

Case study on Management Strategies of Korean Satellite– DMB Companies: Treasure Island Strategy of Entertainment and Movie Contents:

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Abstract

The best value proposition for the customers of satellite-DMB (hereinafter referred to as the "S-DMB") business in an environment of fierce competition shall be securing the best killer contents and distribute them in reasonable price as a mobile contents platform provider. In an era of merging the broadcasting with the communication, although many new players tapping into the market with state-of-the-art media such as digital convergence, the key to success in the market is dependent on whether the respective digital contents providers retain competitive digital contents which suit the taste of customers. Considering such market conditions, the purpose of this study is to look over the management examples of Korean S-DMB providers which is carrying out business in digital multi-media market and opening up the market, and to analyze the management strategies of domestic S-DMB companies to be the champion in the market.

Key Words : S-DMB, Digital convergence, Treasure island strategy, Digital contents

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I. The outline of S-DMB company

1. Business background of the TU Media

It is necessary to look over the market environment of 2001 in order to understand why SK Telecom (hereinafter referred to as the "SKT") embarked on a new business of S-DMB even before the advent of the term of DMB. At that time, SKT was in the course of establishing the next generation growth vision, 'Vision 2010' with reviewing the existing profit model on the whole. First of all, SKT forecasted that growth of the mobile phone business will reach the limit in near future; it is analyzed that the average hours of using the voice phone service a month per one (1) subscriber is 180 ~ 190 minutes and monthly sales per one (1) subscriber is between KRW 40,000 ~ 45,000.

In early stage of S-DMB business, the audio-oriented S-DMB shows the predominance. At the second half of 2001, SKT sets to the S-DMB business in full scale from the point of time when it made an equity investment to the MBCo(Mobile Broadcasting Corporation), a Japanese S-DMB provider. SKT has few special significances on S-DMB business. First, it is an expression of proactive attempt to prepare a basis for the new development and growth by tapping into a new enterprise. Second, the S-DMB is the only nationwide broadcast business into which the large corporations are allowed to make inroads under the legal regulations at that time. Third, it was the results of efforts aimed at securing an early dominance of the business integrating the next generation broadcasting and communications with the big current of time, infusion of broadcasting and communications.

2. The increased needs for diverse multimedia

If we think about SKT's advancement into the S-DMB service market in more fundamental aspect, we can see that the mobile communication services are developed into the wireless internet and even into the multimedia digital contents services from the voice communication oriented service. Also, the company is not able to meet all the subscribers' needs for multimedia since the subscribers want to watch TV programs in real time whenever and wherever through the mobile communication network.

In the end, the mobile network operators have to increase the facility investment on and on such as installing more base stations. However, it seems that there will be no limit for the facility investment since the needs of subscribers for the large capacity data services have no limit.

3. The communication providers evolution to the media providers

There are two kinds of methods to deliver the multimedia contents services through the mobile communications. First of all, it is a method to make a continuous investment to the base station and exchange system of the mobile communications sustaining astronomical amount of investment. Secondly, the other method is to grafting the broadcasting elements onto the mobile communications. The little needs for additional investment and its characteristic as a public property are the other aspects of the broadcasting.

The reason why the mobile network operators adopt the DMB and are interested in DMB business is that DMB is the most realistic method to satisfy the customer's needs to watch a real-time broadcasting through the mobile phone with little investment. In such context, S-DMS is the result of adopting technical advantages of broadcasting in order to develop the mobile communications which started from the voice call into the multimedia providing TV broadcasting services as well. The two-way mobile communication is destined to be integrated with the one-way broadcasting in the course of evolving from telephone to mobile internet and TV service. This is related to the general principle of investment pursuing the cost effectiveness; realizing maximum effectiveness with minimum investment.

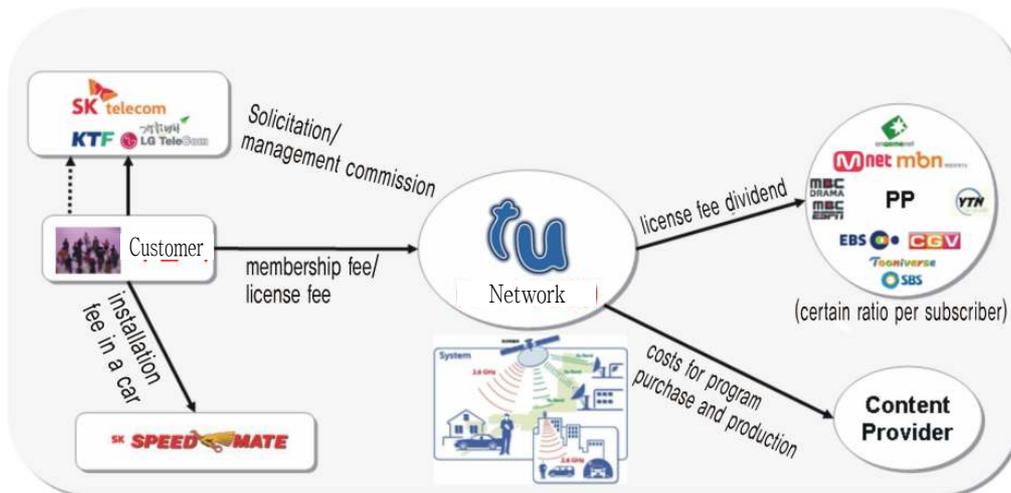
II. The analysis on the S-DMB business environment

1. Profit model of S-DMB business

Although the profit source of S-DMB is limited to advertisement, membership fee and service charges currently, it is expected that the profit source will be diversified service fees for premium contents, two-way service and commercial transaction commissions in the future. The diversification of profit model is directed related to the growth and survival of S-DMB.

Currently, the TU Media is providing the paid broadcasting services which cost KRW 20,000 for membership fee and KRW 11,000 for monthly service charges. About 25% of the charges is allocated to the mobile network operator. TU Media adopted such profit allotment method to make not only the subscribers of SKT which invested to TU Media, but also the subscribers of KTF and LG Telecom be able to use the services. The advertisement commissions from the advertisement companies are also the main source of profit and the company pays expenses used to establish and operate the S-DMB broadcasting network, for the contents providers or program providers, and for distribution network management fees such as consignment

agents, etc. This RRS (Revenue Sharing System) profit model means a cooperation model based on multilateral coalition. The alliance among service providers, handset manufacturer, car maker, broadcasting contents providers and software developer is the basic model.



Source : Seung-uk Kim et al, 『e- business V learning with examples』 Ministry of Commerce, Industry & Energy, The Federation of Korean Industries, 2007

<Figure 1> Profit model of domestic S-DMB business

On the other hand, S-DMB which launched the trial broadcasting from January, 2005 has increased its membership up to 710 thousand as of July from 420 thousand in January, 2006. However, the number of subscribers to S-DMB has so far failed to meet TU Media's expectations since more than 30% users whose mandatory service subscription period is end in February has canceled while the sales of S-DMB handset has exceeded 1 million. "The break-even point is more than 2.5 million membership", said the official of TU Media. However, it seems that it is not easy to reach the goal with the current slow increase rate. One of the reasons causing the loss of membership is the services charges worth KRW 11,000 per month. Users feel burdened by spending more than KRW 10,000 per month.

If we take a look around the investment costs of S-DMB, a total of 4,800 gap-fillers, or land-based transmission facilities, nationwide in May, 2005 and it invested additional KRW 120 billion to install gap fillers. Also, the TU Media announces that it is planning to invest KRW 256.2 billion to develop mobile contents suitable for S-DMB, KRW 442 billion as the service charge allotment for the program providers and KRW 705.2 billion to support the establishment of subscribers' media center over the next 5 years.

2. Subscription status of S-DMB

1) The analysis on the subscribers of S-DMB

In 2005, the number of expected subscribers counted by the TU Media on its own was 6.6 million by 2010 and the average demands was 5 million. On the other hand, subscriber's age group distribution is composed of 8% of 10s, 36% of 20s, 27% of 30s and 29% of 40s and older. Out of total subscribers, a total of 60% is living in metropolitan areas and the rest of 40% is living in provincial areas. It means that males in their 20s prefer the S-DMB services.

More males prefer the S-DMB services than females. It is because that males have relatively little time to watch TV at home since most of males are business people.

2) Present status of subscription

The TU Media's subscribers of S-DMB watch the S-DMB average 63 minutes a day and the time of using video services is longer than the time of using audio services (Video service 74% and audio service 26%). The highest audience rating is recorded during the commuting time. The MBC and SBS drama programs recorded the highest audience rate followed by the ch.BLUE channel of TU Media. Male subscribers prefer sports or game channels and female subscribers prefer drama and pop music contents.

Moreover, the subscribers of the S-DMB demand to improve the reception quality of S-DMB in outdoor places such as subway and streets. And, it is possible to record high audience rating if the S-DMB service provider retains at least one killer content although the prime time is the commuting time. It is apt to think that the most of the subscribers prefer only pop song and Korean pop song channels since the main target audience group is from late 10s to middle 30s. However, the subscribers in their 20s and 30s want trot song channels as well. As a result, the most popular channel among audio channels is the trot music channel.

3. The dilemma of retransmission of terrestrial broadcasts

The great crux and tantalizing problem of TU Media is the "problem of retransmitting terrestrial broadcast contents". The subscribers want a real-time broadcasting or hot channels of terrestrial broadcasting channels. Therefore, the TU Media's S-DMB channel strategy, especially the drama contents, cannot help depending on re-runs of popular channels of terrestrial broadcasts.

<p>Policy decision of the KCC</p> <ul style="list-style-type: none"> - The commission permits the retransmission supposing the autonomous consultation between providers in April 19, 2005 - Retransmission by the Korean broadcasting law - retransmitting programs without drawing up programs - requiring approval after entering into contract between providers 	<p>Agreement between 4 TV companies and labor union</p> <ul style="list-style-type: none"> - Announcing the agreement between the CEO of 4 TV companies and representative of the labor union <p>"stopping TU Media from airing land-based television programs on its satellite broadcasting network until the T-DMB secure the nationwide competitive edge"</p> <ul style="list-style-type: none"> - Competitiveness of regional broadcasting companies - Competitiveness of regional DMB 	<ol style="list-style-type: none"> 1. Infringing the audience right to watch 2. Violating a fair competition between medias such as T-DMB <ul style="list-style-type: none"> - controversies raised regarding the violation of fair trade law in the National Assembly 3. Interrupting the early settlement of S-DMB
<p>Cooperative relations between TU Media and MBC/SBS</p>	<ol style="list-style-type: none"> 1. Retaining the shares of TU Media: 5th largest shareholder 2. Entering into an agreement regarding business cooperation including the issue of retransmission 	

Source : Seung-uk Kim et al, 『e- business V learning with examples』 Ministry of Commerce, Industry & Energy, The Federation of Korean Industries, 2007

<Figure 2> The issue on retransmission of terrestrial broadcasts

Also, it is significant to note that when the subscribers are asked whether they will subscribe the S-DMB although terrestrial broadcast programs are not provided in real time, more than 38.5% of them replies negatively and 35.3% of them replies they will use the S-DMB only if the monthly service charges are reduced. Therefore, the retransmission of terrestrial broadcasting programs is a significant matter for TU Media. However, the three TV broadcasting companies are negative for this. The three terrestrial broadcasting companies are also operating the terrestrial DMB (hereinafter referred to as the "T-DMB") business and they insist that the retransmission of S-DMB should not be allowed until the T-DMB puts down the roots.

III. Operation Strategy of domestic S-DMB providers : Treasure island strategies of entertainment and movie contents

It is not too much to say that the most important business factor on which TU Media should give more weight is securing differentiated contents in order to advance in the market in early stage and solidify its foothold as a leading company in DMB market. Accordingly, the management of TU Media has decided to

secure the original area of S-DMB by seeking a niche market in the existing media market and finding new contents that is optimal for both the hardware features and mobile features of mobile phones.

<Figure 3> DMB contents strategy of TU Media

In-service strategy	Making be envious by providing new values as a mobile media	
	Pursuing differentiation of contents - pursuing differentiation in consideration of target, user TOP, mobile strength, etc.	Providing a seamless service comparing with the existing popular broadcasting programs - Using the popular contents and power which are proved in off-line

Focusing on originality / Upgrading the originality / Securing universality

Method of realization	Only on S-DMB	Exclusivity Channel	Terrestrial broadcasts + popular PP
	Operating an exclusive channel for S-DMB - Channel identity Target oriented mobile information channel - Key concept, convergence Personal use, exclusivity	- Securing the originality of the channel by introducing channels having strong contents power - latest movies and adult contents - Positioning as a premium media reflecting the audience trend by the target group	- Satisfying the basic needs of the audience using contents of popular programs - Increasing the ratio of exclusive programs, don't simply retransmitting TV programs

Alternative of retransmission	Broadcasting major sports games by its own channel	Introduction of PPC and PPV	Strengthen video channels
	- Live broadcasting USA major leagues (April ~ October), world cup (June), Pride FC, WWE, English premier league (August) - Broadcasting on prime time considering time difference - Securing the exclusive mobile copy right	- Securing the premium image and satisfying the audience's needs by introducing exclusive and powerful PPC and PPV	- Strengthening the video channels to meet the needs of audiences who want videos - Diversification of contents such as latest movies, dramas and entertainment, etc. - Continuous promotion of transmitting TV programs

Source : Seung-uk Kim et al, 『e- business V learning with examples』 Ministry of Commerce, Industry & Energy, The Federation of Korean Industries, 2007

TU Media is planning to invest a total of KRW 705.2 billion over the next 5 years such as KRW 256.2 billion for the promotion of broadcasting industry, KRW 442 billion of dividend of license fee for the stable production and procurement of the program providers, and 7 billion to support the broadcasting industry such as supporting the establishment of the audience media center, etc. TU Media is opening a world of a new media through developing differentiated contents of S-DMB and extend the cover areas to remote regions. In this aspect, in order to secure the killer contents, the company is carrying out the **"treasure island strategies for entertainment and movie contents"** which is apt to the DMB environment.

For example, it provides the Lee Seung-yeop's Japanese baseball game live, Korean major league live football A match, Pro basketball games and K-1 through CH. BLUE, which is a part of the treasure island strategy of entertainment, sports and movies. TU Media foster the CH. BLUE, its own channel, as an "optimum channel for TU" which provides the exclusive contents of TU for the purpose of increase the competitive edge of the company.

When the Korean team won the game in WBC (World Baseball Classic), so-called baseball world cup, the audience rating of DMB make a new record of the best audience rating of DMB industry with 17.4% (13th) matching against Mexico , 23.4% (14th) matching against USA , 27.5% (16th) matching against Japan. By tapping into the blind spot of TV, the day time, with the differentiated contents, it achieved a meaningful success. The high audience rating has a significant meaning. It means the advent of an era where people can watch sports games through the mobile phone which has no spatial limit. So far, there seems to be no change in a dominant principle that people like to watch sports games at home or at restaurants with large screen. However, it is also true that the demand for DMB has been increased to watch programs during day time in inconvenient location to watch TV or in case where it is hard to see the screen on street cheering.

Disregarding WBC, the audience rating of 2007 Asian Cup, a match against Syria, recorded 13.1%. The K-1 final match of Hong-man Choi in Tokyo also recorded 9.7% of high audience rating. TU-Media put force every ounce of its every to secure to secure quality contents such as obtaining the copyright on USA major leagues in order to complement the disadvantage of enabling to watch terrestrial broadcast through DMB since it has already experienced that the exclusive live broadcasting of sports games are directly connected to the increase of the number of subscribers.

VI. Conclusion

TU Media is contributing to promoting the broadcasting industry by supporting various kinds of media industry such as opening a new market which does not exist, expanding the scale of domestic broadcasting industry and developing mobile contents. TU Media's S-DMB service is a representative broadcasting communication service integrating the features of traditional on-way broadcasting service with the two-way communication service and it takes a leading role in the world of new media of the future.

However, in the standpoint of TU Media as a S-DMB platform provider, the T-DMB has advantages such as it is possible to retransmit TV programs and the service is provided free of charge. Therefore, TU Media arrives at a situation where it has to not only secure high quality differentiated killer contents, but also compete with T-DMB since it cannot provide the TV programs for free as the commission had been stopping TU Media from airing land-based television programs on its satellite broadcasting network. Moreover, there are other competitors such as IPTV (Internet protocol television) emerged as a new source of profit for the communication network operators and WiBro (Wireless Broadband) which is a high-speed Internet service.

However, the key to survival depends on who is capable of providing the high quality killer contents which is best for the mobile environment regardless of the strengths and weaknesses of each media. The killer contents should furnish unique entertainment and impression which cannot be provided by else with users, develop the killer contents continuously and attract the audience interest by providing exclusive programs or contents which are not introduced by other medias. Such conditions are applied to not only TU Media, but also other mobile contents providers as well. New mobile contents should make an effort to secure competitive edge in the market through competition, imitation and remediation with existing broadcasting contents.

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