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### **Emerging Korean film industry : A study on strong presence of Korean film in the domestic market**

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*Ever since <Swiri> took box office #1 position in 1999, Korean films have maintained top position in the domestic market for 5 consecutive years with nearly 50% of market share. This study will comprehensively review the drivers for success in Korean film industry with internal/external market perspective.*

#### **Introduction**

Films, in general, are rooted in the culture they belong to. Therefore, if the scale and level of sophistication were identical between domestic film and imported film, then the level of appeal for import film would decrease (Hoskins & Mirus, 1988). However, imported films with strong entertainment features, which is relatively less subject to cultural influence compared to TV programs, may prove to be successful for Hollywood movies who has global distribution network.

In Korea, imported programs are relatively less successful in the domestic terrestrial broadcasting with number of programs still far under permitted quota since the 1980s. On the other hand, domestic film industry suffered a prolonged recession after direct distribution of foreign films began in 1987. Such recession showed no signs of improvement even in the 1990s when large domestic conglomerates entered the film market with many voicing deep concerns over crisis of domestic film industry (KOFIC, 1998, Kang Han-seop, 1995, Jang Yong-ho, 1993, Jang Byung-kyu, 1991, Ma Dong-hoon, 1995, Choi Min-jae, 1995) However, series of big hits that began with <Swiri> in 1999 continues to date and domestic film market share remains near 50%. Many are now showing great interest in such phenomenon, since strong presence of domestic film is only witnessed in Korea and India (other than the US).

What are some of the drivers of successful Korean film? Why does Korea show strong preference on domestic film unlike advanced film markets such as France and the U.K.?

#### **Review of existing study & methodology**

Discussions on competition between imported programs & domestic programs in certain market have mainly taken place among the micro economists. Many of the studies focused on proving competitive advantage of Hollywood films based on economies of scale via market size and production cost (Dupagne & Waterman, 1998; Waterman & Rogers, 1994; Waterman, 1993; Wildman & Siwek, 1988; Owen & Wildman, 1992). In other words, production investment based on domestic economy or population determines the mass appeal/quality of programs and therefore, possesses competitive advantage (Wildman, 1994, Dupagne & Waterman, 1998).

Jayakar & Waterman(2000) used, the so-called 'home market effect (Linder, 1961),' to argue that wealthier and bigger countries have higher film export in a study on 7 advanced countries, including

France, UK, and Japan. Such concept was extended to explain the dominance of Hollywood movies around the world.

Ishii (1999) and other studies on competition between US programs and Japanese programs in Taiwan also show the competitive advantage of Hollywood films. However, the US dominance was only prevalent in film category while Japanese programs had relative advantage in TV or other entertainment programs based on familiarity.

Moreover, hypothesis that the Hollywood has advantage due to market scale also means that the US dominance could be weakened once importer's market develops scale (Schement, 1984). Some also predicts that viewer's preference on domestically produced programs would only expand as long as financing is provided in the domestic market (Pool, 1977). For instance, Brazil, where US-made programs absolutely prevailed, developed Telenovela as viewer based expanded. As a result, Telenovela become the major program that dominates prime broadcasting hours.

Waterman & Rogers(1994) conducted a study on imported programs of 9 far eastern Asian countries to explain that the number of domestic programs increase while imported programs decrease when GDP/broadcaster income is higher. This study reconfirms that market scale is a major factor influencing international distribution. However, the study explains that, Asian countries, with exception to 4 English speaking countries; Hong Kong, Singapore, Malaysia and Philippines, have lower dependency on overseas programs due to cultural and political factors.

In a nutshell, micro-economic perspectives on factors influencing competition between audio visual programs are production investment and cultural discount, which are two levers that interact in opposite direction with some trade-offs. Larger cultural discount will lead to more advantageous domestic programs while higher production investment (market size) and mass appeal will strengthen Hollywood programs (Waterman, 1996).

However, films with strong entertainment appeal are less likely to be influenced by culture than TV programs. Wildman(1995) asserts that the mass appeal of Hollywood movies is strong enough to overcome the culture barriers. In fact, the share of the US films, which offer amusement like no other films in the global market, is still very high and few countries have over 30% share of domestic film. However, domestic market share of Korean movies is drastically on the rise since 1999 and export to East Asia has been impressive. Of course, Korean films have low competitive advantage over the US films in terms of quality or production investment scale but, competition between the two countries in the Korean market, like David & Goliath, has often led to victory for Korean films.

Ever since the emergence of direct distribution system in Korea, many voiced concerns over serious crisis facing the Korean film industry, (Kang Han-seop, 1995, Jang Yong-ho, 1993, Jang Byung-kyu, 1991, Ma Dong-hoon, 1995, Choi Min-jae, 1995), even after the continuous success of <Swiri> to <JSA, Joint Security Area> in 2000. Only starting in 2001, pundits have expressed positive outlook on Korean film industry as part of expanding cultural demand due to social needs (Shin Hyun-hoon, 2001, Lee Sang-seok, 2002). Some even go further to say that continued success of Korean films have led to quantitative & qualitative growth and enhanced economic value of Korean films to build equal base to compete with Hollywood (Chae Chang-rak, 2002). These researchers are jointly pointing out that recent competitive advantage of Korean films over Hollywood films is not a temporary phenomenon (Won So-yeon, 2002).

This paper seeks to comprehensively review key success factor for Korean film industry as an extension of all the theoretical discussions mentioned above. The study used statistical data provided by the Ministry of Culture & Tourism and Korean Film Commission (KOFIC) to conduct comparative analysis on annual Korean film market size and market share trend. The initial aim of the paper is to look at overall share of Korean film, but excludes any study on different performance between individual films. However, the paper will cover a specific time when preference on Korean film drastically increased over Hollywood films, showing clear dominance in the Korean market. Furthermore, based on various literature and distributor's data, analysis on changing production and distribution approach will be conducted.

### **Market Status & Performance of Korean Film**

Today, where 5 out of 10 viewers watch Korean movies, is, indeed, a renaissance of Korean film. According to '2002 Film Industry Report' by IM Pictures, 77 Korean films were screened in 2002, up

by 20 films in 2001. In addition, 18 million tickets(in Seoul) were sold with 14% growth from the previous year. Market share also remained high at 48.3% to mark close to 50% for 2 consecutive years. 16 films had surplus, up by 6 compared to 2001 (KOFIC, 2003, <Cine 21>, Jan. 2003). Such statistics alone suggest that Korean films are experiencing a sound growth.

**Market size**

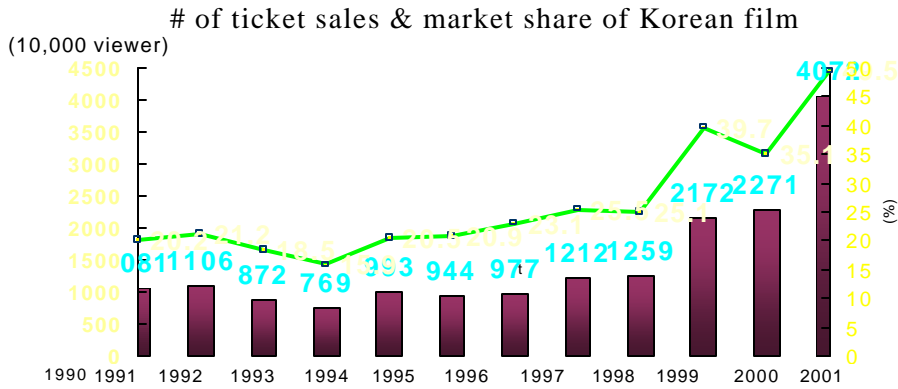
The growth of Korean film market in terms of number of productions is rather slow compared to ticket sales (refer to Table 1). The number of production substantially decreased in early 1990 with emergence of direct distributor in Korea but started to grow in 2000, and incredibly increased in 2002. However, share of first run is only 29.3% out of total runs in Korea. On the other hand, ticket sales of Korean film increased 4 folds in 2001 compared to 1990, and market share increased by 2.5 times. This implies that the Korean film market is expanding more on the demand side rather than supply as well as attractiveness of individual Korean films has increased

On the other hand, supply of foreign films is continuously doing down and ticket sales have decreased to an extent. In 2001, the proportion of Korean film and foreign film are almost the same. Market share of Korea films (refer to Graphic 1), especially, have vertically increased since 1999. This was possible through huge success of Korean blockbusters, such as <Swiri>, <JSA>, <Friend> and so on, which have attracted and encouraged the Korean viewers to prefer domestic movies. Following the success of these movies, even genres like drama or comedy were successful in attracting many viewers. In fact, the market share of 5 Korean hit movies (in Seoul) in 2001 was 54.1%, and top 10 Korean movies were 76.7%. In 2002, top 5 shares was 34.7%, top 10 54.4%, while 19 movies with over 300,000 ticket sales had 76.6% share. Such a development is positive in the viewers concentration in a handful of movies has reduced drastically (KOFIC, 2003).

Table1  
Annual number of production & nationwide ticket sales  
units in number, 10,000 ticket

Yr	Korean films			Foreign films			Total ticket sales	Growth (%)
	#	Ticket sales	Market share (%)	#	Ticket sales	Market share (%)		
1990	111	1,081	20.2	263	4,265	89.8	5,346	
1991	121	1,106	21.2	258	4,114	78.8	5,220	
1992	96	872	18.5	327	3,839	81.5	4,771	-9.7
1993	63	769	15.9	362	4,054	84.1	4,823	2.3
1994	65	993	20.5	387	3,842	79.5	4,835	0.3
1995	65	944	20.9	322	3,569	79.1	4,513	-6.7
1996	65	977	23.1	333	3,224	76.9	4,220	-6.3
1997	59	1,212	25.5	287	3,540	74.5	4,752	12.0
1998	43	1,259	25.1	242	3,759	74.9	5,018	5.5
1999	42	2,172	39.7	233	3,300	60.3	5,472	9.0
2000	58	2,271	35.1	272	4,191	64.9	6,462	18.0
2001	52	4,481	50.1	229	4,455	49.9	8,936	38
2002	77	5,082	48.3	186	5,431	51.7	10,513	18

Graphic 1



Source : KOFIC, ? Annual Report on Korean Film? 1991-2002

As shown in <Table 1>, not only market share but total number of viewers have increased substantially (38%) in 2001, and the number of tickets exceeded 100 million in 2002 to create a market size of 522 million dollars (refer to <Table 4>). Furthermore, number of visits to movies per capita has also gone up. According to <Table 2>, # of visits per capita went up from 1.9 visits in 2001 to 2.27 visits in 2002. Such a huge growth is comparable to the time when people visited more movie theaters before color screen TVs were introduced(1.8 times in 1977, 2 times in 1978, 1.7 times in 1979). This shows that the Korea film market size have not only expanded but has great potential to grow.

Table 2  
Number of visits to movies per capita

yr	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02
# of visits	1.0	1.1	1.2	1.2	1.3	1.2	1.2	1.1	1.1	1.1	1.0	0.9	1.0	1.1	1.2	1.4	1.9	2.27

Source : KOFIC, ? Annual Report on Korean Film? 1986-2002

**Market share**

If Korean films can sustain current market share, increase in market size can be translated into increase in profits. In fact, market share(based on ticket sales) of Korean film in 2003 showed strong growth of 18% (Refer to <Table 3>).

Table 3  
Ticket sales & Market share in 2003 ( in Seoul)

	2003					2002			
	First run	Screenings	Ticket sales	Market share	Growth	First run	Screenings	Ticket sales	Market share
Korean	65	70	21,807,737	49.4%	18.8%	82	87	18,364,143	45.0%
Foreign	175	181	22,334,960	50.6%	-0.3%	192	203	22,403,586	55.0%
total	240	251	44,142,697	100%	8.3%	274	290	40,767,729	100%

Source: KOFIC, based on Seoul area

Profit is also increasing in proportion to increase in # of Korean film viewers (refer to <Table 4>). In 2001, film profit was 226 million dollar, up by 8 fold compared to 27 million in 1991. Despite the fact that the number of productions have decreased by half compared to 1991, profit in theaters would mean that more Korean movies are successful as well as higher number of ticket sales per film.

Table 4  
Annual film profit (nationwide)  
(unit: USD / %)

Year	Korean film		Foreign		Total income
	Income	Share	Income	Share	
1991	27,913,043	20.3	109,826,087	79.7	137,739,130
1992	19,826,087	17.6	117,130,435	82.4	136,956,522
1993	23,913,043	15.4	131,739,130	84.6	155,652,173
1994	33,130,435	20.2	130,608,696	79.8	163,739,131
1995	34,173,913	20.4	133,217,391	79.6	167,391,304
1996	39,565,217	22.4	136,782,609	77.6	176,347,826
1997	52,173,913	25.2	155,130,435	74.8	207,304,348
1998	54,695,652	24.3	170,000,000	75.7	224,695,652
1999	98,086,957	39.4	150,782,609	60.6	248,869,566
2000	105,130,435	34.9	195,739,130	65.1	300,869,565
2001	226,260,870	49.9	229,043,478	50.1	455,304,349
2002	268,260,870	49	283,391,304	51	551,652,174

Source: KOFIC, 2001-2002 (1 USD = 1,150 Won)

The average growth rate for Korean films based on 'Annual Report on Korean Film', is 538% in terms of ticket sales, up from 9.44 million dollars in 1995 to 50.82 million dollars in 2002 as well as 307.5%, 662%, and 785% in terms of profit, up from 34.1 million dollars in 1995 to 105.1 million in 2000, 226.2 million in 2001, and 268.2 million in 2002, respectively. The growth of profit is also larger than ticket sales because of increase in ticket price and direct distribution by Korean distributors.

Table 5

Growth rate of Korean film market

Unit : 1000 USD

Category	1995	1997	1998	1999	2000	2001	2002
Avr production cost	870	1,130	1,304	1,652	1,870	2,696	-
Growth( vs. 95)	100%	130%	150%	190%	215%	310%	-
Screening	64	59	43	42	58	52	77
Total input	?	?	?	?	967	1,252	-
Nationwide tickets (10,000)	944	1,212	1,259	2,172	2,271	4,481	5,082
Growth( vs. 95)	100%	128%	133.4%	230.1%			