However, KCON is a popular event in many parts of the world, with sold out shows (see Appendix H). This leads to some measure of financial stability, which lessens reliance on sponsors. Looking at the BCG matrix (see Appendix B), it states clearly where the different brands in CJ E&M's portfolio are located, showing which brands are to be invested in and which ones to ignore.

External analysis reveals that KCON has been successfully operating in Los Angeles since 2012. Due to a lack of innovation and repetition of guest artists and various KCON activities, a decrease in the L.A. market has been observed—the market appears to have reached its maximum potential and operating profits are decreasing (see Appendix F). Upon further analysis, however, there are promising opportunities on expanding to new markets. K-pop is popular in many parts of the world, is enjoyed by diverse cultures, and is fast-growing. However, the number of Korean artists is limited and overseas travel expenses add significantly to operating costs. There are opportunities for KCON to innovate by bringing in fresh talent. KCON could also invite YouTubers and other influencers to increase their audience, leading to sponsorship trusts.

Analysis of Alternatives

Refer to Appendices D and E.

There are a number of alternatives for CJ E&M. We have identified the most promising of these and assessed them on five criteria based on company objectives. Cost-benefit, sponsor attractiveness and growth potential were given the highest weighting because they are closely linked to our objectives. Feasibility and brand awareness are less critical, but also important to consider.

Remain in current locations

KCON could stay at its current operating locations, Los Angeles, New York and Tokyo. However, adding innovative content to make the event more attractive would likely prove to be costly and the company might not be able to make a profit or break even in the future.

Target new locations in rotation

KCON could also hold events in different cities around the world on a rotation basis. It could improve brand awareness across the world and eliminate the repetitiveness factor.

Terminate KCON operations

Another option is to terminate KCON events. This is in contrast with the company's goal of having a healthy growth. An additional disadvantage is that CJ E&M benefit from the events in terms of marketing and sales.

Acquire a cosmetics company

Last but not least is to acquire a Korean-based cosmetics company to take advantage of the huge demand for make-up products during the KCON events. This would contribute to the company's growth goal.

Launch an American-style TV show

Launching an American-style auditioning TV show would help the company discover new talents for its events and create a new source of income through livestreaming of episodes on KCON.tv. This would also help the business to attract potential sponsors to advertise during the show and the events.

Recommendation

We recommend a solution that combines three of the above alternatives.

Launching an American-style auditioning TV show is an excellent fit. Streaming the episodes on the KCON website will increase impressions linked to the company. Market intelligence gathered on the viewing audience can be used to spot high potential markets for KCON events around the world. And the success of the show will transform KCON into a recognized global event that is attractive for both customers and sponsors. This solution also helps to address the limited availability of K-pop artists.

We also suggest that CJ E&M host KCON events in different cities around the world, using the freshly discovered talents from the auditioning show to perform for the audience that has followed his/her journey through the show. Rotation among cities will eliminate repetition, and enable the company to avoid the demand decline seen in L.A.

Finally, we recommend that CJ E&M acquire a Korean cosmetics company. This will allow the company to leverage synergies, as there is demand for beauty products amongst the fans who want to emulate the “Korean look”. Korea’s top beauty product brands enjoyed a 16% increase in revenue from 2015-2016. And according to research, 60% of KCON attendees purchase brands displayed at the event. Exploiting this opportunity should enable CJ E&M to generate approximately \$100,000 USD per 20,000 visitors.

Implementation Plan

The first step is to launch the auditioning TV show. The first season should be produced in Los Angeles where CJ E&M has an established presence; it will require more finance than other seasons due to initial marketing, producing and performing costs. Once the show has established a following, its attractiveness to sponsors will be improved. The company should review ratings at the end of each season to determine whether to continue. The planned number of seasons for this program is 5.

After discovering talents at the auditions, KCON can launch international events in Latin America (Mexico), in Europe (France, UK), and Australia. Since 2-3 day events are generally more profitable, we recommend this duration. An important factor to consider is to plan the events in rotation so the fans will not lose interest after one event.

At the same time that it organizes these events, CJ E&M should acquire one of the Korean cosmetic brands. Prior to the acquisition, thorough research will be required to highlight the best cosmetic and beauty product brands. To avoid conflict of interest, it is advisable not to choose sponsors who are in direct competition with acquired company.

The company should be able to afford all these projects without external financing, as they are at a strong financial position.

Conclusion

Based on the recommendations, there are several promising opportunities for CJ E&M to grow and expand their business. By following the proposed implementation plan, CJ E&M will have the best chance of growth for their specific company in the market they operate in.

Appendices

Appendix A: SWOT-TOWS Analysis

Strengths	Strengths-Opportunities	Opportunities
<ul style="list-style-type: none"> • They have deep cultural understanding. • They apply innovated services in every event. • Strong social media platform and powerful online presence. • They have an effective marketing. • They are experienced in the industry. • Profitable food sector. • Effective production resource. • Recognized event in KPOP culture 	<ul style="list-style-type: none"> • KCON can expand to Australia, Latin America and Europe through social media and its online presence and also because they have deep cultural understandings. • KCON could use its website to reach out to more audience and become more attractive to sponsors. 	<ul style="list-style-type: none"> • Consistent demand within different regions. • Expand in Australia, Latin America and Europe. • Diverse appeal to audience around the globe. • Economies of scale. • Use KCON as platform to promote other activities within the company (e.g. Food). • American talent show style auditioning. • YouTubers-influencers partnership. • K-hip hop increase in popularities.
Strengths-Threats		Weaknesses-Opportunities
<ul style="list-style-type: none"> • KCONs' innovation strategies will make sure their events do not become repetitive and help meet fans need for Asia. • Increasing popularity of the event will make it more recognized and artists will want to perform here. 		<ul style="list-style-type: none"> • KCON should attract male audience and sponsors through influencing Youtubers. • Expanding to different continents will increase attractiveness for potential sponsors.
Threats		Weaknesses
<ul style="list-style-type: none"> • Profit decrease after repetition in the same location because of high innovation costs. • In Asia, fans do not need KCON for fan meeting opportunities. • Limited supply of k-pop artists. 		<ul style="list-style-type: none"> • Lack of appeal to male audience. • Challenging sponsor attraction.

Appendix B: BCG Matrix

Market Share	High	Cash Cow <ul style="list-style-type: none"> KCON in America 	Star <ul style="list-style-type: none"> KCON Japan and Bibigo.
	LOW	Dog <ul style="list-style-type: none"> KCON Abu Dhabi 	? <ul style="list-style-type: none"> KCON Europe KCON Mexico KCON Latin America
		LOW	HIGH
Market Growth			

Appendix C: Porter's Five Forces

Threat of Entrance- LOW	Threat of Substitutes- LOW
The threat of entrance because is it a very specific market without room for more K-Pop events. There is a limited number of K-pop artists.	There is little or no threat of substitution. However, if another culture becomes a trend then they can be substituted by it.
Supplier Power- HIGH	Buyer power- HIGH
If KCON cannot find artists to perform they will lose customers.	If KCON do not sell out they will not only lose money from ticket sales but this decreases attractiveness for sponsors.
Competitive Rivalry- LOW	
The threat of competition is very low to no competition due to the market being perceived as a small niche.	

Appendix D: Ansoff Analysis—Proposed Directions of Growth

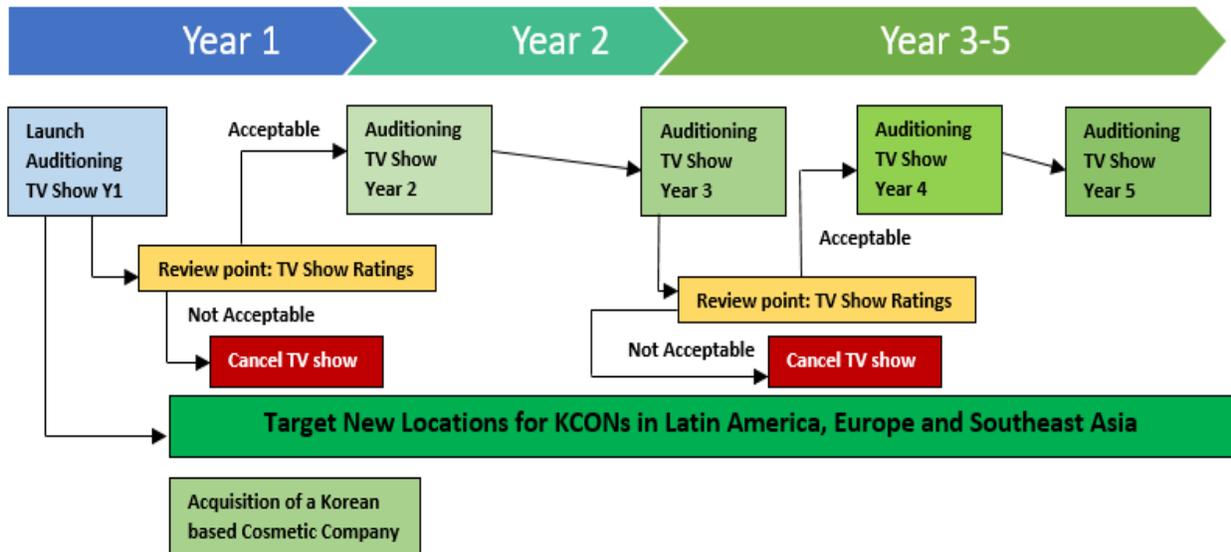
	Existing Market	New Market
Existing Product	<ul style="list-style-type: none"> KCON: It is suggested that company still operates in the same market (e.g. US, Japan, etc.) with KCONS at different locations. The company should still focus on food, online and on TV network contents. 	<ul style="list-style-type: none"> KCON could be expanded to Latin American, European and Southeast Asian locations. Also, food export to other locations could be profitable.
New Product	<ul style="list-style-type: none"> Cosmetics: after an acquisition of a cosmetic company cosmetic products can be sold to the existing market. Expansion of food product portfolio could generate more sales. 	<ul style="list-style-type: none"> Customization of KCON according to cultures. Cosmetic products could also be offered to new markets.

Appendix E: Decision Matrix

	Cost Benefit (25%)	Sponsor attracting (25%)	Brand awareness (10%)	Growth Potential (25%)	Feasibility (15%)	Total
Remain in current locations	3	4	3	4	9	4.4
Target new location in rotation	6	7	8	7	7	6.85
Terminate KCON operations	4	0	0	0	9	2.35
Acquire a cosmetic company	7	4	7	9	6	6.6
American style TV show	8	9	9	8	8	8.35

LEGEND:
1-Lowest Rating 10- Highest Rating

Appendix F: Implementation Timeline



Appendix G: Risk Red Amber Green Rating (R.A.G.)

Risk	R.A.G.	Mitigation	Tara Analysis Against Risk
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Low popularity ratings for the auditing show		Introducing Ailee, Eric Nam as judges Using the social media platform to promote the show	Reduce
Not being favoured by the government/religion		Avoid countries with geopolitical complexities	Avoid
Acquisition of a company with bad reputation		Comprehensive background research about the companies that are suitable for acquisition	Reduce



Appendix H: Financial Analysis

Total Budgeted Figures for American style auditioning project				
Basis	2018	2019	2020	2021
No. of Viewers on website	500,000	1,000,000	1200000	1440000
Price per 10 sec ad per view	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08
No. of ads shown on 1 episode	9	9	9	9
No. of episode per season	13	13	13	13
Sponsor Income per episode	\$ 500,000.00	\$ 500,000.00	\$ 500,000.00	\$ 500,000.00
Revenue from ads	\$ 4,680,000.00	\$ 9,360,000.00	\$ 11,232,000.00	\$ 13,478,400.00
Revenue from sponsors per season	\$ 6,500,000.00	\$ 6,500,000.00	\$ 6,500,000.00	\$ 6,500,000.00
Net revenue	\$ 11,180,000.00	\$ 15,860,000.00	\$ 17,732,000.00	\$ 19,978,400.00

- *based on 3 break per episode and 3 ads per break*
- *1 season for 13 weeks and 13 episodes*
- *Prices based on budgets*

Increase based on problems faced by different areas 16% of CJ Group's operating profit of 53.8 is from Entertainment and media with a projected 6.5% of growth

Column	Items	2016	2017	2018	2019
		000	000	000	000
Abu Dhabi	Sales Revenue	\$ 1,882.80			
	Sponsorships	\$ 1,882.80			
	Event	\$ -			
	Tickets	\$ -			
	Other	\$ -			
	Operating Profit 12%	\$ 1.03			
Paris	Sales Revenue	\$ 1,543.70	\$ 1,644.04	\$ 1,851.50	\$ 1,971.85
	Sponsorships	\$ 583.30	\$ 621.21	\$ 661.59	\$ 704.60
	Event	\$ 960.40	\$ 1,022.83	\$ 1,089.31	\$ 1,160.11
	Tickets	\$ 950.90	\$ 1,012.71	\$ 1,078.53	\$ 1,148.64
	Other	\$ 9.50	\$ 10.12	\$ 10.78	\$ 11.48
	Operating Profit 9%	\$ 0.77	\$ 0.82	\$ 0.88	\$ 0.93
Tokyo	Sales Revenue	\$ 2,982.10	\$ 5,304.61	\$ 5,649.41	\$ 6,016.62
	Sponsorships	\$ 1,068.80	\$ 1,138.27	\$ 1,212.26	\$ 1,291.06
	Event	\$ 1,913.40	\$ 2,037.77	\$ 2,170.23	\$ 2,311.29
	Tickets	\$ 1,578.80	\$ 1,681.42	\$ 1,790.71	\$ 1,907.11
	Other	\$ 334.50	\$ 356.24	\$ 379.40	\$ 404.06
	Operating Profit 19.04%	\$ 1.64	\$ 1.74	\$ 1.86	\$ 1.98
NY	Sales Revenue	\$ 3,446.00	\$ 1,723.00	\$ 861.50	\$ 430.75
	Sponsorships	\$ 1,200.50	\$ 600.25	\$ 300.13	\$ 150.06
	Event	\$ 2,245.50	\$ 1,122.75	\$ 561.38	\$ 280.69
	Tickets	\$ 2,012.10	\$ 1,006.05	\$ 503.03	\$ 251.51
	Other	\$ 233.40	\$ 116.70	\$ 58.35	\$ 29.18
	Operating Profit 22%	\$ 1.89	\$ 0.95	\$ 0.47	\$ 0.24
LA	Sales Revenue	\$ 5,799.80	\$ 2,899.90	\$ 1,449.95	\$ 724.98
	Sponsorships	\$ 2,051.50	\$ 1,025.75	\$ 512.88	\$ 256.44
	Event	\$ 3,748.30	\$ 1,874.15	\$ 937.08	\$ 468.54
	Tickets	\$ 2,621.10	\$ 1,310.55	\$ 655.28	\$ 327.64
	Other	\$ 1,127.20	\$ 563.60	\$ 281.80	\$ 140.90
	Operating Profit 37%	\$ 3.18	\$ 1.59	\$ 0.80	\$ 0.40
Projections for Mexico	Sales Revenue	\$ 1,977.85	\$ 2,106.41	\$ 4,372.00	\$ 6,784.85
	Sponsorships	\$ 567.00	\$ 603.86	\$ 643.11	\$ 684.91
	Event	\$ 1,100.00	\$ 1,171.50	\$ 1,247.65	\$ 1,328.74
	Tickets	\$ 1,200.00	\$ 1,278.00	\$ 1,361.07	\$ 1,449.54
	Other	\$ 534.00	\$ 568.71	\$ 605.68	\$ 645.05
	Operating Profit	\$ 2.70	\$ 2.88	\$ 3.06	\$ 3.26

***Not pursuing further activities in Abu Dhabi**

***Revenue based on American Style Auditioning**

***Sponsorships value increase by various activities carried out**

***Mexican revenues based on CIA demographics and number of tickets sold 9,000**