Changes In Korean Entertainment Companies' Corporate Development Through Acquisitions: The Case of SM's Acquisition of Keyeast

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Abstract. Economic development is significantly influenced by the growth of the cultural industry. How should entertainment companies that promote cultural development face the challenges that come with the development of the times and achieve their strategic goals. This study analyses the case of SM's acquisition of Keyeast by collecting financial data such as the company's annual and quarterly reports and market data such as the company's market share before and after the acquisition, and analyses the changes in SM's revenues and profits and market share before and after the acquisition, and analyses the aspects of the company that have been promoted by the acquisition. It also analyses how the acquisition has boosted the company's development. It also examines how entertainment companies can achieve the goal of expanding their business, launching new projects, and increasing their competitiveness in the market through the acquisition; and how the acquirer and the acquired company can integrate their resources and combine their strengths in order to achieve their common goals.

Keywords: Cultural Industry Development; Corporate Acquisitions; Strategic Resource Integration.

1. Introduction

Culture and entertainment are closely related to people's lives, culture and entertainment in a wide range of ways, including film and television drama, music, variety shows and so on, is a good way for people to relieve stress and relax. Culture, and cultural confidence is a very important part of the country. Good cultural works can reflect social issues, express the richness of human emotions, and cause the audience to resonate. The market for entertainment is large, and as people's living standards and spiritual interests increase, so does their desire for leisure and pleasure. As evidenced by South Korea, which began to focus on cultural export earlier, the growth of the cultural industry is now playing an increasingly significant role in social and economic development. Korea has prioritized the growth of the cultural sector as a major driver of national economy since the 1990s and has put in place a plan to export its culture outside. With the help of the Korean government and the development of scientific marketing strategies for the cultural industry, the "Korean Pop Culture" has had a significant impact on many nations worldwide, and it has contributed to the comprehensive development of the Korean fashion, home appliances, and other industries [1].

In the 1990s, Korean pop culture, represented by films, TV dramas, music, etc., became a worldwide craze. Between 1990 and 2004, a large number of idol groups emerged within Korea. These idol groups were active in both domestic and international markets and spanned a wide range of fields, including music, TV dramas, and films, marking a boom period for the Korean pop music industry. Since 2005, the Korean pop music industry has made remarkable achievements in the international arena and has penetrated the world with its diversified operations [2]. The “Korean Pop Culture” has been popular for a while, and its popularity is still on the rise, and with the development of economic globalisation, it has looked to the world, and its centre of gravity has spread from Asia to the whole world. Because of its varied musical content and distinctive performing styles, the Korean pop music business, which began its development in Asia, has successfully made its way into the Western consumer market after experiencing a surge in popularity in China, Japan, and Southeast Asia. Although K-Pop has emerged as a significant genre in the worldwide music market, scholars have examined it from a variety of angles [3]. Another example is that in terms of works, K-pop music consumers have shown some transformation. Unlike K-pop music fans twenty years ago, under the influence of media technology, today's K-pop music fans have completed iterative updating in terms of textual interpretation, identity exhibition, and so on, and the process of their identity construction has also changed [4]. The traditional entertainment industry is also facing great challenges due to the rapid development of the Internet, epidemics, the economic environment, and changes in consumer aesthetics. For SM and keyeast, two relatively mature companies, it is difficult to keenly judge the changes in the market, maintain the original advantage in the market, expand their business territory and accurately judge the trend of changing trends in the midst of fierce competition from upstarts.

With the globalization of the economy, Korean entertainment companies have spread their sights and focus of development from Asia to the world. While growing rapidly, Korean entertainment companies are also facing challenges such as the rapid development of the Internet, digital transformation, changing consumer aesthetics, and fierce competition in the market. Under these circumstances, what are the means by which entertainment companies can realise their growth? Acquisition is one of the powerful ways. Because mergers and acquisitions are one of the ways to integrate high-quality resources in the same industry, improve the upstream and downstream industry chain to achieve the effect of “1+1>2”, and increase their own scale to enhance the competitiveness of culture and media enterprises in the market [5]. This study aims to analyse how entertainment companies should expand their business scope, improve market competitiveness, and increase profits and sales volume through acquisitions.

Among the many Korean entertainment companies, the reason why SM and keyeast are selected for this study is that SM entertainment is one of the largest entertainment companies in Korea, which has a high reputation globally, has a leading position in the Korean entertainment industry, is the pioneer of the K-Pop industry, and has a wide and increasingly diversified range of business involving music, film and television dramas, variety shows, etc. It has significant influence and representativeness. It is a pioneer in the K-Pop industry with a wide and increasingly diversified business scope involving music, film and TV dramas, variety shows, etc., and has significant influence and representation.

Keyeast is a company that focuses on artiste management, film and television production, and commercial production. It has professional and strong production capabilities, and is known for its high-quality film and television dramas, and has produced many well-known and popular productions, with many famous actors and actresses under its belt. The company focuses on internationalisation and is committed to a global strategy to promote its works worldwide.

The ‘Korean Pop Culture’ pursues economic benefits and therefore actively integrates into many cultural environments, objectively promoting the globalisation of Korean culture [6]. SM Entertainment, as the top entertainment company in Korea and the leader of the K-Pop trend, has a very high international reputation and significant international influence, and keyeast is also a company with high reputation and many high-quality masterpieces. Both companies have a high degree of social attention, and have developed for a long time, and have been expanding their business territory in the process of development, and each period of time has its own characteristics, which makes them both representative and research objects. Secondly, both companies are listed companies, with a large amount of official data to support the study, making the study more rigorous.

The Korean Pop Culture is a hotspot of social and media attention, and there have been previous studies on the development of SM Entertainment, analysing in detail how the company started, how it predicted and even led the hot trends, how it succeeded in becoming Korea's top entertainment company, what are the merits of marketing, branding and artist management, and how it has built up an advantage for itself, etc. For instance, the entertainment agency serves as both the foundation for artists to advance their acting careers and the supplier of music products in the Korean pop music industry. For instance, the entertainment agency is the source of music products and the starting point for singers to pursue acting careers in the Korean pop music industry. Korean pop music has developed a unique and independent international style as a result of its continuous evolution and incorporation of foreign music, and this is the distinguishing characteristic of its musical output [7]. As an additional illustration of a new global growth trend, the Korean K-pop music industry has recently brought about new developments in music creation, artist training, publicity, and marketing. It has also progressively taken up space in the European and American music marketplaces [8]. According to the Korea Foundation for International Exchange's statistical report, there are 225 million "Korean Pop Culture" fans worldwide, which is 24 times as many as there were ten years ago. At the same time, there are 1,748, or twice as many, Korean Pop Culture clubs worldwide. Business steals the show, while culture sets the scene. According to South Korea's Ministry of Culture, Sports, and Tourism's prediction, "Korean Pop Culture" exports will double in size from this year onward, growing at an average annual rate of 12.3% to reach 25 billion US dollars by 2027 [9]. However, with the rapid development of the economy and technology in recent years, the company's original development strategy may no longer be applicable today, and it is still necessary to study what new initiatives and changes have been made by the company in the face of many new challenges and internationalisation goals.

2. Case Introduction

2.1. Research Object

In 1995, singer Lee Soo Man established SM Entertainment (S.M. Entertainment), a major artist planning and agency in South Korea. "SM" stands for "Star Museum," which translates to "Star Museum, Hall of Fame." SM Entertainment, a trailblazer in the K-pop sector, is crucial to the creation of music, managing artists, and producing movies and television shows, among other things. The Asian "Korean Wave" began in 1998 when S.M. brought its HOT and SES to China and Japan. S.M. became Korea's first entertainment and culture joint stock company when it was listed on the KOSDAQ market and began issuing shares in April 2000. Keyeast is a Korea-based entertainment company founded in 2001, specializing in film and television production, talent management and cultural content development. The company is committed to discovering and nurturing new talent, and has a number of well-known actors and singers. Keyeast invests in areas such as agencies, new talent discovery and training, film and television production, cable channels DATV, KNTV, music, games, Korean direct shopping network Panda, and cosmetic business, etc. It has earned a reputation for its high-quality productions. Keyeast's high-quality productions have won the hearts of viewers. In addition, Keyeast is actively involved in international co-operation to expand its presence in the global market. As of 2020, Korea SM Entertainment Co. Ltd. acquired 25.35% of Keyeast's shares and became the first shareholder. Ltd. Japan Branch acquired 6.12% shares of Keyeast and became the second shareholder. Bae Yong Joon personally holds 4.05 per cent of the shares.

2.2. Case Description

In the past five years, SM has faced many new challenges, such as how to maintain its position and expand its market share in an increasingly competitive market; how to achieve digital transformation in the face of the rapid development of the Internet and how to adapt to new consumer habits; and how to realise its strategy of international development and enhance its acceptance and competitiveness in the West. At the same time, keyeast is also facing similar problems, and the two companies' goals of expanding their business scope and internationalisation are very much in line with each other. SM started out as a music producer and is better at artist management and music production, while keyeast has strong capabilities and experience in film and television drama production. The combination of the two companies may be able to achieve complementary advantages and synergies to achieve their strategic goals.

On 14 March 2018, SM announced the acquisition of Keyeast Corporation for KRW 50,000,000,000 through cash and old shares. SM's acquisition of Keyeast has the strategic purpose of resource integration, project cooperation, and enhancement of film and TV drama production capacity.After the acquisition of keyeast, SM has cooperated with it extensively in the field of film and TV drama, and has seen significant growth in the field of film and TV drama, and has launched TV dramas and film projects of excellent quality. At the same time, there have been new changes in a number of areas, such as the expansion of the artiste line-up, the addition of a number of well-known artists, the integration of resources, and the enrichment of SM's artiste line-up. At the same time, the company has diversified, after the acquisition, SM has enriched the types and contents of programme production, such as variety shows and web series, expanding the company's business scope.

Secondly, the company's film and TV production capacity has been enhanced. After the acquisition, SM has cooperated with Keyeast in a number of ways, and has rapidly developed its film and TV production, releasing a series of high-quality TV dramas and films. In addition, the company has also promoted globalisation: after the acquisition, SM has leveraged the resources of keyeast to further promote its development in overseas markets and enhance its international competitiveness. The Company has also promoted the digitalisation of its content: combining keyeast's production team, it has launched a large number of online campaigns and increased its investment in digital content as well as live streaming, which has received positive feedback from viewers.

3. Case Study

Research on the investment value of these listed companies, as well as the selection and investment in benign development or potential varieties, should be based on the characteristics of the entertainment industry itself. In addition to the investment value of these listed companies with the potential for smooth development of the project, the capital scale, business performance, product design, product development, and so on should not be ignored because they play an important role in the future construction of the community [10].

This study analyses the changes in revenue, profit, market share, and sales of SM after the acquisition by collecting and integrating financial data.

3.1. Revenue and Profit

Table 1. SM Entertainment's Revenue and Profit Comparison 2019-2023 (Unit: billion ₩)

	2019	2020	2021	2022	2023
Sales Revenue	6578	5789	7016	8508	9611
Net Profit	162	803	1332	820	827

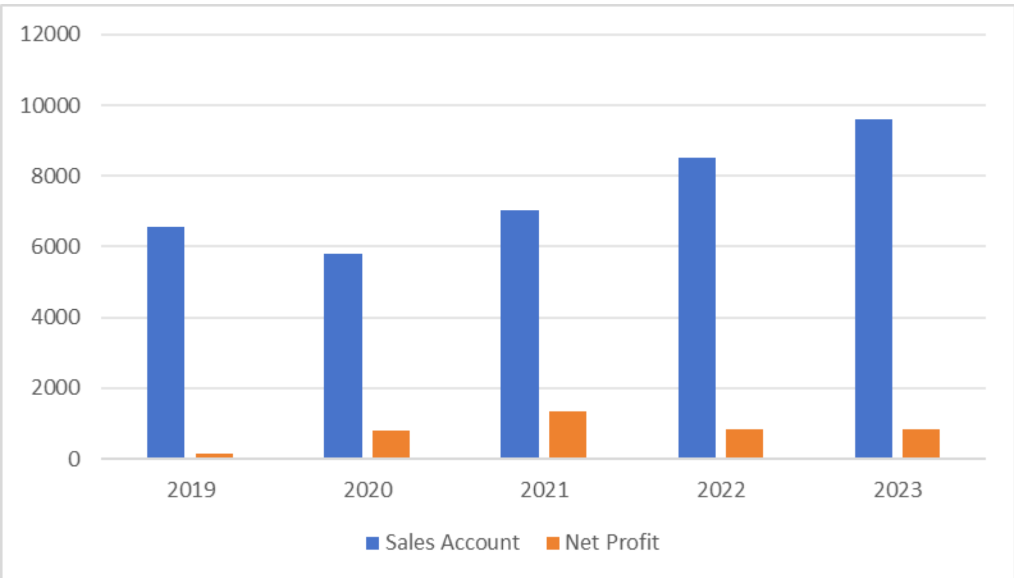

Fig. 1 SM Entertainment's Revenue and Profit Comparison 2019-2023 (Unit: billion ₩)

As shown in Table 1 and Figure 1, in terms of revenue from 2020 to 2023 steadily increased, in 2022 revenue decreased may be affected by the epidemic and other objective factors impression, but the overall still maintain a rise, revenue increased. In terms of profit, although there are fluctuations, but the change is not large, may be affected by objective factors, but the overall still shows a relatively stable state.

3.2. Market Share

Fig. 2 Total Changes in Major Entertainment Companies' Total Market Value Rankings 2010-2019 (Unit: billion ₩)

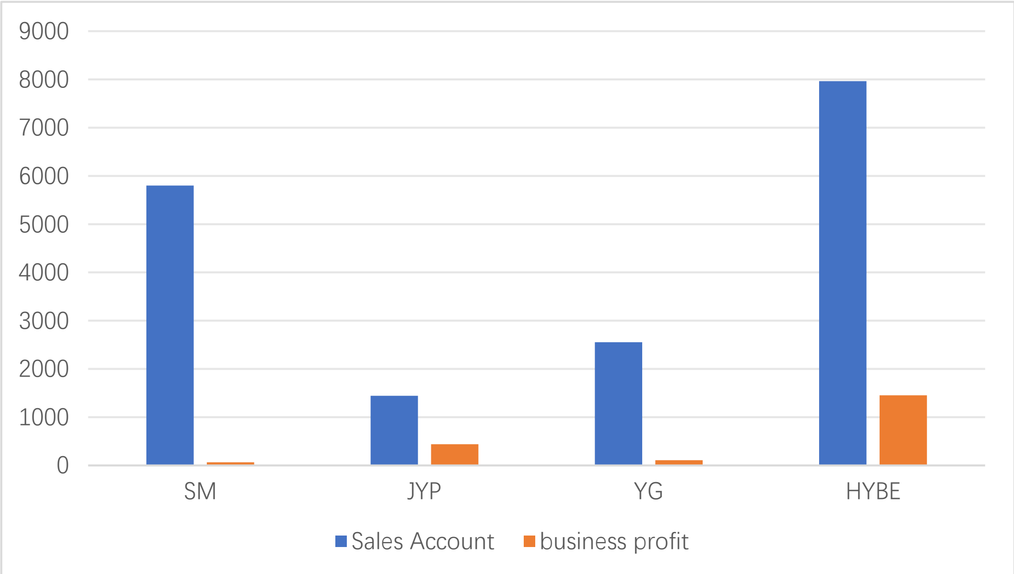

Fig. 3 2020 Korean Entertainment Big 4 Consolidated FS (Unit: billion ₩)

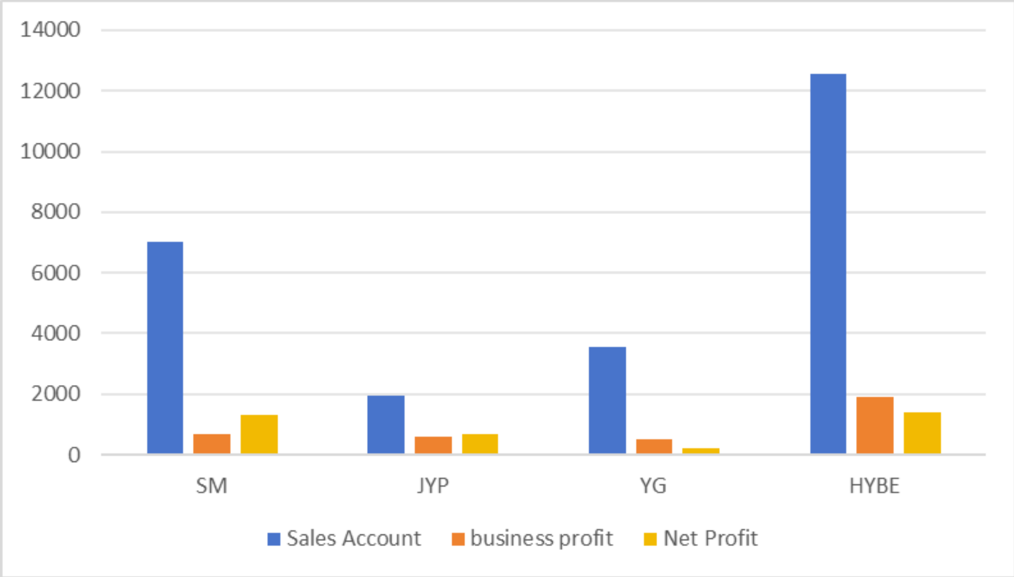

Fig. 4 2021 Korean Entertainment Big 4 Consolidated FS (Unit: billion ₩)

As shown in Figure 2, SM maintains its overall lead in this aspect of market competition, with market share and a large lead over other rivals in 2019, and may be somewhat squeezed in market share in 2020 and 2021 due to increasingly fierce market competition and strong rival hype (see Figure 3 and Figure 4), but still maintains a relative lead.

3.3. Sales Volume Details

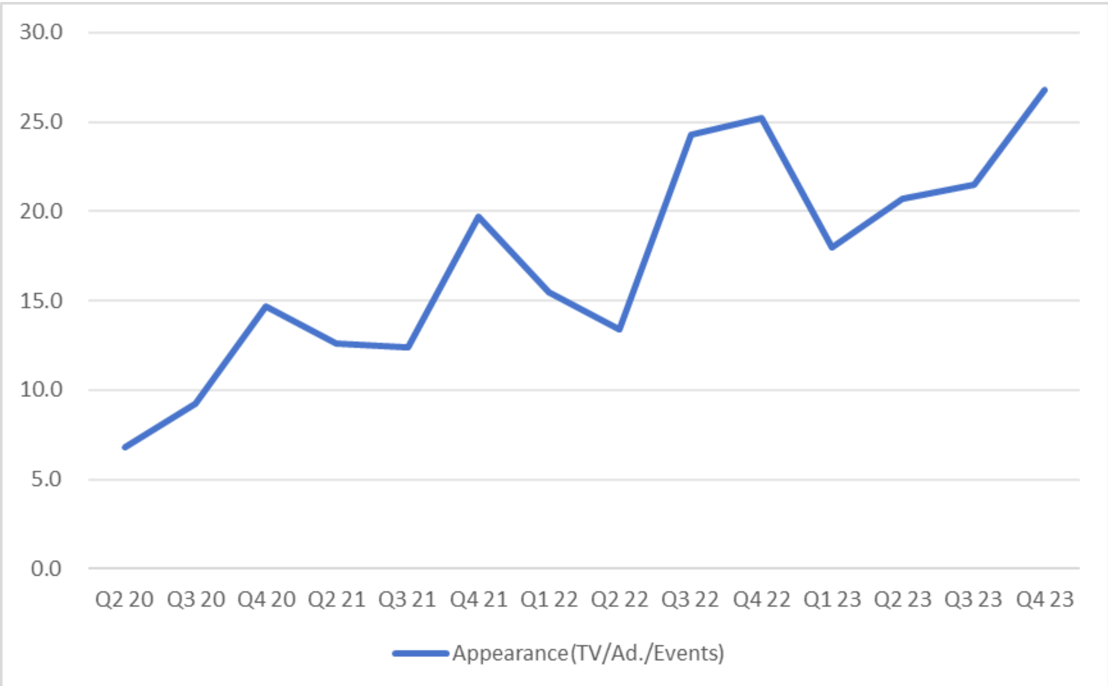

Fig. 5 Appearance (TV/Ad./Events) (Unit: billion ₩)

As shown in Figure 5, appearance is SM's official term for the company's film and television drama, advertising production, variety shows and other projects. In this aspect of the sales of the overall trend of increase, which fluctuations may be affected by the audience's viewing habits and weather seasons and other objective factors, from the sales of the mall can be seen in the company to improve the film and television drama production capacity, launched more and more high-quality works, to enhance this aspect of the revenue.

3.4. Overall Assessment

SM Entertainment's revenue after the completion of the acquisition showed an overall upward trend under the influence of the epidemic and other objective factors, and the profit fluctuated but remained at a relatively stable level. After the acquisition SM made use of the integration of resources to launch a series of film and television dramas and variety projects, and the overall revenue maintained an upward trend as can be seen from the revenue of the APPEARANCE section. In terms of market share, SM has maintained its overall leading position despite the fact that it has been pushed out of the market by strong competitors. From the above point of view, SM has increased its revenue, maintained relatively stable profit, expanded its business in film and television dramas, achieved development in various aspects, and provided certain assistance for the company's subsequent development, which can be called a successful case of acquisition.

3.5. Recommendations

Entertainment industry companies should be based on their own situation, combined with the background and development trend of the times, appropriate expansion of the business scope to seek new development opportunities and directions, improve the company's comprehensive capabilities. Or by way of acquisition, to reach cooperation with other companies to achieve synergistic effect, reference to the case of SM's acquisition of keyeast, combined with the resource advantages of the two companies and the ability to complement each other, to launch new projects, has reached the company's goals, so as to achieve the development of the cultural industry, to drive the development of a number of related industries. For example, the film and television project jointly launched by SM and keyeast can be seen that with the continuous reduction of international trade barriers, the global cultural industry is rapidly integrating and developing with new business models, and becoming an emerging trade hotspot. The development of science and technology makes the consumption behaviour of cultural products circulate all over the world, and the restriction of geographical distance on the consumption of cultural products is gradually reduced. In such a situation, sharing a set of radio and television programmes to create a sense of intimacy and common preferences, and more influence on the cultural proximity of different regions [11].

4. Conclusion

This study is based on a specific case of acquisition of an entertainment company, and analyses how the company uses the integration of resources to achieve the company's goals in order to promote the development of the cultural industry. The tourism industry and data industry related to the entertainment industry are affected by its development. The development of the cultural industry will lead to the development of a series of related industries. This study analyses the current development of SM acquisitions, and analyses how entertainment companies can promote their own development through acquisitions, use resource integration to make up for shortcomings and develop strengths to achieve the company's goals, based on the available information. However, with the development of the times and the rise of AI and self-media industry, the entertainment industry and cultural industry may face new opportunities and challenges, such as AI virtual artists and self-media individual producers will make the market more competitive, with the development of digitalisation, the entertainment company's publicity and project release channels may change. As the pace of people's life is getting faster and faster, the speed of consumer aesthetic changes and trend hotspots is also getting faster and faster, then how the company should adapt to the changes of the new era and maintain their advantages in the market is still worth studying in the future. This study has a stage of the times and provides research help for future research.

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