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경영학 석사학위논문

**Netflix's Winning Strategies in South Korea
and Changes in South Korean OTT Industry**

넷플릭스의 한국 시장 전략과 한국 OTT산업의 변화

2020년 2월

서울대학교 경영대학원

전략국제경영전공

김 수 현

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Abstract

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This paper is a case study of Netflix's business models and strategies employed during the process of South Korean Over-The-Top (OTT) market entry. It focuses on how Netflix has shaken and reshaped Korean OTT market along with the analysis of Korean OTT businesses' models and strategies. It further explores how domestic OTT providers are responding to investigate whether their business strategies are competitive and effective to compete against global OTT giants Netflix in the South Korean OTT market.

Netflix successfully entered South Korean OTT market in 2016 through their innovative and strategic business strategies. They entered by establishing extensive amount of localized original content, acceptable pricing options and aggressive strategic alliances with local companies to entrench their market position. As a result, South Korean OTT market emerged, and the companies focused on providing high quality original content, affordable and various pricing options as well as strategic alliances with companies from diverse industries to protect from Netflix's domination in the Korean OTT market.

However, South Korean OTT market is relatively new and the industry is operated and controlled by non OTT-specialized companies with the insufficient managerial skills required. Due to this situation, local OTT companies are facing challenges and encouraged to increase their strategic alliance strategy for reinforcing their OTT services. This study concludes by providing the managerial and theoretical implications using disruptive innovation theory regarding Netflix's influence on the South Korean OTT market.

Keywords: Over-The-Top (OTT), Netflix's winning strategies, South Korean OTT market, Disruptive Innovation

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I. Introduction

The rise of media technologies, entertainment, distribution and communication around the internet has caused many changes in people's behavior in the way they use and consume media. This phenomenon has led to the growth of a digital culture that allows audiences to purchase or rent video content online through various electronic devices. This situation, so called "On-Demand Culture," where it offers the information on the network according to the needs of the users, has changed visual culture while encouraging more personalized viewing experience (Tyron, 2013). It shifted the way consumers enjoy the media - from traditional method of cable TV channels to over-the-top (OTT) media, also known as cord cutting or cord shaving (Samit, 2015). It is user-oriented and consumer-oriented media environment meaning that consumers can enjoy the media without any restriction of time and places.

Further, smartphone and other electronic device ownerships are increasing, which means that more people can easily access and enjoy OTT services (Pew Research Center, 2019). Due to these changing environment and consumer demand, OTT services are rapidly growing and market competition is already a global phenomenon (Balis, 2015). Compared to other media market, the OTT market entry is relatively easier because of existing technological development and hence, Kim (2019) stated that video content industry and companies are now looking at expansion into OTT service. Park (2019) argued that "5G will be a new vitality in the rapidly growing OTT

market. In 2024, 75% of all mobile traffic will be video traffic.” PwC (2015) also announced that in 2019, US OTT market is expected to achieve USD 16.54 billion with a compound annual growth rate of 14.6%. It is clear that OTT services are receiving a great amount of attention and perceived to have a positive prospect as a means of attracting new customers and holding on to existing customers.

The notion of OTT service became dominant with the introduction of Netflix, the world’s leading OTT and internet entertainment service provider, holding 158 million subscribers over 190 countries (Netflix, 2019). Through Netflix, people can watch various TV series, documentaries and movies at anytime and anywhere as much as they want through any devices with internet connection. Also, it offers local-language video content and subtitles, positioning Netflix a greater competitive advantage.

Netflix entered South Korean market in 2016 (Netflix, 2019), and the service introduction increased South Korean consumer’s awareness on OTT services and Netflix. In 2016, approximately 540,000 PC news subscribers read Netflix articles and out of these people, 12.9% are existing OTT service users (Kang, 2019). South Korean market may have been of interest to global OTT service providers like Netflix as it is one of the leading nations having high-telecommunication and broadband technologies (OECD, 2014). As a result, South Korean OTT market is highly competitive and have many competent players from different providers such as mobile companies, cable TV service providers and broadcasting companies (Park, 2015). Furthermore,

the rise of K-pop and Korean wave (also known as *Hallyu*) offers OTT service providers a great opportunity to gain a competitive edge.

Netflix launch was, however, not always welcomed by the domestic telecommunications and entertainment providers. The major players such as SK Telecom and CJ E&M, current leading streaming services in South Korea, rejected the partnership requests from Netflix, trying to prevent Netflix from growing into a major player in South Korea (Doyle, 2019). As of January 2019, the number of South Korean Netflix users reached 300,000 and the experts predict that the company will become the biggest video-streaming platform in South Korea in the near future (Lee, 2019). Indeed, Nielsen, a market research company, announced that “the number of Netflix subscribers reached 2.4 million in the combined number of online and mobile users as of the end of February” (Chosunilbo, 2019). The presence of Netflix in South Korean market is a growing force and the competition is expected to rise as local major players are acting against it.

The major South Korea’s telecommunication providers include SK Telecom, KT Corporation and LG Uplus (Song, 2019). In response to Global OTT service providers’ entering South Korean market, LG Uplus has made partnership with Netflix, and KT Corporation is in consideration of partnering with the Japanese carrier, NTT Docomo that has a business tie with Disney and other services (Lee & Kim, 2019). On the other hand, in September 2019, SK Telecom launched its OTT service platform, WAVVE with South Korea’s major broadcasting firms, Korean Broadcasting System (KBS),

Munhwa Broadcasting Corporation (MBC) and Seoul Broadcasting System (SBS), to compete the American dominating streaming service, Netflix (Doyle, 2019). SK Telecom CEO Park introduced their platform as “the Netflix of Asia” that it plans to develop and enter into Southeast Asian market (Rosati, 2019). It is expected to become the largest local video streaming service in South Korea (Lee & Kim, 2019).

As indicated, global OTT service providers are dominating the local OTT market throughout the world, as they strategically enter the foreign markets with effective localization. In this circumstance, it can be argued that Netflix’s overwhelming dominance in South Korea can also become reality. Despite this, very few studies have investigated how South Korean OTT service providers are performing and whether they are effectively competing with the global OTT service providers such as Netflix. The purpose of this study, thus, is to examine and identify how global and local OTT service providers perform and compete each other in South Korea. This study especially attempts to analyze market environments as well as competitive factors and strategies of OTT service providers in South Korea. To be specific, the cases of global OTT service providers, represented by Netflix, and South Korean OTT service providers, such as WAVVE, Tving, Olleh Mobile TV and many more, will be analyzed and compared to identify how and whether their services are effectively operating in South Korea. This research also explores whether South Korean OTT service providers are responsive to current market trend, requirements and performing effectively against the top global OTT service providers and whether company holds

strong competitive factors and strategies to reach their target market and goals.

Overall, this research attempts to investigate Netflix's winning strategies and Netflix Korea's business strategies in South Korean OTT market. It also examines South Korean OTT service providers' winning strategies and their response to Netflix's presence in South Korean OTT market. This study concludes by providing the implications with regards to Netflix's entrance into South Korean OTT industry.

II. Over-The-Top (OTT)

2.1 Definition of OTT Service

Over-the-top (OTT) service can be identified as an online content service using the infrastructure of a broadband provider who does not hold any relationships with the online content providers. This means that there is no integration, affiliation or any other joint ownership with the content, broadband or internet service providers (Chen, 2019). Hence, OTT services are provided via the internet access by third parties who are not affiliated with the internet service providers. Further, OTT services can be experienced through various user platforms such as computers, smartphones or other electronic devices through various broadband and internet connections.

OTT distributes the content through network infrastructure, offering television shows and movies over the internet, instead of conventional cable or satellite connection. Even though OTT is only accessible over the internet and originated from the broadband market, it is threatening traditional cable, satellite television and Internet Protocol Television (IPTV) companies. Hence, OTT services can be defined as “those offered through the internet that provide free phone calls, free messages, applications and media-related content that bypass traditional telecom networks” (Chen, 2019). Similarly, ABI Research (2014) defines OTT video as “online video from services and operators that is distributed over a number of channels including fixed (e.g.

to computers, connected computer equipment, tablets) and mobile (e.g. smartphones and tablets) broadband." The U.S. Federal Communications Commission (FCC) states that OTT is perceived as online video distributor (OVD), not multichannel video programming distributors (MVPD) - that are cable and satellite TV operators (Federal Communications Commission, 2017).

2.2 Characteristics of OTT Service and Changes in Media Consumption Pattern

OTT delivers video-on-demand (VOD) streaming services making the second screen such as smartphones and any other electronic devices, turning into the first screen for video consumption. It offers convenience and strategically distributes the customized content according to consumers' taste (ABI Research, 2014).

In the past, people accessed the media through traditional platforms. However, the cable, broadcast and satellite television platforms are now disturbed by "cloud computing, mobile communication and big data" (Samit, 2015). OTT clearly exploits advantages of current advanced network infrastructure to supply video content over the internet and bypasses a traditional cable or satellite connection.

Today, consumers are downloading and streaming video content through utilization of OTT services, shifting consumers from traditional video

suppliers (Arolovitch, 2015). This occurrence, described as “cord-cutting” or “over-the-top (OTT) bypass,” indicates that traditional TV providers’ business models are under pressures (Banerjee, 2014). As a result, OTT service providers such as Netflix increased its subscribers to 14 million and the cable and satellite TV industry faced 7.6 million losses (Banerjee, 2014).

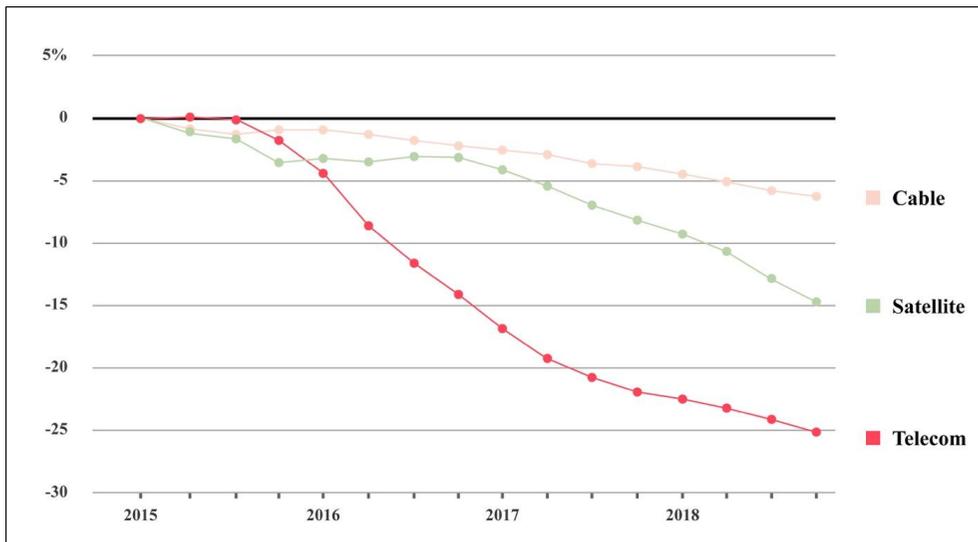
The rise of OTT services like Netflix is proposing a significant challenge for conventional TV service providers. Internet-based streaming companies such as Netflix are shifting the media environment by offering both current programming - consistent and provided through traditional TV outlets - and original content such as *Netflix Originals* that can be delivered through many devices at anytime and anywhere (Ellingsen, 2014). Mike Menke, a global analyst from Analytic Partners, said “there is no question that cable TV and satellite subscriptions are down and will continue to decline, and this phenomenon will disrupt the advertising industry over the next decade” (Feldman, 2018). In essence, it provides internet-based streaming services with a competitive advantage while ensuring themselves to compete with conventional cable TV services.

Cord-cutting phenomenon is rapidly emerging due to the changes in media consumption patterns and emerging opportunities from digital streaming industry; hence causing reduction or cancellation in pay TV subscriptions (Masoero & Mishra, 2016). Cord-cutting is a process of “switching from traditional cable, IPTV or a satellite video subscription to video services accessed through a broadband connection, the so called over-the-top (OTT)

video” (Alleman et al, 2013, p.9).

For example, this movement destructively expanded in the U.S. resulting in more than one million customers cancelling cable or satellite TV subscriptions in less than three months (FitzGerald & Mullin, 2018). Consequently, traditional TV providers have shifted its business strategy to streaming services and performed partnership with digital companies to cover up their loss and to retain and gain customers. However, The Wall Street Journal identified that those approaches have failed and are no longer perceived to be the most profitable entertainment business (FitzGerald & Mullin, 2018). Satellite operators such as AT&T’s DirecTV and DISH Network Corporation were more exposed to subscribers’ loss than cable TV and broadband sellers (Feldman, 2018). The table below reveals the changes in TV subscriptions by cable, satellite and telecom sectors in the U.S..

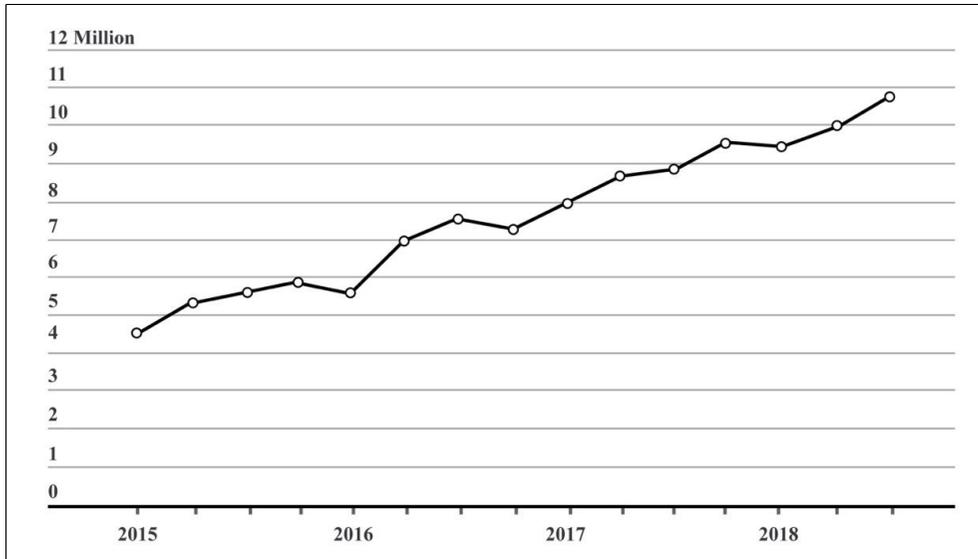
Figure 1: Change in Pay-TV Subscribers since 2015



Source: Statista (2019)

In addition, U.S. households are shifting to the internet for consuming media entertainment and terminating their traditional subscriptions (known as cord-cutting). A research company, MoffettNathanson LLC recognized that more than 10 million U.S. consumers have cut the cord and the graph below portrays the cumulated cord cutter households in the U.S (Fitzgerald, 2019).

Figure 2: Cumulative Number of Cord-cutter and Cord-never Households in the U.S.



Source: Fitzgerald (2019)

Hence, cord-cutting phenomenon is inevitable and increasing every year as OTT and streaming services like Netflix are increasing simultaneously. Netflix is definitely pressuring traditional pay-TV subscriptions where it is transforming the media industry drastically.

III. Netflix's Establishment and Innovative Strategy

3.1 Netflix's Establishment and Growth Factor

Mathematician and computer software operator, Reed Hastings and marketing expert, Mark Randolph first found their company, Pure Software (Forbes, 2019). However, Hastings lacked engineering background and managerial experiences lowered his confidence and challenged him of being a CEO; consequently, he requested the board to replace him. In 1995, Pure Software was publicly taken by Morgan Stanley.

Hasting's prior experience and knowledge of running a business led to founding of Netflix, Inc. in 1997 (Netflix, 2019). Combination of Net, which refers to the internet, and Flicks, which stands for the cinema symbolizes the business model and Netflix's mission. Netflix strategically changed the DVD rental business, which was offline market based in a larger platform of an internet-based business through innovative business model and strategy. The company was the world's first DVD rental shop that sells and rents DVDs by mail (Keating, 2012). In 1998, Netflix allowed the customers to rent DVDs via internet and mail system. The rental process was very simple where consumers first select desired DVDs on the Netflix website; receive them via mail; and return them by putting in a mailbox with a given envelope (Spector, 2010). Quick and easy rental process with no due dates, late fees as well as shipping and handling fees increased their reputation.

However, Netflix started to experience challenges in their business strategy and high operating cost for heavily relying on the U.S. Postal Service for their delivery system (Spector, 2010). Further, larger retailers such as Wal-Mart and Amazon entered the DVD rental market whilst Blockbuster's rivalry and similar business model pushed Netflix to change its business strategy to be innovative to sustain its competitive environment.

In order to differentiate, Netflix recognized new business opportunities in the external environment such as media consumption patterns, development of the internet and high demand on electronic devices such as smartphones. Hence, Netflix started offering video-on-demand (VOD) services.

The rise of YouTube popularity was a revelation (Kyncl, 2017). Netflix introduced VOD through the internet and launched online media streaming in 2007 (Netflix, 2019). It was 2007 that OTT service was introduced and it was the start of the company's dramatic advancement. Netflix strengthened their valuable attributes and tried to overcome the disadvantages. From that moment, Hastings slowly developed the business by increasing OTT content. Netflix transformed from the video-rental market via post to the provider of films and television shows over the internet. They signed a licensing contract with major broadcasters such as CBC and NBC, content providers such as Disney and Sony and film companies such as NBC Universal, Miramax, Paramount Pictures and 20th Century Fox.

Further, changes in consumption patterns, development of electronic

devices, coupled with economic conditions, also influenced Netflix’s growth in OTT services. During the period of economic recession in 2008, consumers reduced their outings, increased their times at home and turned themselves to enjoy cheaper entertainment provided by Netflix (Keating, 2012). Changes in media consumption patterns positioned Netflix to establish definite identity in the OTT market and they successfully seized this opportunity. Additionally, the synergy between ever-improving mobile technology and internet speeds development advocated Netflix to become the biggest OTT service provider. Netflix is now operating internationally having more than 158 million subscribers as of 2019 (Netflix, 2019) while taking the biggest part of the worldwide video streaming traffic of 26.6% (Netflix, 2019).

Table 1: Worldwide Video Streaming Traffic Share

Netflix	26.6%
HTTP media stream	24.4%
YouTube	21.3%
Raw MPEG transport stream	8.0%
Amazon Prime Video	5.7%
Twitch	3.5%
Facebook video	3.4%
Hulu	0.4%

Source: Sandvine Global Internet Phenomena Report (2018)

Table 2: Netflix Business Strategy Development Steps

Steps	Period	Business Strategy
1	1997-2006	Order DVD online and receive/ return by mail
2	2007-2009	Wired Internet based streaming services
3	2010-2019	Focusing on On-Demand Culture by providing VOD services (available via various devices)

Netflix accomplished another successful year by introducing innovative business strategy in 2010. Netflix has reinforced ‘on-demand-culture’ where “it provides viewers new forms of immediate access to movies and television shows via any electronic devices such as smartphones, tablets and PCs” (Tyron, 2013, p.3). This culture increased video-on-demand service and expanded OTT service market. In addition, not only did Netflix provide the services via the Netflix website on the computer, but also it developed its own software installed on various platforms such as smartphones, tablets, video game consoles, smart TVs and digital media players (Nielsen, 2011). Netflix reinforced on-demand-culture and VOD more effectively by providing enhanced media streaming environment for their target market; hence, resulted in greater consumer encounters (Tyron, 2013). Number of Netflix subscribers and sales were boosted, positioning the company to be the strongest player in the OTT market.

Table 3: Number of Netflix Subscribers and Revenue in 2014-2019

Year (Q3)	Number of Netflix paying subscribers (in millions)			Revenue (in billion)
	U.S.	Worldwide	Total	
2014	36.27	41.43	77.7	\$5.5
2015	42.07	66.02	108.09	\$6.779
2016	46.48	83.28	129.76	\$8.83
2017	51.35	104.02	155.37	\$11
2018	56.96	130.42	187.38	\$15.8
2019	60.62	158.33	218.95	-

Source: Statista and Netflix (2019)

3.2 Netflix's Global Strategy

3.2.1 Netflix's Global Entry and Strategy

Netflix's global expansion is one of the company's great achievements. In 2019, the company gained 91.46 million international subscribers, which means 58% of Netflix users were from outside the U.S. and international streaming revenues surpassed U.S. streaming revenues for the first time in 2018 (Netflix, 2019). Netflix exploited globalization strategy by aggressively entering international markets. Louise Brennan, a professor of business at Irish Trinity College, described Netflix's global strategy as "exponential globalization" in the October 2018 Harvard Business Review (Brennan, 2018). This means that the company used the globalization strategy that gradually accelerated its overseas entry in terms of the number of foreign market entries and the share of overseas customers (Brennan, 2018).

The company experienced high competition in the U.S. OTT market and realized the needs of entering global markets with many users to create new and greater demand. At first, achieving globalization strategy was challenging as Netflix needed to obtain the content from both national and regional level, experiencing various domestic regulatory constraints and language barriers where international subscribers may prefer local language content (Brennan, 2018). Furthermore, existing domestic OTT service providers were another threat to Netflix; consequently, withdrawing Netflix to gain first-mover advantage. However, Netflix managed to overcome these obstacles and achieved to be the number one global media content provider.

Netflix took a strategic move of entering a market at once. They carefully selected the first target market based on geography, language and culture - especially, the places with similar characteristics to their current market. For example, Canada was their first target for international expansion in 2010 which shares many common values with the U.S (Brennan, 2018). Canada was their stepping stone to improve its internationalization capabilities in countries where liability of foreignness was unavoidable (Brennan, 2018). Through this process, the company learned and experienced the processes of global strategy and gained knowledge of how to develop and advance its primary capabilities outside its local market. In less than one year, Netflix achieved one million users (Vlessing, 2011) and in 2018 there were 13.3 million users (Statista, 2019) indicating a great success.

Based on the lessons it acquired from the first international expansion, Netflix has continuously been involved in extensive globalization strategy based on the target market's attractiveness, shared characteristics and high availability and consumption of broadband internet (Foster, 2018). Netflix has also gained the knowledge of internationalization and the ways to make partnership with domestic stakeholders whilst increasing its revenue. They learned more know-how and techniques as more requirements and restrictions were required. They focused on targeting local customers by adding subtitles and optimized exclusive personalization algorithms for global library. They also enhanced its platform operating in various devices (Brennan, 2018). For example, Netflix discovered that mobile device was the primary method of accessing the internet, thus, the company improved its mobile experience by working with the mobile and TV device makers and internet operators as well. They quickly improved its existing services and added new features to effectively target the local customers and attract a greater number of audiences. Netflix successfully expanded its business to South America in 2011, Europe in 2013, Asia in 2015 and continuously aims to enter various international markets (Netflix, 2019).

Moreover, Netflix undertook partnership with the local companies to attain win-win relations. Maria Ferreras, Vice President at Business Development EMEA stated that “striking partnership deals with pay-TV and telco operators has helped Netflix take its subscriber numbers to the next level” (Foster, 2018). For example, the company developed the relationship with local broadband and cable companies to have the services available as part of their offerings. For instance, Vodafone Ireland launched a TV service

with Netflix button on the remote controls and achieved contracts with KDDI in Japan (KDDI, 2018) and Telefonica in Spain and Latin America (Brennan, 2018) by providing flat-rate subscription package. Ted Sarandos, Netflix's chief content officer, announced that "our belief is that great storytelling transcends borders. When stories from different countries, languages and cultures find a worldwide platform where the only limitation is the creator's imagination, then unique, yet universal, stories emerge that are embraced by a global audience" (Netflix Media, 2018). This indicates that the business attempted to respond to local customer tastes on content by producing original content in 17 different countries. The business shares all these ideas and processes in different nations. In other words, it aims to create and offer the content not only for local audiences, but for international audiences who want to enjoy it. Furthermore, while negotiating with the local major studios, Netflix highlighted the opportunity for local content providers to attain global audiences where they both can achieve a win-win situation. That is to say, local studios gain international audiences while Netflix makes a deal with the local companies.

The company strives to comprehend customer insights and acquire local knowledge so that it can ensure the business to be responsive to the local preferences and differences, which is important and useful in the process of content production, in dealing with national regulatory obligations and in negotiating with the local companies. Since Netflix entered numerous different countries, they were able to experiment different marketing activities in different marketplaces and based on the gained knowledges, they were able

to quickly and efficiently build an extensive number of international subscribers. Hence, Netflix has grown from a US local media platform to a truly global media platform in about 10 years.

Table 4: Netflix Overseas Entry Timeline

Year	Name of Countries
2010	Canada
2011	Argentina, Bolivia, Brazil, Caribbean, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela,
2012	Europe (Ireland, United Kingdom, Scandinavia, Denmark, Finland, Norway, Sweden)
2013	Netherlands
2014	Australia, Austria, Belgium, France, Germany, Luxembourg, New Zealand
2015	Asia (Hong Kong, India, Japan, Singapore, Taiwan) and Pakistan
2016	South Korea and Netflix announces the service would be available “worldwide,” except for China, North Korea, Ukraine and Syria

Source: Netflix (2019)

Table 5: Examples of Netflix Strategic Alliance with Local Partners

Country	Affiliation approach
England	Affiliation between local cable operator and Virgin Media: Integration of Netflix services in a set-up box with British operator Vodafone: Netflix contents provided through premium packages
Germany	Affiliation with telecommunication business: Integration of Netflix services into IPTV platform
France	Affiliation with telecommunication business: Integration of Netflix services into IPTV platform
Denmark	Affiliation with Wao! and telecom operator: Providing Netflix services for subscribers
Sweden	Affiliation with cable operator Com Hem: Provide Netflix services for subscribers
South Korea	Affiliation with telecommunication company (LG UPlus), CJ E&M (production company Studio Dragon) and cable operator (JTBC): Provide Netflix services into IPTV platform and rights to original content production

Source: Netflix (2019)

Through Netflix's global expansion, they mostly conduct strategic alliance with local cable companies, telecommunication companies and content production companies to make the services available for everyone (Foster, 2018). Netflix believes that the partnership with local companies is an important factor for their international achievements. Indeed, Maria Ferreras, Vice President at Business Development EMEA said that "resilient partnerships" with local cable and telecommunication operators are a key to business growth (Foster, 2018).

IV. Netflix's South Korea Market Entry Strategy

4.1 Reasons for Entering South Korea

Reed Hastings, CEO of Netflix, expressed its favorability of entering a South Korean OTT market as the country holds strong telecommunication and broadband technologies and high consumer standards (Lee, 2019). In fact, South Korea is one of the leading countries with a high number of smartphone users, 36.14 million (Statista, 2019) and approximately 45 million people, 95% of the population, use the internet (Internet World Stats, 2019). In addition, network services and internet speeds are one of the world's fastest (Statista, 2019), which is of interest to Netflix. Also, Wi-Fi networks can easily be established in most places including the public transportation, suggesting that OTT service can be used anytime and anywhere through fast internet and network connections (Chong, 2018). As shown in the table below, South Korea is one of the leading nations to provide fast fixed and mobile internet connection.

Table 6: Fixed and Mobile Internet Speed by Country in 2019

Country	Average Internet Speed (in Mbps)	
	Fixed	Mobile
Global	46.12	22.82
South Korea	156.18	95.11
Singapore	191.93	50.43
Japan	114.15	32.59
Taiwan	111.95	45.55
United States	124.39	37.50

Source: Speed Test (2019)

Since Netflix is operating through the internet, South Korea's fast internet speed and well-structured infrastructure are attractive enough for Netflix to enter South Korean OTT market. However, this is not the only consideration. Netflix witnessed the rise of K-pop and Korean wave which is perceived to be an important market as a stepping stone to target a broader number of both South Koreans and non-Korean audiences who enjoy South Korean entertainment programs including Korean TV shows and movies (Stangarone, 2019). Also, Netflix has planned to produce a great number of original content in South Korea because from the Korean waver perspective, South Korea has a strong consumption power due to its cultural popularity and strong fan network system (Yoon, 2019).

4.2 Current Status of Netflix in South Korea

Netflix officially launched in South Korea in January 2016. At the beginning, the company struggled due to the extreme level of competitiveness

in the video market where IPTV service was the mainstream. Therefore, Netflix signed a license agreement with D'live, digital TV and high speed internet rental provider, who shared the same vision of breaking away from the traditional media and delivering innovative services through the high speed internet. In November 2018, Netflix and LG Uplus formed an alliance, ensuring the access to the Netflix application through LG Uplus IPTV set-top boxes. However, Korean Broadcasters Association criticized LG Uplus because alliance with Netflix will be a starting point for the destruction of the media industry ecosystem and advised the government to respond insistently to withdraw the partnership (Lim, 2018). However, despite all these hardships, Netflix firmly operated under its business model and strategy to target their Korean consumers efficiently.

According to Nielsen Korean Click, media market research business, in January 2019, Netflix users in South Korea jumped by 65.6%, exceeding 2 million and at the end of February, Netflix achieved approximately 2.5 million Korean users (Kang, 2019). This number tripled in a year from 799 thousand Korean users in February 2018. This remarkable growth influenced Netflix's alliance partner, LG Uplus, where the number of LG Uplus customers tripled correspondingly in the same period (Maeil Business Newspaper, 2019). Additionally, the number of domestic paid users, which was almost 63 thousand in June 2018, was rapidly amplified every month and in June 2019, the increase rate marked 192% (Lee, 2019). Wiseapp announced that in June 2019, there was approximately 1.9 million paid streaming subscribers and in October 2019, approximately KRW 26 billion

(USD 22.3 million) were paid by Korean subscribers (Lee, 2019). Further, 38 percent of South Korean Netflix subscribers were in their 20s, subsequently, 31 percent were in their 30s, 18 percent in their 40s and the remainders were in aged 50 or older (Kim, 2019).

4.3 Netflix Korea and Its Competitive Strategy

4.3.1 Strategic Alliance with Local Companies

As mentioned before, one of Netflix's globalization strategies was to undertake partnership with local carriers to supply their services and this tactic was also applied when entering into South Korean OTT market (Lee, 2019). The major South Korean carriers are SK Telecom, KT Corporation and LG UPlus (Song, 2019) and Netflix attempted to build relationship with them; however, Netflix was not welcomed by all these three local carriers who were also playing in the OTT market (Kim, 2019). For example, SK Telecom rejected the deal due to its existing OTT platform that is perceived to be as "the Netflix of Asia" (Rosati, 2019) and attempted to prevent Netflix from invading the South Korean OTT market. KT Corporation did not affiliate with Netflix but is in consideration of working with the Japanese carrier, NTT Docomo that has business connection with Disney Plus (another OTT service provider by Walt Disney) and other services (Lee & Kim, 2019). Even though Netflix friendly offered revenue share and free use of Internet Data Center (IDC) where it is a central facility to host IT equipment

and operation to manage its data disseminated, SK Telecom and KT Corporation expressed difficulty in such negotiations (Korea IT News, 2019). However, not all South Korean companies denied to license content; LG UPlus and Netflix made an agreement meaning that LG UPlus customers can enjoy Netflix through Uplus TV or IPTV set-top box without any additional installation or equipment (Kim, 2018). Further, since November 16, 2018, LG UPlus TV and LG Uplus IPTV set-up box users have received a remote control with the Netflix button (Lee, 2018). The payment is included in the monthly rates where customers receive unlimited access to Netflix content (Garikipati, 2019). South Korean broadcasting company, tvN and JTBC, also accepted to offer content license to Netflix such as *Man x Man*, *Chef and My Fridge* and many more (Stangarone, 2019).

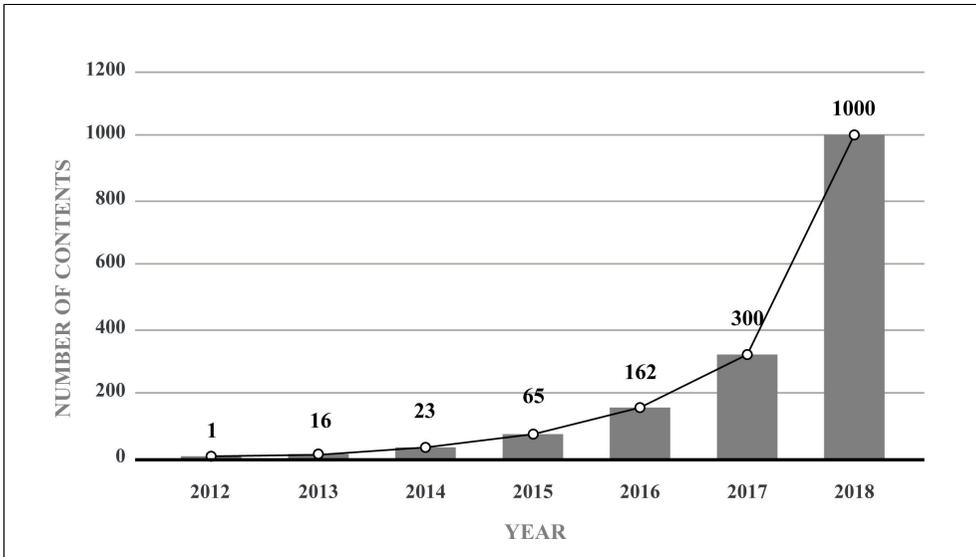
4.3.2 Original Content

Further, Netflix shifted its focus on attracting local audiences by producing original and killer content in South Korea (Doyle, 2019). Although local broadcasting companies expressed dissatisfaction towards Netflix's arrival, South Korean content creators welcomed Netflix's approach as they realized Netflix is a strong platform to deliver their content internationally (Stangarone, 2019). Kim (2019), director of Korean Netflix original content stated, "Netflix is trying to become a channel to introduce Korean content to people around the world. Korean films and dramas have been received well not in only Asian countries but also all over the world." Indeed, Netflix has tried to provide multiple original content to increase and retain South Korean

customers. Netflix first launched Bong Joon Ho's 2017 film, *Okja* as its original content, *Busted* in 2018 and *Kingdom*, the first *Netflix Original* Korean drama in 2019. This drama offers 27 different subtitles and 12 dubbing choices. Due to its popularity, it is expected to launch season two in 2020 (Baek, 2019). The production cost was approximately KRW 20 billion, which was the highest production cost amongst non-U.S. original content (Baek, 2019). As a result, new subscriptions "tripled per day following the release of *Kingdom*," which means their original content has successfully appealing to the local customers (Jeon & Kim, 2019).

Netflix has been criticized for the absolute shortage of content supply since when it first entered South Korea. In 2016, there was only four Korean originals available which were *Night Light*, *Hello, My Twenties!*, *Ready for Start* and *Click Your Hear* (Netflix, 2019). Besides, the content was not very popular amongst Korean viewers. The topic of Netflix original content was not impressive enough to attract South Korean customers. This problem occurred may be due to lack of understanding consumers' taste and preference. However, South Korea was not the only nation that underwent content deficiency, and actually, the tendency was found throughout the world.

Figure 3: Number of Netflix Original Content Titles Worldwide from 2013 to 2018



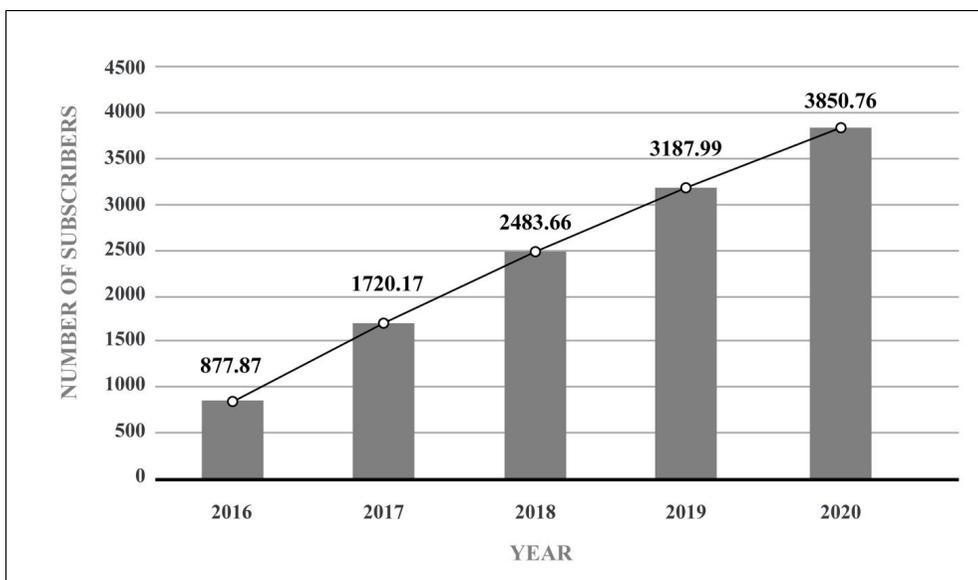
Source: Statista (2019)

As shown in the graph above, the number of original content has increased every year and in 2018, there were 1000 original content titles available worldwide (Statista, 2019). As of January 30, 2016, Netflix provided 1025 contents in South Korea and as of May 2018, they provided 3367 contents which consisted of 2614 movies and 753 TV shows (Netflix, 2018).

Jee Hyun Moon, Mirae Asset Daewoo’s analyst, argued that “Netflix has not yet gained a foothold in South Korea, original content will give the service a boost” (Tan, 2017). Consequently, the company overcame the problem of local content shortage by focusing on original content distribution, which resulted in gaining new subscribers. According to Nielsen Korea, South

Korean Netflix users tripled in one year mainly due to the popularity of *Netflix Original* and its local content (Song, 2019). The graph below portrays the number of active Netflix users in South Korea from 2016 to 2019 and expected number of active Netflix users in South Korea in 2020. Based on the calculation, Netflix will gain more than 3.85 million active subscribers in South Korea in 2020 (Statista, 2019).

Figure 4: Expected Number of Active Netflix Subscribers in South Korea



Source: Statista (2019)

Min Young Kim, director of International Originals at Netflix, argued that “most Korean dramas known overseas were in the romantic comedy genre. However, we want to help Korean shows in other genres such as mystery, thrillers and period action flicks to be discovered by users overseas” (Sohn, 2018). For example, *Kingdom*, Netflix’s first original and horror

Korean content gained global fan base of audiences who enjoy watching thriller and horror genre content and do not essentially have a strong preference to K-drama. Hence, *Kingdom* is expected release another series in 2020 (Frater, 2019). Further, Netflix's first original Korean movie, *Okja* gained international recognition in the Cannes Film Festival in 2017 (Sohn, 2018). Netflix pushed the limits of local media content by offering *Netflix Original* stand-up comedy where this genre is relatively unknown to local viewers. For example, *Yoo Byung Jae: Too Much Information* (McGill, 2018) and *Park Nar Rae: Glamour Warning* have achieved recognition and are expected to be broadcast on a cable TV channel (The Korean Herald, 2019). In addition, Netflix's original horror and mystery for South Koreans, *Svaha: The Sixth Finger*, earned approximately USD 17 million (Frater, 2019). This proves that *Netflix Originals* are performing strategically and successfully to collect and retain Korean subscribers whilst increasing its brand recognition and identity. Based on these successes, Netflix aggressively launched the greater number of original Korean content such as *Love Alarm*, *My First First Love* and *Busted*. It is also expected that Netflix will release more than 10 new Korean originals by the end of 2019 (Netflix, 2019).

4.3.3 Pricing Strategy

Along with this localization strategy, Netflix intensified its pricing strategy by taking another step by offering cheaper and broader price options (Yeo, 2019). It attempts "to reach out to more viewers, delivering another upset to the over-the-top (OTT) service market in South Korea where local

telecommunications players and content providers have already become intimidated by its fast encroachment” (Lee & Kim, 2019). For example, Netflix is offering mobile-only subscription plan where it allows the users to watch only on their mobile or tablets devices at a very low cost of KRW 6,500 (USD 5.72) per month which is 30 percent cheaper than Netflix’s cheapest plan (Lee & Kim, 2019). This approach is expected to help Netflix obtain more local customers who are price-sensitive such as young smartphone users. Most of all, the strategy may have ensured the business to gain more price competitive advantage against domestic OTT service providers. Director of Netflix partner engagement, Nigel Baptiste argued, “now Korean consumers can enjoy Netflix content for a week at a price cheaper than one movie available at local providers’ video-on-demand service” (Yeo, 2019).

Table 7: Netflix Service Prices in South Korea

Services	Basic	Standard	Premium
Monthly price	9,500 won	12,000 won	14,500 won
HD available	X	√	√
Ultra HD available	X	X	√
Screens you can watch on at the same time	1	2	4
Watch on your laptop, TV, phone and tablet	√	√	√
Unlimited movies and TV shows	√	√	√
Cancel anytime	√	√	√
First month free	√	√	√

Source: Netflix (2019)

Netflix offers three different subscription plans in South Korea and all are given a free trial of one month free. The price difference is based on the streaming quality and the number of concurrent connections. For example, with the basic plan of KRW 9,500, users can watch the video through standard quality only and only one more person can use the same account simultaneously; whereas, premium plan with the price of KRW 14,500 offers both HD and UHD quality media and simultaneous connection is available up to four people. This suggests that the premium service allows four-family members to enjoy unlimited UHD-quality content together. Moreover, Netflix made a strategic alliance with Shinhan Card, one of the Korea's major banks, where Shinhan Bank upgrades its membership for those who first subscribe to Netflix paying by their card for every three months. Thus, after three months, if the customers continue subscribing to Netflix using Shinhan card, they will get an upgrade (Kang, 2019). For example, if the customer purchases Basic package using Shinhan card, after three months the membership will be upgraded to Standard with fixed price of KRW 9,500.

Comparing the service price between U.S. and South Korea, South Korean subscription prices are cheaper than the U.S.. Based on November 15, 2019 exchange rate, the basic price is KRW 10,500, the standard price is KRW 15,000 and the premium price is KRW 18,000 under the same conditions. Based on this analysis, we can identify that South Korean subscription pricing is not too high; hence, it is cheaper than what U.S. subscribers pay per month.

Table 8: Netflix Service Prices in America

Services	Basic	Standard	Premium
Monthly price	\$8.99	\$12.99	\$15.99
HD available	X	√	√
Ultra HD available	X	X	√
Screens you can watch on at the same time	1	2	4
Watch on your laptop, TV, phone and tablet	√	√	√
Unlimited movies and TV shows	√	√	√
Cancel anytime	√	√	√
First month free	√	√	√

Source: Netflix (2019)

Netflix monthly plan may be appealing to the U.S. citizens because their cost of satellite TV is higher than South Korea. In the U.S., prices start from USD 59.99 per month and it can increase to couple of hundred dollars. Compared to this, the Netflix subscription plan is acceptable and affordable (Smith, 2019). However, South Korean consumers may perceive this monthly plan relatively higher in comparison to cable TV prices in South Korea. In the case of domestic cable TV, analog service costs around KRW 2,000 to 4,000 per month and digital and satellite broadcasts cost around KRW 8,000 (Song, 2019). In addition, internet protocol television (IPTV), delivering the content over internet protocol (IP) networks, is also available at a discounted price in combination with the TV. The internet price is also more affordable than Netflix's one (Xiao et al, 2007). Additionally, many consumers may feel unfamiliar with the paid services or OTT services because they can easily enjoy free video content on the internet.

Still, compared to Netflix service prices in the U.S., South Korean Netflix prices are affordable. Netflix has continuously attempted to gain South Korean subscribers by introducing a new and cheaper pricing plan. For example, they introduced a mobile-only subscription with the price of KRW 6,500 (Lee & Kim, 2019). This strategy was successful in attracting new customers, but this option has been removed due to cannibalization in the South Korean OTT market (Adkins, 2019). According to Statista (2019), Netflix ranked the second in OTT media service popularity among young South Koreans in their 20s and there was 1.27 million people using Netflix's application in 2018.

4.3.4 Differentiation Strategy: Content Recommendation Algorithm

Netflix differentiates from its industry through video analytics, content recommendation algorithm and streaming innovation which support its users to identify various films, TV shows and other videos that are aligned with their personal taste and viewing patterns. Since its beginning, Netflix focused on big data and the capability of big data analysis that could be utilized during any important decision-making and evaluation process. This algorithm was called *CineMatch*. This proprietary software was to “promote individually determined best-fit movie to customers” (Lakhani, 2014).

CineMatch considers three factors to cluster a group: 1) film clustering, 2) customer rating and 3) combination of both amongst all Netflix users. This algorithm proved to be successful at assuming films that users

would prefer. Respective individuals in the same algorithm groups tend to share the similar preferences of viewing habits, which helps Netflix identify and suggest detailed contents to those users. This approach was an effective way to spread various contents internationally. For example, if a user watches a romance film, Netflix would recommend another romance film, TV shows or documentaries. Moreover, any related romance videos from other countries will also be recommended under Netflix's content recommendation algorithm. Caitlin Smallwood, Netflix Vice president of Science and Analytics, said "you probably tell your families and friends about what they like to watch. It is the same concept, but it is done via mathematical algorithms at a massive scale. The key is leveraging our massive membership and piecing it with lots of content" (Sohn, 2018). Database such as producers, characters, genres, story backgrounds, production regions, characteristics of the content, content ending, characters and other features are classified and used to effectively perform the algorithm system. It goes without saying that the accumulated information helps the business identify the customer viewing patterns and characteristics as the data portray what the customers watch, where they watch, how they watch, why they watch and how long they watch.

This algorithm uses "collaborative filtering" which is another analysis approach of making automatic calculation about customers' interest via collection of preference and taste information from various users. All Netflix customers are asked to select their favorable genres or contents upon initial subscription, afterwards, based on those selections, Netflix recommends various contents that new subscribers may enjoy. These data and records are

continuously accumulated for better recommendation in the future. Through this approach, the company offers customer a greater opportunity to enjoy new content aligned with their taste and interest

Hastings believed that *CineMatch* needed an improvement and instead of hiring new employees and professionals for improving the system, Netflix launched an event “Netflix Prize” in 2006. The mantra of this competition was to “connect people to movies they love” (Netflix Prize, n.d.) and a prize of USD one million was given to the winner where they could “develop a recommendation system capable of prediction movie ratings with at least 10% greater accuracy than *CineMatch*” (Hallinan & Striphas, 2016).

Netflix also took the advantage of big data as the foundation of their decision making in content licensing and production. For example, it helped the business to identify whether they needed to continue or terminate any existing contract. In this way, Netflix was able to maintain, secure and remove any unnecessary content whilst improving the content library for the viewers. Moreover, big data bases facilitated the business to better plan, produce and invest in their original contents. Netflix analyzed the data to derive the characteristics of the content that the target audience would demand which are then utilized in the original content development strategy. For example, *House of Cards* and *Kingdom*, one of *Netflix Originals*, were produced based on big data (Bhatia, 2019). Through big data analysis capability, the company cost-effectively built strong and positive relationship and network with the viewers by satisfying their demand.

V. OTT Industry in South Korea

5.1 OTT Services in South Korea

There were no OTT services like Netflix in South Korea until 2016 and introduction of Netflix in South Korea's OTT market has created a new phase and now the competition is at its extreme. Terrestrial, mobile, broadband, cable TV, internet portal, start-up and individual companies are now jumping into the OTT market.

In the case of the U.S., where third-party companies such as Netflix dominated the OTT market, the South Korean OTT market is different. Local telecommunications service companies, terrestrial broadcasters, cable TV companies, internet portal websites and IPTV companies have controlled the OTT service market as part of their business strategy (Park, 2018). Entering OTT market was not their main business. It was secondary and perceived as another value-adding business strategy. Currently, South Korean OTT service market consists of five different categories: 1) telecommunication and IPTV based (SK, KT, LG), 2) terrestrial broadcasters based (POOQ, WAVVE), 3) cable television network based (CJ E&M, Hyundai, D'live), 4) internet portal site based (YouTube, Naver, Daum, Kakao) and 5) independent OTT providers (Pandora TV, Afreeca TV, Watcha Play, GOM TV). Out of all these providers, YouTube is the top OTT service provider in South Korea where their revenue, as of December 2019, was 2.5 times greater than Naver, South Korea's biggest portal service provider, and five times greater than

collective OTT revenue of MBC, KBS and SBS, major television networks in South Korea (Im, 2017).

Table 9: OTT Services in South Korea

Category	Company	Released Date	Business Model	Contents	Channels
Telecommunication service providers and IPTV service providers	KT Corporation – Olleh TV Mobile	July 2011	Paid	Terrestrial TV programs, cable TV, movies, children's programs, sports, documentaries, and animations	80 real-time channels (terrestrial TV/cable TV programs) and 140,000 VODs
	LG Uplus – U+ HDTV	October 2011	Paid	Terrestrial TV programs, HD broadcasting in real time	120 real-time channels (70 real-time broadcasting channels), 20,000 VOD
Terrestrial Broadcasters and Telecommunication service providers	WAVVE	September 2019	Paid	TV programs (real-time and replay), MBC, SBS, KBS, and EBS, movies, animations, documentaries, sports, children's programs	Real-time terrestrial broadcasting channels, cable TV channels, VOD
Cable TV Network	CJ E&M – Tving	November 2010	Paid	TV programs (real-time and replay), MBC, SBS, KBS, and EBS	150 real-time channels (terrestrial broadcasting programs/cable TV channels/foreign channels) and 50,000 movie and drama VODs
	Hyundai HCN – Every On TV	2011-2019 (Terminated)	Paid	Terrestrial TV programs, HD broadcasting in real time	250 channels based on cable TV program with 50 real-time channels
	D'live	January 2000	Paid	Netflix content available, local cable TV content, entertainment, religious and educational content	255 channels through Dlive plus OTT set-top box, Netflix content by an exclusive contract, VOD, and 12,000 free content
Portal website based	YouTube	February 2005	Free/Paid	UCC, TV content, movies, video clips	UCC, live contents, movies, TV shows, any video clips
	Naver – Naver TV	2013	Free	UCC, TV clips, web-only contents	UCC, TV content, movie VOD
	Daum – Daum TVPot	January 2007	Free	UCC, TV clips, web-only contents	UCC, Real-time TV/VOD
Independent OTT Providers	Pandora TV	October 2004	Free	UCC, TV content	UCC, online video sharing
	Afreeca TV	May 2005	Free	UCC, individual broadcasting	3,500 real-time channels provide over the internet, individual users broadcasting
	Watcha Play	September 2011	Paid/Free	Movies, animations, TV broadcasting, music, game, entertainment, children's program	25,000 movies, dramas, documentaries, etc
	GOM TV	2000	Free	VOD provider, UCC	UCC, TV clips, movies

Source: KISDI, KT Corporation, Park, Lee (2019)

Out of all these services, Watcha Play and WAVVE operate very alike to Netflix. Watcha Play, which was launched in the same year with Netflix, provides very similar services to those of Netflix. For example, they, like Netflix, have the monthly payment system with cheaper prices; and recommendation system that satisfies individuals' tastes and preferences. Needless to say, the service is provided through any electronic devices such as PC, smartphones and tablets with the internet connection. Watcha Play also provides both domestic and international VODs with wide range of genres. The difference between Netflix and Watcha Play is the price setting and content - Netflix provides their original content while Watcha Play does not.

In 2019, SK Telecom and South Korea's major terrestrial broadcasters such as MBC, SBS and KBS decided to create a single entity to control their OTT video services in order to compete and protect the domestic market from biggest foreign OTT provider, Netflix (Jimenez, 2019). The companies launched a new business that merges SK Broadband's OTT service, Oksusu with terrestrial broadcasters' OTT service, POOQ (Park, 2019). The new platform is called WAVVE, targeting both South Korean and other Asian markets. This platform is now the biggest OTT platform in South Korea (Lee, 2019). According to IGA Works, WAVVE has attracted 264 million subscribers in just one month since its launch on September 18, 2019 which surpassed Netflix with 1.71 million (Kim, 2019). Moreover, WAVVE's daily average number of users reached around 800,000 which also exceeded Netflix with about 510,000. WAVVE argued that by the end of

2023, they will achieve five million subscribers and provide the services that are worth KRW 500 billion. Ki Young Choi, Minister of Science and ICT, argued that WAVVE will “invest in large-scale dramas to secure original content. To this end, it will invest KRW 300 billion (USD 252.67 million) by 2023 to produce original content” (Choi, 2019). It is expected to maximize the synergy between major terrestrial broadcasters and OTT service companies through such extensive investment. However, due to fast-growing OTT market, WAVVE may face other challengers such as Disney Plus provided by Walt Disney and South Korean-joint OTT of CJ Entertainment and JTBC (Lee, 2019).

Regarding the competition and size of South Korean OTT market, arrival of Netflix in South Korea OTT market has exacerbated the competition in the OTT market. The level of competition and OTT market size in South Korea are expected to grow every year with major domestic OTT companies offering competitively differentiated services to their target consumers. Indeed, the size of Korea’s OTT market portrays an increase every year, according to data from the Korea Communications Commission (KCC). The KCC discovered that in 2019, the South Korean OTT market size was around KRW 634.5 billion and forecasted that it will increase to KRW 780.1 billion by 2020 (Cho, 2019).

There are nearly 32.49 million active and paid OTT subscribers in South Korea (Korea IT News, 2019). KCC stated that the local OTT market has been growing steadily every year with KRW 634.5 billion in 2019 and

KRW 780.1 billion in 2020 (Kwon, 2019). Furthermore, Nielsen Korean Click, a market research business, discovered that Monthly Active Users (MAU) of YouTube in South Korea is about 25.52 million people along with Subscription Based Video on Demand (SVoD) exceeded 10 million people (Kang, 2019). This exemplifies that domestic OTT market is relatively large along with many OTT users in South Korea. These users will be target market or future customers for South Korean OTT service providers.

Table 10: Domestic OTT Market Growth and Outlook in KRW

Year	Growth
2017	192.6 billion
2018	513.6 billion
2019	634.5 billion
2020	780.1 billion

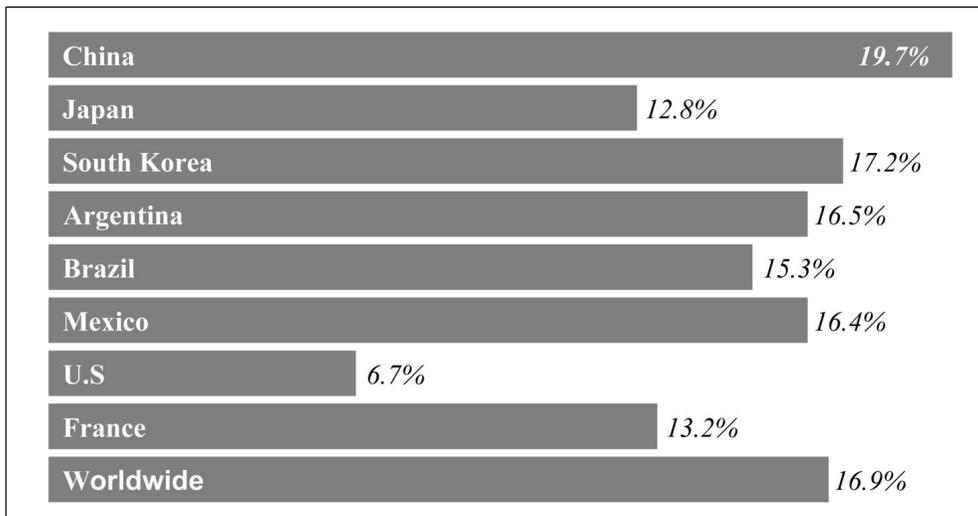
Source: Lee (2019)

As indicated above, the South Korean OTT market is expected to grow more than 20 to 30 percent every year indicating the high potential of the OTT industry (eMarketer, 2018). Further, if this growth is consistent, it is expected to achieve KRW 800 billion by the end of 2020. Accordingly, the number of new OTT companies and various OTT services are expected to increase.

Looking at the subscription growth rate for OTT video viewers internationally, South Korea achieved the second highest growth rate of 17.2

% in 2019 (eMarketer, 2019).

Figure 5: Subscription OTT Video Viewer Growth 2019 (% Change)



Source: eMarketer (2019)

5.2 Global OTT Service Providers and Changes in South Korean OTT Industry

In the past, the term OTT was not widely discussed in the South Korean video industry. However, since arrival of Netflix in South Korea, the concept has attracted much attention. According to Korea Bizwire, more than “80 percent of their total mobile video usage time are based on foreign video platforms such as YouTube and Netflix” (Lee, 2019). Consequently, the entrance of global OTT services has driven South Korean OTT market to change and grow. Since Netflix achieved a significant amount of local

attention and subscribers in a short period of time, local OTT companies could not help changing their business models in OTT market and delivered competitive services to attract the customers.

Actually, South Korea already had a competitive domestic video streaming market having various players such as Olleh TV mobile, Btv Mobile, Tving and LG Uplus HDTV. However, their services did not have any global impact, unlike foreign giant OTT service providers, especially those in the U.S.. Cho (2019) argued that the difference between South Korea and U.S. OTT market is that in the U.S., media companies with advanced technological innovations started with VOD, whereas South Korean OTT market was started by the existing media businesses such as broadcasters, telecommunications and cable TV providers. This means that South Korean companies' understanding of OTT generally fell behind their global competitors.

Furthermore, in the past, South Korean OTT services were only available in South Korea and most of their video content was streamed through real-time broadcasting only. However, foreign OTT businesses have provided their services internationally, and produced their original video content, offering varied purchase options to consumers. Needless to say, as OTT video platforms operate by selling VOD, if the providers have their original content, they can gain relatively stronger competitive advantage for saving cost from purchasing third-party content.

Indeed, the market situation is not easy. Wiseapp, a market research company, stated that in South Korea, there were around 900,000 Netflix subscribers in December 2018; however, it increased to 1.53 million by the end of March 2019. On the other hand, in the same period there was only about 40,000 increase in domestic OTT subscribers. This result well demonstrates the growing popularity of global OTT players in South Korea, which has challenged South Korean OTT service providers to changing and restructuring their market strategies.

5.3 South Korean OTT Business Strategy

5.3.1 South Korean OTT Service Providers' Business Strategy

As indicated, South Korean OTT market consists of major domestic telecommunication, broadband and terrestrial television. They have shaped and provided the different business strategies.

5.3.1.1 Content and movies on the spot

CJ E&M's Tving first started the OTT video service based on N-screen model in 2010. According to Hong (n.d.), N-screen is identified as "unified entertainment experience across several devices" suggesting that users can watch the same program through any electronic devices such as television, tablet and smartphone on the go. N-screen aims to reduce any

disadvantages that the traditional and cable TV hold such as long advertisement duration, specified time and date to watch a content and limited number of media content. In addition, this approach offers greater control over their media consumption and helps the users replay the videos or catch up with any video content that they have missed. Hence, telecommunications companies such as SKT, KT and LG UPlus altered their business strategy to provide N-screen services where their IPTV subscribers increased as a result. Due to its popularity, terrestrial broadcasters also launched their OTT service, POOQ, on N-screen model. N-screen service provided nonstop relay watching, binge watching, downloading reserved program and registration of specific channels for easy access and notification.

5.3.1.2 Original content

Domestic OTT service platforms are also planning to release their original series in order to gain competitive advantage in this creative industry.

First, Lee Tae Hyun, a director of creative contents at WAVVE, argued that “we will create a new media ecosystem with our contents partners by leading growth of OTT industry in South Korea and advancing gradually into global markets” (Choi, 2019). In addition, Lee (2019) argued that original contents will be WAVVE’s primary business strategy to enter the global market by securing overseas users. He believed that if the business successfully enters foreign market, it will create approximately KRW 300 billion, which can be spent on original contents production (Lee, 2019). The

first step of their global expansion is to release another service called WAVVE Go. WAVVE paid-subscribers will be able to enjoy the service through mobile devices in seven Southeast Asian countries including Singapore, Indonesia, Malaysia, Philippines, Vietnam, Laos and Thailand. In these countries, the business, unofficially, is currently conducting on-site testing (Choi, 2019). However, this service can only be used through smartphones and tablet applications installed in South Korea and does not support other devices (Bloter, 2019). Only Korean users who are currently living overseas or overseas travelers can have an access to this service. The business plans to target foreign customers based on their site learning. As of December 2019, WAVVE does not have any original contents. However, WAVVE provides services that Netflix cannot provide such as popular live shows, sports, KBS, SBS and MBC live shows, shopping and many more (WAVVE, 2019).

Second, KT announced that they will be launching original contents, *Yunnamdong Family* through their Olleh TV Mobile (Kim, 2019). Further, their new OTT service platform, Seezen, will heavily focus on introducing original contents to their customers. Kim Hoon Bae, Head of KT's new media business group stated that they "are trying to secure original contents and other long-term strategies such as securing original contents through strategic alliance with global media company Discovery" (Kwon, 2019).

At the moment, Netflix leads Korean OTT market due to aggressive investments in creating various original contents. According to research firm,

Nielsen Korean Click, the number of paid subscribers to Netflix in South Korea quadrupled over a year to 1.86 million as of July 2019 (Song, 2019). The most powerful strength of Netflix is its original content. In other words, the company spending is heavily focused on *Netflix Originals* production (Kwon, 2019). Netflix has invested approximately KRW 1.5 trillion in Korean original content alone over the past three years (Song, 2019). However, domestic OTT service providers do not have any original contents as of December 2019. OTT companies are announcing that they are going to release original contents in the future and will heavily invest in producing their exclusive contents. For example, WAVVE argued that they are planning to invest in original contents whilst utilizing SK Telecom's 5G mobile technology to enhance the service experience (Kwon, 2019).

5.3.1.3 Strategic Alliance

The world is in a global OTT war battle and South Korea is not an exception. Due to the aggressive pressure from Netflix, South Korean OTT providers have tried to defend themselves from such extreme competition. In September 2019, POOQ, operated under three terrestrial broadcasters and Oksusu, operated under SK Broadband and they performed strategic alliance and launched the biggest OTT video service platform in South Korea called WAVVE (Lee, 2019). It became number one in the domestic OTT video service platform where the number of their subscribers exceeded that of Netflix subscribers (Lee, 2019). According to IGA Works, data analysis company on mobile big data platform, revealed that the number of users of

WAVVE achieved 2,982,217 million and Netflix achieved 2,641,171 million users in 2019 (Lee, 2019).

WAVVE has aggressively attempted to make an affiliation with various industries to strengthen their service and business identity. They have been affiliated with Bugs!, South Korean music streaming service operator, to offer a product that provides both video and music streaming services with approximately KRW 3,000 discount price (Ahn, 2019). Moreover, WAVVE performed a strategic alliance with Gyeonggi Content Agency to support production of original contents in the future (Kim, 2019).

Samsung Electronics and Watcha Play are joining hands to expand image standard technology called HDR 10+ (Cho, 2019). This is to provide more realistic and rich color video quality to the customers especially for Samsung smartphone users. Lee Tae Hyun, CTO at Watcha Play argued that “by working with Samsung Electronics, we will be able to provide consumers with more realistic and color-rich videos” (Yoo, 2019).

Another major telecommunication, KT Corporation is expected to launch their new OTT platform, Seezen (Kwon, 2019). KT Corporation was the top company in the industry holding eight million subscribers in the IPTV market. However, they could not achieve a great attention in the OTT market. Consequently, they decided to collaborate with Olleh TV Mobile and KT Corporation (Kwon, 2019). This means that they moved away from its IPTV business to OTT service. KT also recently signed a new contract with

global media company, Discovery, to jointly create original content (Kwon, 2019). During the commemoration press conference in 2019, they announced their original Olleh TV Mobile drama *Yunnamdong Family* which is invested by KT and will be only available through Olleh TV Mobile. Moreover, KT announced that they are in the process of conducting a joint venture with Disney Plus, which is another major global OTT platform and Netflix's biggest competitor which was launched in November 2019 (Kim, 2019).

Their action is to compete against Netflix's domination in South Korea by continuously enlarging its service platform. The domestic companies believed that economies of scale were necessary due to the fierce competition broken out by global OTT companies. Cho Seong Wook, chairman of Federal Trade Commission said, "the paid broadcasting market has rapidly been reorganized into a digital center unlike three years ago. We have approved the business combination in order to promote competition for innovation and help broadcasting and communication service providers respond to rapidly changing technology environments in a timely manner" (Yang, 2019).

Further, CJ ENM and JTBC have also agreed to establish a joint venture by early next year and plan to launch an integrated OTT platform based on their existing service, Tving. Not only did CJ ENM partner with JTBC, but also they made a business relationship with Netflix in November 21, 2019 (Park, 2019). They decided to start a long-term strategic partnership in order to create Netflix exclusive original series that international users can enjoy. CEO, Heo Min Hoi stated, "as we have been focusing on premium

content and global distribution, the partnership with Netflix will allow Korean contents to be introduced to a global audience who will have new experiences and value” (Park, 2019). Studio Dragon, CJ ENM’s subsidiary in drama production, needs to provide at least 21 films to Netflix over three years including *Netflix Original* contents as well (Kang, 2019).

5.3.1.4 Pricing Strategy

The most similar domestic OTT provider to Netflix, Watcha Play competes with their cheap pricing strategy. Since their service only provides VOD without original contents, they heavily focus on the pricing strategy. As of December 2019, the cheapest Watcha Play’s monthly payment option is KRW 7,900. In addition, a discount applies to payments made on a three-month basis, KRW 20,900 for 3 months, KRW 39,900 for 6 months and KRW 73,900 for 12 months. All these price options are highly competitive in the current South Korean OTT market. Moreover, the business provides a two-week free service prior to the first charge (Watcha Play, 2019).

Table 11: Comparison between Watcha Play Pricing Packages

Services	1 Month	3 Months	6 Months	12 Months
Monthly price	7,900 won	20,900 won	39,900 won	73,900 won
HD available	✓	✓	✓	✓
Ultra HD available	✓	✓	✓	✓
Watch on your laptop, TV, phone and tablet	✓	✓	✓	✓
Unlimited movies and TV shows	✓	✓	✓	✓
Cancel anytime	✓	✓	✓	✓
First two weeks free	✓	✓	✓	✓

Source: Watcha Play (2019)

WAVVE, the biggest OTT service platform in South Korea, aims to match global OTT service, Netflix by gaining five million paid subscribers and achieving KRW 500 billion in annual sales by 2023 (Kim, 2019). They tried to simplify the pricing system with three categories which are KRW 7,900 for basic, KRW 10,900 for standard and KRW 13,900 for premium. Further, they offered a special deal to new subscribers with a basic product (KRW 7,900 per month) at KRW 4,000 per month for three months.

Table 12: Comparison of WAVVE Subscription Packages

Services	Basic	Standard	Premium
Monthly Price	7,900 won	10,900 won	13,900 won
Screen Quality	HD available	FHD available	UHD available
Screens you can watch on at the same time	1	2	4
Cancel anytime	✓	✓	✓
First three months promotion	4,000 won	X	X
Device for use	Mobile + PC	Any devices (e.g. smartphones, tablet, laptop, etc)	Any devices (e.g. smartphones, tablet, laptop, etc)

Source: WAVVE (2019)

In order to reduce the service charges, WAVVE attempted to make a strategic alliance with various banks in South Korea. For example, they are affiliated with Hyundai Card where basic package users can enjoy the service for free up to one year and discount coupons for cheaper rates (WAVVE, 2019). This is an exclusive service option for particular Hyundai credit card holders (Park, 2019).

Second biggest OTT platform, Tving also provides three packages with discount rate (Tving, 2019). The price of packages is set according to the number of channels and video quality (see Table 13). This means that as price goes up, the more diverse services the customers can enjoy.

Table 13: Comparison between Tving Three Different Packages

Services	Available contents and devices	UnlimitedTving	Unlimited Plus Tving	Movie Premium
PRICE		11,900 won	15,900 won	9,900 won
Live	tvN, Mnet, JTBC, MBN Free real-time streaming	FREE	FREE	FREE
	200 Free Tving channels	FREE	FREE	FREE
	OCN, CGV, Super Action real time paid channels	√	√	√
VOD	tvN, Mnet, JTBC, MBC, part VOD available	√	√	X
CLIP	Watch popular free clip	FREE	FREE	FREE
MOVIE	Monthly Rates: Premi- um Movies Available	X	X	√
	Monthly Rent Movie Theater: Limited Movies available	√	√	√
KIDS	Kid-only mode available on Tving app	√	√	X
QUALITY	1080p Quality	X	√	√
TIME MA- CHINE	A function that can be rotated up to two hours of a live TV channel watching	X	√	X
DEVICES	PC, smartphone, tablet	√	√	√
	Android TV (Viewing, TELEBEE)	X	√	√
	Smart TV (LG, Sam- sung)	X	√	√

Source: Tving (2019)

From this fixed pricing options, they further strengthen its platform by providing discounts to those who are part of CJ ONE membership, which may help Tving attract more customers.

Table 14: Package Price Difference between Standard and CJ ONE Membership

Package	Tving Membership	Tving + CJ ONE Membership
Unlimited Tving	11,900 won	5,900 won
Unlimited Plus Tving	15,900 won	9,900 won
Movie Premium	9,900 won	N/A

Source: Tving (2019)

Moreover, as part of their pricing strategy, they also release free coupons and discount codes to attract and retain customers. For example, users receive free access to certain movies for Black Friday event and new customers can enjoy first month free service (Lee, 2019).

Figure 6: Tving Pricing Strategy (One Month Free marketing banner)



Source: Tving (2019)

LG UPlus, affiliated with Netflix, provides a different pricing strategy where the content of Netflix is provided through their IPTV. The table below portrays different pricing packages for LG UPlus customers.

Table 15: LG UPlus Service Packages

Services	Basic	Premium	Premium Netflix HD	Premium Netflix UHD
Price	12,100 won	16,500 won	26,300 won	28,800 won
Popular and customer preferred channels				
Provide daily channels such as hobbies/real estate/music/ etc	✓	X	X	X
185 channels				
Full access to all channels				
Various popular global channels in native language	✓	✓	X	X
225 channels				
Full access to all channels				
Various popular global channels in native language	✓	✓	✓	X
Netflix HD Quality available				
225 channels				
Full access to all channels				
Various popular global channels in native language	✓	✓	✓	✓
Netflix UHD Quality available				
225 channels				

Source: LG UPlus (2019)

VI. Implications

6.1 Managerial Implication

6.1.1 Original Contents

Netflix original contents include movies and entertainment shows that are only available at its platform. Their continuous publication of original content is not only to gain and retain customers but also to increase and enhance their brand identity and reputation. Indeed, the quality of Netflix's original content has internationally recognized. In 2018, Netflix original content received 112 Emmy nominations, 20 Critics Choice Award nominations and 12 Golden Globe nominations (Chiriguayo, 2019). In addition, Netflix original contents such as Roma won the best picture award at the Critics Choice Awards (Buchanan, 2019). This definitely increased the brand identity and helped the business to be one of OTT service giants in the global OTT market.

In order to survive from competitive OTT market globally, Netflix believed that having their exclusive contents will ensure the business to gain competitive edge and become more self-sufficient. Netflix's original and international content fueled the business growth. Producing international contents is Netflix's core business strategy and as a result, they have achieved a great number of international subscribers.

On the other hand, South Korean OTT service platforms still lack in original contents. The power of original content has well been demonstrated by Watcha play's case. Watcha Play CEO, Park Tae Hoon stated that their business growth was due to Netflix popularity. He mentioned that "thanks to Netflix, we are growing faster. Whenever Netflix released its original content such as *Okja* or *Kingdom*, the download of the Watcha Play app skyrocketed. This is due to the growing awareness that Korean movies and dramas can be enjoyed through the internet video service (OTT) and users' interest in Watcha play has increased accordingly" (Yoo, 2019).

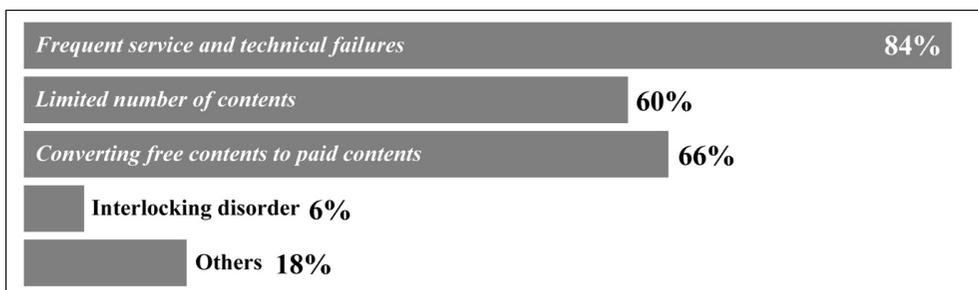
The growth of Watcha Play was, to the large extent, influenced by Netflix and without Netflix's aggressive production of original contents, Watcha Play could not gain business identity awareness to the public. Hence, due to its early arrival in the South Korean OTT market, the business ranked number one in sales among entertainment category apps in South Korea in 2018, accumulated by Google Play statistics (Yoo, 2019). Even though the business has a strong domestic fandom network and extensive number of local videos, it is doubtful whether the business can sustain its subscribers for a long time and can advance to international market successfully. Watcha Play may be able to have a greater number of domestic subscribers in the future as a Korean company. However, the fact that Watcha Play lacks its original content may play a negative role in attracting foreign customers due to lack of uniqueness (Lee, 2019). Further, introduction of WAVVE, will be a threat to Watcha Play as they are now partnered with major terrestrial broadcasters where the contents provided by them mostly overlap.

WAVVE's plan to invest huge funds in original content also implies the importance of having original content as a OTT service provider. As indicated, WAVVE realized that they need to provide original contents, hence they provide such services such as real-time TV shows, documentaries and sports TV that Netflix does not provide in South Korea (WAVVE, 2019). This service can be appealing to many customers and is indeed perceived to be one of WAVVE's unique services. Further SK Telecom also tries to conduct a partnership with Disney. SK Telecom CEO Park Jung Ho, declared that "we met with Disney (for negotiations) and brought something interesting, but we are not yet ready to talk" at the meeting of the Ministry of Science and ICT with the three Korean telecommunication companies (Park, 2019).

The statistic shows that WAVVE overtook Netflix in terms of MAU (the number of users running apps once a month), reaching 2.64 million in September 2019 which was more than Netflix of 2.17 million (Park, 2019). However, analysts say that in order to properly compete in the OTT market, it is important to conduct a multi-directional analysis beyond the MAU. Because WAVVE has recently released its service and is currently offering free month trial, the number of users and subscribers may relatively be higher than Netflix. In this regard, at this stage, it would be necessary to wait and observe the way they operate their business in terms of their original contents and whether those contents are effective both domestically and internationally.

However, the progress has not been impressive. Most of all, due to its newness in the market, the service is technically unstable and both quantity and quality of content are unsatisfactory. Looking at the comments about WAVVE on Google Play app, there have been many complaints about content services (Kwon, 2019). Especially, the users of Oksusu, merged to WAVVE, were able to watch more contents for free, but after the launch of WAVVE, such service is no longer available. One of the comments from the WAVVE users was “the contents that we had seen for free are not free anymore and request for an extra charge” and “the services are very weak and only low quality videos are available” (Lee, 2019).

Figure 7: Consumers’ Criticism on WAVVE



Source: Kim (2019)

Also, despite the extensive contents library, the number of channels rather decreased compared to the past. Other popular broadcasting channels such as tvN, OCN and JTBC have been excluded from WAVVE and only three terrestrial broadcasting channels are available. According to Nielsen Korea, tvN, OCN and JTBC viewership (7% viewership) is higher than MBC, SBS and KBS (2.3 % viewership) for the users aged between 20s and

30s (Lee, 2019). Considering that the main users of OTT services are young people, it is important for WAVVE to find a strategy that can fill in the gap by providing better and unique contents.

The remaining OTT providers such as Tving and Olleh Mobile TV are currently operating under no original contents. However, KT plans to increase the original content through cooperation in the future. KT announced that they joined hands with Discovery, a global documentary production company to produce KT original contents (Kim, 2019). KT currently invests KRW one trillion annually in the supply and demand of original contents (Park, 2019).

LG UPlus is currently partnered with Netflix and its plan to invest in original content has also not been announced in detail. However, they claimed that they will spend approximately KRW 2.6 trillion in media contents production and supply over the next five years (Park, 2019).

It is predicted that consumers' preference towards original contents will accelerate the local businesses to create and produce their only and exclusive contents to gain the competitive advantage in the OTT industry. Many experts have also emphasized that the South Korean OTT providers have not been able to meet the expectations in terms of original contents (Park, 2019). Hence, it is important for the Korean OTT service providers to produce quality original contents in order to protect their brand reputation and identity.

6.1.2 Strategic Alliance

Netflix, being in the OTT industry, has been able to expand their services globally in a short period of time utilizing online network. Aside from this, Netflix has successfully become a global OTT provider through various strategic alliances.

The strategic business partnership with local companies throughout various industries such as cable TV provider, telecommunication provider and IPTV provider helped Netflix result in win-win outcomes with its partners. As indicated above, in South Korea, LG UPlus customers can simply enjoy watching Netflix without any additional sign-up processes and the payment for this service can also easily made. It is indeed a good opportunity for LG UPlus to provide their customers with more content and new services in a convenient way. On the other hand, Netflix can gain a chance to access LG UPlus' large customer base. In view of this case, strategic alliance with local companies is helpful in settling down to a certain country's OTT market.

Again, one of the core business strategies of Netflix is the provision of original contents. Actually, they have achieved this by affiliating with local cable TV channels and content production companies. Recently, Netflix identified that local contents lacked the characteristics that can satisfy local customers' needs. Therefore, Netflix aggressively performed strategic alliance with local content providers to reinforce and strengthen their library. For example, in 2019, Netflix affiliated with Studio Dragon, CJ ENM's drama

production corporation, to supply at least 21 films within three years that are only available on Netflix (Kang, 2019). Like this, Netflix has continuously attempted to establish a greater number of strategic alliances with various global and local companies in diverse fields.

Watcha Play has not shown an impressive results concerning strategic alliance. This may be due to the fact that it only operates in South Korea and the services are not available internationally. However, in order to strategically target their local customers, they licensed with top local cable TV such as JTBC and top international movie provider such as HBO or Disney. Actually, it is different from the method of Netflix's strategic alliance as Netflix performs local partnership to increase the number of their original contents, to raise brand awareness and to reduce liability of foreignness. On the other hand, Watcha Play merely provides a licensed video contents from different video providers. Unlike Netflix that endeavors to expand their services internationally, it seems that Watcha Play is narrowing down its target market in the domestic level, and heavily focusing on local OTT market and customers (Statista, 2019).

Instead of having strategic alliance with Netflix, WAVVE, chose to operate independently to fulfill the dream of becoming the "Netflix of Asia" (Rosati, 2019). For this, WAVVE has tried their best to have a solid business relationship with various global and domestic companies. This has positioned WAVVE to be a strong rivalry of Netflix in South Korea. In terms of international OTT market, WAVVE is obviously perceived to be a

weaker player. Nevertheless, the company is definitely one of the strongest players in South Korean OTT market based on strategic alliance. Unlike U.S. corporation, Netflix, WAVVE is a local company that already has a deep understanding of local customers' preferences and tastes with no liability of foreignness indicating that they can provide better services to their local customers through various strategic alliances. For example, South Korean customers enjoy having discounts, entering a special event to win a prize or anything that requires simple process and cheaper price. WAVVE strategically comprehended customer's preferences and applied those to their pricing strategy.

Compared to Netflix's motive of strategic alliance that they are affiliated to reduce liability of foreignness and gather local original contents, WAVVE's motive of strategic alliance is more like one that for increasing their OTT service awareness and raising brand identity. However, the purpose of WAVVE's strategic alliance is not limited to the domestic level. WAVVE also wishes to expand its business internationally like Netflix. Indeed, their services are not available outside South Korea, so WAVVE needs to quickly find a strategic way to enter a global market, that is, strategic alliances.

6.1.3 Pricing Strategy

Domestic OTT services were relatively cheaper than Netflix where it helped local businesses go to achieve cost advantage and use price as their business strategy to gain new customers. However, it seems that price has

not been the strongest factor affecting customers' selecting OTT services. Rather, other factors such as video quality and device accessibility greatly contributed to customer's decision making of choosing an OTT platform.

With Netflix, the given price is made up various services that customers can enjoy. Netflix may not be the most expensive OTT provider in South Korea. However, they do not provide discount coupons, codes or further discounts that other domestic OTT service platforms do.

Just simply looking at the price, Watcha Play offers the cheapest service out of all domestic OTT service providers. The prices they offer may be appealing at first sight but they are relatively weaker in terms of extra advantages that the customers can receive and the number of contents.

WAVVE's pricing strategy is very similar to Netflix, but cheaper. They further enhance their cost advantage by introducing cheaper deals and even free services through strategic alliance. However, as discussed above, despite the cheaper pricing, it is difficult to evaluate that WAVVE has a business initiative in South Korean OTT market, defeating Netflix. Therefore, in order to stand out from the domestic OTT service providers and compete with Netflix, it is important for them to create and supply better features of new services to gain customer's selection. It is important for the South Korean OTT providers to realize that price is not the primary factor for customers' decision making, at least in the OTT market.

6.2 Theoretical Implication

6.2.1 Changes in South Korean OTT Market and Disruptive Innovation

Above mentioned responses of Korean OTT providers to Netflix's strategies and changes in Korean OTT market due to Netflix's entrance can be interpreted through the theory of disruptive innovation.

In a global competitive environment, ongoing and intensified dynamic environment of products, services and business strategies is a principal aspect of competition (Christensen, 1997; Johnson and Scholes, 1997; Hill and Jones, 1998 and Hamel, 2000). Hill and Jones (1998) said "in many ways innovation is the single most important building block of competitive advantage...giving a company something unique that its competitors lack" (p.166). The theory of disruptive innovation was first researched by Harvard professor Clayton M. Christensen through *The Innovator's Dilemma* in 1997 (Christensen Institute, 2019). The theory clarifies the happening by which an innovation changes current market or sector through introducing "simplicity, convenience, accessibility and affordability where complication and high cost are the status quo" (Christensen, 1997). Originally, this theory is created to explain a niche market which may seem unattractive and unappealing to industry incumbents. However, according to the theory, such markets can be recreated through a productive disruption.

The notion of disruption can be described as a "process whereby

even a smaller company with fewer resources is able to successfully challenge established incumbent businesses. Specifically, as incumbents focus on improving their products and services for their most demanding (and usually most profitable) customers, they exceed the needs of some segments and ignore the needs of others” (Christensen, 2015). Disruptive entrants can be started by strategically focusing on those unobserved segments and obtaining a foothold by sending more-suitable functionality that is at a lower price. Incumbents who are chasing greater profitability in more-demanding segments, tend not to react vigorously. Entrants then shift upmarket, distributing the enactment that incumbents’ mainstream consumers require, whilst sustaining the benefits that drove their previous success. When mainstream consumers begin accepting the entrants’ contributions in volume, disruption has started (Christensen, 2015).

Hence through disruptive innovation theory, changes in Korean OTT market and how Netflix has reshaped Korean entertainment can be interpreted. Netflix’s business model disrupted conventional home video rental model and conventional TV streaming model. It also changed the way consumers experience entertainment and various contents (Knott, 2013). Netflix entered South Korea in 2016 where it also reshaped media and Korean customers’ video streaming behavior. Netflix’s presence was not welcomed by Korean entertainment industry. However, not all Korean entertainment companies denied its presence, JTBC has joined hands with Netflix to provide their video contents and LG UPlus was also affiliated with Netflix for LG UPlus mobile customers where they can enjoy Netflix as part

of their monthly package (Stangarone, 2019). Netflix successfully entered South Korean OTT market with around 200,000 to nearly 300,000 subscribers joining the service every quarter and is expected to gain approximately four million subscribers by 2020 (Stangarone, 2019). Netflix's growth in South Korea was driven by its various content library along with local contents as well. Netflix aims to create videos for foreign domestic markets that are authentic and appealing to local customers and then encourage those videos internationally (Bylund, 2019).

The company is changing Korean dramas in different way which helps to promote Korean Wave globally in a manner that South Korean business could not perform (Stangarone, 2019). The director of original Korean content at Netflix, Kim Min Young said that "Netflix is trying to become a channel to introduce Korean content to people around the world" (Baek, 2019). In addition, the services like Netflix support the increase in the consumption of Korean TV shows, dramas and movies by creating them more reachable to foreign customers. It is a simple and easy method of enjoying foreign movies unlike conventional movie theatre and Netflix's big data algorithms well advocate to generate new fans. For example, customer who watched Korean drama will receive a recommendation by Netflix to watch Korean movie as it is in the similar taste cluster (Stangarone, 2019).

Due to the technological and disruptive innovation, experiencing Korean content would become easier for non-Koreans on Netflix in the future. Netflix continuously develops its system by creating subtitles and

translation program where international viewers can watch and enjoy (Netflix, 2019). Further, Netflix is expanding the boundary of Korean content by releasing new genres and focusing on different genres to eliminate the perception of Korean contents. For example, Netflix released Korean stand-up comedy show which is very unfamiliar to Korean customers. The business also produced mystery thriller dramas to move away from the perception of Korean dramas of having only romantic comedies (Stangarone, 2019).

South Korean major broadcasting companies and telecommunication companies realized the threat of Netflix's presence and how it is reshaping Korean video consumption patterns. In other words, Netflix's dominant presence in South Korea and its competitive threat has changed the South Korean entertainment industry, which can be evaluated as a phenomena of disruptive innovation.

VII. Conclusion

Through detailed case study, it was identified that having a strong and competitive strategic alliance is the most important factor in South Korean OTT market to gain a competitive edge.

South Korean OTT companies and ecosystem have been threatened by global OTT company, Netflix and are currently having difficulties in planning their business strategies and operations. The term and notion of OTT are still relatively new to South Korean market and OTT system and technologies are also relatively underdeveloped compared to U.S. OTT market. U.S. OTT companies such as Netflix started its business as an OTT provider and their business operations have been in the OTT market in the first place. However, South Korean OTT providers generally originated from telecommunication companies and cable TV providers, where their skills, capacity and knowledges may be weaker than the companies that are completely specialized in OTT. As a result, such aspect made Korean OTT companies fall behind in the OTT market, loosing first mover advantage in the market. Among many business strategies that OTT providers can take, such as providing original content, pricing and strategic alliance, this research concluded that having a strong and competitive strategic alliance is of the utmost importance for South Korean OTT providers to compete with Netflix Korea.

Many researchers and analysts in the OTT market argued that

original contents are a key factor to gain competitive edge in any OTT markets (Kim, 2019); however, it is evident that South Korean OTT services have very limited or even no original contents as of December 2019. As mentioned earlier, South Korea's OTT platforms were founded by telecommunication companies who mostly dealt with fixed-line telephony, broadband and mobile phones. They have very little experience in creating and producing original contents. As a result, it is important for them to strategically join hands with contents production companies to produce high quality original contents. Through effective and efficient strategic alliance, South Korean OTT companies can also produce interesting original contents.

Further, South Korean OTT market is in the state to grow faster and become a strong competitor in global OTT market due to the rise of Korean Wave. Korean OTT companies can expand its business and enter international OTT market through the Korean Wave by producing local contents to their global customers. To do so, the South Korean OTT enterprises should find the solid local partners who can produce quality Korean-wave-related content. Indeed, this picture can be observed from SK telecom's attempt at establishing a competitive OTT provider by merging Oksusu, a VOD platform, with POOQ having a great potential to create entertainment content utilizing a strong relationship with Korean entertainment agencies. Such attempt may greatly contribute to an increase in revenues, which can be invested in creating more and better content in the future. Therefore, it is important for the Korean OTT operators to aggressively enter into a strategic alliance with contents production companies to compete against Netflix.

In addition, pricing could also be enhanced through strategic alliance. Netflix subscription prices are relatively higher than Korean OTT services and local companies are in a healthy state to push price as their marketing strategy to gain and retain customers. However, in order to reinforce this approach, it is essential for the businesses to strategically affiliate with financial institutions to provide greater pricing packages to the customers. For example, WAVVE effectively joined hands with Hyundai Card to provide a promotion of one-year free service and subsequently, helped the business increase brand awareness to the public and received a greater number of users to its platform (Lee, 2019). In this respect, it can be argued that strategic alliance also advocates the business to improve its pricing strategy and supports the company to gain competitive advantage in terms of price in the Korean OTT market.

Of course, to compete against the global OTT players, South Korean OTT providers should develop both technical and service elements within their platforms. Needless to say, Netflix will not be the only global competitor who can threaten the growth of the South Korean companies. There are other global OTT giants who will soon enter the Korean market such as Disney Plus. Piper Jaffray and Michael Olson, two Wall Street analysts argued that the growth of OTT market will continue, aggregating competition from the existing and new OTT services (Strauss, 2019). Indeed, Disney Plus is expected to be the biggest rivalry of Netflix and perceived to be “the Netflix killer” (Raymond, 2019). Disney Plus is made up of dominant studios and franchises such as Marvel Studios, Pixar, Century Fox

and other biggest successful companies along with 300 movies and 7,000 television episodes (Strauss, 2019). Hence, the arrival of Disney Plus in South Korea will also assert higher pressures on South Korean OTT market. Disney Plus launched in November 12, 2019 in U.S., Canada and the Netherlands and is performing relatively well and is expected to expand the business internationally (Raymond, 2019). Hence, it is imperative for the South Korean local OTT providers to promptly manage their business model and strengthen their OTT platform in order to compete against upcoming competition in the ever growing OTT market.

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국문요약

김수현

전략국제경영전공

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이 논문은 넷플릭스의 한국 Over-The-Top (OTT) 시장에서의 비즈니스 모델과 전략 그리고 한국 OTT 사업자의 대응 방안을 분석하였다. 특히 이것이 한국 OTT 시장을 어떻게 재편했는지 살펴보았다. 넷플릭스는 혁신적인 사업 전략을 통해 2016년 국내 OTT 시장에 성공적으로 진출했다. 그들은 시장 지위를 유지하기 위해 방대한 양의 현지화된 오리지널 콘텐츠, 수용 가능한 가격 옵션, 그리고 국내 기업들과의 공격적인 전략적 제휴 맺어왔다. 한국의 OTT 기업들은 이에 대응하기 위해 오리지널 콘텐츠 제작 계획 수립 및 저렴하고 다양한 가격 옵션을 제공하기 위해 다양한 분야의 기업들과 많은 전략적 제휴를 맺는데 주력하고 있다. 국내 OTT 시장은 비교적 새로운 시장으로 OTT 전문 기업이 아닌 관련 기술이 부족한 기업들에 의해 운영되고 있다. 따라서, 국내 OTT 기업들이 넷플릭스 등의 글로벌 사업자와 경쟁하기 위해서는 제휴 전략을 더욱 공격적으로 진행, 서비스 품질 및 가격 경제력을 제고할 필요가 있다. 넷플릭스의 한국 OTT 시장 진출로 발생한 한국 OTT 산업의 변화를 파괴적 혁신 이론 (disruptive innovation)을 통해 살펴보았다.

핵심어: Over-The-Top (OTT), 넷플릭스, 대응전략, 한국 OTT 시장, 파괴적 혁신 이론