

Crossing the Pacific: 2NE1 taking the US on

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The explosive success of PSY's "Gangnam Style" proved that an Asian artist can transcend language and culture barriers and create an international phenomenon. Now, YG Entertainment has the unique opportunity to produce the first true global Asian sensation. As YG looks to grow beyond the Hallyu in Asia, it's clear that the US market will serve as a critical platform for international expansion, and market conditions have never been riper. Key factors, like the increasing receptiveness to Asian artists, power of social media, and pure size and influence, combine to make the market very attractive. With their powerful image, trendy beats, extreme fashion, and English fluency, 2NE1 has been hailed by critics as the K-pop artist most likely to succeed in the US. By leveraging relationships being built with American labels, YG can show off 2NE1's swagger to the world and make the transformation from a Korean to a global entertainment company.

Why the US?

Size and influence

Despite decreasing revenues, the US still ranks as the #1 largest music market in the world, generating \$7.6 billion in revenue this year. As the cultural center of the world, the US gave birth to rock and roll, jazz, pop, R&B, and hip-hop music. It also produced most of the world's best-selling artists, including Michael Jackson, Madonna, Prince, and more. Success in the US also naturally leads to international success, as popular music in the US correlates highly with those in other Western nations. In fact, about half of the number one hits from 2011 in the largest European markets (Germany, UK, and France) were singles from American artists.

Mature and evolving market

Home of the Billboard Charts, Live Nation, iTunes, and YouTube, the US has the most widely used and well developed platforms for music entertainment. Moreover, the huge global growth in social networking services originating in the US has broadened the potential avenues for music marketing. Thanks to the internet and the growth of social media, K-pop has already grown into a large subculture in many Western countries, including the US. Americans are the second largest viewers of K-pop music

videos on YouTube after the Japanese, and Korean artists have successfully hosted concerts in major metropolitan areas.

Increased reception towards international music and Asian artists

The US music market has always been a diverse market with many popular black and Hispanic artists. Recently, a flood of foreign (albeit Western) acts has garnered widespread popularity, including Adele, One Direction, and Gotye. Asians had no presence in the industry until 2010, when Asian American hip-hop band Far East Movement surprised the world by grabbing the top spot on the Billboard Hot 100 with "Like a G6." Now, with "Gangnam Style" sitting at number two on the Billboard Hot 100, we can say that the US is not completely adverse to Asian artists. As long as the artist stands out and the music is catchy, even an Asian artist can achieve mainstream success. Thanks to the internet, people can easily explore and experience music by their own volition instead of only receiving what the major labels put out on radio and TV.

Diversification

Although the Korean Wave has boosted the growth of Korean entertainment companies, the Hallyu subculture cannot sustain its growth indefinitely. Southeast Asian countries have limited potential for growth, and YG has already partnered with Avex in the creating their new Japanese label YGEX. While China's economic growth and skyrocketing consumption are promising for investors, 99% piracy rates make the music market very unattractive until copyright regulation and enforcement becomes standardized. Risks for the Korean Wave also include political tensions with China and Japan, as well as social opposition to an increased obsession with Korean culture. Staying mostly confined within Asia also engenders idiosyncratic risk due to a high correlation between Asian economies. The US music market provides the necessary diversification and growth.

Why 2NE1?

Only viable candidate

Out of all current YG artists, the only English speakers are Tablo, PSY, and 2NE1. Being able to converse with hosts in talk shows and interviews and communicate with fans is crucial to successful promotions in the US. PSY has already started his US career with Scooter Braun's Schoolboy Records, and Tablo does not have the image, sound, or star power necessary to enter the US market. On the other hand, 2NE1 has already proven their ability to communicate perfectly in English through multiple interviews, including the Cannes Lions International Advertising Festival and their exclusive Facebook Live Chat. While Bom and Dara are quite reserved in interviews, CL's outgoing personality enables a dynamic conversation to take place.

Artistry and image

2NE1 possesses the most distinct sound and style out of all K-pop artists with their hip-hop-influenced electronic music refined by their producer Teddy. Their unique fashion has evolved from crazy streetwear to bold, eccentric designs and bizarre hairstyles. Unlike other groups that focus on slender figures or cutesy expressions, 2NE1 has built an image of four powerful, independent, and beautiful

women, each with a distinct and easily identifiable presence. Their urban sound, eye-catching fashion, and bold image combine to make them extremely Western-friendly. Recently, unique women with strong images and trendy music, like Lady Gaga, Rihanna, and Katy Perry, have found huge international success. 2NE1 brings a compatible image and sound while still being very different from any artists on the market.

Demonstrated foreign attractiveness

Even before their US debut, 2NE1 has already begun racking up interest and accolades around the world. Last year, they were voted MTV Iggy's "Best New Band in the World," demonstrating their strong international fan base. As Adidas models, 2NE1 appeared in a US-televised commercial with Nicki Minaj and received their own collection designed by Jeremy Scott. They have also garnered the interest of Black Eyed Peas leader and producer will.i.am, who has been collaborating with 2NE1 on their US debut album.

Key Components of Success

Creative direction

New hot singers, like Nicki Minaj, Ke\$ha, and Justin Bieber, have succeeded by creating a tailored image different from any other artists. Minaj filled the void in hip-hop for a female MC with attitude; Ke\$ha created a new type of trashy-party-girl pop; and Justin Bieber exploited the need for a nice, young boy that sang about love yet still had street cred. Asian artists, like BoA, Utada Hikaru, and Wonder Girls, all failed in their efforts to enter the US market because they lacked any appealing characteristics that would differentiate them from existing pop music.

Already well-suited to American tastes, 2NE1 combines banging electronic hip-hop beats and cutting-edge style. Instead of using their femininity and sexuality, 2NE1 focuses on expressing their confidence in their swagger and independence. 2NE1 has already displayed their attitude through lyrics, such as "Right now I don't give a f***" ("Can't Nobody") and "You ain't sh*t without your crew" ("Go Away"). 2NE1's greatest asset is leader CL who is the most natural and outgoing of the group and isn't afraid to "bust ass" declaring herself "the baddest female."

In the US, popular female artists are mostly either passionate songstresses (Taylor Swift, Kelly Clarkson) or sexualized divas (Katy Perry, Rihanna). There exists a gap in the market for an artist like 2NE1, who falls under neither and instead resembles a younger Black Eyed Peas. 2NE1 has the opportunity to break out into the market as a visually and aurally edgy group of confident, not-over-sexualized women.

Non-traditional marketing

Although technology devastated the music industry's profits, it also created new avenues for marketing. In this digital age, social media has enabled consumers to discover and keep in touch with artists much more easily. Justin Bieber, the poster child for artists born out of social media, was

discovered through YouTube and continues maintain a personal relationship with millions of fans through videos and personal tweets.

In addition to enabling artists to manage their own image, social media also have network effects that facilitate the virality of content and translate into more sales. The hyperbolic humor in the PSY's "Gangnam Style" music video spread virally thanks to parodies on YouTube and memes spawned from online communities, like Reddit and Tumblr. Songs like "Gangnam Style" and "Call Me Maybe" also received enormous boosts in visibility when celebrities, like Justin Bieber, T-Pain, and Katy Perry, tweeted about them or made parodies. These phenomena demonstrate the new power that consumers hold, as they no longer need to rely on traditional press and radio to discover music. Social media has also increased the influence artists have thanks to the closer relationship that social media has created between them and their fans.

Thanks to YG's international marketing strategy through online media, 2NE1 has already garnered millions of likes and views. However, in order to succeed with their American debut, they must get as many eyes and ears on their music as possible. Effective use of these new media and marketing techniques will be essential to bringing 2NE1 to mainstream consumers.

Entrance Strategy

Defining the entry vehicle

Since YG lacks market knowledge, networks, and influence, 2NE1's entrance should be conducted as a partnership with a powerful US label. Will.i.am has already indicated interest in helping manage 2NE1's debut, but it is unclear from the news whether 2NE1 has officially signed with will.i.am Music Group (WMG). As a vanity label of Interscope Geffen A&M, WMG has access to many financial, creative, and marketing resources that would be critical to 2NE1's US debut.

Establishing the terms of the partnership will be key to the execution of this strategy. Being an unprecedented partnership, we optimistically suggest that WMG/Interscope and YG split recording profits 70-30 and non-recording profits 10-90. WMG/Interscope will manage 2NE1's international record production, promotion, and distribution outside of Korea and Japan, where 2NE1 is already signed.

Since YG plays a heavy role in the creative direction, brand development, and training of 2NE1, they should maintain creative control. For 2NE1 to succeed in its US debut, they need to portray their distinctive image through their debut and not lose the music and fashion style that they have refined for the past three years. As the main producer for 2NE1, Teddy has been heavily attributed with the development of 2NE1's signature sound and bold image, and he should continue helping craft their image and sound.

WMG/Interscope will facilitate collaborations with foreign producers and artists and provide consulting regarding the US and international markets. WMG/Interscope will also handle the expenses

for producing, distributing, and promoting 2NE1's albums outside of Korea and Japan. YG will only handle the expenses for the entourage working with 2NE1 and any other YG staff. Advances will not be needed due to YG's strong cash position of \$54 million¹.

Since will.i.am sought out 2NE1 as an artist to collaborate with, he must see financial potential in bringing 2NE1 to the US and global market. WMG/Interscope will likely seek a 360 deal, which will also give them a cut of revenue from tours, merchandise, and endorsements. 2NE1 has already demonstrated their power to hold a global tour with mid-sized American shows and their appeal as endorsers for brands like Adidas. Thus, WMG/Interscope is taking on much less risk in signing 2NE1 compared to other rookie bands, and this gives YG power to negotiate for more favorable terms. If this first venture succeeds, YG may use it as evidence to negotiate better terms for future contracts.

Target audience

2NE1's main target market will be young (12-35), mostly female listeners of mainstream electronic pop music who are middle class and live in suburban or metropolitan areas. The target audience will be users who discover and enjoy music through the internet, connect with their favorite artists on Facebook and Twitter, and are open to different types of new music.

Breaking into the market

Two key components of this entrance strategy are building 2NE1's reputation and creating viral content. Raising awareness of 2NE1 and painting the image of their music and fashion style is crucial to steadily cultivate potential fans and build hype for their official debut. Also, in this world of dying traditional media, new artists need to suck in a large audience and get them addicted through something viral to start racking up sales and widespread publicity.

To raise awareness before debut, 2NE1 could feature on a successful single by another artist, similar to how Nicki Minaj and Ke\$ha were introduced to the world by featuring on top 10 hits. Although 2NE1 and will.i.am were reported to collaborate for a track on his upcoming *#willpower* album, 2NE1 did not make the tracklist cut. However, another unique opportunity exists for 2NE1 to collaborate with fellow Adidas model Nicki Minaj. Both artists appeared in the same commercial this year, albeit in separate scenes. Nicki Minaj and 2NE1 could record a promotional track and music video for Adidas. The theme of "all originals #represent" could be used to create a track that expresses confidence in one's swagger. This mirrors 2NE1's Korean debut strategy, wherein they collaborated with Big Bang on the commercial song "Lollipop" for LG. By collaborating with an existing popular artist on a commercial song, it not only introduces 2NE1's style to world but raises their credibility by being supported by a large brand and a rising star. Also, by making the promotional track as an endorser of Adidas, it ensures a more genuine effort from Nicki Minaj, who would actually tweet and promote it.

In order to leverage the momentum from the collaboration and media buzz about their relationship with will.i.am, 2NE1's debut song and music video must easily spread virally online. To facilitate virality,

¹ 2012 반기 보고서에 의하면 현금및현금성자산 & 기타유동금융자산: 597억원

the content must entertain bored people at work or kids lazying around on the internet and cause them to share the video with their friends. Usually the simplest concepts work the best, whether it be a hilarious portly Asian man dancing in the most ridiculous settings (PSY) or an innocent pre-pubescent boy singing with Ludacris that people just love to hate (Bieber). Bizarre or iconic scenes may further the virality of a video by spawning internet memes, which include everything from a hilarious crotch thrusting dance to an expression captured and blazened with popular internet lingo like "haters gonna hate" or "u mad?".

We suggest that 2NE1 creates an energetic, feel-good song and match it with an equally or more expressive video. When producing the song, 2NE1 should look to create an aggressive and fun atmosphere in line with their past hits "Fire" and "I Am The Best" or the Black Eyed Peas' hits "I Gotta Feeling" and "Boom Boom Pow." Jeremy Scott should continue providing out-of-this-world fashion for 2NE1 that will emphasize their bold image and lend them more credibility as partners. The music video should have a strong concept and not simply be 2NE1 dancing on a set interspersed with closeup shots. The concept could be psychedelic like those of Lady Gaga or simply visually explosive like those of Nicki Minaj. Various elements could enhance the video's virality, like having unicorns prance around or including a simple, memorable dance.

Marketing plan

Promotions will start after the December release of will.i.am's album *#willpower* and conclusion of 2NE1's New Evolution World Tour. 2NE1 will release their postponed Korean mini album or single in January or February 2013 and then focus on preparing for their US debut. The Adidas promotional song and video will be recorded in January and released in the beginning of February 2013, coinciding with Fashion Week 2013. 2NE1's debut single and music video will be released in July 2013 as it would fit the summer time energy well.

Leading up to their official debut, 2NE1 should release teasers showing them collaborating with artists like will.i.am, Nicki Minaj, and David Guetta. These teasers could be playful videos of 2NE1 singing a line from "super Bass" and Minaj dancing to "I Am The Best." Behind the scenes footage could be released showing CL's collaboration with the Black Eyed Peas. With the traction of the Adidas promotional song and upcoming debut, 2NE1 should hopefully capture the attention of not just consumers but other artists as well. With WMG/Interscope's roster of artists and will.i.am's personal network, an explosive debut would spawn many opportunities for collaboration for the full album.

Fans of the K-pop subculture will likely facilitate sharing, but getting influential celebrities and online media outlets to spread the video will be crucial to raising 2NE1's visibility. In addition to posting the video on 2NE1's YouTube, Facebook, and Twitter, the video should be seeded to content discovery networks like StumbleUpon, Reddit, BuzzFeed, Tumblr, and others. In addition, will.i.am and the Black Eyed Peas should promote 2NE1 consistently from their accounts. Thanks to will.i.am's network, potential tweets could come from Nicki Minaj, Britney Spears, Rihanna, and of course from PSY (and

maybe even from the social media king Justin Bieber). If the video reaches influential women, like Oprah, who then retweet it, then 2NE1's image as a strong role model for women would be solidified.

Fan cooperation is also very important to spreading 2NE1. Covers, parodies, and reaction videos uploaded onto YouTube would generate even more buzz and direct more views to 2NE1's music video. Fan organized flash mobs would also show the dedication that 2NE1's fans have.

Once 2NE1's debut gains traction, they would appear on mainstream television shows with either female or young audiences like Ellen, The Today Show, The View, Jimmy Kimmel Live, Late Night with Jimmy Fallon, or even Saturday Night Live. 2NE1 could also demonstrate their strong performance abilities through different venues, like iTunes Festival, YouTube Live, Facebook Live, and other popular music festivals. WMG/Interscope could package 2NE1 in a group with other artists like the Black Eyed Peas to perform at large shows.

As 2NE1 grows their fan base, they need to make better use of social media to connect to fans. Currently, 2NE1's official Twitter has less than 100,000 followers, and Minzy, Bom, and Dara's accounts each has less than 500,000 followers. As 2NE1's frontman and leader, CL needs to start using Twitter. Her charisma and outgoing personality will definitely lead to her gaining the most US fans. Without a Twitter account, CL would lose the opportunity to build up and connect to her fan base. 2NE1 should use Twitter as a means to connect with fans personally through conversation, while Facebook should be used to broadcast promotional messages.

Bringing the strategy 360

Debuting 2NE1 in the US (and thus internationally) provides YG with the best opportunity to grow 360 profits. As its core business model of "one source multi uses (OSMU)," YG takes a cut from all of 2NE1's activities, including concert tours, merchandising, and endorsement deals.

After gaining a larger international fanbase, 2NE1 will be able to conduct an even larger world tour with more stops in America and Europe. Responsible for 22% of YG's revenue last year, touring and connecting with more fans not only brings in more revenue but also builds up 2NE1's brand power even more. Furthermore, the tour could be sponsored by a brand like Samsung, bringing in additional endorsement fees. YG has already built ties with Live Nation through Big Bang and 2NE1's world tours, and in the future, this relationship will be critical to an even larger portion of YG's revenue.

While merchandise does not make up a large portion of YG's revenue currently, YG recognizes the potential source of revenue in its partnership with eBay Korea. Through the partnership with WMG/Interscope, YG will be able to connect with US vendors to produce merchandise. YG has already produced a unique variety of merchandise in Korea, from paper dolls to phone headsets, which will surely entice international Blackjacks as well.

Our strategy will assume that the Adidas commercial song will be produced under their existing endorsement contract. After 2NE1's official debut, there will be heightened demand for endorsement

deals by Korean brands, as well as US and international brands. With the rising value of 2NE1's brand, YG will be able to garner a higher fee from endorsement deals for anything from smartphones to cosmetics. One new potential brand, Pepsi recently signed Nicki Minaj to support its "Live for Now" ad campaign. In addition to filming commercials, Pepsi and Minaj held a concert in NYC. Pepsi represents an youthful, energetic, and happy lifestyle filled with music, which fits 2NE1's image quite well.

Future implications

One of the greatest potential benefits of bringing 2NE1 to the US is the implications for future YG artists. If PSY and 2NE1 both have successful US debuts, then YG will gain a strong reputation for finding and producing Asian talent. This will not only reinforce its power as an Asian entertainment company but also give YG greater leverage in negotiating contracts to bring future artists to the international market. Also, through working with WMG/Interscope, YG will be able to gain knowledge of the US and international markets, which will greatly aid in the formation of future artists.

Points of concern

In the YG-WMG/Interscope relationship, much of the power is concentrated in will.i.am's hands. Will.i.am holds the keys to the network of producers and artists necessary to produce and promote 2NE1's music. A chance for higher returns naturally comes with higher risks. However, the relationship should not be problematic as long as the financial prospects for this partnership remain positive and will.i.am enjoys 2NE1's creative direction.

Also, while the aim of this plan was to diversify beyond Asia, once 2NE1 becomes too large of a portion of profits, YG will be taking on more unwanted risk. If 2NE1 were to experience a downturn in popularity, YG's profits would also sink. To overcome this risk, YG must continue growing its business and developing new artists.

Feasibility

Preparing for 2NE1's US debut and promotions come with a low opportunity cost for YG. Unlike other Korean artists, 2NE1 does not participate in every weekly music program, regularly appear on variety shows, hold MC positions, or act in dramas. The main opportunity cost will come from the lack of a new Korean album and promotional revenue coming from concerts and event performances.

The present value of this strategy over the next five years is **\$102 million**, taking into account the assumptions listed below. This does not take into account the value of this partnership in aiding future artists. The full discounted cash flow calculation is available in the Appendix.

Assumptions

1. The Adidas promotional single by Nicki Minaj & 2NE1 will sell 500,000 copies. Minaj's label and WGM/Interscope/YG will split revenues 60-40. Adidas will cover all expenses.
2. 2NE1's debut single will sell 1.5 million copies in year 1.

3. 2NE1's debut album sells 600,000 copies in year 1. Three promotional singles are released in year 1, selling 1, 1.5, and 2 million each.
4. 2NE1's sophomore album sells 1 million copies in year 2. Two promotional singles are released in year 2, selling 2 and 2.5 million each. Two promotional singles are released in year 3, selling 3 million each.
5. 2NE1's third album sells 2 million in year 4. Three promotional singles are released in year 4, selling 2.5, 3, and 3.5 million each. Two promotional singles are released in year 5, selling 2 million each.
6. Price per digital track is \$1.29. Price per digital album is \$11.99, and iTunes takes 30% cut. Price per physical album is \$15. Album sales are 60% physical, 40% digital.
7. 2NE1's world tour in year 3 has attendance of 400,000 with average ticket price of \$80
8. 2NE1's world tour in year 5 has attendance of 600,000 with average ticket price of \$80
9. Music video and other sales will be 1% of singles sales.
10. Tax rate is 20%. The tax rate may vary a lot due to different accounting laws due to the international nature of this partnership.
11. Discount rate assumptions as listed in the Appendix.

Conclusion

YG must act quick to implement this plan of action. By focusing on the two key components of success, creative direction and non-traditional marketing, YG can maximize the chances for 2NE1 to win over America. While this strategy may be somewhat risky, the US music market right now has a huge gap that a foreign company like YG could fill with its most polished artists. YG has the financial stability and creative prowess to engage in this unprecedented venture and change the future direction of the company.

Appendix

Discounted cash flow & present value

Year	0	1	2	3	4	5
Recording Revenues						
Adidas single sales		\$ 180.60				
Debut single sales		\$ 1,354.50	\$ 90.30			
1st album sales		\$ 6,621.48	\$ 551.79			
1st album singles sales		\$ 4,063.50	\$ 90.30			
2nd album sales			\$ 11,035.80	\$ 1,655.37		
2nd album singles sales			\$ 4,063.50	\$ 4,966.50	\$ 90.30	
3rd album sales					\$ 22,071.60	\$ 2,207.16
3rd album singles sales					\$ 8,127.00	\$ 3,612.00
Other sales (music video, etc.)		\$ 54.18	\$ 42.44	\$ 49.67	\$ 82.17	\$ 36.12
Terminal value						\$ 20,229.27
Total Recording Revenues	\$ 0.00	\$ 12,274.26	\$ 15,874.13	\$ 6,671.54	\$ 30,371.07	\$ 26,084.55
Recording Costs						
Adidas single expenses	\$ 0.00					

Year	0	1	2	3	4	5
Debut single expenses		\$ 1,000.00				
1st album expenses		\$ 3,000.00				
1st album singles expenses		\$ 2,500.00				
2nd album expenses			\$ 3,000.00			
2nd album singles expenses			\$ 2,000.00	\$ 2,000.00		
3rd album expenses				\$ 2,500.00	\$ 2,500.00	
3rd album singles expenses					\$ 3,000.00	\$ 2,000.00
Total Recording Costs	\$ 0.00	\$ 6,500.00	\$ 5,000.00	\$ 4,500.00	\$ 5,500.00	\$ 2,000.00
360 Revenues						
Events		\$ 1,000.00	\$ 1,500.00	\$ 2,000.00	\$ 2,500.00	\$ 3,000.00
World Tour				\$ 32,000.00		\$ 48,000.00
Merchandise		\$ 1,000.00	\$ 1,500.00	\$ 10,000.00	\$ 2,000.00	\$ 15,000.00
Endorsements		\$ 1,000.00	\$ 5,000.00	\$ 10,000.00	\$ 15,000.00	\$ 25,000.00
Terminal value						\$ 33,715.44
Total 360 Revenues	\$ 0.00	\$ 3,000.00	\$ 8,000.00	\$ 54,000.00	\$ 19,500.00	\$ 124,715.44
360 Costs						
Events		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
World Tour				\$ 12,800.00		\$ 19,200.00
Merchandise		\$ 300.00	\$ 450.00	\$ 3,000.00	\$ 600.00	\$ 4,500.00
Endorsements		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total 360 Costs	\$ 0.00	\$ 300.00	\$ 450.00	\$ 15,800.00	\$ 600.00	\$ 23,700.00
Profits						
Recording profits	\$ 0.00	\$ 5,774.26	\$ 10,874.13	\$ 2,171.54	\$ 24,871.07	\$ 24,084.55
360 profits	\$ 0.00	\$ 2,700.00	\$ 7,550.00	\$ 38,200.00	\$ 18,900.00	\$ 101,015.44
YG profits	\$ 0.00	\$ 4,162.28	\$ 10,057.24	\$ 35,031.46	\$ 24,471.32	\$ 98,139.26
<i>After tax</i>	\$ 0.00	\$ 3,329.82	\$ 8,045.79	\$ 28,025.17	\$ 19,577.06	\$ 78,511.41
<i>Discounted</i>	\$ 0.00	\$ 3,099.96	\$ 6,973.31	\$ 22,612.75	\$ 14,705.77	\$ 54,904.52
Present Value	\$102,296.31					
						<i>amounts denoted in thousands</i>
US 2012 risk free rate	0.76%					
US 2012 risk premium	5.50%					
Entertainment industry beta	1.21					
Discount rate	7.42%					