Enhancing the Role of SMEs in the Global Value Chain: A Case Study of the Korean Film Industry

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Agenda

- Overview of Korean Film Industry (KFI)

- Global Competitiveness of KFI
  - Five Forces Model Analysis
  - Cluster Analysis
  - Global Value Chain Analysis

- Major Players in KFI
  - MK Pictures
  - CJ Entertainment
  - ShowBox
  - Lotte Cinema

- Outlook of KFI
Overview of Korean Film Industry
Korean Film Industry in Last Five Decades

- **1950s – 1970s:**
  - After Korean War, fast growth of film production
  - Government support

- **1970s–1980s:**
  - Military government
  - Government control on film production

- **1990s:**
  - Democratization
  - Renaissance of production and distribution

- **2000s:**
  - Gaining global recognition
The 9th largest market in the world
- **US**: US$ 34.3 billion vs. **Korea**: US$ 1.4 billion

Film Industry Infrastructure
- # of theater – 306
- # of screen – 1,847 (6.04 screens per theater)

Korean films released – 108
Foreign films imported – 237

Average production cost per film
- **US**: US$ 40–50 million vs. **Korea**: US$ 4.4 million

Number of Admissions
- 85 million
- 2.98 admissions per Capita
Korean Film Industry in the World (Top 10)

Average Mkt share of other Top 10 countries for the 6 years (2000~2005) were as follows. Great Britain: 9.9%, Germany: 4.6%, Spain: 2.6%, Italy: 2.5%, Australia: 2.4%, India: 2.2%
Korean Mkt Size: 999(00), 1,002(01), 1,124(02), 1,222(03), 1,311(04), 1,410(05)
Production Costs of Korean Films by Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Production Cost (A)</th>
<th>P &amp; A Cost (B)</th>
<th>Total Production Cost (A + B)</th>
<th>Number of films produced</th>
<th>Estimated Total Yearly Production Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>9</td>
<td>1</td>
<td>10</td>
<td>65</td>
<td>650</td>
</tr>
<tr>
<td>1997</td>
<td>11</td>
<td>2</td>
<td>13</td>
<td>59</td>
<td>767</td>
</tr>
<tr>
<td>1998</td>
<td>12</td>
<td>3</td>
<td>15</td>
<td>43</td>
<td>645</td>
</tr>
<tr>
<td>1999</td>
<td>14</td>
<td>5</td>
<td>19</td>
<td>49</td>
<td>931</td>
</tr>
<tr>
<td>2000</td>
<td>15</td>
<td>6.5</td>
<td>21.5</td>
<td>59</td>
<td>1269</td>
</tr>
<tr>
<td>2001</td>
<td>16.2</td>
<td>9.3</td>
<td>25.5</td>
<td>65</td>
<td>1658</td>
</tr>
<tr>
<td>2002</td>
<td>24.5</td>
<td>12.7</td>
<td>37.2</td>
<td>78</td>
<td>2902</td>
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<tr>
<td>2003</td>
<td>28.4</td>
<td>13.2</td>
<td>41.6</td>
<td>80</td>
<td>3328</td>
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<tr>
<td>2004</td>
<td>28</td>
<td>13.6</td>
<td>41.6</td>
<td>82</td>
<td>3411</td>
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<tr>
<td>2005</td>
<td>27.3</td>
<td>12.6</td>
<td>39.9</td>
<td>87</td>
<td>3471</td>
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<tr>
<td>2006</td>
<td>25.8</td>
<td>14.4</td>
<td>40.2</td>
<td>110</td>
<td>4422</td>
</tr>
</tbody>
</table>

(unit: hundred million KRW)

40 hundred million KRW = US$ 4.4 million
## Admissions & Attendance Per Capita

( unit: ten thousand )

<table>
<thead>
<tr>
<th>Division</th>
<th>Korean Films</th>
<th>Foreign Films</th>
<th>Total Admissions</th>
<th>Average Attendance per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Admissions</td>
<td>Market Share</td>
<td>Admissions</td>
<td>Market Share</td>
</tr>
<tr>
<td>1995</td>
<td>944</td>
<td>20.90%</td>
<td>3,569</td>
<td>79.10%</td>
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<tr>
<td>1996</td>
<td>976</td>
<td>23.10%</td>
<td>3,244</td>
<td>76.90%</td>
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<tr>
<td>1997</td>
<td>1,212</td>
<td>25.50%</td>
<td>3,540</td>
<td>74.50%</td>
</tr>
<tr>
<td>1998</td>
<td>1,259</td>
<td>25.10%</td>
<td>3,759</td>
<td>74.90%</td>
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<tr>
<td>1999</td>
<td>2,172</td>
<td>39.70%</td>
<td>3,300</td>
<td>60.30%</td>
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<tr>
<td>2000</td>
<td>2,271</td>
<td>35.10%</td>
<td>4,191</td>
<td>64.90%</td>
</tr>
<tr>
<td>2001</td>
<td>4,481</td>
<td>50.10%</td>
<td>4,455</td>
<td>49.90%</td>
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<tr>
<td>2002</td>
<td>5,082</td>
<td>48.30%</td>
<td>5,431</td>
<td>51.70%</td>
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<tr>
<td>2003</td>
<td>6,391</td>
<td>53.49%</td>
<td>5,556</td>
<td>46.51%</td>
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<tr>
<td>2004</td>
<td>8,019</td>
<td>59.33%</td>
<td>5,498</td>
<td>40.67%</td>
</tr>
<tr>
<td>2005</td>
<td>8,544</td>
<td>58.71%</td>
<td>6,008</td>
<td>41.29%</td>
</tr>
</tbody>
</table>
Global Competitiveness of Korean Film Industry

- Five Forces Model Analysis
- Cluster Analysis
- Global Value Chain Analysis
Evolution of Korean Film Industry in the Institutional Perspective

Phase 1: ~ 1988
- 1962.1.20: Making the movie law
- 1963: Screen-quota system
- 1966: Foreign film business permission
- 1970: KOFIC
- 1973: US direct distributor
- 1984: Increasing multiplex theaters
- 1986: Vertical integration

Phase 2: 1988 ~ 1998
- 1988: M&A
- 1998: Going public

Phase 3: 1998 ~
- 2002: Present (continuing)
- 2005: For Five-day workweek

Companies:
- SAMSUNG
- HYUNDAI
- SKC
- CJ (CJ Ent.)
- DAEWOO
Five Forces Model of KFI: ~ 1988

- **Suppliers**
  - Limited talents, $$, & Infra

- **Potential Entrants**
  - almost none

- **Industry Competitors**
  - only small firms

- **Substitutes**
  - TVs

- **Buyers**
  - Limited time & $$

- Suppliers
  - Imported movies
  - $$$ & talents
  - Single screen

- Industry Competitors
  - a few Chaebols

- Potential Entrants
  - Chaebols
  - US Firms

- Substitutes
  - TVs, Video
  - Outdoor events

- Buyers
  - per Capita GDP
  - US$1,877 ~ 5,574
**Five Forces Model of KFI: 1998 ~ Now**

- **Potential Entrants**
  - Chaebols
  - Broadcasting
  - Cables & ITs

- **Suppliers**
  - $$$ & talents
  - Multiplex

- **Industry Competitors**
  - Chaebols
  - Specialized firms

- **Substitutes**
  - TVs, Video, DMB
  - Outdoor events

- **Buyers**
  - 5 days per week
  - US$18,000+
Korean Players in Value Chain

- **MK Pictures**
  - Production: US$17 Million
  - Employee: 38

- **CJ Entertainment**
  - Investment: US$138 Million
  - Distribution: Employee: 105

- **SHOWBOX**
  - Investment: US$97 Million
  - Distribution: Employee: 48

- **롯데시네마 (Lotte Cinema)**
  - Investment: US$120 Million
  - Employee: NA

- **Value-added Marketing**
Global Cooperation of Korean Players

- Investment from US (CAA)
- Cooperation with GDH in Japan
- Joint production and plan for screening in China

- Distribution in US
- Joint investment in Japan
- Expansion in Asian countries

- Plan for global markets
- Major stockholder of KT

- Plan for China & Vietnam
Chaebols vs. SMEs in Korean Market

- Vertically Integrated from investment to screening
- Active in globalization
- $$$
- Support from sister companies
- Acquire SMEs

- Independent players
- Specialized in one or two segments
- $
- Ongoing M&As
- Willing to collaborate with foreign firms

Shincine
KnJ Ent
Outlook of Korean Film Industry
Driving Forces of Globalization in Korea

• **Global performance** of a few leading firms

• **Built-up consensus** about the limit of Korean local market

• **Accumulated experience** with many foreign local markets
  – China, USA, Asia, & EU

• Institutional change – **FTA**

• **Global talents** with language skills
Challenges of KFI

• Except leading chaebols, most firms do not have experience, talents, & $$$

• Dealing with cultural difference

• Establishing global management systems, especially HR practice

• Official communications and language

• Building up global competitiveness

• Not flexible labor market practice
Future Strategies of KFI

• More focus on China and Asian countries
• More active collaboration with foreign partners
• Accelerated process of globalization due to local competition
• Diffusion of best practice through human mobility
• Promising performance in the near future
Q&A?

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