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Transformation of CJ Group into Korea's Media Giant: Focused on CJ CableNet*

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CJ Group started its business in 1953 as the first manufacturing company within Samsung Group called "Cheil Jedang" with its primary operations in sugar manufacturing and flour milling. For the next 40 years, Cheil Jedang kept its place as the most prominent food company in Korea and eventually broke out from Samsung Group and became an independent business entity. In 1995, CJ Group put efforts to diversify its business into entertainment and distribution industry. Successfully executed, the diversification of CJ Group became the driving force that placed CJ Group as one of the top 30 business groups in Korea in just 8 years. CJ Group is now operating its core business in 4 different main areas; entertainment and media, food, bio-engineering, and distribution.

Especially, CJ Group is focusing its attention in its operations in the media industry and maintaining its leading position in the Korean media market through number of subsidiaries such as CJ Internet, CJ Entertainment, CJ CableNet, and CJ Media. Currently, two dominant players, Orion Group and CJ Group, are competing for the first place in the Korean entertainment and media industry. Most notably, CJ Group is providing the best cable television service in Korea while dominating the home shopping market. However, recent advancements in the network technology enabled merges between broadcasting and telecommunication allowing telecommunication companies with their immense amount of capital to enter those markets through IPTV.

This case study will provide a walkthrough of the transformation process that CJ Group had undergone which enabled CJ Group, once a food company, to successfully enter into the media industry. Also, this case study will analyze the success of CJ CableNet, a subsidiary of CJ Group responsible for cable network operations, to understand the primary factors that placed CJ CableNet in its leading position in the media industry. Moreover, this article will discuss about the strategic decisions needed for CJ CableNet in facing the collapse of industry boundaries due to advances in technology.

Key Words: Cable TV, Media Industry, Competition, IPTV, Integration

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CJ CableNet was renamed into CJ HelloVision in May, 2008 after this case was completed and submitted to this journal.

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Ⅰ. Introduction

One day in March 2008, President A of CJ CableNet was reading the paper in his office. His face darkened as his eyes fell on an article on KT's entrance into the IPTV market and SK Telecom's acquisition of Hanaro Telecom.[1] Given the Company's ongoing efforts in aggressive acquisition and investment to stay on top of the competition in the cable television industry, the two telecom majors' move into the broadcasting industry were not only a threat to the growth of CJ CableNet, but they also signified a danger of directly affecting the industry.

> "With the already fierce competition in cable, the emergence of a new competitor would only mean another tough challenge. How can we overcome this new development when we are only now beginning to reap the fruits of our previous investments?"

As digital broadcasting becomes a new global issue, and the development of technology erodes the physical boundary between broadcasting and telecommunications, mammoth telecoms are attempting to leap beyond their borders into the field of broadcasting. Consumers, who once had little choice but to watch information that was unilaterally delivered by broadcasting stations, can now easily find information they need, and there is increasing demand for two-way broadcasting systems that can incorporate their opinions. With the call for change in the broadcast industry, cable operators and other incumbent broadcasting companies must adopt two-way broadcasting technology, such as digital technology, and accumulate competitiveness by acquiring various contents to meet consumers' needs.

> "What is our greatest threat?"
> "What strategy do we need to overcome the new paradigm of the convergence of broadcasting and telecommunications?"

A look of determination crossed the face of President A, who, deep in thought, reached for the telephone. He had come to the conclusion that listening to other people's perspectives would be vital in solving the problem.

> "I will be holding a meeting with the top management next Monday. It will be on highly important issues, so please inform everyone to attend."

Next Monday afternoon, an intensive discussion was in process in the Main Meeting Room of the CJ CableNet headquarters located in Gasandong, Geumcheongu. There was a feeling of anxiety about future performance with the changes in consumer demand and the emergence of a new competitor, IPTV, but

1) Hanaro Telecom was renamed into SK Broadband in September, 2008 after the acquisition by SK Telecom in March 2008.

the overriding atmosphere in the room was one of renewed anticipation in overcoming the current situation and achieving new accomplishments.

President A: As you are well aware, the recent developments that have been ushered in with the New Year are potential threats to our business. We cannot stand by and do nothing. This could be a threat, but it could also be a new opportunity. The convergence of broadcasting and telecommunications will be a foothold for market integration, and I believe this will present novel opportunities. I would appreciate your thoughts on the process we have to undergo in order to accept these changes as new opportunities and respond to them accordingly.

C: I believe it is imperative to fully understand the position of our business in order to set our business strategy. Only when we understand where we stand can we truly identify our strengths and weaknesses.

D: Understanding the internal business situation is important, but it is also critical to understand market conditions and forecast the changes that could take place. A possible strategy is to respond to the changes in the cable television industry. We also have to study the industry's structure. There are discrepancies between the broadcasting and telecommunications industries, so there must be an area in which the competitor cannot gain advantage over.

E: If that is the case, we must search for the factors that can turn out to be our greatest challenge. If we can identify the technology that can become the greatest technical threat to cable television and find the greatest competitor in that industry, I believe we can come up with a plan.

President A: Based on the views presented here today, we will first study the situation of our business and acquire the latest information on the cable industry so that we can identify the technologies and competitors that can become potential threats. Then we will examine how the cable industry has been responding to the latest developments. Based on this information, we will set up a plan on the actions we can take.

II. From Sugar to Media

2.1 From Sugar Manufacturing to General Food Processor, Life & Health Products

After the ceasefire of the Korean War in 1953, the Korean government devoted its strength in constructing the industry infrastructure, restoring manufacturing facilities and addressing inflation. At the time, Byung-chul Lee, founder of Samsung Group, was convinced that rather than importing daily necessary goods, investing

in the manufacturing business would generate surplus profit in the long run. In particular, the import of sugar rose 630 times from 38tonnes to 23,900tonnes between the liberalization of the country in 1945 and 1953. The fact that sugar was a product that could be manufactured relatively quickly with the appropriate sugar manufacturing facilities was enough to convince him to set up a sugar refinery.

In August 1953, Cheil Jedang, the first sugar refinery in Korea, was founded in Busan amid skepticism in manufacturing sugar with Korean technology by the domestic media, Japan, US and other western countries. Nevertheless, the refinery succeeded in producing sugar with pure domestic technology on November 8, 1953, and this day has been celebrated as the establishment date of CJ Group.

The operation of the sugar refinery business that began in 1953 progressed smoothly, recording a market share of 33.3% in 1954, 54.4% in 1958 and an impressive 69.1% in 1960. The Company strengthened its position as the leader in domestic sugar manufacturing. The Company's name "Cheil", meaning "the best" in Korean, was used in the Company's English name, Cheil Sugar Co. Ltd, in its exporting business to signify the No. 1 sugar business in Korea.

Having become the leader in sugar refinery, Cheil Sugar Co. Ltd began to manufacture and sell various products that were closest to manufacturing sugar to middlemen, such as flour and starch syrup. From the early 1960s, however, the national income and living standards of the people were elevated based on the national policy "Five Year Economic Development Plan", and the consumption of food also changed with the rapid progress in industrialization. Cheil Sugar Co. began to make sugar and flour products in smaller packages, shifting its target to the general household, and focused on increasing market share in the household market.

In the late 1970s, Cheil Sugar positioned itself as a general food processing business, producing essential ingredients to traditional cuisine that met the Korean taste, such as seasoning, sweetener, flour, and processed meats. Nevertheless, the philosophy of the top management was that the Company had to transform into a value-added high-technology business in order to acquire a stable revenue base. So, this propelled Cheil Sugar to go into pharmaceuticals, a high risk yet futuristic industry, a market where the development of a new product can bring high added-value to the business. After establishing a research center in 1981, Cheil succeeded in producing a variety of vaccines beginning with the "Heppacine B" as its first hepatitis vaccine. In 1992, it launched "Condition", a functional drink to prevent hangovers, and exported a volume amounting to US$ 44million, occupying about 25% of total pharmaceutical exports in the same year, and accomplished the feat of rising as the No. 1 pharmaceutical exporter in Korea.

After searching for a second high value-

added business in the home environment upon its successful inroad into the pharmaceutical industry, Cheil Jedang decided to enter the household goods chemicals business, a field where it could maximize the strengths of its previous business in terms of technology and logistics. In 1990, Cheil concluded a technology purchase agreement with Japanese company Lion and produced a variety of products, including a laundry detergent "Beat", and high quality dishwashing detergent "Chamgreen". The laundry detergent was a great hit, becoming the leading product within four months of its release with a market share of 56.8%.

Under the fundamental philosophy of valuing consumer sanitation, health and cleanness, Cheil Jedang expanded its business from pharmaceuticals to household goods to become a company a step closer to the health and daily life of consumers.

2.2 Transformation into a Life and Culture Group, CJ Group

"Since its inception, Cheil Jedang has ceaselessly strived to achieve change by responding to the changing environment and has managed to become the greatest food business in Korea. Based on this experience, we will launch Cheil Jedang Group in order to improve living standards and enrich the culture of mankind."

– Excerpt from President Kyung-shik Son's speech on the launching of Cheil Jedang Group–

In order to "become the No. 1 business leader in life and culture of the 21st century", Cheil Jedang transformed its previous image of a manufacturing company with a focus in food, established management principles described in 〈Table 1〉 to continue its journey of growth and change, and entered into new business sectors.

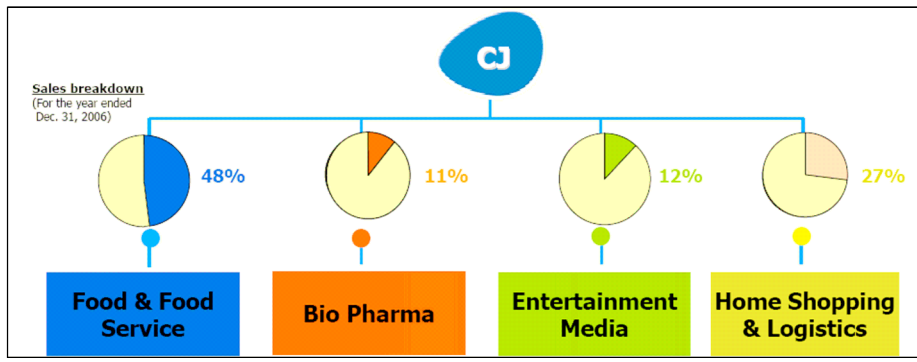
Based on the management principles, Cheil Jedang made it a priority to enter the family restaurant and meal services provision businesses to leverage its competitiveness in general foods and expand into food services. Meanwhile, the Company selected four core businesses and diversified its business as demonstrated in 〈Figure 1〉 in order to shed its previous image as a food company and make its new leap as a life and culture group.

In order to solidify its image as a futuristic

〈Table 1〉 Basic Management Principles of Cheil Jedang

• To create added value in incumbent businesses in food, pharmaceuticals and household good chemicals, and move into international markets
• To create new corporate cultures to establish the image of a nation's representative business that creates a healthy, clean and convenient living environment
• To create new corporate cultures to establish the image of a nation's representative business that creates a healthy, clean and convenient living environment

Source: CJ50, 2003.



Source: CJ Corporation Annual Report' 06, 2007.

〈Figure 1〉 Four Core Businesses of Cheil Jedang Corporation

life and culture group operating four core business divisions, Cheil Jedang changed its company name to CJ Group in October 2002. The mother company, Cheil Jedang, changed its name to "CJ Corporation", and its subsidiaries subsequently changed their names to "CJ Cheil Jedang" and "CJ CableNet". The English company name "Cheil Jedang" was also changed to the initials "CJ" to overcome language problems and discrepancies in pronunciation and meaning in overseas markets. The Company's strategic plan to become a global business is also inherent in its new name.

2.2.1 Entrance into the Entertainment Business

Although it started out as Korea's greatest general foods company, CJ Group managed to break away from its previous image as a food manufacturer by successfully diversifying its business. The Company regarded its penetration into the promising media and picture industries as a way to transform itself into a life and culture group. In 1995, in parallel with the installation of CJ Multimedia Business Division, the current CJ Entertainment Vice-Chairman Miky Lee, the eldest granddaughter of Byung-Chul Lee, founder of Samsung Group, invested US$30billion in the DreamWorks S.K.G., securing a bridgehead into the picture business.

With a stake in DreamWorks, CJ changed its CJ Multi Business to CJ Entertainment in 1996, and began to roll out its film production investment and distribution business in Korea and Asia. In October the same year, it acquired the license to directly sell Disney home videos to consumers through an alliance with Walt Disney, and set up a character business with an alliance with America's Universal Studios.

'Peace Maker', the first film produced by DreamWorks since its establishment in 1997, attracted 700,000 moviegoers in Korea alone,

followed by 'Deep Impact' and 'Prince of Egypt', each attracting about 1.3million people. The series of successful films helped position CJ Entertainment as Korea's major film distributor.

With DreamWorks's success at the box office, CJ Entertainment entered into an alliance with domestic film production companies to invest in homemade films in 1999 to build a stable profit structure in the picture business in Korea. Since then, 'Joint Security Area (JSA)', 'Happy End', and many other domestic works performed well in the market. In 2000, CJ Entertainment was separated as an affiliated company for responsible management and efficient operation of the film business.

In order to build a vertical infrastructure in production, distribution and release, CJ Entertainment entered into a 50:25:25 joint venture agreement with Australia's Village Roadshow and Hong Kong's Golden Harvest in 1995 to establish the "CJ Golden Village". This was the beginning of CGV, Korea's first-ever multiplex movie theater with 11 screens which opened in 1998.

The moviegoers at the time of opening stood at only 2.2million, but in four years, the number jumped to 20million, capturing 20% of the market. Since 2000, CGV has maintained its position as No. 1 in the market. With the construction of the first multiplex theater in Korea, CGV was also the first to create a franchise in cinemas. In 1999, Golden Harvest, skeptical of entering into provincial cities in Korea, sold its shares to Village Roadshow, and the company's name was changed for the last time, to "CJ CGV". Currently, CJ CGV is the greatest multiplex operator in Korea, boasting 26 branches nationwide and 207 screens. It has also opened the first "Gold Class Screen" with only 30 or so high quality seats, offering "a sensation beyond movies" in every way.

2.2.2 Entrance into the Media Business

After its successful entrance into the film industry through its stake in DreamWorks and the foundation of CJ Golden Village, CJ Group received an offer to acquire m·net (Music Network), a domestic music cable channel, from Young Distribution, its largest shareholder, in March 1997. This provided the key to the media industry. At the time, CJ Entertainment had the ambitious goal of growing into Korea's No. 1 multi-entertainment company by developing its own contents. After conducting due diligence, CJ Entertainment acquired 55% of m·net shares at KRW14billion, becoming m·net's greatest shareholder, and thereby entering into the media business.

After becoming an affiliate of CJ Entertainment in 1997, m·net operated 24hour real-time internet broadcasting programs and held the first music video ceremony in Korea, growing into the country's representative music channel with over 50% of market share at the time.

With the improvement in living standards, m·net announced the results of a self-conducted analysis: the general audience

wanted a media that showed them how to cook delicious meals. Based on the results, a food channel was launched in 2000. Upon being granted two movie channel licenses from the Korean Broadcasting Committee in 2001, CJ Entertainment acquired NTV, a home entertainment channel, which had been operated by Next Media Group, and launched a new comprehensive movie channel under the name 'Home CGV'. Since then, m·net became a Multiple Program Provider (MPP) operating five channels in music, cooking and movies, and emerged as the core business division to lead the Group into the 21st century with CJ Entertainment. In 2002, CJ Entertainment was renamed "CJ Media," and has ever since continued to expand its influence as a broadcasting company.

2.2.3 Entrance into Home Shopping Business

During the early days after having established a bridgehead into the media industry with the acquisition of m·net, CJ Group focused the foundation of its media business on promoting contents development through planning, production and investment. Also, as a way to maximize the advantages of its media and distribution businesses and create synergy, it reviewed the possibility of acquiring 39Shopping, the No. 1 home shopping channel in the late 1990s.

39Shopping, established in 1995 as Korea's first home shopping program provider, recorded year-on-year sales growth of over 30%. It was the catalyst of change in domestic shopping culture by offering convenience and cost effectiveness to consumers with its acquisition of Cheil Broadcasting, a soap opera channel, in 1996.

The fact that the home shopping business provided detailed information of products sold over the cable channel, that an offline store was not needed and orders were received through the telephone or internet, and that it could be linked to CJ's distribution division, were great points of attraction to CJ Group. Furthermore, its reliable infrastructure of transmitting home shopping and MPP contents convinced CJ Group to acquire the business in 2000.

With the acquisition of 39Shopping, CJ Group decided to acquire shares in the business affiliates i39, an e-commerce business, DramaNet, a cable channel, and Yangcheon Cable TV, a system operator. This helped CJ Group to not only create synergy between its distribution, internet, media and entertainment divisions, but also maximize the integration of on-line and off-line.

2.3 Establishment of CJ CableNet

With its acquisition of 39Shopping and system operator Yangcheon Cable TV in April 2000, CJ Group had secured the infrastructure to reliably deliver contents of its affiliates to viewers. In particular, the cable industry, which was previously regulated by the

government in terms of large conglomerate investment and local licenses, was deregulated in 1999. Amidst the changing regulation environment, CJ Group could expedite its acquisition of the two businesses.

Yangcheon Cable TV, a subsidiary of CJ Home Shopping, acquired Kyungnam Broadcasting which provided the broadcasts in Changwon and Jinhae, in August 2000 in order to expand its Seoul business network across the nation. Then it acquired Masan Broadcasting, which serviced Masan, Geojae and Tongyoung. This was followed by acquisitions of Gaya Broadcasting, which serviced Gimhae, Yangsan, and Milyang, and Joong Busan Broadcasting, which operated in Jungu, Busan, and the Youngdo area. With the acquisition of five system operators (SO), CJ Group entered into the Multiple System Operator (MSO) business. Yangcheon Cable TV integrated the five SOs in 2002, and changed its name to "CJ CableNet" to become a MSO with 650,000 subscriber households and revenues of KRW60 billion.

The establishment of CJ's MSO holds great significance in that it provides a distribution network that can deliver contents of CJ Media and CJ Homeshopping reliably to viewers. Furthermore, its significance is also evident in the fact that CJ CableNet was established under CJ Group Chairman Jae-Hyun Lee's philosophy of 'Contents Driven, Minimum Platform'.

CJ CableNet, founded to deliver high-quality contents of domestic MPPs reliably to viewers, aims to acquire 30% of the country's SOs and four million household subscribers by 2013. Following the acquisition of five SOs in 2002, CJ CableNet has additionally acquired and merged with additional SOs in three areas in Busan, Youngnam, Incheon, Chungnam and Bucheon, operating a total of 14 SOs under its wing as of March 2008.

Ⅲ. Media Industry & CATV's Positioning

3.1 Korean Cable Television Industry

Today's Korean broadcasting industry is largely composed of five sectors, terrestrial broadcasting, wired broadcasting, satellite broadcasting, program production and distribution, and other broadcasting industry. Terrestrial broadcasting is composed of radio and television, which includes the three well-known broadcasting networks, MBC, SBS, and KBS. Cable television operators, the subject of this study, are equivalent to system operators (SO) in the wired broadcasting industry.

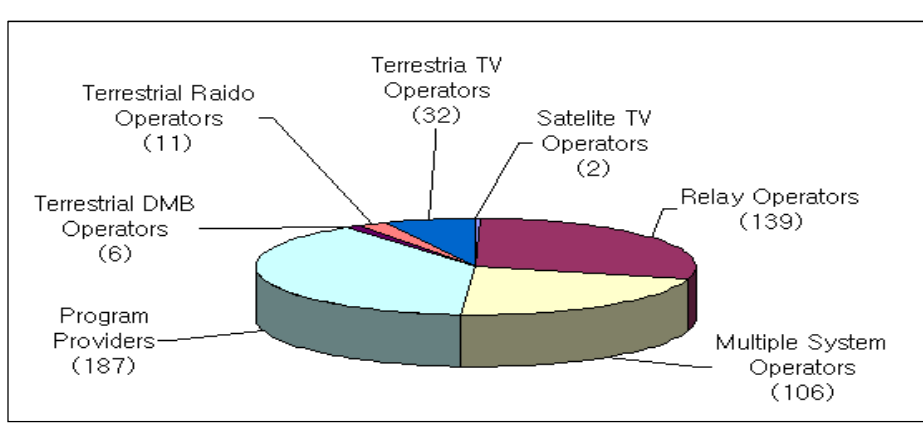
〈Table 2〉 illustrates the classification criterion of the broadcasting industry as regulated by the Korean Broadcasting Commission.

As shown in 〈Figure 2〉, there are a total of 32terrestrial broadcasting operators including KBS, MBC and 19 regional MBCs nationwide, ten regional private operators including EBS and SBS, and 11 radio broadcasters, including

〈Table 2〉 Classification Criterion of the Broadcasting Industry

General category	Middle categories	Sub-categories	Specific categories
Broadcasting Industry			
	Terrestrial broadcasting business		
		Radio broadcasting	(public, private, special)
		Television broadcasting	(public, private)
		Terrestrial mobile multimedia broadcasting	
	Cable broadcasting business		
		Multiple system operators	(1st, 2nd, 3rd, 4th)
		Relay operator	
		Music broadcasting	
	Satellite broadcasting		
		Satellite broadcasting	
		Satellite mobile multimedia broadcasting	
	Program production & providing business		
		Program providing business	(general, home shopping, data)
		Program production business	
	Other broadcasting business		
		Internet broadcasting business	
		Electronic billboard broadcasting business	
		Other broadcasting business	

Source: Korea Broadcasting Commission, 2007.



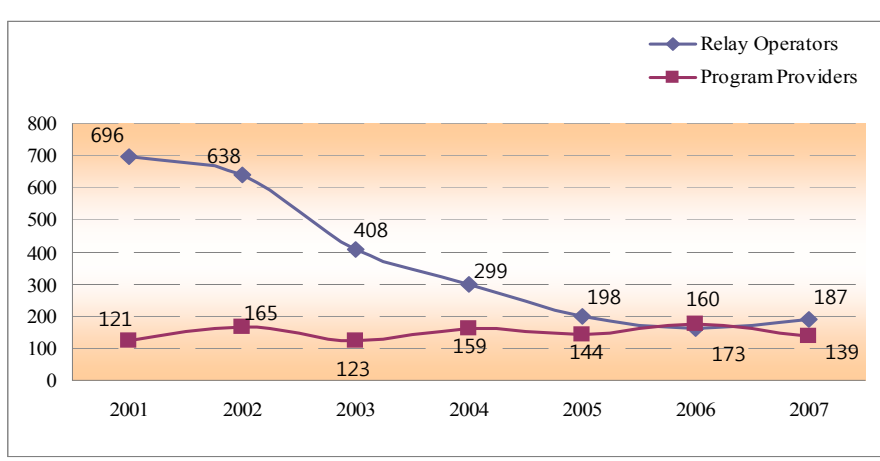
Source: Korea Broadcasting Commission, 2007: 11.

〈Figure 2〉 Numbers of Broadcasting Operators

Kyonggi FM and Sunny FM as of December 2006. There are a total of six terrestrial mobile multimedia broadcasters that commenced services in December 2005, including YTN DMB, Korea DMB and U1 Media, in addition to terrestrial television operators KBS, MBC and SBS.

Terrestrial broadcasting companies can be categorized into public, private and special broadcasting companies. There are 22 public broadcasting companies including EBS, KBS, MBC and the regional broadcasting companies of MBC and KBS. Private broadcasting companies amount to 15, including SBS and regional private broadcasting companies, and special broadcasting companies are composed of five religious broadcasting networks (Christian Broadcasting System, PBC, BBS, WBS, Far East Broadcasting Co.), two transportation broadcasting networks(TBS, Road Traffic Safety Authority), Gugak FM, and the Korea International Broadcasting Foundation. The wired broadcasting industry is composed of 107 system operators and 139 relay operators as of 2007. Adopted to resolve poor reception, relay operators (ROs) were the first to develop since the late 1980s. With the amendment of the System Operator Law in 1999, they were either merged with SOs or closed down, annually decreasing in number from 696 in 2001. Satellite broadcasting companies include SkyLife, which began services in 2002, and TU Media, a satellite mobile multimedia operator. Korea Broadcasting Commission, 2007.

The number of program producing and distribution companies stood at 187 in 2007, recording an 8.1% increase from the previous year. With the amendment of the related Broadcasting Law that changed the accreditation system to one based on registration for Program Providers (PPs) in 1999, the number



Source: Korea Broadcasting Commission, 2007.

〈Figure 3〉 Numbers of Broadcasting Operators

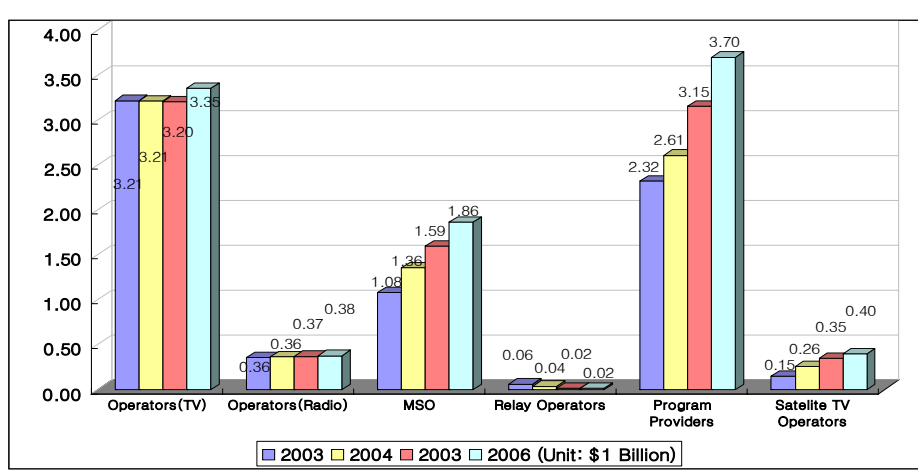
of these companies is steadily on the rise.

Boosted by increasing revenues of SOs, PPs and satellite broadcasting operators, the revenues in the domestic broadcasting market increased to KRW 9.7 trillion, a 12.6% increase in 2006 compared to 2005. Revenue trends by broadcasting services from 2003 to 2006 show that the greatest performers were PPs, including home shopping companies. This was the result of the steady growth of five home shopping companies and other businesses based on channels, which accounted for 37.7% of total revenues of the broadcasting industry. Terrestrial broadcasting companies, including terrestrial DMBs, recorded total revenues of KRW 3.7billion, but radio and television revenues grew only slightly compared to that of SOs and PPs, entering a stage of suspended growth. By contrast, SOs have continuously grown during those four years, accounting for 19.2% of the industry's total revenues. General satellites also grew but revenue growth slowed from 70.4% in 2004 to 13.4% in 2006. In addition to slowing growth, the revenues for satellite broadcasting stood at 4.1% of total services revenues, much lower than that of SOs that are providers of similar contents.

3.2 Industry Structure of SOs

3.2.1 Introduction of SOs

Cable television, first adopted in the U.S. to resolve problems of poor reception in 1948, developed into today's multi-channel cable television with the changes in the environment brought on by the advancement into a sophisticated information society. Evolving from its original purpose, each cable channel now provides specialized unique contents, enabling viewers to acquire information they



Source: Korea Broadcasting Commission, 2007.

〈Figure 4〉 Revenue of Each Media Service Category

need or simply enjoy. In Korea, the importance of SOs (System Operators) was recognized when they were first mentioned in the 'approval of SOs', one of the pledges in the 13th presidential elections in 1987. The introduction of SOs was mentioned in further detail by the Korean Broadcasting Commission's Broadcasting Policy Research Committee in 1990 for cultural needs and its potential impact on industries and technology. Despite the fact that SOs, originally established to solve poor reception problems in 1973, continued to grow steadily, the government decided to separate ROs (Relay Operators) from SOs in the 1990s because the Bureau of Public Information regarded the two as different mediums. Based on the Bureau's basic policy, SOs were introduced to

- Respond to the global trend of rapidly changing broadcasting technology environment
- Introduce a platform that can accommodate multiple channels to meet the needs for diverse specialized information
- Construct a comprehensive information communications network to transmit information in the future
- Develop competitiveness to respond to foreign satellite broadcasting systems and SOs

Under such government principles, SO's pilot broadcasting programs were provided to 8,500 households in apartment complexes in Mokdong and Sanggyedong in 1991. The System Operator Act and related regulations were enacted between 1991 and 1992, and after the appointment of SOs in each field in 1994, paid channel services commenced in May 1995.

3.2.2 SO Industry Structure

With the enactment of the System Operator Act in 1991, there was a clear distinction in the roles of system operators (SO), program providers (PP) and network operators (NOs). SOs were responsible for the delivery of SO programs to the subscriber, operation of regional channels, marketing, home installation and subscriber management, whereas PPs were in charge of organizing and providing the programs of each channel and NOs, of the installation and operation of transmission equipment from the broadcasting station to the subscriber. Strict regulations on ownership and roles were applied. The main rationale behind the separation of the SO structure into three parts was to minimize management difficulty, prevent overlapping investment, and share funds. There was also concern over the emergence of mediums with huge social influence, like previous terrestrial broadcasting companies, due to its ownership by a certain conglomerate or press. Korea Electric Power Corporation (KEPCO) and Korea Telecom, public corporations that were relatively less sensitive over short-term profits compared to private operators, were allowed to undertake the NO business, where investment

return cycles were the longest. Large conglomerates were permitted to provide programs, which required huge capital and had long return-on-investment cycles. Only small-and-medium sized enterprises were eligible to enter the SO business. The government attempted to limit the influence of conglomerates by prohibiting the vertical integration of SOs and PPs, and the horizontal integration of SOs into MSOs. As time passed, excessive regulations hindered investment by SOs and PPs, and led to various problems, such as the negative effect on subscriber expansion, causing operators to demand amendment of the regulations. Finally, the System Operator Act was amended in 1999, and SO businesses were deregulated through the enactment of the Broadcasting Act of 2000. In step with the government's deregulation, the once-prohibited joint management of PPs, SOs, and NOs was permitted, and conglomerates and foreign capital could increase their share in PPs and SOs. Also, previous ROs were allowed to make a transition into SOs. The enactment of the Broadcasting Act holds considerable significance in that it created the foundation upon which to achieve economy of scale based on the expansion and higher efficiency of the wired broadcasting industry.

3.3 Growth of MSOs through M&A

3.3.1 Horizontal Integration of MSOs

The abolishment of the multiple ownership prevention system in the cable industry granted SOs the opportunity to expand their markets to generate stable profits from their subscriber base. If SOs transformed into MSOs, they could elevate negotiating power with PPs regarding contents transmission compared to single SOs, and have greater access to nationwide subscribers. In September 2007, Tbroad Group of Tae Kwang Industry acquired 18 SOs and 2.7million subscribers out of 77 business regions, positioning itself as the MSO with the greatest number of SOs and subscribers. CJ CableNet ranks third place with 14 SOs, but its 2.3million subscribers make it the second largest MSO after Tbroad. Out of 106 SOs, there are eight MSOs (Tae Kwang, CJ CableNet, C&M, Qrix CMB, HCN, GS Homeshopping, OnMedia), which own 80 SOs or 75.4% of total SOs.

MSOs continue to grow in size by achieving economy of scale but because of the policy against overlapping investment, in other words, the policy that prohibits MSOs to compete in the same regions, the number of SOs, and whether or not a MSO owns SOs in core regions determine a company's revenues. Also, the capital injected into three companies, Tae Kwang, CJ CableNet and C&M alone in the first half of 2006 reached KRW 1.28trillion, implying their acquisition of further SOs in their quest towards enlargement. A detailed study of the geographical distribution of each MSO shows that C&M and Qrix operate near Seoul, whereas Tboard operates in Kyonggi and CJ CableNet in Busan and the Kyongnam

region.

C&M, which owns 15 SOs, provides services to 12 areas in Seoul, including Jongrogu and Junggu, Seodaemungu, Seochogu, Nowongu, and Seongdong and Kwangjingu. Compared to other competitors, it has only 2.1million subscribers, but its corporate value nears KRW 2trillion, proving that it has the strongest revenue source: Seoul.

C&M's greatest competitor is Qrix, which operates in five areas in Seoul, Dobong and Gangbukgu, Nowongu, Jongrogu and Junggu, Kwangjingu, Seongdonggu and Seodaemungu. In particular, the three areas, Jongrogu and Junggu, Seodaemungu, and Kwangjingu and Seongdonggu are areas where the two companies compete against each other.

Tbroad, the largest MSO, operates SOs in various areas across the country from Chungnam to Jeonbuk, including Seoul (two regions), Busan (three regions), Incheon (three regions), and Kyonggi (four regions). In contrast to C&M, which operates in the northern part of Kyonggi, Tbroad has an advantage in the southern part of the province in densely populated Gwacheon, Suwon, Yongin and Gwangmyoung. These four regions are the MSO's core revenue source.

CJ CableNet has a total of 14 SOs in Seoul, Busan, Incheon, Kyonggi, Kyongnam, Kyongbuk and Chungnam. It has a portfolio with a focus in the Kyongnam region composed of four SOs operating in Busan and three in Changwon, Masan and Gimhae.

3.3.2 Vertical Integration of PPs and SOs

With the liberalization of mergers and acquisitions between PPs and SOs, many underwent vertical integration. In general,

〈Table 3〉 Number of Members in Each MSO

MSO	Number of SOs	Total	
		Number of Households	Number of Subscribers
Tbroad	18	2,633,636	2,735,250
C&M	15	1,864,273	2,065,369
CJ CableNet	14	2,294,595	2,349,413
CMB	12	1,184,403	1,205,285
HCN	11	1,134,841	1,238,865
Qrix	6	562,300	569,526
OnMedia	4	595,497	597,711
Subtotal	80	10,269,545	10,769,419
Individual SOs	26	3,809,843	3,941,314
Total	106	14,079,388	14,700,733

Source: Korea Cable TV Association, 2007.

PPs acquired SOs to provide contents more reliably, whereas incumbent home shopping companies concluded strategic alliances with SOs to strengthen their relationship and control the entrance of additional competitors into the market.

The market share of MPPs (Multiple Program Providers), including home shopping companies, in 2006 show that CJ Group, with its 19 channels, is the greatest multi-channel operator, boasting revenues of KRW 352billion, and thereby occupying 14.9% of the entire PP market. Following CJ Group, OnMedia accounts for 12.3% of the market with 17 channels, and the two groups occupy more than 25% of the domestic MPP market.

CJ Group, which is armed with home shopping experience and has the capability of producing various contents through the horizontal integration between PPs, constructed the current MSP (Multiple System Operator and Program Provider) through vertical integration with CJ CableNet. It recorded revenues of KRW 1.43trillion or 18.9% of total MSO and MSP revenues in 2006. GS Homeshopping affiliates came in second with 11.9%, followed

〈Table 4〉 Identification of MSP Strategies

Strategy Type	PP's Acquisition of SO	Strategic Alliance (share participation in SO)
Prime Examples	OnMedia, CJ Media + CableNet	GS Homeshopping and other home shopping companies
Purpose	Reliable provision of own programs	In case of further competition from the entrance of additional home shopping companies

Source: Sohn and Yeo, 2007.

〈Table 5〉 Identification of MSP Strategies

MSO	Number of SOs	Sales Revenue (in millions of KRW)	%
CJ CableNet Group	15	1,042,822	18.9
GS HomeShopping	2	656,467	11.9
Hyundai Department Group	11	478,667	8.7
Tbrouad Group	17	413,750	7.5
OnMedia Group	4	339,125	6.1
C&M Group	15	295,593	5.4
CMB Group	13	115,173	2.1
Total of MSOs/MSPs	77	3,341,599	60.6
Total of SOs/PPs		5,515,456	100

Source: Korea Broadcasting Commission, 2007.

by Hyundai Department Group affiliate HCN at 8.7%. This demonstrates that home shopping MSPs are strong performers in terms of revenues.

Achieving economy of scale through business expansion for relative negotiation power and greater influence in the industry are expected to act as critical determinants in the competition structure among players in the future domestic PP and SO markets. Furthermore, the merger between PPs and SOs are regarded in a positive light in that it curbs competition in the Korean market and achieves economy of scale. Accordingly, active horizontal and vertical integration into MPPs and MSPs will inevitably restructure the industry.

Ⅳ. New Competition

4.1 IPTV: Emergence of a New Competitor

4.1.1 Definition of IPTV

The definition of IPTV varies across countries. Basically, IPTV is a field where the Internet and TV coexist, in other words, where telecommunications meet broadcasting. It is a new form of convergence service which encompasses all services related to telecommunications and broadcasting. Also, it requires a network where QoS (Quality of Service)/QoE, security, two-way services and reliability are ensured according to the different needs of a service.

A telecom company can define IPTV in a variety of ways. IPTV is highlighted as the realistic alternative to complete the TPS (Triple Play Service) service by delivering broadcasting services over existing telecommunications infrastructure. From a narrow definition, it is an additional service to broadband internet such as VoD, expanding the service area of the PC to the TV. But from a broader definition, IPTV includes accommodating A/V(Audio/Visual) broadcasting channels using the physical subscriber network of broadband internet as a broadcasting medium. OVUM, an IT market research institute, defines IPTV as a service that delivers broadcasting, TV and video in the form of VoD over an IP network.

IPTV is the most representative service where telecom and broadcasting converge to provide diverse telecommunications and broadcasting multimedia contents and has the greatest growth potential. Its use of the internet, two way communications, infinite number of channels, participation and selection of users, and the potential to create various additional services are distinctive characteristics of IPTV. IPTV has the characteristics of both telecommunications and broadcasting, so it cannot be confined to any one concept.

4.1.2 Background of IPTV

The background from which IPTV emerged

has mainly market environmental and technical factors.

4.1.3 Technical Characteristics of IPTV

IPTV technology, based on flexibility and scalability, is known to be effective in open services and services that require active participation. IPTV technology can converge with almost all telecommunications protocols, so IP based telecommunications is possible even when there are different kinds of physical connections.

In terms of technology, IPTV uses IP protocol in determining the transmission route of each packet. Whereas cable television uses a linear structure which is based on the allocation of frequencies, IPTV has a non-linear structure which divides all signals into packets and delivers broadcasting signals to the subscriber's STB (set-top box) through the packet that has the destination address data. Given such technical characteristics, cable television can only provide a limited number of channels because of the limited frequency band, while IPTV has the advantage of being able to provide any number of channels.

Non-linear IPTV technology makes it possible to apply one transmission technology to diverse connection methods, thereby creating an integrated network which offers many advantages,

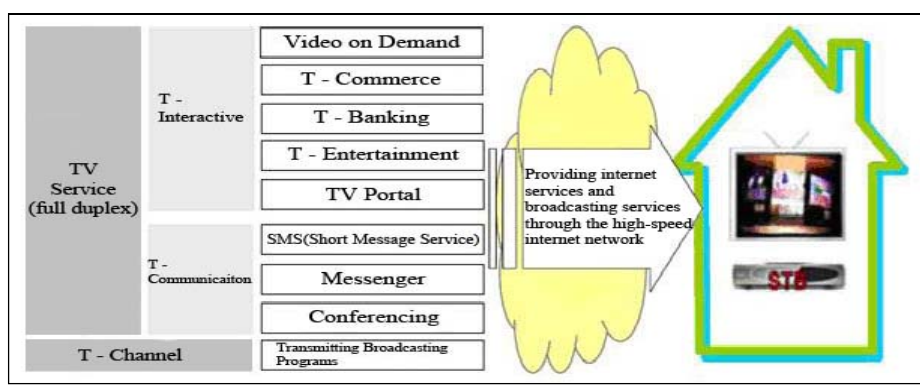
〈Table 6〉 Backgrounds of IPTV Business in Korea

Backgrounds of Entrance	Particular Aspects	Explanation
Market Environment Aspects	Supplier's Side	▪ To pursuit economies of scope from telecommunication companies with the existing infrastructures in telecommunication industry ▪ To countermeasure strategies in response to the TPS strategies of MSO's ▪ To maintain subscribers from the competition in the internet industry
	Demand's Side	▪ Preference for Interactive Service and convenience from unification of services
Technological Aspects	Communications Network Growth	▪ Guaranteed transmission Speed of about 100Mbps resulting from continuous Internet Network upgrades (ADSL: average of 10Mbps, FTTH: minimum of 100Mbps)
	Development of Video compression technology	▪ Possibility of high-definition video transmission thanks to development of high compression techniques such as MPEG4.0, H.264 among others
	Development of Set Top Box (STB) technology	▪ Unification of the Home Networking through CAS(Conditional Access System), DRM loading and VoIP functions

such as reducing system construction costs and constructing open and active service models.

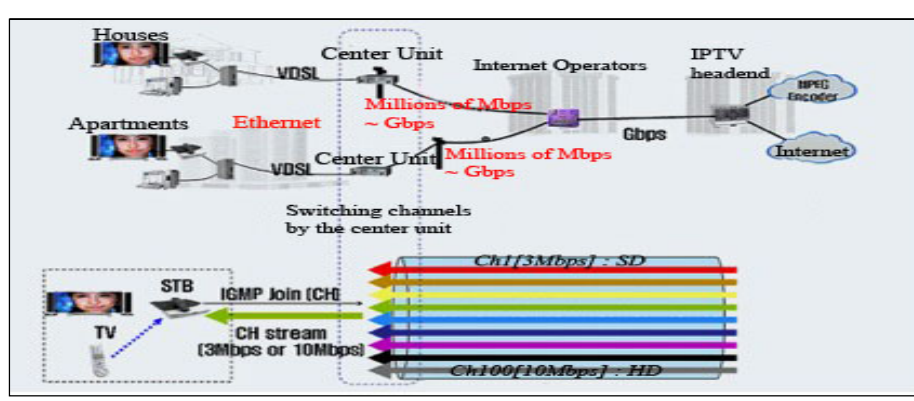
As mentioned above, IPTV is different from cable television in that the contents or channels being watched at the time can be delivered to the subscriber's STB. By increasingly installing servers and networks, an infinite number of channels can be provided to the user. However, the average usage rate could increase rapidly compared to previous internet services such as VOD, so there could be difficulty in ensuring quality equal to real-time broadcasting and increased traffic volumes due to a number of subscribers logging on simultaneously.

〈Figure 6〉 illustrates the service process of an IPTV channel. In order to deliver high quality real-time broadcasting services reliably based on H.264 technology, each subscriber must be guaranteed a speed of 10Mbps. Korea does not yet have a nationwide



Source: KISDI.

〈Figure 5〉 Concepts of IPTV



Source: Klabs.

〈Figure 6〉 Types of IPTV Services Provision

telecommunications infrastructure that can provide such speed, but telecos are already upgrading their networks by adopting IP multicasting technology, transitioning to FTTH, and further constructing networks.

4.1.4 Impact of IPTV

IPTV is expected to have a considerable impact on the telecommunications and broadcasting industries. The greatest change will be in the industry structure. IPTV is expected to begin with non-real-time services such as VOD and information, and through the real-time transmission of broadcasting contents, ultimately develop into a two-way service. In other words, the boundary between telecommunications and broadcasting will gradually disappear through a convergence platform called IPTV. Such change in the industry structure does have the danger of increasing competition between telecos and broadcasting operators, but it also holds new market opportunities that can be captured through alliances with other companies and development of new services.

It is also expected to promote the emergence of diverse services. IPTV is a service based on the television, a medium already in use across the world, which has the advantage that can reach consumers more easily than any other electrical good. Therefore, in addition to VOD and other video services, a variety of home networking services, such as home automation and home security, can easily be realized and provided through IPTV. The adoption of two way technology, a characteristic in telecommunications, in these services will offer the chance to develop various personal services, such as T-commerce, commerce over the television, e-learning and customized TV portals.

Also, IPTV STB will not only be used to deliver broadcasting contents, but it will also be developed into Smart STB which has an operating system and computing functions to provide a variety of two-way services. If recording functions like that of a DVR (Digital Video Recorder) and DVD player are additionally installed, it could even evolve into an All-in-One home appliance, which would integrate the A/V device. In conclusion, IPTV STB is expected to contribute to the creation of a new device market by absorbing, integrating and diversifying the functions of different home appliances.

4.2 Domestic & International IPTV Markets

4.2.1 International IPTV market

The number of the world's IPTV subscribers is expected to reach 63million by 2010. Market research institutes are forecasting the increase in IPTV subscribers to be between 36.9 - 53.7million until 2009, and Gartner expects the annual growth rate to be 72.8%. Propelled by such explosive growth, the global IPTV market is expected to reach US$ 10billion in 2009 and over US$

27billion in 2010.

An examination of the services being provided by IPTV operators across the world show that in case of the U.S., mammoth telcos such as AT&T and Verizon began to offer services as an effort to respond to cable television operators. In case of Europe, the U.K. and France are providing IPTV services, and in Asia, the Japanese government and companies are cooperating actively in the commercialization of IPTV. As for the Asia Pacific Region, the number of IPTV subscribers is expected to jump to 12.8million by 2009 from 160 thousand in 2005. A report by Frost & Sullivan in 2005 forecasted the Asian Pacific IPTV market to grow to more than US$ 3billion by 2013. In particular, the IPTV market size grew 1.5times compared to the previous year to record US$ 512million in twelve countries, China, India, Indonesia, Australia, Hong Kong, Malaysia, New Zealand, the Philippines, Singapore, Korea, Taiwan and Thailand, and is expected to reach US$ 3.3billion by 2013, growing at an annual average of 37.5%.

Overseas broadband internet operators regard IPTV as the new growth business that will follow broadband internet. European telecom operators are particularly aggressive in rolling out the IPTV business. In France, France Telecom has already launched its pilot service 'MaLigne TV' in Leon, and the ISP (Internet Service Provider) 'Free' is also a provider of IPTV services. U.K.'s BT recently began its IPTV pilot services, and Belgium's Belgacom is planning to launch its 'Belgacom TV' service as well. IPTV services are also gradually moving across Asia. Japan's Yahoo! Japan has an IPTV service named 'BBTV', and China's Chungwha Telecom and CCTN (China Central Television Network) recently announced their IPTV

〈Table 7〉 Types of IPTV Services Provision

Subscribers/ Profits		2005	2006	2007	2008	2009
North America	Subscribers	797,595	1,603,485	3,254,464	5,952,900	9,495,989
	Profits	392	701	1,340	2,427	3,778
Europe	Subscribers	1,851,850	3,492,300	5,872,800	9,154,800	13,268,800
	Profits	387	813	1,479	2,488	3,731
Asia	Subscribers	1,026,800	2,385,800	4,604,800	7,929,800	12,799,800
	Profits	870	259	591	1,112	1,831
Other	Subscribers	33,700	96,000	300,000	735,000	1,335,000
	Profits	142	41	130	326	593
Total	Subscribers	3,709,945	7,577,585	14,032,064	23,772,500	36,899,589
	Profits	880	1,814	3,540	6,353	9,933

Source: MRG, 2005; Kim, 2006.

business plans.

4.2.2 Domestic IPTV Market

The domestic market is also expected to grow rapidly. According to ETRI (Electronics and Telecommunications Research Institute), the revenues of the IPTV industry is expected to exceed KRW 1trillion by acquiring 3.94 million household subscribers by 2012. This growth is also expected to boost related industries, including STB companies.

In Korea, KT's "Mega TV" and Hanaro Telecom's "HanaTV" were the initiators of IPTV in 2005. With a goal to increase provision of IPTV services and to put an end to the competition over broadband internet speed, KT is planning to install 1.8million FTTH (Fiber to the home) lines and invest KRW 140billion to commercialize IPTV. On the other hand, HanaTV launched its TV Portal in July 2007, a service focused on

〈Table 8〉 Worldwide IPTV Services

Region	Country	Firm	Service	Year of Service Offering
North America	USA	Surewest	Digital TV	2004
		Verizon	FiOS TV	2005
		AT&T	U-Verse	2006
	Canada	SaskTel	Max TV	2002
Europe	Italy	FastWeb	FastWeb TV	2003
		Telecom Italia	Alice Home TV	2005
	France	France Telecom	Maligne TV	2003
		Free	FreeBox TV	2003
	United Kingdom	Kingston Communications	KIT	2001
		Videonetworks	Home choice	2004
		BT	BT Vision	2006
	Spain	Telefonica	Imagenio	2004
Asia	Hong Kong	PCCW	Now Broadband TV	2003
	Japan	BB Cable	BBTV	2003
		KDDI	Hikari Plus TV	2003
		Opticast	Hikari Perfect TVI	2004
		Online-TV	4th Media Service	2004
		Icast	On-demand TV	2003
	Taiwan	Chunghwa Telecom	MOD Service	2004

Source: ETRI, 2006.

VoD, already acquiring nearly 300thousand subscribers. It recently released 'Hana Set', a bundled service of broadband internet, telephone and HanaTV. C Cube Consortium, composed of KT and 50 or so companies, and Daum Consortium, composed of Daum Communications and 10 or so companies, launched pilot IPTV services from November

〈Table 9〉 Forecast of IPTV Subscribers in Korea (in thousands)

Year	2005	2006	2007	2008	2009	2010	2011	2012
LG Economic Research Institute	230	880	1,730	2,670	3,030			
ETRI		670	1,484	2,640	3,318	3,701	3,866	3,946
DS Research		270	1,003	2,096	2,997	3,642		

Source: Lee, IT-SoC Association.

〈Table 10〉 Forecast of the IPTV Market Size in Korea (in a hundred million KRW)

Year	2006	2007	2008	2009	2010
Market Size	105	915	2,448	3,831	5,006

Source: Electronic Times, September 2006.

〈Table 11〉 Service Updates from IPTV Service Providers

Service Providers	IPTV Service Updates
KT	Providing the type of IP-VOD services through Mega TV
	(maintained about 10 thousands subscribers in 2006)
	Providing pre-IPTV services
	Undertook CidusFNH with KTF for balancing demand and supply of contents
	Invested Olivenine, one of top TV contents production companies
SKT	Providing pre-IPTV services with the Contents Company
	Willing to provide IPTV served with the digital home project and BcN project
	Undertook the Program Providers (IHQ and Seoul Music)
Hanaro Telecom	Having provided pre-IPTV services since 2000
	Providing the type of IP-VOD Services through Hana TV
	(maintained about 50 thousands subscribers in 2006)
Web Portals	Daum Communication is constructing the overall TV portal system through Daum TV.net
	NHN Corporation joined the IPTV Industry with Home Networking TV Portal services

Source: KISDI.

21 to December, 2007.

4.2.3 Major IPTV Operators: KT's Mega TV & Hanaro Telecom's HanaTV

With the penetration of the internet, consumers have come to prefer diverse contents, original ideas and two-way contents. IPTV, a technology that matches such changing consumer trends, launched pilot services in 2007. This marked the beginning of the convergence of telecommunications and broadcasting. After a four-year struggle, the National Assembly passed the 'Internet Multimedia Broadcasting Act' in December 2007, providing the legal framework for IPTV services. This is expected to initiate full-fledged launching of IPTV services by

〈Table 12〉 KT's IPTV Investments

Categories	Contents
Network	Over $1 Billion invested for upgrading network system Confirmed coverage for apartment areas with upgrade VDSL service Planning to upgrade general households from ADSL to FTTH (investment: d $100 Million)
STB	For developing IP STB, $100 Million is invested for three years 100 Billion KRW invested for 3 year for IP STB development
Contents	Utilization of contents possessed by SkyLife satellite broadcaster Acquired 51% stake of Cidus FNH with KTF (investment : $28 Million) Acquired 19.1% stake of Olivenine with $20 Millions Planning to invest $77 Million for movies and others

Source: Daewoo Securities, September 2006.

〈Table 13〉 Hanaro Telecom's IPTV Investments

Categories	Contents
Network	Over $200 Million invested for upgrading network system Planning to develop cable network continuously Planning to upgrade apartment areas to Ethernet lines
STB	Undertook Celrun company with $5.5 Million for obtaining the technologies of STB and TV portal solutions Supplied STB from Celrun company through Hanaro Media Inc.
Contents	Providing Contents through Hanaro Media Inc. (annual investment: $300 Million - $400 Million) Planning to use the earning distribution methodology for core contents
Broadcasting Equipments	Planning to invest from $300 Million to $400 Million for broadcasting headend system

Source: Daewoo Securities, September 2006.

telecom operators.

The number of domestic IPTV subscribers is expected to rise by an annual average of 34.4%, reaching 4million in 2012. However, forecasts on market shares are divided. IPTV market optimists claim that because many of the contents provided through the internet achieved remarkable success, consumers will prefer IPTV for its two-way service. They anticipate the market to acquire 5-6 million household subscribers by 2010.

By contrast, IPTV pessimists are skeptical of whether IPTV can overcome the obstacles of cable or satellite market shares and grow. They also believe that government regulations hinder the development of IPTV. They expect the size of the market to grow to about 2.5 - 3 million households.

The paid broadcasting services markets intertwined with the IPTV market are cable and satellite broadcasting markets. As shown in the 〈Table 14〉, digital cable broadcasting was the first to be commercialized under the name of multi-channel broadcasting in the current market. Cable television market conditions are extremely favorable. Satellite TV, once regarded as a strong rival, failed to overcome the cable barrier. Cable television has also managed to penetrate the broadband internet market, already securing a market share of over 10%, and is expected to grow rapidly from next year when VoIP, an internet

〈Table 14〉 Comparison among Hana TV, Mega TV and Digital CATV

Categories	Hana TV	Mega TV	Digital Cable TV
Service Inauguration	August 9th, 2006	August 13th, 2007	February, 2005
Subscribers	730,000	275,000	17,000,000
Operations zone	Undefined		regional(77 regions)
Transmission Process	Multicast		Broadcast
Compression Process	H.264(MPEG4)		MPEG2
Technology Standard	Not limited		Open cable (POD must be installed)
Network	IP Multitasking (xDSL, FTTx, Cable Network)		HFC based radio frequency utilization
Set Top Box	IPTV type		CATV type
Distinctive technology features	Correction device is for QoS required		QoS secured type
Types of usage for subscribers	Duplex		Unidirectional and limited duplex
Graphic quality	HD level		SD, HD mix
Types of Contents	Movies, news, sports, and many other varieties of contents		

telephone service, is introduced into the market. According to the Korean Cable TV Association, cable television has captured 14million households, about 82%, of the entire 17 million TV viewing households. Cable has already encroached on terrestrial television to a considerable degree, and is aggressively increasing its pie of the market share.

The Broadcasting Commission announced that the revenues for 111 SOs amounted to KRW 1.6trillion last year, recording an increase of 21.3% compared to the previous year, and the broadcasting revenues of 164 operators, excluding the five home shopping companies, rose 33.7% to KRW 726.8 Billion.

During the commercialization of digital cable broadcasting, SOs advertised that they could meet consumers' needs by searching for information. Although it's variety of contents attracted viewers, its one-way service was limiting and failed to provide the customized services that consumers wanted.

The emergence of IPTV is expected to change the growth environment of cable TV to a certain degree. Whereas IPTV can cover the entire nation, the cable market is divided into 77 regions and cable operators are only permitted to provide services in their relative areas. There is no such limitation on IPTV yet. At the present, the number of Mega TV subscribers stand at 270thousand and about 730thousand subscribers for Hana TV. The number of domestic IPTV subscribers exceeded 1million as of the end of November, and is expected to increase dramatically.

The comparison between the IPTV service by Mega TV and Hana TV calls for attention in the 〈Table 15〉. They are similar in many ways but a distinctive difference is that Mega TV uses the streaming method. Streaming

〈Table 15〉 Comparison between Mega TV and Hana TV

	Mega TV				Hana TV
	home-n	Mega TV(D&P)	iCOD	IPTV	
Channel Service	Impossible to provide	Impossible to provide	Not-provided	Possible to provide	Impossible to provide
VOD	Provided	Provided	Provided	Provided	Provided
Duplex System	Provided	Provided	Provided	Provided	Provided
Graphic Quality	SD level	SD/HD level	HD&SD level	HD&SD level	SD/HD level
Video compression process	WMT/MPEG2	H.264	H.264	H.264	H.264
Reproduction process	Streaming	D&P	Streaming	Streaming	D&P
Type of STB provided	home-n exclusive STB	D&P exclusive STB	IPTV	IPTV	Hana TV

is a transmission method that can be played while reading the data, whereas Hana TV's D&P (Download & Play) method plays the data after downloading it to the STB. It has a storage space of 80G and automatically deletes the downloaded data after three days. Also, Mega TV constructed its infrastructure with a premium network, ensuring security management, traffic analysis and bandwidth, and also has an IP network that can accommodate BCN, IP Media and mobile internet.

4.3 Cable Television Responses and Ongoing Challenges

4.3.1 Digital Cable TV

First launched by U.S. TCI (acquired by AT&T in February 1999) in 1997, digital cable television spread rapidly in major advanced nations. In April 2001, the Korean government decided to adopt the U.S. open cable method, a potential standard method in digital cable broadcasting, and promoted the swift digitalization of the cable television industry. The digital transition required huge costs and the Digital Media Center (DMC) was founded to help solve this problem. The DMC, which commenced services in July 2005, helped reduce SO costs and promoted various additional services.

The domestic cable television market is currently undergoing increasingly intensive competition due to digitalization and the quantitative expansion of PPs. According to the Korean Cable Television Association, there are 111 SOs, 200 PPs (number of channels) and 230 NOs as of 2006. In particular, SOs and MSOs, including CJ CableNet, C&M, Qrix, HCN, GS Homeshopping, Tbroad, onMedia and TCT Daegu, are providing digital cable broadcasting under 14 brands, such as Hello-D, and as of June 2007, the number of subscriber households reached 545,157.

Digital cable television provides a wide range of contents including real-time digital broadcasting, VoD, T-Commerce, e-government services, regional information services, karaoke, games, SMS, and information on disasters, weather and transportation. It is striving to commercialize ITV, promote TPS, expand e-government services, adopt wireless cable services by 2009, and launch cable home networking after 2010, ultimately realizing the ubiquitous dream.

Digital cable can provide a variety of programs by composing various channels (package) based on high-resolution, high-quality sound and multi-channel broadcasting services. In other words, it can provide terrestrial and satellite broadcasting, and channels of various PPs as basic, tier and premium channels, and also enhance the quality of services through an integrated transmission of video and data.

As of June 2007, there are 8 MSOs and 5 SOs providing digital cable television. Among them, CJ CableNet has the greatest number of subscribers at 209,340 households, 38.3%

of total industry subscribers.

CJ CableNet, a leader in digital cable broadcasting, covers Seoul, Kyonggi, Incheon, Busan and Kyoungnam with its brand 'Hello-D' and 'Dream Plus Digital'. There are four different types of packages including 'D light' (basic) and 'D lux' (premium). D light provides 70 or so channels in 20 genres, including terrestrial broadcasting and home shopping programs, and D-lux provides 117 channels on top of the contents provided by D light. Furthermore, pay-per-view (PPV) services in VOD, latest movies and additional services have increased the diversity in contents selection.

C&M currently has 174,149 household subscribers, occupying 31.9% of the entire market. Coming in second in terms of subscriber base, C&M covers Seoul and Kyonggi under the brand 'C&M Digital Cable TV'. The basic-type includes 78 video channels with 19 genres, and the premium-type offers 123 video channels, including the contents of the basic-type product. HD-type offers 133 channels, including 10 HD channels and data broadcasting services, and other services such as VOD, PPV, channel guide, music programs and data broadcasting services.

Qrix has a subscriber base of 46,710 households, occupying about 8.6% of the total digital cable subscribers and servicing only the Seoul area. Its brand, 'Big Box', has four service types, basic, HD, paid and other services.

CJ CableNet, C&M and Qrix provide digital cable television services through their own digital centers. However, other SOs such as Tbroad and onMedia that do not have the capacity to do so utilize DMC operators BSI and KDMC's systems to offer services.

4.3.2 On-going Challenges of IPTV

Led by CJ CableNet, cable television commenced its transition to digital cable television in February 2005. The transition from analog to digital can be said to compete with telecom-operated IPTV in that it provides interactive services. In other words, digital cable television is similar to the TV contents provided by IPTV, such as multi-channels, VOD and two-way services. Also, they have similar platforms because they both use line facilities for transmission and similar terminals in that they both use the television and STB. Furthermore, they both have the same subscriber base because they target public viewers.

Digital cable television can develop to the level of IPTV if it upgrades the HFC (Hybrid Fiber Coaxial) network, and increases investment in head-end equipment and the construction of DMC (Digital Media Center). However, IPTV is differentiated from digital cable television in terms of 'service scalability'. It is expected to have a competitive advantage over digital cable television in two-way services and various telecommunications and broadcasting convergence services.

As mentioned above, IPTV is expected to

have a comparative advantage over digital cable television in terms of service scalability, which can be described in the four following aspects. Therefore, IPTV's strengths will highly likely threaten analog cable television and digital cable television.

① High level of network efficiency

Technically, IPTV, based on IP network, makes it easier to provide internet services through television. Also, its network boasts of high efficiency because it uses the packet and IP address method which enables the provision of personalized services, such as personal broadcasting station, personal blogs, video telephone, and community channels. In contrast, digital cable television has low network efficiency since it uses the frequency method where the information provided is categorized according to the frequency.

② Low investment costs and legal regulations

IPTV is delivered over a nationwide internet network and subscriber base. Therefore, it requires relatively low investment and service charges, and can offer special services to certain areas. On the other hand, digital cable television cannot go nationwide due to regional and SO ownership regulations under the current regulation system. Also, it has to invest heavily in upgrading its HFC network and constructing DMCs in order to provide services, so service charges are expected to be relatively high.

③ Easy technical transition

IPTV can accommodate the ACAP (Advanced Common Application Platform) technology, the standard terrestrial broadcasting technology, and use the data broadcasts of terrestrial broadcasting networks. However, digital cable television uses the middleware standard,

〈Table 16〉 Differentiation between Digital CATV and IPTV

Categories	Cable TV (Digital)	IPTV
Operators	CATV Multiple System Operators (119 units)	Telecommunication Companies (KT, Hana Telecom, etc)
Service regions	Regional units (77 broadcasting regions)	National unit (regions covering with VDSL or faster network lines)
Number of channels	50 TV channels, 20 radio channels, 15 data channels	60~100 TV channels
Service type	Duplex digital broadcasting system	Duplex digital broadcasting system
Additional Services	VoD service, EPG service, SMS service, TV shopping, and Home Banking service	VoD service, EPG service, messenger, VoIP service, SMS service, TV shopping, Home Banking service, and web searching service

Source: KIPIA, 2006-2007.

the OCAP (Open Cable Application Platform), so it has the disadvantage of having to change terrestrial data broadcasts into QAM (Quadrature Amplitude Modulation) in order to provide its services.

④ Convenience of convergence

IPTV is a service provided by telecom companies. This allows them to evolve into home networking by converging two different platforms, such as with wireless internet through Wibro or between wired and wireless voice network. Digital cable television, on the other had, is provided by broadcasting companies so it will be difficult to expand into home networking business because it lacks technology and know-how in telecommunications and network.

Ⅴ. What's Next Strategy?

President A: So far we have studied the cable television industry, where we stand, the status of IPTV, our new competitor, and cable television's actions to the situation, in order to come up with a strategy we can adopt in the new paradigm of the convergence of broadcasting and telecommunications. So, as I asked you previously, what are the strategies we can implement to acquire advantage over our new competitor? Please share your opinions with us.

C: I believe that we must strengthen our relationship with incumbent cable operators and respond against IPTV together. IPTV does not only have a stronger technical advantage, but it is more threatening because capital-rich telecom companies are the players in providing the service. KT and SKT will invest heavily in marketing and public relations, and attract consumers based on TPS.

However, although KT and SKT are both IPTV operators, they are rivals, so it is possible that they will undergo excessive competition in terms of pricing or services. So if cable television companies strengthen the relationship with digital cable operators, we can achieve financial strength and acquire services that can compete with IPTV.

D: Stronger cooperation with companies in the same industry is, of course, necessary. However, it will not be easy maintaining such a cooperative relationship over the long term. I believe that in order to win in the competition against IPTV, we have to utilize the contents of CJ Media. With its own media group, CJ can acquire higher quality contents compared to competing cable operators.

Consumers are not interested in the technical difference between IPTV and digital cable television. The quality and price of contents will be the determinants in a consumer's decision. In terms of price, we have continued the transition to digital

cable for a long time, and because we have a large number of subscribers, there may be little difference from IPTV. In the end, it will be the type and quality of contents that will be the most important factors to a consumer. We have a strong foundation upon which we can develop contents, like CJ Entertainment, so if we actively utilize it, I believe we can provide contents that are much more superior to IPTV contents.

E: Companies entering the IPTV market are undergoing TPS (Triple Play Service) based on existing telecommunications services. The convergence of broadcasting and telecommunications will be our greatest threat for it will be more convenient for consumers to use converged services. Therefore, as a broadcasting service operator, I believe that we should enter the telecommunications market where KT and SKT are already players, and compete in both broadcasting and telecommunications markets. Recently, new opportunities to enter the telecommunications market are emerging, like the MVNO. And if CJ Media actively leverages its consumer friendly image, it can become a threat to KT and SKT in their markets and prevent them from focusing too much on the broadcasting services market.

President A: Thank you for your views. All your answers are evidence of how much thought you have put into this issue. Telecom companies entering the IPTV market are producing many challenges and opportunities. I believe there may be many more strategies we can consider, in addition to the ideas we heard today. We must devise more diverse and detailed strategies based on today's meeting, and we must become more interested in the changes in the market. I hope that everyone will continue to be supportive so that we can adjust to the new paradigm.

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CJ 그룹의 종합미디어 기업으로의 변신: CJ케이블넷을 중심으로

최정일* · 이상명** · 안상형***

요 약

CJ 그룹은 1953년 삼성그룹 최초의 제조업체로서 제당과 제분생산을 중심으로 '제일제당'이라는 사명으로 시작되었다. 이후 제일제당은 40여년 동안 대한민국의 대표적인 식품기업으로 성장하였으며, 1991년 삼성그룹에서 분리 독립하였다. 동 그룹은 1995년 '식품'이라는 단일 사업영역에서 벗어나 엔터테인먼트 및 유통부문으로의 다각화를 추진하기 시작하였고 이의 성공적인 실행으로 8년 만에 국내 30대 그룹에 진입하였다. 현재 동 그룹은 사업부문을 핵심역량을 중심으로 엔터테인먼트와 미디어, 식품, 생명공학 및 유통의 네 부문으로 구성되어 있다.

특히, 동 그룹의 미래 성장동력으로서 미디어 사업에 초점을 맞추고 있으며 CJ인터넷, CJ엔터테인먼트, CJ케이블넷 및 CJ미디어 등의 계열사를 통해 국내 미디어 산업시장에서 시장 선도적 지위를 차지하고 있다. 현재 국내 엔터테인먼트 및 미디어 산업시장은 오리온 그룹과 CJ 그룹이 주도권을 두고 경쟁하고 있으며, 특히 CJ그룹은 국내 최고의 케이블 방송서비스와 홈쇼핑 시장을 장악하고 있다.

이 사례에서는 과연 식품 전문화 기업이었던 CJ그룹이 어떻게 미디어 사업부문으로의 진출을 성공적으로 추진하였는지를 살펴보고자 한다. 특히 동 그룹내 케이블 방송서비스 및 망사업자인 CJ케이블넷'의 성공 사례 분석을 통해 미디어 사업영역에서의 경쟁우위 확보를 위한 요인을 파악하고자 한다.

주제어: 케이블 TV, 경쟁, IPTV, 미디어 산업, 수직적 통합

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〈Teaching Note〉

Transformation of CJ Group into Korea's Media Giant: Focused on CJ CableNet

1. Case Summary

In 1953, Cheil Jedang Corporation was founded under the name of 'Cheil Jedang Manufacturing Corporation' in the city of Busan as the first sugar-maker in Korea, and has become the leading manufacturer in sugar industry as well as in food processing industry. Utilizing its stable returns from food industry, Cheil Jedang has entered life-chemical industry later on.

In 2000, wanting to create its new brand image and values, Cheil Jedang Corporation started looking for new business models and initiated aggressive investments on Entertainment and Media industry as two of the four core target industries, along with the change in its name to CJ Corporation in 2002. The aggressive approach has succeeded in recreating CJ's brand image, and the corporation has entered cable TV market using its foundation from Home-Shopping businesses. Since then, CJ CableNet took continuous efforts to become a MSO by undertaking other cable TV stations and became the nation's second largest cable TV company with 14 SO's. Also, by utilizing content-developing capacity from existing Entertainment business, CJ Corporation is given the opportunity to combine CJ Media's MPP and CJ CableNet's MSO to become a MSP.

CJ CableNet has been successful in the cable TV industry by implementing vertical and horizontal integration of contents and network until its new competitor, IPTV appears in the market. Since IPTV allowed major telecommunication companies to enter the market, CJ CableNet faced new competition with these telecommunication companies along with the existing cable TV companies. The new competitors of CJ CableNet also hold the advantage of lower prices based on TPS (Triple Play Service), providing a threat for CJ CableNet to lose its existing customers.

Several established companies including CJ CableNet are attempting to convert into digital cable TV as a means to overcome the situation; however, major telecommunication companies are putting enormous capital resources in order to quickly secure the market.

The new competitor, IPTV is becoming a huge threat not just to CJ CableNet but

also to the whole cable TV industry. Major telecommunications companies can make inroads into the market using its superior capital resources and existing network infrastructure.

Recent competitions among these corporations can be classified into the competition within related industry and the competition outside related industry. It is a time for CJ CableNet and other cable TV businesses to overcome the competition within existing industry to create a new strategy for potential competitors such as telecommunications companies.

2. Purpose of Case Discussion

'CJ CableNet Case' provides the overview of basic structure and change in cable TV businesses and gives an opportunity to consider solutions to the emerging competitor, IPTV service. The purpose of the case discussion is to think about possible strategies when facing new competitors with new technology are coming from outside of the market.

The following is the detailed purpose of the case discussion:

1) Learn CJ group's diversifying strategy and why the strategy has succeeded.
2) Learn where CJ CableNet stands in cable TV industry and find out advantages of horizontal integration and vertical integration in a market.
3) Find the composition of CJ CableNet's MSO portfolio and learn how external geographical factors influence the success of a company.
4) Find examples of cable TV market's competitors with new technology and learn how existing companies' reactions to them.
5) CJ CableNet became the leader in digitalization as a response to IPTV and holds various contents among cable TV companies. Learn CJ CableNet's strategy and discuss other possible strategic options.
6) Find different strategies to implement content services that are most influential to customers.

3. Discussion Questions

1) Evaluate CJ Corporation's diversifying strategy.
2) Perform a strategic analysis on CJ CableNet's market positioning and business performance in cable TV industry.
3) Compare and evaluate CJ CableNet's MSO portfolio with competitors' MSO.
4) Provide strategic options for cable TV industry as a response to IPTV service and diversification of media.
5) Evaluate the responding strategy of CJ CableNet given in the case.
6) Provide a strategy to secure core contents in media industry.

4. Discussion Process

Discussion begins after students have finished reading the case. Though cable TV is a relatively familiar subject to most students, only few would have concrete background knowledge on the industry. The discussion progresses mainly with the 'Discussion Questions.' Students are expected to provide answers to the questions and the feedback to the response will be followed. However, terms many students may not understand should be clarified before students start the discussion.

1) Evaluate CJ Corporation's diversifying strategy.

Before Discussion: At first, ask students what image comes up when they think of 'CJ'. If there are many responses regarding CJ's image as Entertainment Company, focus on the fact that the corporation's image has changed. Such a change in image may indicate successful diversification of CJ from Food Company to Entertainment, Media Company.

Discussion Information: 'CJ,' who started out as a sugar-maker, has initiated a change into a life-culture corporation based on four core businesses.

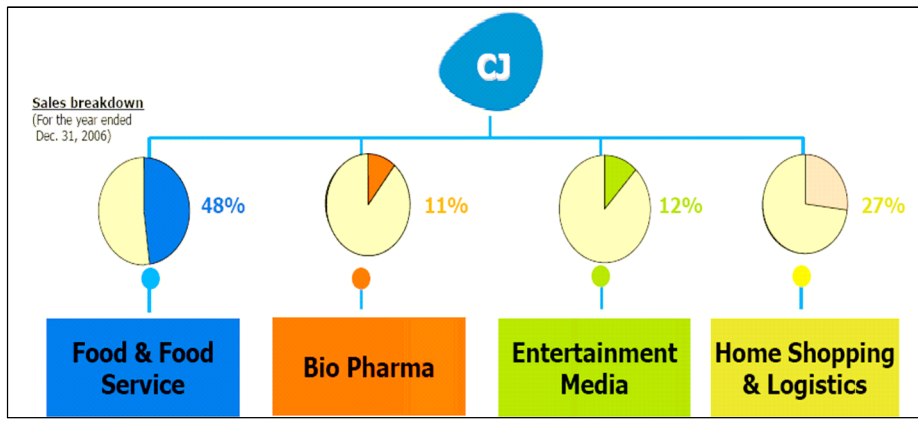
CJ Multimedia Division was established in 1995 with DreamWorks, CGV, and FoodChannel and bought MPP, 39Shopping in order to enter Home-Shopping industry. CJ has been successful in diversifying its businesses.

(1) Purpose of (Un)related Diversification
- ① Pursue company's growth
- ② Distribute risks
- ③ Synergy Effects and Economical efficiency
- ④ Secure market share
- ⑤ Utilize inner market

(2) Diversification Process
- ① M&A (Frequently used in Unrelated Diversification)
  - Advantage: can be done in a short period of time
  - Disadvantage: M&A cost, high chance of managerial issues
- ② Internal Development (Frequently used in Related Diversification)
  - Advantage: lower risks and costs at implementation stage
  - Disadvantage: high risks at initial stage

CJ Corporation has chosen M&A to diversify its Entertainment and Media businesses, and the choice was to avoid possible problems from Unrelated Diversification. CJ Corporation overcame possible barrier to entry by utilizing its existing capital resources to buy out many companies within short time.

CJ's diversifying strategy provided new growth factor to the corporation and is thought to have greatly changed consumers' perception of the brand from Food Company to a more sophisticated image. Recent revenue composition shows the corporation's core business has moved from Food to Entertainment and Media. 〈Figure 2〉 shows the more detailed business of CJ' Entertainment Media Division and



〈Figure 1〉 CJ's Four Core Businesses

〈Table 1〉 indicates the major players' operating outcome change in the past three years.

2) Perform a strategic analysis on CJ CableNet's market positioning and business performance in cable TV industry.

Before Discussion: Definitions of terms, (M)PP, (M)SO, and MSP need to be provided before the discussion. Most students would have never heard of the terms before. After giving the definitions, start asking questions about CJ CableNet's market position.

(1) **PP: Program Provider** - Creator/Provider of TV Programs
(1-1) MPP: Multiple Program Provider - PPs who own multiple channels

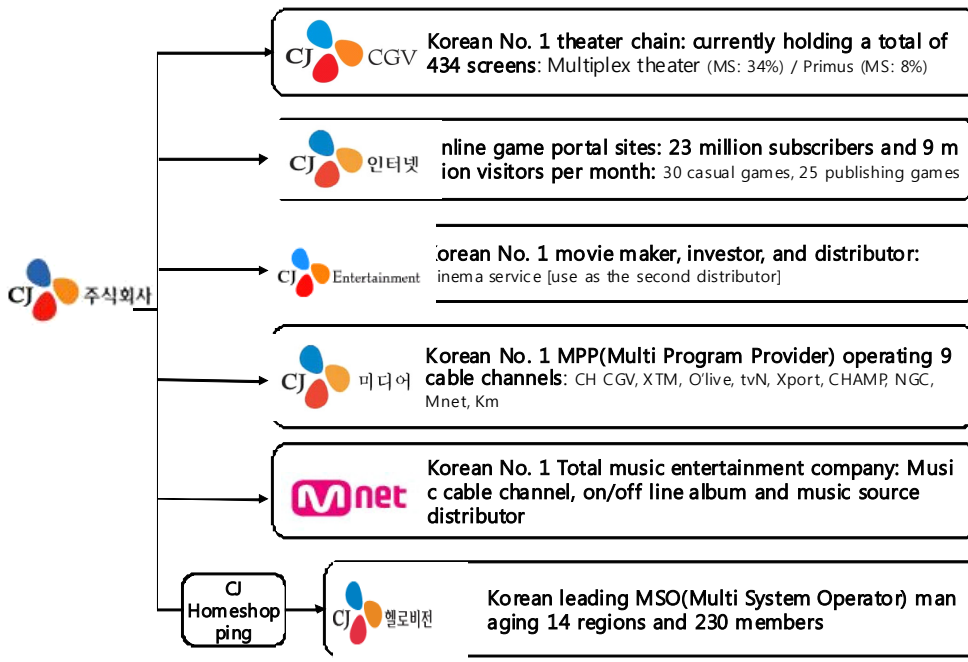
(2) **SO: System Operator** - Cable TV Station
(2-1) MSO: Multiple System Operator - Business with multiple SOs who can realize the economies of scale

(3) **MSP: Multiple SO PP** - Combination of SO and PP

Discussion Information: CJ CableNet is in a MSO form with horizontal integration among existing cable TV companies. Such a form is the same as in existing cable TV companies, but CJ CableNet holds the advantage of having the capacity to create various contents from CJ Media, which is a MPP. MSOs, mostly network providers, are weak in content production, but CJ CableNet was able to evolve into the form of MSP by vertically integrating with a MPP. The transformation from a MSO to a MSP allowed CJ CableNet to gain a competitive advantage by securing front and end of cable TV market's value chain.

The following provides CJ CableNet's business performance:

First of all, in terms of MSO, CJ CableNet is the third company in the market with 14 SOs, but the company has more number of actual subscribers than C&M, the second leading company in the market. Also, by becoming a MSP, new CableNet is the



〈Figure 2〉 CJ's Entertainment Media Business Division and Their Success

〈Table 1〉 CJ Major Media Players' Operating Outcome

(Unit: 100,000,000 Won)

	2008		2007		2006	
	Sales	Net Profit	Sales	Net Profit	Sales	Net Profit
CJ Homeshopping	5424	289	5188	317	5128	482
CJ Cablenet	4652	291	3858	284	3393	517
CJ Internet	1936	251	1598	258	1052	166
CJ CGV	3588	201	3205	122	2720	229

Source: Financial Supervisory Service from http://dart.fss.or.kr/

leading company in terms of revenue and market share mainly because the company owns Home-Shopping businesses which create high returns. From this fact, we can conclude that CJ CableNet is realizing great business performance in cable TV industry.

3) Compare and evaluate CJ CableNet's MSO portfolio with competitors' MSO.

Before Discussion: First, ask students what are other MSOs other than CJ CableNet. Then, find out the composition of subsidiaries those MSOs have. If the students don't

know it well, explain the number of SOs per MSO from the answer of Question 2), and let them to recognize subsidiary portfolio of the main competitors: Qrix, C&M, and TBroad (Use 〈Table 3〉 below).

Discussion Information: Subsidiary portfolio is explained in the case, but the main focus here is geographical characteristics of each SO. Under government regulation, not all companies were able to gather as many local businesses as they want. Thus, having more number of SOs in target regions became the key factor in the amount of revenue. TaeKwang TBroad, the largest company among 8 MSOs, owns SOs evenly throughout the

〈Table 2〉 Cable TV Subscribers per MSO

MSO	Number of SOs	Total	
		Number of Households	Number of Subscribers
Tbroad	18	2,633,636	2,735,250
C&M	15	1,864,273	2,065,369
CJ Cable Net	14	2,294,595	2,349,413
CMB	12	1,184,403	1,205,285
HCN	11	1,134,841	1,238,865
Qrix	6	562,300	569,526
OnMedia	4	595,497	597,711
Subtotal	80	10,269,454	10,769,419
Individual SOs	26	3,809,843	3,941,314
Total	106	14,079,388	14,700,733

〈Table 3〉 Revenues and Market Shares of MSO/MSP Combined Business

MSO	Number of SOs	Sales Revene (in millions of KRW)	%
CJ Cablenet Group	15	1,042,822	18.9
GS HomeShopping	2	656,467	11.9
Hyundai Department Group	11	478,667	8.7
Tbroad Group	17	413,750	7.5
OnMedia Group	4	339,125	6.1
C&M Group	15	295,593	5.4
CMB Group	13	115,173	2.1
Total of MSOs/ MSPs	77	3,341,599	60.6
Total of SOs/PPs		5,515,456	100

country, including many near metropolitan area: Seoul (2), Busan (3), Incheon (3), and Kyonggi (4). C&M, the second largest, has 12 SOs near Seoul out of its 15 SOs, which may be the reason for their high business performance in spite of the low number of subscribers. CJ CableNet, the third in the market, has 4 SOs in Busan and 3 in Kyong-nam area. CableNet's customer base can be considered as weak in revenue generation and is near the region with relatively smaller market size.

Unlike C&M and Qrix, however, CableNet has more possibility to become a powerful business in the nation with more diverse consumer base if government restrictions are relieved and cable TV market grows bigger in the future. The key success factor to become such a company is implementing the company's management system into its subsidiaries' relatively weak financial/ managerial system. TBroad, who has similar composition of subsidiaries, is in a similar situation.

4) Provide strategic options for cable TV industry as a response to IPTV service and diversification of Media.

Before Discussion: First, see how many students have heard of the term, IPTV. And, to those who have heard of it, ask if they have recently tried it. For those who are unfamiliar with IPTV, providing examples of KT's Mega-TV and Hanaro Telecom's Hana-TV would be effective to progress the discussion. Also, the term 'Triple Play Service' should be explained as one of the strengths of IPTV. Cable TV industry's response to IPTV is briefly given in the case, but the discussion should be based on students' opinions.

TPS: Triple Play Service - A service combined three different telecommunications services of cable TV, high speed Internet, and telephone all under one cable line.

Discussion Information: The following is the cable TV's strategy to new services and diverse Media.

(1) Digital Cable & Additional Services

Digitalization in cable TV industry is already in progress. In 2006, 111 SOs, 200 PPs, and 230 NOs are operating digital cable broadcast. Specifically, (M)SOs including CJ CableNet, C&M, Qrix, HCN, GS Home-Shopping, TBroad, OnMedia, TCT Daegu are broadcasting 14 digital cable channels, and on June 2007, the total number of subscribers has reached 545,157 households.

Until recently, cable TV businesses have put heavy investments on fiber-optic cables and infrastructure, and did not pay much attention to services utilizing the existing infrastructure. Now, it is the time to focus on various services that can make use of existing infrastructure and customer base. Digital cable TV can provide variety of

〈Table 4〉 Analysis of Major MSOs

MSOs	%	Total Ranks	Contents Organization		Operations	
			Points	Ranks	Points	Ranks
Qrix - Jung Gu	84.69	1	183	6	240.45	2
Qrix - Dae Gu	82.43	3	185.5	4	226.63	41
Qrix - Seodaemun	79.78	6	181	8	217.89	4
Qrix - HQ	78.75	7	164.25	20	229.5	12
Qrix - Kwangjin	78.22	9	182.5	7	208.58	7
Qrix Average	**80.77**		**179.25**		**224.61**	
C&M - Jung Ang	75.74	15	157.75	1	209.67	1
C&M - Kyung Dong	73.94	22	171	17	207.71	36
C&M - Seo Seoul	73.48	25	161.75	22	207.94	35
C&M - Song Pa	72.65	27	149.75	46	213.51	20
C&M - No Won	72.02	30	153.5	39	206.61	40
C&M - HQ	71.72	34	153.75	38	204.84	43
C&M - Yong San	71.46	35	158	28	199.28	56
C&M - Dong Seoul	71.39	36	158.25	27	198.7	59
C&M - Ma Po	71.16	38	157.25	29	198.53	60
C&M - Buk Boo	69.09	53	155.75	35	189.7	71
C&M - Seo Cho Nam	68.66	56	162.25	21	181.04	96
C&M - Jung Lang	68.52	57	152.25	41	190.34	70
C&M - Kuro	66.4	58	141.25	68	190.75	69
C&M - Woori	63.86	69	142.75	65	176.53	100
C&M - Gyeonggi	61.29	89	124.5	93	181.95	92
C&M Average	**70.09**		**153.31**		**197.14**	
Tbroad - Dong Dae Mun	74.91	18	174.75	11	199.78	54
Tbroad - Seo Busan	70.95	40	147.25	55	207.49	37
Tbroad - Nak Dong	69.12	52	137.25	75	208.37	34
Tbroad - Dong Nam	68.64	57	141.25	68	201.96	52
Tbroad - Cheonan	67.32	61	150	45	186.6	75
Tbroad - Jung Bu	66.78	65	146	56	187.89	73
Tbroad - KCN	64.58	83	137.25	76	185.63	78
Tbroad -GSD	64.53	84	131.5	81	191.17	68
Tbroad - Kee Nam	64.23	87	128.25	87	192.91	66
Tbroad - Jeonju	63.05	92	130.25	83	185	84
Tbroad - Serom	62.86	94	129.25	86	185.07	83
Tbroad - Han Bit	61.6	98	125.25	90	182.74	89
Tbroad - Kang Seo	60.76	100	118.5	100	185.32	81
Tbroad - Suwon	60.3	101	120.25	95	183.57	87
Tbroad - Seo Hae	59.15	102	126.75	88	174.74	102
Tbroad - Nam Dong	59.13	103	118.75	99	177.02	99
Tbroad - ABC	57.73	105	119.5	98	176.13	101
Tbroad - Buk Busan	40.76	106	107	107	181.67	94
Tbroad Average	**63.13**		**132.72**		**188.50**	

two-way services such as PPV, VOD, T-Commerce, Data Broadcasting, T-Government, TV-Stock, MOD(Movie on Demand), and games, and another advantage is the TPS service, which is a combination of high speed Internet, telephone, and cable TV services. Cable TV industry should implement a strong marketing strategy to inform customers the advantages of combined services which are only available through cable TV service.

(2) Active Local Channels

Since IPTV is offered on existing network, it may become a threat to cable TV industry by spreading out more quickly and more widely than cable TV network. What cable TV has over IPTV is that it can play as local Media that are customized in different regions. With local cable TV channels, the residents in the region are able to participate in program production, and provide their opinions using the channel, giving themselves a sense of ownership to the local cable TV channel. In case where the competition against other Media is unavoidable, the best way to compete is just to gain more number of subscribers.

(3) Securing Good Contents

In recent situation where customers are given more options to choose from, such as IPTV and DMB, securing good contents can be a good way to achieve a superior position to competitors. In the past, traditional airwave TV and cable TV were often the only content providers. But now, new forms of media such as VOD, DMB, and IPTV are coming out to the market.

In a highly competitive market with different types of media, who gets the best contents wins the competition in the end. Unlike new Media businesses with vast amount of capital resources, cable TV companies that are rather smaller in size must be able to quickly meet customers' needs by establishing strategic partnership with PPs and making investments on productions. Other than that, possible options include partnering with IPTV, downsizing business, or withdrawing from the market.

5) Evaluate the responding strategy of CJ CableNet given in the case.

Before Discussion: For this question, the discussion should focus on students' thoughts after reading the case. The responding strategy given in the case is just an example for students to think about and might develop upon. Also, CableNet's strategy is likely to be similar to the industry's strategy since it is one of the leading companies in the market.

> MVNO: Mobile Virtual Network Operator - A business that offers independent telecommunications service using other network operators' infrastructure, without owning the frequency range necessary to provide the service.

Discussion Information: CJ CableNet is one of the leading MSPs in cable TV market and is showing high level of digitalization.

Thus, CableNet's strategic decision against IPTV is probably similar to the whole industry's decision. The strategic decision given in the case is the following:

(1) Strong Alignment within Cable TV Industry

Strategic alignment among cable TV businesses is already on progress in order to compete with new competitors with huge capital resources. But, due to accumulated technology of different companies, the alignment is still at the minimal level of cooperative marketing rather than an active collaboration. Since CableNet is the most active company in digital cable TV market, the company is given a burden to lead other cable TV companies. Therefore, CableNet should seek a collaborative effort with other cable TV companies to develop new products or services against new media.

(2) Securing Competitive Contents

Most consumers these days have more interests in services that can fulfill their needs rather than technical features. As a MSP, CJ CableNet already has a competitive MPP, which is CJ Media, and the company will be able to gain competitive edge by investing on Media businesses to provide adequate contents that fulfill the customers' needs. However, a threat still exists. Examples include a company like SKT with high content development capacity or a company that would choose M&A to acquire preexisting contents. The business who can deliver what customers' needs in the shortest time will gain superior position in the market.

(3) Entering Telecommunications Industry

Cable TV businesses can enter telecommunications market through MVNO, but this strategy comes with a problem. The company will be unable to use its competitor's network infrastructure, and since telecommunications industry is overheated and is at the maturity stage, the company might not overcome established, big companies in the market.

6) Provide a strategy to secure core contents in Media industry.

Before Discussion: Discussion for this question should focus on the change in Media industry and the importance of content development. An important change in Media industry is diversification in media and service due to technological advancement. To provide various services, securing good quality contents is most important. For example, IPTV and two-way integrated services are provided in Korea, but the service will not be successful without good, diverse contents.

Discussion Information: In general, the value chain of contents goes like this: content development → platform → distribution → terminal. Until now, with lack of content development system, the platform has been the dominant factor on contents; however,

from now on, with diversification in platform and development system, contents are expected to have more bargaining power in the value chain.

(1) Differentiating Contents per Platform & Paying Adequate Fees

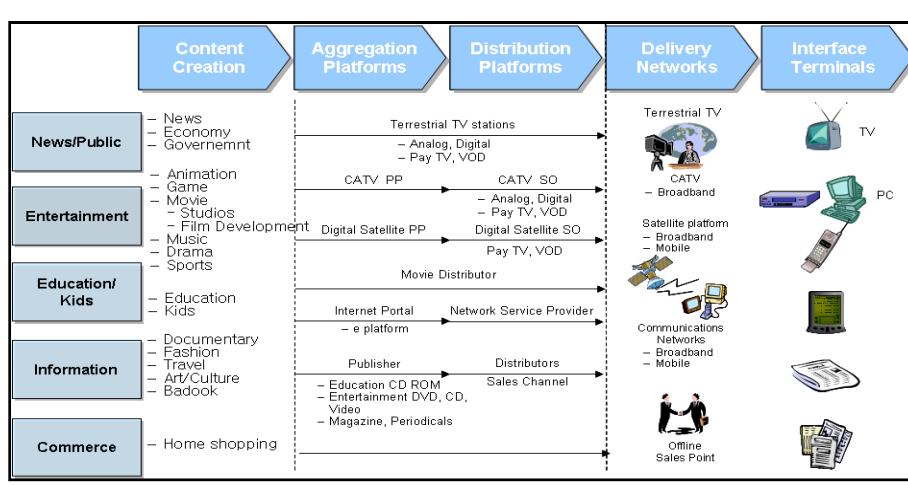
Differentiating contents per platform refers to possessing exclusive contents for applicable platforms. A company must pay or guarantee certain amount of advertisement returns to PPs, and the relationship with PPs will be strengthened if fair trade between the two is established with the exchange of adequate fees and contents. To move further, CJ CableNet should work closely with CJ Media or CJ Internet to develop its own PP or to cooperate with other PPs.

(2) Expanding Original Programs

In order to produce original programs, CJ should look for a partner who can make investments on production and distribution. Established major PPs with sufficient capital and content developing capacity can maintain its budget for program development, which in turn increases the possibility of creating high quality contents. Not only for diversification in media, but for similar services (IPTV vs. Digital Cable), the key success factor is the ability to create and secure contents interesting to customers. Also, government involvements such as an incentive system for companies who create the most contents, export the most contents, and so on is necessary.

(3) Supporting Small/Independent PPs

Difficulties in companies' management make it hard for PPs to develop high quality programs. It would lead to providing low quality programs with illegal advertisement profits, which would make it even harder for PPs to gather customers. Therefore, the minimum level of profit structure must be



〈Figure 3〉 Mechanism and the Value Chain of Contents Distribution

guaranteed by cooperative buying of foreign contents, cooperative selling, educational program to train developers and sponsor their projects, and promoting production funding.

(4) Educating Digital Broadcast Professional & Developing Potential Creators

The competent figure in new broadcast industry holds characteristics of nonlinearity, professionalism, distinctiveness, complexity, self-regulating, exceptional viewpoint, and mutuality. In the new digital Media industry, training for professionals and preparing potential developers are essential in order to compete in the market. Encouraging more professional and creative training environment by investing on existing educational institutions is a good example. Such training should not just aim for technical staffs but for talented creators who can apply "one content - multi use" philosophy to all types of fields such as creating, planning, commercializing, VOD, video sales, CD-ROM titles, abroad sales, and so on. Along with the industry's change, the needs for creative workers are increasing whereas the market is flooded with practical workers. Also, the needs for global professionals are increasing as well. Professionals, who can perform strategic alignment with foreign companies, export consultation, exploit new market, and initiate global marketing, need to be found and developed.