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WORLDWIDE CASE COMPETITION

Sample Case Analysis #4

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

CJ Group consists of various business units, ranging from Infrastructure and Home Shopping to Entertainment and Food. Currently, its Entertainment & Media business unit hosts several annual conventions for fans of Korean pop culture (KCON), which include concerts and various other fan activities on convention grounds. KCON was originally a way of promoting its Korea-oriented TV channel Mnet, but has since grown into an event of its own. Expansion of KCON into other countries has been met with varying results. However, the growth of other Korea-oriented brands such as their Bibigo restaurant chain has encouraged CJ Group to leverage KCON to create synergies with these brands and other business units. Meanwhile, CJ Group's Entertainment & Media unit has identified several options for global expansion, with an entry into the Mexican market planned for the upcoming year.

Key Issue

"How can KCON grow sustainably while increasing its profit margin, taking into account potential synergies with other CJ Group business units?"

Situation Analysis

KCON is currently organized annually in Tokyo, Los Angeles and New York, with two KCON conventions being held for the first time in Abu Dhabi and Paris in 2016. In addition, its organizers maintain a continuous presence on social media in order to connect with its fans throughout the year and generate buzz. KCON currently enjoys a growing and loyal fan base, and Europe has proven to hold a large KCON audience. Mexico is a potentially profitable market, which can also serve as a gateway to Latin America in general. On the other hand, KCON's profit margins are relatively low compared to CJ Group's other

business units, and merchandise purchases during events are lower than expected. While most KCON events attract a large audience, revenues are largely dependent on sponsorships. Supporting our analysis, a complete SWOT and Porter's 5 Forces overview can be found in the Appendices (A1, A2).

Alternatives and Recommendation

Taking into account the various strengths and weaknesses of the company, combined with the opportunities the market holds, several alternatives were identified.

1. KCON freezes any expansion plans, focusing mainly on the consolidation of events in countries that KCON is already organized in.
2. KCON expands organically, carefully determining the next sites for expansion, while consolidating existing KCON events.
3. KCON expands through the use of franchising, focusing on rapid expansion and generating brand awareness.

Taking into account factors such as financial risk, potential for marketing synergies and growth potential, it is recommended that KCON chooses the second option of organic expansion. With this approach, Mexico can serve as the gateway to the wider Latin American region, while the European continent can be penetrated through strategic collaboration with other conventions, such as Comic Con. In the meantime, KCON should focus on altering its livestreaming model from a free to a freemium one, while becoming less dependent on partnerships with sponsors. A complete decision matrix can be found in the Appendices (A3).

Implementation

In order to capitalize on the different markets KCON operates in, the organization of the events has to focus on and be adapted to the customer needs of each target market. In addition, the high costs associated with creating these events should be lowered in order to increase profitability and KCON's long term financial prospects. A full timeline is added in the Appendices (A4).

The first part of the implementation plan for the first two years focuses on standard experiences provided by and the characteristics of a KCON event. Firstly, the platinum ticket programme should be continued and expanded to every KCON event around the globe, due to its past success. To increase the level of participation at these events, the company should look into introducing local tournaments. These can include dumpling eating contests and eSports competitions with a wider range of games. KCON.tv should change to a freemium model, where customers can pay to view extra background content, such as panels and competitions. This would be linked to every live KCON event, increasing profit potential as well as creating a bigger platform for sponsors to advertise. Furthermore, other experiences such as karaoke singing and make-up tutorials with the sponsors' and CJ Group's products should be added to KCON in order to increase participation and boost synergy with CJ Group's other products. Finally, to create the best KCON experience for visitors and to increase profitability for CJ Group, an event plan has been constructed in order to facilitate exposure to the company's products and immerse visitors in the event. A full event plan guide can be found within the Appendices (A5).

The second part of the implementation plan for the first two years focuses on additions and adjustments to individual KCON events that are meant to add value for visitors by taking into account local preferences and customs. In Los Angeles, it is recommended that KCON invites BigBang to perform annually at its

concerts as a special guest. In addition, in both Los Angeles and the convention in Mexico City, KCON should host a singing competition between different non-famous K-pop singers. The audience will be allowed to vote and the entire competition will be broadcasted on the KCON.tv channel. The best five singers will be allowed to perform in the KCON events in both Mexico City and Los Angeles. This competition will reduce costs and allow for larger profit potential through the KCON.tv channel.

After these two years KCON will have established a platform by which it can launch its first events in Europe. Starting in Paris, KCON will collaborate with Comic Con in order to provide smooth entry into the market. Comic Con will alleviate overall costs by providing its infrastructure and connections, while KCON will use its sponsors to lessen its remaining costs. Comic Con will benefit from this by having a new audience exposed to them.

Financials

For financial considerations, 2016 was taken as the base year. All financial assumptions and detailed graphs can be found in the Appendices (A6 to A10). The Abu Dhabi and Paris locations have not been taken into account in the financial statement from 2016 on due to the fact that events will not be continued in Abu Dhabi, while Paris will be continued in a different model from year three on.

It is predicted that revenue will grow by 5 percent across the board for all remaining locations in 2017. Furthermore, 2017 will be the first year that KCON is hosted in Mexico City. The projected revenue for this event is \$3.9 million, immediately making it one of the most successful events in terms of sales. As income levels in Mexico are much lower than in other countries in which KCON operates, costs will be significantly reduced, while Mexican fans spend a much larger portion of their disposable income on these kind of events. This ensures large profit margins from the beginning.

In 2018, revenues are predicted to grow by 7 percent in all locations. As 2018 is the year in which the company focuses on internal reevaluation and improvement, KCON should be able to capture more interest from fans. As revenue rises, margins will also increase. The total revenue across all locations will reach a high of 17.930.921 dollars.

Finally, in 2019, KCON will return to Europe with a convention in Paris. The initial profit margin is expected to be 5 percent. This is achieved by collaborating with Comic Con and previous European partners in order to reduce costs and reach a wider audience.

Risks, Mitigation and Contingency

As KCON tries to upscale and expand its operations while revising several of its components, it faces several risks that need to be mitigated in order to become a success. A full explanation of these risks and their relevant mitigation can be found in the Appendices (A11).

After year 3 of the implementation plan, careful evaluation of key performance indicators will take place. In the event of substantially negative financial and market results, it is recommended that CJ Group's Entertainment & Media unit sets into motion a contingency plan. This would entail a partly switch to a franchising model. While CJ Group will continue to manage the American and Japanese conventions, KCON's operations in Europe and Latin America would be franchised to global franchisees, in order to cut costs and maintain promotion benefits for CJ Group's other business units. A cash flow statement of CJ Group's inflow from KCON under the franchising model in 2020 can be found in the Appendices (A12).

The reason for not choosing this as a first option is due to the fact that franchising creates a loss of control for the franchisor and also dampens any synergy effects that could be created through brand promotion.

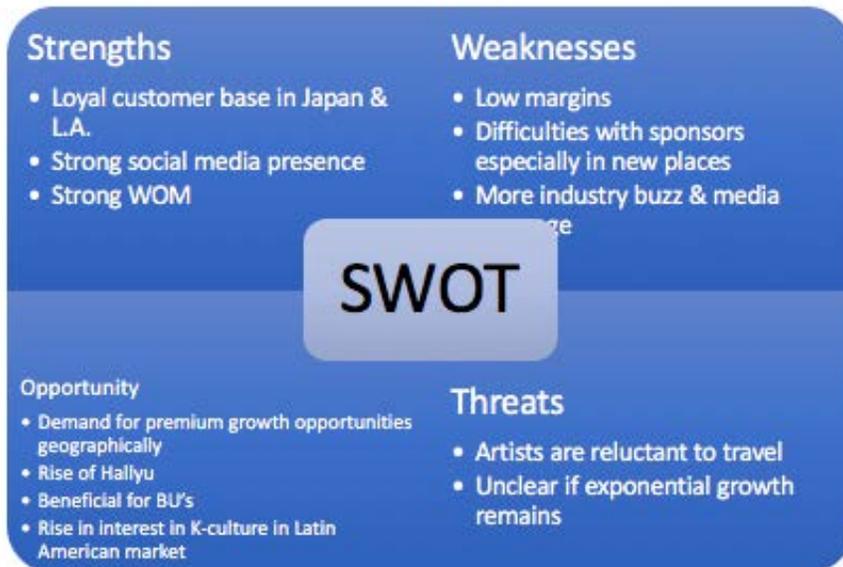
Conclusion

By implementing a strategy of gradual expansion and opportunistic cost saving, KCON will be able to elevate itself and become truly global, reaching audiences that were previously untapped. Through the use of smart promotion and strategic partnerships, KCON will manage to capture vital value from its customers and thus ensure a prosperous future.

Appendices

Appendix A1: SWOT Analysis

SWOT



Appendix A2: Porter's 5 Forces Analysis

Porter's Five Forces



Moderately interesting market to enter due to high requirements when it comes to market insights.

Appendix A3: Decision Matrix

Decision Matrix

	Growth potential (25%)	Financial Risk (15%)	Potential Partners (15%)	Level of Control (10%)	Synergy effect (25%)	Internal Improvement opportunity (10%)	Total
Continue	3	4	4	5	3	4	3.6
Expand organically and globally	4	3	2	4	5	4	3.8
Expand globally with licenses and franchise	5	4	3	2	2	2	3.5

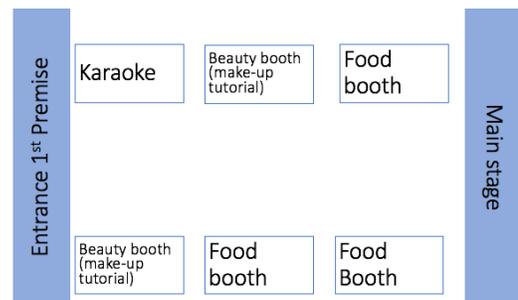
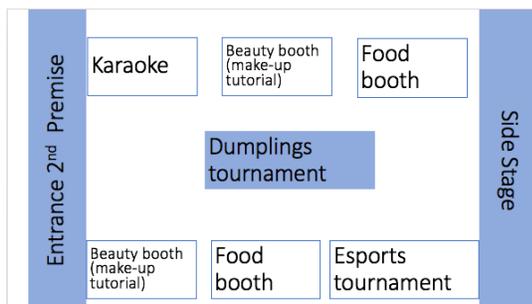
1=worst 5=best

Appendix A4: Implementation Timeline

Timeline

Year 1	Year 2	Year 3	Year 4	Year 5
Mexico	"Make it better"	Paris, Europe	Evaluate	Re-evaluate
Keep L.A. and Tokyo	Sponsor alteration, pricing, profits	Collaboration with COMIC-CON	Contingency (Licensing) Further expansion evaluate	Further expansion

Appendix A5: Event Plan



Appendix A6: Projected Revenues and Costs

Year	2016			2017				2018				2019				
Location	Tokyo	NY	LA	Tokyo	NY	LA	Mexico	Tokyo	NY	LA	Mexico	Tokyo	NY	LA	Mexico	Paris
Growth	0%			5%				7%				8%				
Revenue	\$ 2,982.100	\$ 3,446.000	\$ 5,799.800	\$ 3,131.205	\$ 3,618.300	\$ 6,089.790	\$ 3,918.575	\$ 3,350.389	\$ 3,871.581	\$ 6,516.075	\$ 4,192.876	\$ 3,618.420	\$ 4,181.307	\$ 7,037.361	\$ 4,528.306	\$ 5,664.692
Sponsorship	\$ 1,068.800	\$ 1,200.500	\$ 2,051.500	\$ 1,106.880	\$ 1,279.068	\$ 2,152.739	\$ 1,371.501	\$ 1,184.362	\$ 1,368.603	\$ 2,303.431	\$ 1,482.180	\$ 1,279.111	\$ 1,478.091	\$ 2,487.705	\$ 1,600.755	\$ 1,118.952
Event	\$ 1,913.400	\$ 2,245.500	\$ 3,748.300	\$ 2,024.325	\$ 2,339.232	\$ 3,937.051	\$ 2,547.074	\$ 2,166.028	\$ 2,502.978	\$ 4,212.644	\$ 2,710.695	\$ 2,339.310	\$ 2,703.216	\$ 4,549.656	\$ 2,927.551	\$ 4,545.741
Tickets	\$ 1,578.800	\$ 2,012.100	\$ 2,621.100	\$ 1,633.268	\$ 1,887.342	\$ 3,176.496	\$ 2,063.130	\$ 1,747.597	\$ 2,019.456	\$ 3,398.851	\$ 2,187.047	\$ 1,887.405	\$ 2,181.013	\$ 3,670.759	\$ 2,362.010	\$ 3,682.050
Other	\$ 334.500	\$ 233.400	\$ 1,127.200	\$ 391.056	\$ 451.890	\$ 760.554	\$ 483.944	\$ 418.430	\$ 483.522	\$ 813.793	\$ 523.649	\$ 451.905	\$ 522.204	\$ 878.897	\$ 565.541	\$ 863.691
Expenses	\$ 2,788.900	\$ 3,366.900	\$ 5,605.000	\$ 2,934.135	\$ 3,542.893	\$ 5,907.618	\$ 3,761.832	\$ 3,087.037	\$ 3,728.221	\$ 6,226.933	\$ 3,958.319	\$ 3,248.018	\$ 3,923.388	\$ 6,563.888	\$ 4,168.159	\$ 5,381.458
Production	\$ 2,376.600	\$ 3,029.200	\$ 4,826.600	\$ 2,501.220	\$ 3,188.308	\$ 5,090.298	\$ 3,277.838	\$ 2,632.476	\$ 3,355.907	\$ 5,368.747	\$ 3,450.124	\$ 2,770.729	\$ 3,532.458	\$ 5,662.793	\$ 3,634.555	\$ 4,689.083
Artists	\$ 385.900	\$ 629.900	\$ 996.000	\$ 405.195	\$ 661.395	\$ 1,045.800	\$ 630.081	\$ 425.455	\$ 694.465	\$ 1,098.090	\$ 661.585	\$ 446.727	\$ 729.188	\$ 1,152.995	\$ 694.665	\$ 901.357
Concert	\$ 1,444.000	\$ 1,507.700	\$ 1,431.300	\$ 1,516.200	\$ 1,583.085	\$ 1,502.865	\$ 1,334.002	\$ 1,592.010	\$ 1,662.239	\$ 1,578.008	\$ 1,400.702	\$ 1,671.611	\$ 1,745.351	\$ 1,656.909	\$ 1,470.737	\$ 1,908.345
Convention	\$ 257.200	\$ 509.200	\$ 1,280.900	\$ 270.060	\$ 534.660	\$ 1,344.945	\$ 753.903	\$ 283.563	\$ 561.393	\$ 1,412.192	\$ 791.598	\$ 297.741	\$ 589.463	\$ 1,482.802	\$ 831.178	\$ 1,078.489
Misc	\$ 289.500	\$ 382.400	\$ 1,118.400	\$ 309.765	\$ 409.168	\$ 1,196.688	\$ 557.232	\$ 331.449	\$ 437.810	\$ 1,280.456	\$ 596.239	\$ 354.650	\$ 468.456	\$ 1,370.088	\$ 637.975	\$ 797.144
Sales Expense	\$ 412.300	\$ 337.700	\$ 778.400	\$ 432.915	\$ 354.585	\$ 817.320	\$ 483.995	\$ 454.561	\$ 372.314	\$ 858.186	\$ 508.195	\$ 477.289	\$ 390.930	\$ 901.095	\$ 533.604	\$ 692.375
Profit	\$ 193.200	\$ 79.100	\$ 194.800	\$ 197.070	\$ 75.407	\$ 182.172	\$ 156.743	\$ 263.352	\$ 143.360	\$ 289.143	\$ 234.557	\$ 370.403	\$ 257.919	\$ 473.473	\$ 360.147	\$ 283.235
Profit Margin	6%	2%	3%	6%	2%	3%	4%	8%	4%	4%	6%	10%	6%	7%	8%	5%

Appendix A7: Financial Assumptions

Assumptions based on previous data:

- 1) Sponsorship equals on average 35% of revenue.
- 2) Ticket sales contribute, on average, 81% towards event revenue.
- 3) Production expenses equal 87% of total expenses.
- 4) KCON spends 19% of its production expenses on artists.
- 5) The costs for the concerts amount to 41% of production expenses.
- 6) Miscellaneous expenses will grow annually at 7%.
- 7) Other expenses will grow at 5% annually.
- 8) Revenue will grow yearly.

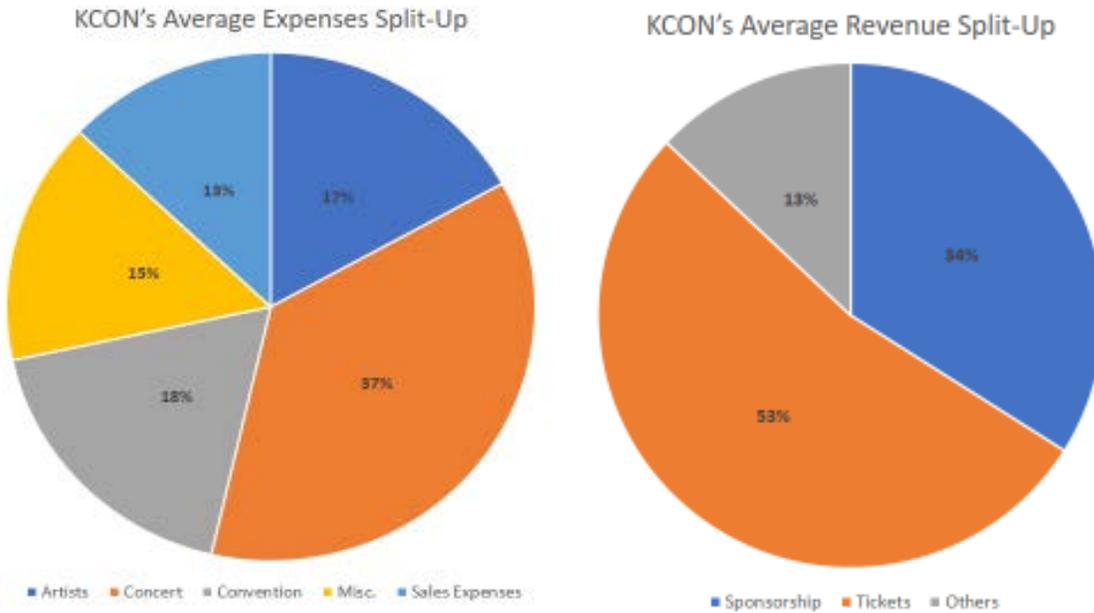
Appendix A8: Scenario Analysis

	Scenario Analysis								
	2017			2018			2019		
	worst	expected	best	worst	expected	best	worst	expected	best
% of Revenue	95%	100%	105%	95%	100%	105%	95%	100%	105%
Revenue	\$ 15,919.977	\$ 16,757.870	\$ 17,595.764	\$ 17,034.375	\$ 17,930.921	\$ 18,827.468	\$ 23,778.583	\$ 25,030.087	\$ 26,281.592
Expenses	\$ 16,146.478	\$ 16,146.478	\$ 16,146.478	\$ 17,000.509	\$ 17,000.509	\$ 17,000.509	\$ 23,284.911	\$ 23,284.911	\$ 23,284.911
Net Profit	\$ -226.502	\$ 611.392	\$ 1,449.286	\$ 33.866	\$ 930.412	\$ 1,826.958	\$ 493.672	\$ 1,745.176	\$ 2,996.680
Profit Margin	-1%	4%	8%	0%	5%	10%	2%	7%	11%

Appendix A9: Growth Chart



Appendix A10: Revenues and Expenses



Appendix A11: Risks and Mitigation

Risk and Mitigation			
Numbering			
Risk	Loosing focus from other BU's	Ensuring profitability	Losing consistent brand image
Mitigation	KCON will be operated and organized specifically by CJ E&M Department. Collaboration with other BU's will be communicated between management of these units. Previous model of synergy with Food & Service and Bio & Pharmacy BU's will be further developed for mutually beneficial results.	Increasing the significance of benefits that KCON bring to be used by synergies will be ensured by closer collaboration between BU's. KCON will be cutting the costs without decreasing the quality using more upcoming stars and local talents rather than well established brands. These preferences will be developed based on competition and surveys.	Establish key components that fans can expect, with special features that will differ from location and year

Appendix A12: Contingency Cash Flow Statement

Assumptions:

- 1) Each franchisee pays a yearly fee of \$500.000 to KCON.
- 2) Each franchisee will pay 10% of its annual revenue as an additional fee to KCON.

Cash Flow Statement 2020	
Cash Inflow from Operating Activities	\$ 14.837.089
Cash Inflow from Franchising Fees	\$ 1.000.000
Cash Inflow from Franchising Revenues	\$ 758.793
Total Cash Inflow	\$ 16.595.882
Cash Outflow from Operating Activities	\$ 13.735.295
Cash Outflow from Franchising	\$ -
Total Cash Outflow	\$ 13.735.295
Total Cash Flow	\$ 2.860.588

Appendix A13: Success Factors and Performance Indicators

Key success factors and Key Performance Indicators

Key Success Factor	Key Performance Indicator
Increase profits	Increase profits to 7% until year 3
Increase brand awareness in Mexico	Increase brand awareness by 20%
Establish strong fan base in Mexico	Returning participants 35%