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Sample Case Analysis #3

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
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Introduction

By capitalizing on the increasingly popularity of K-Pop and Korean culture through the KCON event, CJ Group has been able to build a successful global brand in major cities. Moving forward, the company must decide on an execution strategy to ensure sustainable growth of the KCON event and overall business.

Core Issues

Currently, the CJ Group faces the issue of determining the best expansion path for their organization to grow their overall company and various divisions. This issue directly pertains to KCON, and encompasses the following challenges:

- KCON's short-term expansion strategy to Mexico City
- KCON's lack of focus on internal corporate synergies
- KCON's unclear growth plan; where should KCON expand next?

Analysis

Internal

A SWOT Analysis (see Appendix 1) shows that company's primary strength is its unique service offering, the KCON event. However, KCON's production expenses, along with its heavy reliance on sponsorship is a weakness that has rendered the event unprofitable. We believe that CJ Group's successful divisions can thrive through KCON via an exclusive presence at the KCON events.

Our analysis of the company's operations by division (see Appendix 2) suggests that the company's other operating units would profit immensely from such an arrangement, particularly, the Food & Food service,

Bio and Pharma, and the Entertainment & Media divisions, as they directly contribute to creating an overall experience for the customer.

External

After conducting a PEST analysis (see Appendix 3), we believe that KCON should expand into Canada because it is politically and economically stable, possesses an ethnically diverse makeup, and has the technology that can accommodate for KCON's needs.

Through a Porter's 5 analysis (see Appendix 4), it can be determined that the market is generally not competitive and the threat of new entrants is not a looming issue. KCON's market is driven by the bargaining power of buyers and suppliers. If the company does not listen to consumer wants or supplier demands, the company can be placed in a negative position and face potential financial loss.

Analysis of Alternatives

Given the current challenges faced by KCON, there are several viable strategic options:

- 1. Develop a global growth plan**

Expand to Mexico, identify new countries to continue growth, and implement a new sponsorship management team. Identify corporate synergies with other divisions. Work with external partners (YouTube celebrities) to maximize media impressions and exposure for future KCON events.

- 2. Work with local event operators for franchising & licensing**

Distribute licenses to local operators to facilitate quick expansion that will meet the demands of

different regions. CJ group has earned U.S. profits of \$1,119,000, while foreign markets have shown a loss of \$1,715,100. Franchising to experienced locals enables the company to maintain a global presence while reducing cost and risk.

3. **Create related standalone & spin-off events**

Create events to target specific demographics, leveraging the company's other divisions and the customers served by those divisions. This would enable the company to build hype around specific products and would increase sales in each division.

4. **Discontinue KCON events**

With accumulated losses of \$569,100, KCON could discontinue their entire event (see Appendix 7). Focus will be shifted back towards the core competencies of the Entertainment and Media division. This would prevent further losses.

These alternatives were evaluated against key decision criteria in Appendix 5.

Recommendation

The CJ group must define a global growth plan that will allow KCON to achieve long-term sustainability and support the other divisions of the organization. To this end, we recommend:

- **Building** a Mexico City expansion strategy for KCON
- **Developing** internal corporate synergies at KCON Los Angeles
- **Sustaining** the KCON brand through a long-term focus and regular strategic reviews

Execution of this strategy will entail a 3-stage implementation plan, with a 3-year total timeline.

Implementation Plan

(see Appendix 11 for an overview)

Stage 1: Build (January - March 2017)

Continue with KCON expansion to Mexico City: With KCON Mexico City occurring March 2017, this event should continue, albeit with several strategic adjustments, such as premium ticketing options. Given its previous popularity, introducing a 'platinum' or other premium offering will help improve the customer experience.

Hire a Global Sponsorship Director: With sponsorship revenue being crucial for KCON's continued success and representing 44% of overall KCON revenue, a Global Sponsorship Director should be introduced. They would be responsible for maintaining existing and obtaining new sponsorships for each KCON event.

Partner with notable online personalities: Partnering with well-known influencers from sites such as YouTube is a cost-effective strategy that will help maximize media impressions and further develop awareness for each KCON event. These personalities would receive an all-expenses paid trip to KCON in addition to a \$15,000 USD stipend, and would be required interact with attendees, as well as create KCON specific content for their social media pages or channels.

Plan 'KCON: Search for a Star' singing competition: Introducing a reality-style K-pop competition will allow KCON to bridge the gap between K-pop and local culture. This initiative will be introduced at the 2018 Los Angeles KCON, though initial planning will begin in the short-term.

Stage 2: Develop (April - December 2017)

Hire 5-6 Regional Sponsorship Managers: Working under the Global Sponsorship Director, each Regional Sponsorship Manager will be directly responsible for coordinating sponsorship at individual KCON events. These managers will handle planning and logistics for each event, and be responsible for developing contingency plans in case a sponsorship agreement collapses.

Leverage synergies with other CJ divisions for KCON L.A. 2017: There are many opportunities for synergies between KCON and other divisions of the CJ group. Korean beauty products are becoming increasingly popular at KCON, and incorporating the CJ Group's own cosmetic line into the event will help increase brand awareness, improve in-house cosmetic line sales and potentially build lifetime customers. Similarly, by increasing the presence of CJ Group restaurant's Bibigo and CJ CheilJedang at KCON, attendees will be exposed to these products and will be more likely to purchase CJ food in the future.

Begin advertising for 'KCON: Search for a Star': To further build inter-divisional synergies, CJ should leverage their MNET America tv station, creating a reality based tv show to find the next K-pop star. Advertising would be conducted through KCON's social media pages, and by leveraging previous relationships with internet personalities.

Stage 3: Sustain (Jan 2018 - Jan 2020)

Premiere of 'KCON: Search for a Star' at Los Angeles KCON 2018: Following casting, KCON: Search For A Star will premiere at KCON 2018 in LA, and will be live-streamed on KCON.tv. For the final round of the competition, finalists will perform in front of the KCON audience, who will then select the winner, helping to enhance fan experience and increase engagement. The winner will then be offered a recording contract for 3 albums, with the JC Group receiving a direct royalty on album sales.

Long-term expansion schedule: To ensure on long-term sustainability, KCON must also focus on continuing to build event presence in other regions. Given the ethnically diverse makeup of major Canadian cities such as Toronto, Canada represents a viable future expansion option for KCON. This is supported by the PEST analysis (see Appendix 3).

Regular strategic review of KCON events: To ensure KCON's long-term sustainability, it is crucial to evaluate the success of KCON and the CJ Group in relation to the recommended strategy. By comparing the success of each KCON event to overall company results, the recommended strategy can be evaluated and adjusted if necessary. To analyze the CJ Group, a modified balanced scorecard was created (see Appendix 12).

Financial Feasibility

The key findings of financial analysis include:

- CJ Group should continue KCON Operations (see Appendices 9 and 10)
- Pro Forma Profit for KCON in 2017 is \$275,360, yielding an ROI of 5.6% (see Appendices 6 and 7)
- Total strategy implementation cost is \$18,310,000 yielding an ROI of 30%

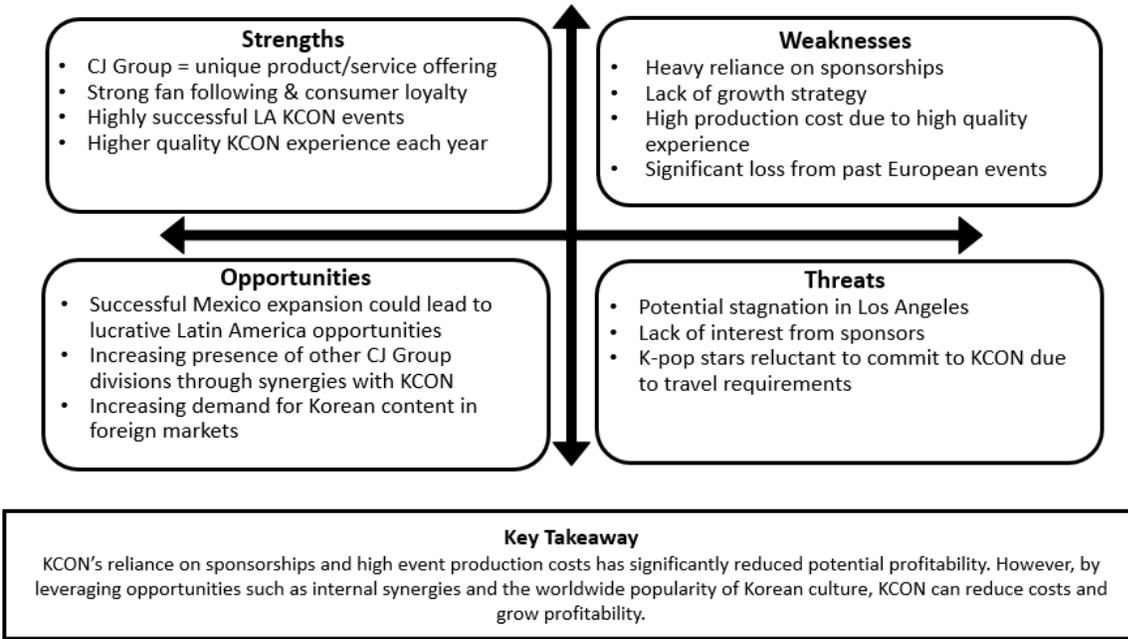
In implementing this strategy, multiple divisions within CJ Group will benefit.

Synthesis

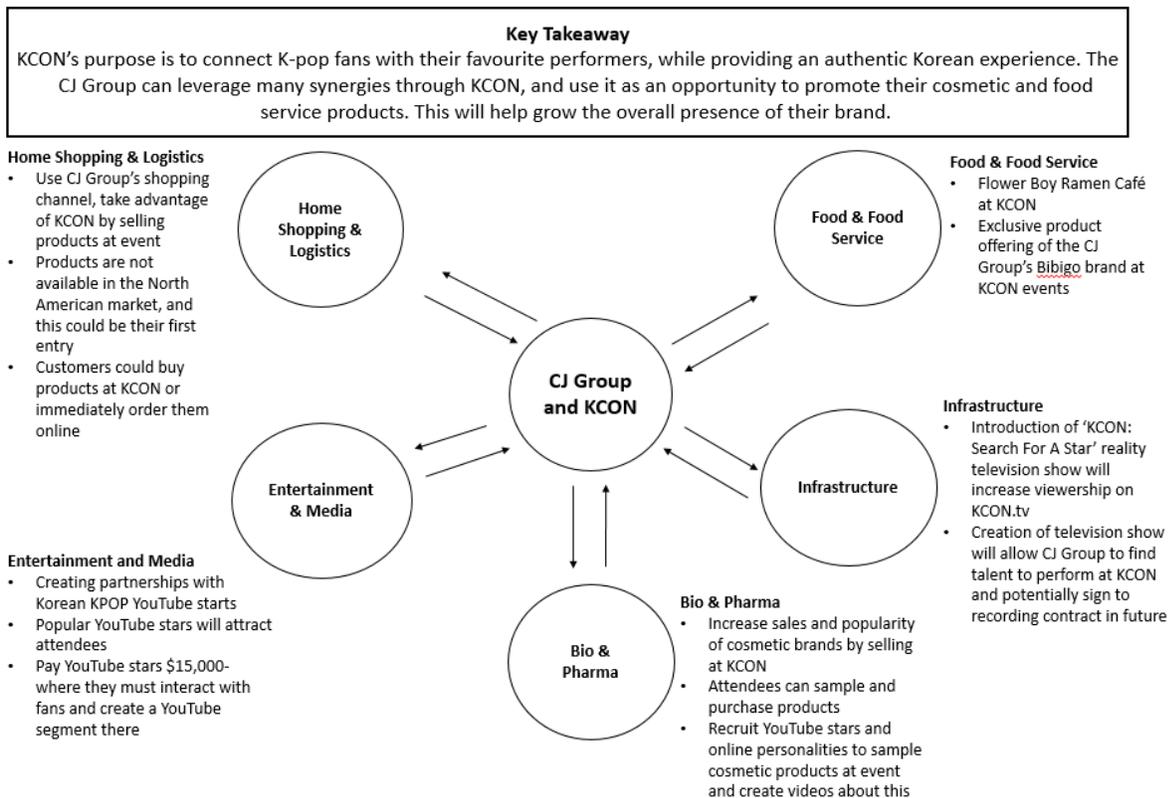
Overall, KCON should utilize the build, develop, and sustain strategy to help grow their overall company and respective divisions. This strategy will allow KCON to succeed in the short term and ensure sustainability in the long term.

Appendices

Appendix 1: SWOT Analysis



Appendix 2: CJ Group Company Analysis



Appendix 3: PEST Analysis

| Political | Economic | Social | Technological |
|---|--|--|--|
| <ul style="list-style-type: none"> Led by a Liberal government Political structure based on parliamentary democracy Very stable political situation; highly appealing for business | <ul style="list-style-type: none"> Heavily dependent on United States economy Relatively healthy Several trade agreements between Canada and other North American countries such as NAFTA | <ul style="list-style-type: none"> Highly value multiculturalism and respect for cultural differences Very committed to social justice | <ul style="list-style-type: none"> Technologically innovative Leaders in development in areas such as transportation, communications, and energy |

Key Takeaway

The Canadian market represents an excellent expansion opportunity for KCON as it is politically stable, economically strong, and has an ethnically diverse population makeup that fits well with the KCON brand

Appendix 4: Porter's 5 Forces

| Force | Analysis | Degree of Threat |
|-------------------------------|---|------------------|
| Threat of substitutes | KCON creates an Korean-centric experience for attendees, something that is currently uncontested by entertainment and media companies. | Low |
| Threat of new entrants | KCON is positioned in a niche market. These event types are difficult to imitate, as there is a high startup and implementation cost, something that may deter potential competitors. | Medium |
| Rivalry among existing firms | Currently, KCON exists as a unique service, therefore it does not experience direct competition. | Low |
| Bargaining power of suppliers | The CJ Group is heavily dependent on suppliers including performers and vendors. Due to the niche nature of the KCON, suppliers will have more power as they are harder to replace. | High |
| Bargaining power of buyers | KCON relies on buyers to earn profits. CJ Group needs to base business decisions on consumer preferences and trends. | High |

Key Takeaway: Generally, the market lacks competition and the threat of new entrants is not a crucial issue. Currently, KCON's market is driven by bargaining power of buyers and suppliers. If the CJ group does not focus on consumer or supplier demands, they may end up missing out opportunities, which could negatively affect profitability.

Appendix 5: Decision Matrix

Legend: 1 - Low 3 - Medium 5 - High

Questions:

1. Does the strategy help retain existing or attract new sponsors for the KCON event?
2. Can CJ integrate other divisions into KCON events?
3. Will the organization retain and attract new members to their fan base?
4. Does the strategy integrate local customer preference?
5. Will the strategy make a positive financial impact on the organization?

| | Develop growth plan | Work with local event operators to franchise | Standalone/spin-off events | Discontinue K-CON events |
|------------------------------------|---------------------|--|----------------------------|--------------------------|
| Entities willing to sponsor events | 5 | 1 | 1 | 1 |
| Increase commercial synergies | 3 | 3 | 1 | 1 |
| Retain and attract new fan base | 5 | 5 | 1 | 1 |
| Customization per region | 5 | 5 | 5 | 1 |
| Cost Effectiveness | 3 | 3 | 3 | 5 |
| Total | 21 | 17 | 11 | 9 |

Appendix 6: Return on Investment

ROI

| 2014 | 2015 | 2016 | Proforma 2017 ROI |
|------|-------|---------|-------------------|
| 22% | 5.37% | (9.44%) | 5.6% |

Key Takeaway: Upon analyzing CJ Group's conducting a thorough analysis of KCON's historical income statements, KCON incurred a loss in 2016. Our projected profit for 2017 is \$275.36 with a projected return on investment of 5.6%. In implementing the build, develop, sustain strategy, KCON can prevent further losses and increase their profit in 2017. Although the return on investment is minimal - the underlying success in this strategy lies in the income increasing within other CJ Group divisions as a result of KCON's success.

Appendix 7: Income Statement

Income Statement Analysis (in \$ thousands)

| | 2014 | 2015 | 2016 | Pro Forma 2017 |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| Revenue | \$ 3,510.10 | \$ 2,622.28 | \$ 3,130.88 | \$ 5,165.89 |
| Sponsorship | \$ 2,051.50 | \$ 1,288.13 | \$ 1,357.38 | \$1,764.59 |
| Event | | | | |
| Tickets | \$ 2,201.90 | \$1,225.57 | \$ 1,432.58 | \$1,549.55 |
| Other | \$ 329.60 | \$ 108.57 | \$ 340.92 | \$ 351.75 |
| Synergies | \$ 0 | \$ 0 | \$ 0 | \$ 1,500.00 |
| Expenses | \$ 2,876.30 | \$2,488.77 | \$ 3,457.10 | \$4,890.53 |
| Production | | | | |
| Artists | \$ 469.00 | \$ 591.20 | \$609.66 | \$ 798.70 |
| Concert | \$ 891.20 | \$ 995.23 | \$1,405.94 | \$ 1,905.94 |
| Convention | \$ 719.00 | \$ 451.03 | \$ 526.08 | \$ 796.00 |
| Miscellaneous | \$ 538.90 | \$ 210.57 | \$550.34 | \$ 787.91 |
| Sales Expenses | \$ 258.20 | \$ 240.73 | \$365.08 | \$ 601.98 |
| Profit (Loss) | \$ 633.80 | \$ 133. 51 | (\$ 326.22) | \$ 275.36 |

Return on Investment = \$275.36/ \$4,890 = 5.6%

Key Takeaway: Upon conducting a thorough analysis of KCON's historical income statements, KCON incurred a loss in 2016. Our projected profit for 2017 is \$275.36 with a projected return on investment of 5.6%. In implementing the build, develop, sustain strategy, KCON can prevent further losses and increase their profit in 2017. Although the return on investment is minimal - the underlying success in this strategy lies in the income increasing within other CJ Group divisions as a result of KCON's success.

Appendix 8: Sensitivity Analysis (Discontinue KCON)

Sensitivity Analysis

The following sensitivity analysis measures the possible impact of discontinuing the KCON segment

| Variable | Pessimistic | | | | | | Expected | | | | | | Optimistic | | | | | |
|----------|-------------|------|---|-------|-------|------|----------|------|---|-------|------|------|------------|------|---|------|------|------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 1 | 2 | 3 | 4 | 5 | 6 | 1 | 2 | 3 | 4 | 5 | 6 |
| Revenue | (5%) | (8%) | - | (12%) | (10%) | (2%) | (3%) | (6%) | - | (10%) | (8%) | (1%) | (1%) | (4%) | - | (8%) | (6%) | (0%) |
| Expenses | 3% | 10% | - | 7% | 6% | 5% | 2% | 8% | - | 5% | 4% | 2% | 0.5% | 6% | - | 3% | 2% | 0.5% |

LEGEND:

Divisions:

1= Home Shopping & Logistics

2 = Food & Food Service

3 = KCON

4 = Entertainment & Media

5 = Bio & Pharma

6 = Infrastructure

Key Takeaway: A sensitivity analysis was conducted in order to measure the possible impact that discontinuing the KCON division can have on CJ Group's key other divisions. The expected sensitivity was used to conduct the keep or drop analysis.

Appendix 9: Segment Analysis

Segment Analysis

| | Home Shopping & Logistics | Food & Food Service | Entertainment & Media | Bio & Pharma | Infrastructure |
|-------------------------|---------------------------|---------------------|-----------------------|------------------|-----------------|
| Division %'s | 32% | 32% | 16% | 18% | 2% |
| Revenue | \$ 6776.64 | \$ 6776.64 | \$ 3,388.32 | \$ 3,811.86 | \$ 423.54 |
| Expenses | \$ 6,068.16 | \$ 6,068.16 | \$ 3,034.08 | \$ 3,413.34 | \$ 379.26 |
| Operating Profit | \$ 708.48 | \$ 708.48 | \$ 354.24 | \$ 398.52 | \$ 44.28 |

Key Takeaway: In conducting an analysis on CJ Group's overall revenues and expenses, we determined the specific operating profit by division for 2016.

Appendix 10: Keep or Drop

Keep or Drop

Keep KCON as an extension of the Entertainment & Media division (in \$ millions)

| | Home Shopping & Logistics (1) | Food & Food Services (2) | KCON – Entertainment & Media (3) | Other Entertainment & Media (4) | Bio & Pharma (5) | Infrastructure (6) |
|-------------------------|-------------------------------|--------------------------|----------------------------------|---------------------------------|------------------|--------------------|
| Revenue | \$ 6776.64 | \$ 6776.64 | \$15.65 | \$ 3,372.67 | \$ 3,811.86 | \$ 423.54 |
| Expenses | \$ 6,068.16 | \$ 6,068.16 | \$17.29 | \$ 3,016.79 | \$ 3,413.34 | \$ 379.26 |
| Operating Profit | \$ 708.48 | \$ 708.48 | (\$1.64) | \$ 355.88 | \$ 398.52 | \$ 44.28 |

Discontinue KCON events (in \$ millions)

| | Home Shopping & Logistics (1) | Food & Food Services (2) | KCON – Entertainment & Media (3) | Other Entertainment & Media (4) | Bio & Pharma (5) | Infrastructure (6) |
|-------------------------|-------------------------------|--------------------------|----------------------------------|---------------------------------|-------------------|--------------------|
| Revenue | \$ 6,641.10 | \$ 6,370.64 | - | \$ 3,035.40 | \$ 3,506.91 | \$415.07 |
| Expenses | \$ 6,189.52 | \$ 6,553.61 | - | \$ 3,107.30 | \$ 3,549.87 | \$386.85 |
| Operating Profit | \$451.58 | (\$ 182.97) | - | (\$ 71.90) | (\$ 42.96) | \$28.22 |

Key Takeaway: A Keep or Drop Analysis was conducted to gauge the impact KCON has on CJ Group as a whole. Although KCON has a negative operating profit, CJ Group should continue to keep the KCON division because it has a large impact on the company as a whole. In analyzing the impact of discontinuing KCON events, CJ Groups other divisions – Food & Food Services, Other Entertainment & Media, and Bio & Pharma actually incur a loss in operating profit. Hence, CJ Group is more profitable overall if they continue hosting KCON.

Appendix 11: Implementation Timeline

| Stage | Explanation | Timeline | | | | | | | | | | | | | |
|----------|--|-----------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|-----------|-----------|
| | | 0-1 month | 1-2 months | 2-3 months | 3-4 months | 4-5 months | 5-6 months | 6-7 months | 7-8 months | 8-9 months | 9- 10 months | 10-11 months | 11-12 months | 1-2 years | 2-3 years |
| Build | Add premium tickets for Mexico | | | | | | | | | | | | | | |
| | Begin logistics planning for KCON: Search for a Star | | | | | | | | | | | | | | |
| | Expand into Mexico | | | | | | | | | | | | | | |
| | Create partnerships with YouTube stars | | | | | | | | | | | | | | |
| Develop | Hire Global Sponsorship Director | | | | | | | | | | | | | | |
| | Hire Regional Managers for Sponsorships | | | | | | | | | | | | | | |
| | Begin CJ Group's integration into KCON (LA) | | | | | | | | | | | | | | |
| Maintain | Start advertising KCON: Search for a Star | | | | | | | | | | | | | | |
| | Pilot KCON (Search for a Star (2018)) | | | | | | | | | | | | | | |
| Maintain | Yearly review of company and synergies | | | | | | | | | | | | | | |
| | Long term schedule | | | | | | | | | | | | | | |

Appendix 12: Strategy Scorecard

| Build, Develop, Sustain Strategy Scorecard | | | | | |
|---|------------------|---------------|---------|---------------|-----------|
| | LEVEL OF SUCCESS | | | | |
| | No Success | Below Average | Average | Above Average | Excellent |
| Build | | | | | |
| Add in premium tickets for Mexico | | | | ✓ | |
| Expand into Mexico | | | | | ✓ |
| Hire Global Sponsorship Director | | | | | ✓ |
| Begin planning for "KCON: Search for a Star" | | | | ✓ | |
| Create sponsorships with influencers; YouTube stars | | | | | ✓ |
| Develop | | | | | |
| Hire Regional Managers for sponsorships | | | | | ✓ |
| Begin CJ Group's integration into KCON (LA) | | | | | ✓ |
| Start advertising KCON: Search for a Star | | | | ✓ | |
| Sustain | | | | | |
| Pilot KCON: Search for a Star | | | | | ✓ |
| Yearly review of company synergies | | | | | ✓ |
| Long term schedule for future expansion | | | | ✓ | |