The Business Model and System of the Korean Music Industry within a Collectivist Society

Rongyu Liu

Faculty of Humanities, McMaster University, Hamilton L8S 4L8, ON, Canada

Abstract. In the global music landscape, traditionally dominated by Western powerhouses, the Korean music industry has emerged as a formidable force over the past two decades, achieving remarkable milestones. At the heart of this success lies the trainee system, a reflection of Korea's collectivist culture, which has established a solid foundation for the industry's swift industrialization. This article employs a literature analysis approach to explore the significant impact of the Korean music industry model on propelling Korean music onto the global stage. It also delves into the potential future developments of the industry, examining the balance between maintaining its unique identity and adapting to the ever-evolving global music landscape. The study finds that the industry's strategic utilization of technological advancements has facilitated the creation of a highly efficient production line, solidifying its status as a powerhouse of high output and returns. The advanced and collective nature of the Korean music industry has equipped it with the resilience and adaptability necessary to tackle various challenges effectively. However, the industry's reliance on a homogenized and assembly-line approach to star-making and music production raises concerns, as it may curb artistic creativity and lead to a lack of diversity in Korean music.

1 Introduction

Pop music is a kind of music that can be seen as a subsequence of popular music. Around the mid-1950s, the modern form of pop music boomed in the United States and Great Britain. Rhythm and simple tunes are the core of pop music; other forms of popular music, like rock and soul, are often added to pop music to give it more prosperous and more varied content realization methods. The United States, as the country that has the largest recorded music market, while incubating pop music, also became the setter of the pop music industry standards. Around the world, American pop music has inspired and promoted the development of different pop music styles. Despite the challenges to the traditional music market in the United States due to issues like piracy and illegal downloads resulting from the advent of the Internet, the rise of streaming services has helped the U.S. to maintain the dominant position in the music industry.

Korean popular music (K-pop) is one of the most successful ones that grew based on the fertile soil of American popular music. K-pop is neither pop nor popular music; as a reasonably new form, K-pop merges pop, rock, R&B, and electronic music. K-pop is a subproject of the “Korean Wave,” also known as “Hallyu.” Hallyu is a cultural phenomenon and a collective name for all Korean cultural communication activities, including but not limited to music, drama, movies, Korean culture, and Korean beauty. The prominence of the Korean Wave in numerous events is attributed to the support of two key factors: attractiveness and competence. Attractiveness and competence are two entities mutually benchmarking each other, the former corresponds to a country's soft power, while the latter reflects the hard power of a nation [1]. Whatever attractiveness or competence, the breakout of the Hallyu Wave is entirely the result of collective efforts. Therefore, compared with the liberal United States music recording, the prosperity of the Korean music industry perfectly represents the “collectivism” in Korean culture. In recent years, unlike the U.S. music market, where the total revenue growth has slowed, the revenue in the South Korean music industry has been soaring [2]. This article employs a literature analysis method, aiming to elucidate the impact of the Korean music industry model that has propelled Korean music onto the global stage.

Additionally, it will analyze the potential future development of the Korean music industry. First, the Korean music genres will be explored; in the subsequent sections, this thesis will delve into the unique structural paradigms observed within the South Korean music industries, and the business models of the music industries will be analyzed. Finally, a conclusion will be given to summarize the essay and explore some development possibilities of the South Korean music industry.

Corresponding author: liu280@mcmaster.ca

© The Authors, published by EDP Sciences. This is an open access article distributed under the terms of the Creative Commons Attribution License 4.0 (https://creativecommons.org/licenses/by/4.0/).
2 Korean pop music background

The success of K-pop can only be with the strong support of the Korean government. Asia's financial crisis in the late 20th century put South Korea's economy in serious trouble. Although Korea got help from the International Monetary Fund (IMF), the domestic economy in South Korea continues to remain in a state of severe downturn. In 1997, the president of Korea, Kim Dae Jung, declared a solid commitment to fostering the entertainment industry, aiming to rescue the South Korean economy, which had been mired in the aftermath of the financial crisis through the rise of the entertainment sector [3]. The government decided to abolish the longstanding cultural and artistic censorship system, enhance cultural and artistic freedom, and establish a dedicated government agency for the cultural industry. Simultaneously, during the same period, there was a proposal to shift the economic focus towards the entertainment and cultural industry, aiming to develop it into a core industry for South Korea [4]. In the 1990s, Professor J. Nye mentioned a theory called “soft power” [5]. Soft power reflects the capacity for attractiveness regarding culture, language, values, and other aspects. Hallyu is a mighty soft power in South Korea. Hallyu is a phenomenon rather than a label; a single firm or group cannot represent it; only firms that contribute to driving the process of global Korean culture could be seen as a part of Hallyu [6].

The Korean popular music (K-pop music) industry is part of Hallyu, a mature industry chain. This industry chain is founded upon the framework of Korean popular music, strategically designed to propel the global reach of Korean music. This initiative fosters economic development and serves as a conduit for disseminating Korean culture, thereby enhancing South Korea's international prestige. Korean popular music is a practical fusion of Eastern and Western pop music elements. This genre incorporates various musical elements, including pop, hip hop, R&B, electronic dance music (EDM) and more. Since 2024, about 75 million people speak Korean around the world, and the population around the world is around 8.1 billion; only 0.9% of the population uses Korean [7]. Therefore, relying solely on individual efforts or a single channel to promote Korean music globally is nearly impossible. The South Korean cultural trait of 'collectivism' has played a pivotal role in driving the internationalization of Korean music. In Korean, people prefer using “우리” (we) instead of “I” to present they belong to a group, no matter if they are in a group or not. For instance, most Koreans use “우리 아내” (our wife) to represent “my wife.” The Korean society emphasizes the value of the group rather than a person. The profound sense of collectivism has been strategically integrated into the construction and development of the South Korean music industry. The organizational structure of South Korean entertainment companies does not differ significantly from that of most other countries; it is typically hierarchical. However, South Korean music entertainment companies’ music production and promotion processes are markedly distinct from those in Europe and the United States. Usually, companies refrain from singularly promoting individual songs.

Korean music is typically presented in album format, encompassing multiple tracks. Moreover, the ownership of an album is usually attributed to a group with several artists as opposed to an individual artist. The group of artists has a specific name: "idol group." In Oxford Languages, "idol" is defined as a person who is a member of a group or solo act in the East Asian entertainment industry. The birthplace of the idol star system in Japan, after South Korea abolished restrictions on Japanese cultural imports, several J-pop groups became popular in Korea; at the same time, the Japanese idol system began to have a large-scale and profound impact on the entire Korean entertainment market [8]. Korean entertainment companies, like SM Entertainment, fused traditional Korean music with Japanese music to create a K-pop music system.

3 Idol training system

Hallyu is a business that revolves around money; idols, fans, music, and other events are only the methods of value creation. An idol functions more as a marketable commodity than a cultural influence; entertainment companies act as creators of idols rather than discoverers. Slave contracts are prevalent throughout the idol's entire career. Korean entertainment firms conduct global screenings of minors aged 5 to 16, recruiting them as trainees and offering comprehensive singing, dancing, and multiple languages programs [9]. These training programs are optional; all associated costs, including living expenses, are transformed into debt, which the trainees are obligated to repay following their debut, and trainees who fail to debut will face high debts. Moreover, trainees endure an extensive preparation period ranging from 2 to 8 years, with daily practice sessions lasting 14 to 15 hours, and navigate challenges such as internal bullying, enforced dieting, and stringent disciplinary measures that include, among others, prohibitions on dating and restrictions on leaving their accommodations [9]. The trainee system in the Korean music industry raises significant human rights concerns, particularly regarding the well-being and rights of minors involved in rigorous training schedules and restrictive conditions.

4 The Business Model of the K-pop music industry

4.1 Music industry business model 1.0

In the realm of traditional Korean music corporations, a multifaceted approach to production has been adopted to ensure competitiveness and success in the entertainment industry. Central to this approach is the proprietary trainee development framework, which is the foundation for nurturing talent and providing a consistent supply of skilled artists. Training trainees represent the primary financial investment for Korean music companies.
during the initial stages of development. Concurrently, as all music projects are centered around the artist's intellectual property, the cultivation of trainees serves as the foundational element for all subsequent business activities. This system is complemented by strategic business-to-consumer (B2C) methodologies, which focus on understanding and meeting the needs of the end consumer, thereby enhancing market penetration and brand loyalty [10].

Furthermore, lucrative business-to-business (B2B) partnerships are crucial in expanding the corporations' reach and diversifying their revenue streams [10]. These components collectively form a sophisticated, fully integrated, high-performance production pipeline. The trainee system serves as the foundational element in the product production process within the entertainment industry. In this system, entertainment companies invest heavily in the training and development of their trainees, ultimately forming them into groups for their debut. The financial model underpinning this system is characterized by the trainees using their earnings from work to reimburse the company for the training expenses incurred. This creates a distinctive debut model for Korean stars, predicated on a debtor-creditor relationship. Within this framework, the autonomy of the singer groups is limited, as they do not possess the right to choose their work independently. Instead, the company strategically orchestrates and plans all their work and developmental activities. The primary objective of this arrangement is to ensure the repayment of the company’s "training expenses," thereby maintaining a sustainable financial model for the company’s operations. The distribution of earnings between artists and their respective companies frequently exhibits a considerable imbalance, with ratios often ranging from 30:70 to an extreme of 10:90 in favour of the companies [10]. This pronounced disparity in revenue sharing has facilitated the rapid accumulation of Current Assets by entertainment companies. The accumulation of significant liquidity within entertainment companies confers a notable degree of financial flexibility. This liquidity acts as a strategic asset, facilitating the effective management of short-term debt obligations and providing the necessary capital for business expansion initiatives. The ability to swiftly address debt liabilities and capitalize on growth opportunities is critical in maintaining a competitive edge in the dynamic entertainment industry. This financial resilience ensures that companies adapt to market fluctuations and invest in strategic ventures to enhance their market presence and profitability.

In the early stages of the Korean music industry, entertainment companies operated in a state of perfect competition. For instance, SM Entertainment's boy group H.O.T and YG Entertainment's Crystal Boys were direct competitors. This rivalry extended to various industry aspects, including concerts and fan support groups. Under this perfectly competitive model, business-to-business (B2B) relationships were primarily between individual entertainment companies and external service providers, such as album production and promotion companies. Collaborations between competing entertainment companies could have been more present. The intensely competitive environment of that era was a reflection of the relatively unexplored nature of the Korean entertainment market. Competition and conflict served as strategic tools for companies to capture market share and establish a presence in the industry. In the entertainment industry, the business-to-consumer (B2C) model is characterized by a direct engagement strategy between the company and the fan base, with a significant emphasis on communication with fan groups and interaction during concerts. This approach exemplifies the quintessential producer-consumer relationship, wherein companies actively engage with their target audience to promote their offerings and cultivate brand loyalty. The effectiveness of this model is predicated on the ability of the company to foster a strong connection with the consumers, leveraging various channels of communication and interactive experiences to enhance consumer engagement and drive consumer satisfaction. The competitive dynamics between fan groups have played a notable role in advancing the music industry.

A prime example is the "Yellow and White War," as portrayed in the Korean television series "Reply 1997," which encapsulates the intense rivalry and conflicts between the fan groups of H.O.T and Crystal Boys. This representation underscores the significant impact that fan group competition can have on the visibility and success of music acts, thereby contributing to the broader development of the industry. Such competitive relationships foster a vibrant fan culture and stimulate increased engagement and investment in music, underpinning the industry's expansion and evolution.

### 4.2 Music industry business model 2.0

Most scholars generally agree that the development of the Korean music industry can be segmented into three distinct phases. The first generation of the Korean music industry is characterized by the emergence of the first-generation idol groups, exemplified by the H.O.T and Crystal Boys mentioned above. At the inception of the Korean music industry, represented by first-generation idol groups such as H.O.T and Crystal Boys, the market focus was primarily domestic. Despite attempts by Korean music companies to extend their cultural entertainment reach into China, the primary target remained the relatively undeveloped South Korean music market. During this era, the fan base was predominantly composed of teenagers, needing more organization and strategic planning, as seen in later stages [11]. This period marked the early stages of the music industry's system establishment, characterized by a chaotic market and an underdeveloped infrastructure. During this period, the industry was in the formative years, establishing a foundation for structured growth and international expansion in the future.

The Korean music industry 2.0 evolved from the initial phase, leveraging advancements in Network 2.0. Web 2.0, first introduced in 2004, marked a departure from the static, non-interactive websites of Web 1.0.
This new era of the internet ushered in dynamic web pages that offered enhanced interactivity and searchability. As a result, users transitioned from being mere consumers of content to assuming dual roles as both users and producers, actively participating in content creation and dissemination. The emergence of Google, Flicker, Weibo, and YouTube provides Internet users a platform for independent creation [2]. With the advent of dynamic networks facilitated by Web 2.0, virtual albums, online sound sources, and music videos (MV) began to gain widespread popularity. This shift allowed more accessible access to music content and more significant opportunities for artists to reach a global audience.

In parallel with the technological advancements of Web 2.0, the Korean music industry witnessed a considerable shift in the fan base demographics. The primary audience expanded from predominantly teenagers to young adults in their 20s. This new segment of fans brought a higher level of mental maturity and financial stability to the industry's consumer base. Simultaneously, the rise of online platforms facilitated the proliferation of idol-related merchandise crafted and distributed by fan groups. This period saw an increase in the variety of derivative products available, ranging from posters and photography to detailed schedules of idol group activities. The emergence of these products not only enriched the fan experience but contributed to the commercial ecosystem surrounding the Korean music industry. The development of the Internet marked a significant shift in the Korean music industry's approach to content distribution, marketing, and fan engagement. During this stage, the Korean music company system experienced significant maturation. The industry saw the rise of representative groups and idols such as TVXQ, Super Junior, Big Bang, Girls' Generation, and PSY. It is significant to observe that, during the music industry 2.0 era, Korean music companies initiated their expansion into international markets. A key strategy in this global outreach involved the recruitment of trainees of Asian descent from across the globe. This approach not only diversified the talent within these companies but also aimed to increase the global appeal of K-pop. Notable examples of this strategy include the inclusion of Han Geng, the former Chinese member of Super Junior, and Nichkhun, the Thai member of 2PM.

During the music industry 2.0 period, the Global-Local-Global (G-L-G) strategy (Figure 1) began to take shape as Korean music companies expanded their presence in international markets. This strategy initially involved gaining global recognition, localizing content, and using approaches to resonate with specific regional audiences. Finally, it leveraged this localized success to strengthen the international brand and appeal further [13]. Implementing the G-L-G strategy played a crucial role in the continued growth and globalization of the K-pop industry.

![G-L-G Strategy](https://example.com/strategy)

**Fig. 1. G-L-G Strategy (Picture credit: Original)**

### 4.3 Music industry business model 3.0

The success of BTS breaking into America joins hands with another iteration of Korean music. BTS's breakthrough success in the United States marks a significant milestone in the evolution of the Korean music industry, representing a new phase of global recognition and influence. Their ability to enter and dominate the U.S. market, traditionally considered one of the most challenging markets for non-English language acts to penetrate, showcases the effectiveness of the industry's global-local-global (G-L-G)
strategy. The unprecedented success of BTS in the international music market, particularly in the United States, is a unique phenomenon that other K-pop acts have not replicated to the same extent. While BTS has undoubtedly raised the global profile of K-pop and demonstrated the potential of Korean music in the top music markets, assessing whether the success has fully paved the way for the broader Korean music industry is challenging. Figure 2 illustrates the performance of Korean music on the Billboard Hot 100 chart from January 2020 to January 2024 [14]. The analysis of the data indicates a notable instability in the rankings, which may imply that the current condition of the South Korean music industry needs to be more adequately supportive of sustained success on the Billboard Hot 100.

Despite the Korean music industry’s ongoing efforts, the expansion in the United States market has encountered challenges. However, it is undeniable that, at this stage, Korean music companies have successfully incorporated advanced technology into their business operations. The advent of online live broadcast platforms and the evolution of virtual humans have ushered the Korean entertainment industry into a new era, giving rise to novel business models. The evolution of the Global-Local-Global (G-L-G) strategy into G-L-G+V (Virtual) (Figure 3) represents a significant shift in the Korean music industry. In this new model, companies are no longer constrained by the limitations of the physical music entertainment market. The internet is no longer solely a platform for promoting idols and music. Instead, companies are exploring the concept of Virtual as a parallel space that intersects with the real world. This has led to the creation of AI virtual idols, such as Aespa.

Fig. 2. the performance of Korean music on the Billboard Hot 100 chart from January 2020 to January 2024

Fig. 3. a significant shift in the Korean music industry (Picture credit: Original)
The emergence of virtual idols is a bold attempt, but a revolutionary transformation of the traditional idol training model seen in the 1.0 and 2.0 stages. It also redefines the cooperative relationship between idols and companies. By leveraging advanced technology, companies can create virtual idols to engage with fans, perform, and release music without human limitations. This innovation opens up new possibilities for content creation, fan interaction, and revenue generation, marking a new era in the Korean music industry.

5 Conclusion

A strict hierarchical structure and a deep-seated sense of ethnic identity characterize South Korea's cultural landscape. This collectivist mindset has been a driving force behind the rapid growth of the Korean music industry in recent decades. Both the trainee system and the group debut mechanism are reflective of the collectivist values prevalent in Korean society. The industry operates on a systematic and assembly-line business model, which has transformed it into a production machine marked by a rigorous system and exceptional efficiency. This model ensures the production of music and entertainment that adheres to high standards of quality and consistency.

Moreover, the strong propensity of South Korea to embrace and integrate new advancements has enabled the music industry to expand globally under a continuously improving business model. However, the very collectivist thinking and assembly-line production that have propelled the industry's growth also pose limitations. They can stifle individual creativity and diversity, leading to a certain degree of homogeneity in the music and entertainment produced. Concurrently, the operational model of the Korean music industry is characterized by a high level of systematization, which also implies that it is easily replicable. The challenge of maintaining the distinctiveness of artists while ensuring efficient production and transitioning commodified and mythical artists from mere assembly line products to vibrant, authentic figures is a critical issue that the Korean music industry must address in the current landscape. The advent of Web 3.0 resembles the Korean music market in the late 20th century, characterized by boundless possibilities and opportunities without institutional constraints. Virtual platforms will become a battleground for the virtual realm of music entertainment. The exploration and experimentation within the virtual world represent the Korean music industry's response to the challenges and opportunities presented by Web 3.0. This paper aims to provide guidance for further optimizing the structure of the Korean music market and assist Korean music entertainment companies in exploring additional development opportunities in the future. However, due to the scarcity of detailed data, this paper is unable to conduct precise analyses of specific cases and is limited to a general overview of the entire music industry.

References

1. K. Bok-Rae, AIJCR 5, 154-160 (2015)