

# Business Model and Development of Korean Brokerage Companies

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**Abstract.** The K-POP industry, with SM Entertainment, YG Entertainment, and HYBE as its titans, has been a driving force in South Korea's cultural and economic landscape. These companies have not only shaped the careers of countless K-POP stars but have also navigated the complexities of the global music market with strategic acumen. The K-POP industry as a whole has been characterized by its ability to innovate and adapt to digital platforms, breaking records and engaging with fans worldwide through online concerts and social media. The genre has also been recognized for its cross-cultural collaborations, blending East and West to create a truly global sound. In conclusion, the K-POP industry's future trends point towards continued digital innovation, strategic global expansion, and a focus on cross-cultural collaboration. The targeted development suggestions for these entertainment giants would be to further integrate technology into their business models, to continue fostering international collaborations, and to explore new revenue streams beyond music, such as NFTs and the metaverse, to future-proof their businesses in the evolving landscape of the global music industry.

## 1 Introduction

The business model of Korean entertainment companies mainly includes artist brokerage, music sales, film and television production and distribution, brand cooperation and advertising endorsement. The core business of Korean entertainment companies is artist brokerage. By signing artists and building a star lineup, the profits are mainly achieved through concerts, fan meetings and endorsement advertisements. Music sales are another important profit channel, including the sales of music products such as albums and singles, as well as the income from the digital music market. In addition, film and television production and distribution is also an important source of income for Korean entertainment companies, and the profit channels are broadened by making TV dramas, movies and other film and television works. As value-added services, brand cooperation and advertising endorsement provide artists with advertising endorsement opportunities through cooperation with well-known brands to maximize brand value. Meeting fans at concerts is also a very big source of income for economic companies. Earn a lot of money through various offline face-to-face activities between fans and artists.

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In recent years, Korean pop music (hereinafter referred to as "K-POP") has achieved great success all around the world, including the United States, Europe, and of course, Asia. The expansion of K-POP in the global market is evidenced by their impressive performance on the world music charts and their winning of international music awards [1]. In the K-POP system, people call the singers "idols" or "idol groups". But they attract fans with their overall image in music, dance, modeling, language and manners. After the idol attribute is constantly strengthened, commercial value can be created through advertising endorsement, starring in film and television works, participating commercial activities, developing derivatives and other channels. Some say that BTS contributed 4.6 billion dollars to the Korean economy in 2019, that's equivalent to 0.3% of the country's GDP, putting it on par with the monopolistic giants of this country: Hyundai and Samsung. [2,3].

For the agencies, one aggressive strategy is the diversification of idol groups. It is reported that the key strategy of Korean talent agencies to turn K-POP stars into world famous stars is to select the best ones after strict training and strict management of trainees. [4]. The key to the long-term global success of the K-POP industry lies in the highly industrialized system of training and operating idol artists, that is the ability to discover, cultivate, market and manage artists through the system which vertically integrated artist training, and continuously train talented people into top artists with great market appeal like a highly smooth production line, they brought rich commercial returns to themselves. From the selection and cultivation of artists to the allocation of resources, the brokerage company itself firmly holds every link. Brokerage companies usually select interns early and have a long training period (usually at least 5-7 years). Under the strict trainee mode, idols with solid business abilities and good professional attitudes are cultivated from generation to generation. Once these artists debut, they can accumulate a lot of popularity in the short term and bring great economic benefits to the company. In addition, most companies attach importance to the cultivation of idol groups, dilute the personal existence of artists, and strengthen fans' sense of identity with idol groups, thus avoiding the huge loss caused by factors due to individual reasons, such as artist resignation. In the same time, these young idols must deal with some negative associations of the 'idol' label [5].

Next, to push the artists to higher place, the image of each group or artist must be more carefully checked. Every idol has the "basic settings of characters". From the name, age, background, and personality, the brokerage company sells idols as "commodities", and only through these settings can it attract public attention. When launching the albums of each group, brokerage companies will consider the relevant settings of groups and members. These albums are usually narrative, and the concept of the group is spread by telling stories through mv. Attract the audience's interest so as to achieve the effect of buying albums and becoming fans [6].

After years of commercial development and fan management, the K-POP industry has also formed a mature and systematic fan support, list playing and consumption behavior. For example, in list-playing, when idols participate in The Show, Music Bank and other music programs to play songs, fans often go to music platforms such as Melon and Genie to play lists and buy a large number of albums; In addition, peripheral products are also highly sought after by fans. Fans treat idols as their private property, as if the idols belong only to themselves, but the relationship between fans and idols in real life is either prevented or hidden; Whenever they are found having some hidden relationship, idols must apologize for it [7].

South Korean entertainment companies have shown rapid entry and success in the global market, starting in Japan, and then gradually expanding their globalization to Asia, the United States and Europe [8]. But in fact, Korean brokerage companies tend to develop in Europe and America, followed by Japan. In the early years, Korean brokerage companies had strategies specifically aimed at the China market. But later, perhaps because of China's

restrictions on Korea, Korean brokerage companies were unwilling to develop in China and paid little attention to the China market. However, according to the number of albums purchased by most Korean idol groups in recent years, the proportion of albums purchased by China people is quite large, and some groups even account for nearly half. Even South Korea will experience bullying and discrimination. As the number of overseas trainees increases, they will face greater difficulties. They not only need to learn Korean, but also endure both culture shock and loneliness. They also often suffer racist bullying from other cadets [9]. Even at the top of the company, this discrimination can also exist. For example, it has been noted that South Korean members of EXO get more screen time than their Chinese counterparts [10].

The vigorous development of K-POP culture not only promoted the growth of the Korean economy, but also established the unique influence of Korean culture on a global scale. Among them, as a bridge connecting artists and the market, the operation mode of the brokerage company plays the most important role in the success of artists and the expansion of the market. The purpose of this paper is to deeply study the operation modes of three unique brokerage companies in Korea-SM, YG and Hybe, including music production, artist training, marketing strategy and so on, and to explore their current situation and future development direction.

## **2 Business model**

### **2.1 SM Entertainment**

SM's business model mainly revolves around its core business, including entertainment, music production and brokerage business. As one of the most influential entertainment brokerage companies in Korea, the core of its business model is to form a complete industrial chain by integrating entertainment, music production and brokerage business. The company not only provides professional music guidance and comprehensive performance planning for its artists but also cooperates with other musicians to create pop music together. The core of SM Entertainment is the artist. Only by cultivating generation after generation of artists who are popular in Korea, Asia and the world can its business model be guaranteed to continue. Since Li Xiunan founded SM Entertainment, it has successively launched: H.O.T, Super Junior, Girls Generation, f(x), and EXO. Based in Asia, the company opened the Japanese market for SM entertainment in Girls Generation, and the China market for EXO. Later, other groups of the company also successfully entered the markets of North America, South America and Europe, making outstanding contributions to the promotion of Korean national brands and the development of cultural industries. As of April 30, 2020, the company has accumulated more than 38.9 billion video queries on YouTube, and the total number of visitors to the World Tour has reached 20 million.

### **2.2 YG Entertainment**

YG Entertainment has always adhered to hip-hop style music since its establishment. Based on band and music creation, it is different from the operation of many Korean entertainment companies such as SM and JYP in the market, YG gave full advantages of hip-hop style music, and YG pays more attention to the individual performance of artists, unlike most economic companies that emphasize the concept of groups. The company's main groups: are Bigbang, 2ne1, Blackpink, etc. These artists' music works, concerts and advertising endorsements have brought rich income to the company. YG Entertainment has

a complete star-making team, providing all-round training and packaging, including recording and music distribution, to maximize the value of artists. YG Entertainment also cooperated with many companies and signed companies related to clothing, transportation and record distribution, which provided certain convenience for the company's development. Many other artists' physical albums can see YG's logo because these albums are from YG's printing house. YG also founded a spin-off company YGX, which is a dance studio. The popularity of YG and the well-known choreographer in the entertainment circle attracts everyone to class.

## **2.3 HYBE Entertainment**

As a company with music as its core, HYBE owns the music copyrights of many well-known artists and achieves rich profits through album sales, digital music downloading and streaming media playing. Secondly, artists under HYBE often hold concerts and tours around the world, which not only brings considerable ticket sales revenue to HYBE but also realizes diversified profits through derivative sales and sponsorship cooperation. Besides, HYBE uses social media very well. HYBE makes full use of social media platforms to interact with fans and build a close fan economy. Through fan clubs, membership systems, etc., fans will be realized and profit channels will be further broadened.

HYBE's predecessor was Big Hit Entertainment founded by Fang Shihe in 2005, and it was renamed HYBE in 2021. HYBE consists of HYBE in Korea, HYBE AMERICA and HYBE JAPAN. Business is divided into three sections: Label, Solution and Platform. Different from other brokerage companies, HYBE is divided into many different labels. Most of the artists of HYBE are independently operated by various labels, including BIGHIT MUSIC, BELIFT LAB, SOURCE MUSIC, PLEDIS Entertainment, KOZ ENTERTAINMENT, ADOR, HYBE LABELS JAPAN, NAECO, BIG MACHINE LABEL GROUP and QC Music. After making money through BTS, a world-famous boy's team, Big Hit Entertainment began to buy small companies vigorously. These companies may be what Fang Shihe thinks have potential. Some of HYBE's current labels were originally owned by independent companies, such as PLEDIS Entertainment. Now the popular boy's team SEVENTEEN is on this label. HYBE was acquired when SEVENTEEN's popularity was not so high, and SEVENTEEN began to become popular all over the world in 2023. Therefore, acquisition should also be a means for HYBE to obtain income. Solution develops music-based performances, video content, IP, teaching, games and other services. The platform connects and expands all the contents and services of HYBE, including Weverse Company.

## **3 Compare and contrast**

### **3.1 SM Entertainment**

SM is one of the largest and oldest brokerage companies in Korea. They pay attention to all-round artist training, including singing, dancing, acting and foreign languages. The idol groups launched are the same as model students, and the music style is easily accepted by the public. But at the same time, SM may be too conservative in some aspects, lacking enough innovative spirit and adventurous spirit. SM's business scope covers record production, artist training, artist brokerage, concert organization and program planning. Compared with other brokerage companies, SM has a very complete star-making system. SM has a perfect trainee selection and training system. From trainee selection to debut,

every step has been carefully planned and packaged. This complete star-making system ensures that SM artists have high professionalism and market competitiveness from the beginning of their debut. SM is good at creating mystery and concept marketing. SM is good at creating unique images and concepts for artists and attracting fans' attention and love through mystery and concept marketing. For example, the super-power setting of EXO and the unlimited expansion concept of NCT are all unique attempts of SM in artist packaging. SM actively promotes the IP development strategy and further expands its business scope and income sources by tapping the IP value of its artists and developing related derivative products. For example, SM has launched a number of variety shows, movies and other works with its artists as the theme, and all kinds of dolls have achieved good market response. SM entertainment's sharing mechanism accounts for a very large proportion of album sales and music programs, while artists can only account for more than half in advertising or variety shows and overseas activities.

### **3.2 YG Entertainment**

YG started with Hip Hop music. YG pursues innovation and breakthroughs in music production and dares to try new music types and styles. The company pays attention to the originality and artistry of music works and cooperates with top music producers at home and abroad to create high-quality music works. The current style is also based on Hip Hop, which combines various musical elements to form a unique YG style. YG has popular groups such as BIGBANG and BLACKPINK, as well as many well-known actors and models. Business scope includes record production, artist agency, fashion brand, concert organization, etc. Pay attention to music creation and personality expression when cultivating artists, and encourage artists to participate in song creation. YG has strict requirements for artists' images and styles, so its artists' images and styles are distinct and unique, unlike the idols in some companies' assembly lines. For example, BLACKPINK, as a female group under YG, continues the girl crush style of the sister group 2NE1, and adds its own characteristics, forming a unique musical style and image, which is deeply loved by fans all over the world. YG belongs to one of the companies that pay the most attention to the artist's strength. YG pays great attention to the artist's strength and talent when selecting and cultivating artists. Through strict training and examination, they ensure that every artist has excellent singing skills, dance strength and stage expression, so as to stand out in the highly competitive K-POP market. YG is very successful in the international market. YG company pays attention to expanding the international market and exporting Korean music and culture to the world. They enhance the popularity and influence of their artists in the international market through overseas tours and global promotion activities. K-POP culture itself is easier to spread in Asia, but YG's BLACKPINK is also very popular in Europe and America. The proportion of YG and its artists is relatively flexible, but in most cases, it is about half of the company's artists. YG Company is famous for its generous treatment of artists, especially in terms of album republishing and activities, giving artists a higher share.

### **3.3 HYBE Entertainment**

HYBE pays attention to the all-round development of artists and the deep excavation of IP value and creates the all-round image of artists through music, film and television, variety shows and other ways. The company is good at combining an artist's image with specific IP to create unique brand value and market influence. HYBE has risen rapidly in recent years, especially with the promotion of BTS, and its market share has greatly increased. The business scope includes record production, artist brokerage, concert organization, and music streaming platform (Weverse) operation. Weverse is HYBE's unique way of doing

business compared with other brokerage companies. Weverse allows artists to communicate directly with fans, similar to WeChat's circle of friends. Since its inception, HYBE has paid attention to the development of globalization and pushed K-POP culture to the world through close cooperation with the international market. HYBE artists are not only popular in Korea, but also have accumulated a large number of fans around the world, laying a solid foundation for the company's international development. HYBE's music styles are diversified, and there is usually no fixed style, including Hip Hop, pop, rock and roll and other music styles. With the global influence of BTS and other head artists, HYBE's music business continues to grow. In recent years, HYBE has continuously introduced new groups and artists, such as NewJeans and LE SSERAFIM, which further consolidated its position in the K-POP market. HYBE adopts a diversified development strategy, and by acquiring other entertainment companies and expanding the artist training system, it reduces its dependence on a single artist and enhances the company's ability to resist risks. The acquisition of other companies is an important and unique source of income for HYBE. The acquisition of companies with mature groups can not only reduce risks but also make companies more diversified. HYBE's diversity is not only reflected in music and groups. HYBE has also established games as an important investment direction and established a game subsidiary, HYBE Interactive Media. By launching a variety of games with K-POP music and its artist's IP as themes, such as Rhythm Hive and BTS Island: In the SEOM, HYBE has achieved initial results in the field of games. Linking the game with the artist's IP to make the game not only makes the game successful by using the fan economy but also enables passers-by to learn about the expected artists when playing the game, which may turn these people into fans. HYBE is very good at marketing. They constantly innovate in marketing methods and improve artists' exposure and fan stickiness through social media, online concerts and fan interaction. For example, HYBE sometimes deliberately releases artists' black material, which will improve the popularity of artists and then slowly clarify them. HYBE is also good at using big data and AI technology to accurately analyze the needs of fans and provide artists with personalized publicity strategies. The specific internal sharing mechanism of HYBE may be different due to the original system of the acquired company. Generally speaking, large entertainment companies, such as HYBE, will sign detailed contracts with artists to clarify the sharing ratio between them. However, the specific figures may vary depending on the artist, contract term and contract terms.

## 4 Prospction

In recent years, there have been many legal disputes and ethical disputes within SM, such as the contradiction between the founder Li Xiunan and the company's top management. These problems not only affect the company's image and reputation but also may adversely affect the normal operation of the company. And in recent years, there have been many scandals among the artists of the company. Even in August this year, Wen Taiyi, an artist of the company, rushed to a hot search for sexual crimes and may be arrested and imprisoned later. Even if the company was dismissed immediately, it still fell into a crisis of confidence, which may lead to a decline in sales and a hindrance to the launch of the new group. In the future, SM should strengthen content innovation, which is the key to maintaining competitiveness in the highly competitive entertainment market. SM should create more innovative and attractive works. At the same time, we should also pay attention to the development trend of emerging entertainment forms such as short video and live broadcasts, and actively lay out relevant markets.

YG once fell into a crisis of public trust due to a series of negative events. Rebuilding public trust and repairing damaged brand image has become an important issue to be solved

urgently by YG. One of the important challenges YG faces in the management of artists is that it relies too much on a certain group, so the renewal of artists' contracts is very important. For example, BLACKPINK, as a representative group of YG, the contract expiration of its members has an important impact on the future development of the company. And the producer of the original BLACKPINK has left the company, and the development of the new group BABYMONSTER is not ideal. The challenge of YG is very arduous, and the company needs to find a new producer to replace him as soon as possible.

In the process of rapid expansion, HYBE needs to pay attention to the construction of corporate culture and the improvement of team management. At present, HYBE's groups have a heavy sense of cut-over, lacking a unified corporate culture and team cohesion. This may affect the overall operational efficiency and long-term development of the company. Although HYBE has many artists, the contribution of BTS and other head artists still accounts for a large proportion. Once the activities of these core artists are adjusted or the market response is poor, the company's profitability may fluctuate significantly.

## 5 Conclusion

In conclusion, these companies have their own distinctive and unique styles and business models. HYBE seems to be the best development at present, and HYBE pays attention to diversified development. Its artists have diverse styles and musical styles. The company operates in many ways, for example, HYBE has its own social platform and games. However, due to excessive spending on marketing, many of its brands were mortgaged. SM is a perfect traditional economic company, and its artists' personnel and styles are almost perfect, but it needs to be innovated in recent years, otherwise it is likely to be eliminated by new competitors. YG's style is unique and distinctive, and the strength of its artists is basically in the upper reaches of the industry. However, with the departure of the main producers, YG's music and style were not as good as before, so YG began to decline. In fact, the whole kpop culture is going downhill. K-pop may rise and fall like Japanese music. Especially now with the high development of social media, especially the popularity of live streaming and short videos of Internet celebrities. Therefore, much so that artists under various companies now have to shoot short videos and post them regularly on social platforms. But it seems that Internet celebrities will be more popular than Aidou on these short video platforms. It should think the business model of Korean companies will probably change a lot in the future. The influence of new media on kpop may become the next research direction.

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