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# 4 lessons in digital transformation from the lucrative K-pop industry

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*K-pop is set to become one of the most lucrative industries in the world thanks to digital transformation, and this provides important insights and lessons for businesses more broadly, says UNSW Business School's Felix Tan*

K-pop (Korean pop) is not just a music genre; it is a global phenomenon. Hailed as "South Korea's greatest export" by Time magazine, it is one of the most lucrative industries in the world. To put K-pop's success into perspective, today's highest-paid boy band, K-pop supergroup BTS, made its debut at number 43 on the Forbes Celebrity 100 list last year, taking home a hefty \$US57 million (\$81 million) in pre-tax income last calendar year.

The net worth of BTS is around \$US3.6 billion (\$5.1 billion), which is easily more than American all-male pop group Maroon 5, which has a net worth of \$US45 million (\$64 million). With billions of views on YouTube, the four big entertainment companies: Big Hit Entertainment, SM Entertainment, JYP Entertainment and YG Entertainment raked in almost \$US1 billion (\$1.4 billion) in combined earnings in 2019.

South Korea's top entertainment agency SM Entertainment also has a strategic partnership with Chinese e-commerce giant Alibaba Group Holding. In 2016, Alibaba – China's biggest online commerce company – bought around \$US30 million (\$43 million) worth of SM Entertainment's shares, gaining a 4 per cent stake in the Kosdaq-listed company.

The power and money-making ability of the K-pop industry are well-known. But how has K-pop become such a thriving cultural and global enterprise? According to **Felix Tan**, Senior Lecturer in the School of Information Systems and Technology Management at UNSW Business School, the digital transformation of K-pop was one of the key ingredients to its lucrative success.

Along with colleagues, Dr Tan set out to find how the digital transformation of ecosystems unfolded within the K-pop industry. Their research highlights how information technology drove industry change to form new digital business ecosystems from 2015 to 2018. Their paper Digital transformation of business ecosystems: Evidence from the Korean pop industry was published by the Information System Journal in April this year.

So what role has IT played in accelerating K-pop's success, and what lessons can companies take away from its digital transformation success?

## 1. EXPLORE NEW BOUNDARIES

K-pop's robust business ecosystem consists of an array of stakeholders who all have different interests and roles in making it a success: artists, entertainment companies, media, fans, digital platforms and event managers. While some stakeholders have been present in the ecosystem for a long time, others joined more recently as the industry started to incorporate the use of IT, explains Dr Tan.

Because technology helps shift boundaries across organisations, it also enables the commercialisation of innovation, allowing for the development and creation of new interdependencies between the existing partners of a business ecosystem.

For example, KBS World launched its K-pop entertainment content to an international audience. In their paper, the researchers write that "some of KBS' broadcasted content also inspired the independent and creative market to come up with new, informal content without copyright problems.

"It encouraged independent content producers to experiment with revolutionary content using different platforms. Even creators and directors considered other digital platforms in the planning and production stages to explore their possibilities," they continue.

So the crucial role of IT, and the digital platforms that support these technologies, drive the reshaping of boundary practices and these essential practices enable the formation and transformation of new business ecosystems, explains Dr Tan.

"[So] when we talk about the role of technologies, it is really to enable these new interdependencies and new capabilities for commercialising innovations within that business ecosystem to be developed," he says.

## **2. TREAT THE CREATIVE PROCESS AS A COMMODITY**

The researchers also discuss the importance of platforms in allowing for the commoditisation of creative content.

"The commoditisation of creativity invites different stakeholders within a business ecosystem to come together and join in core innovation to build effective content generation and delivery," explains Dr Tan.

The success of K-pop has also proven that language barriers don't matter; instead, it is the clever use of technology for the public dissemination, consumption and commodification of the creative content that leads to success.

"It is also developing a template in which people can readily consume this creative content – technology plays a huge part here," he says.

## **3. CREATE A DIGITAL IDENTITY**

Another key takeaway that businesses can utilise is to create thoughtful digital identities through technology.

"It makes it easier for consumers to understand your value proposition and your value creation process," says Dr Tan. He suggests businesses must have considered dialogues and engage with the customers if they are to stay relevant and survive in the new era.

Businesses must invest in technology that allows them to create more relevant content and deliver better processes – another thing the K-pop industry has done so well.

"Businesses must treat data as a new currency [and] use data to enable new partnerships, new ways of commercialising innovations and fixing customer problems," continued Dr Tan.

The paper also highlights that IT-enabled multidirectional communications among fans, content providers and content producers played a huge role in K-pop's success. Much like how K-pop relies on its engaged fan base, companies should learn from this by creating spaces for more meaningful dialogues with their customers, as businesses cannot be silent.

## 4. LEVERAGE PLATFORMS

Platforms can change the way people consume information. "Twitter and Facebook became the leading platforms for fans to share information and news about artists, including behind-the-scenes footage for weekly music shows, fan-subbed material and images taken by fans," explains Dr Tan.

Notably, Korean became the seventh language that Twitter supported from 2010 when the social media platform partnered with Korean web portal Daum to display Korean tweets.

According to Dr Tan, the role of these platforms consists of two parts. First, platforms play a huge role in terms of delivering valuable products and services for consumers "in a very nonlinear way".

"So what the platforms that Facebook and Twitter do, is that they reduce the search costs of suppliers and consumers of the business to a very low level, so the barriers of entry to this content are very low," explains Dr Tan.

But the platform also has to maintain a close dialogue with consumers and suppliers of the content. "Hence, what is created is exactly what the consumers want and what the consumers are willing to pay for," continues Dr Tan.

Therefore, what their study shows is that these platforms underscore the critical interactions that must happen within businesses and their partners in the ecosystem.

"The lasting impact of this has been that there are now new ways of creation and commercialising ideas and innovation; there will be new economic communities, interactive organisations and individuals that are created as a result of the digital transformation between 2010 to 2018," says Dr Tan.

Indeed, K-pop utilises technology in a way that enables the development and transformation of an existing business ecosystem, and Dr Tan suggests this process can be applied to several industries, and not just K-pop.