A Study on Integrated Marketing Strategies of Entertainment Companies in the Context of Globalization: A Case Analysis of SM Entertainment

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Abstract:

In recent years, the convergence of pop culture, digital platforms, and global consumer trends has amplified the economic and cultural impact of entertainment companies. Especially in Asia, fan-based consumption models have reshaped how brands interact with audiences. This study focuses on the brand expansion and value of fan economies using marketing strategies in the entertainment industry. As a case of South Korea's SM Entertainment, this research focuses on brand positioning, product strategy, communication channel, and digital content operation's key efforts of the company. Using the STP (Segmentation, Targeting, Positioning) model and the 4Ps (Product, Price, Place, Promotion) of the marketing mix, the present study demonstrates how SM Entertainment has emerged as a successful global company that transcends regional and cultural borders. Using a comparative case study method, the paper examines strategic choices that the entertainment companies under consideration make in pursuit of higher levels of global market access. The implications are applicable for Chinese entertainment companies looking to internationalize, indicating the need to pair localized strategies with global platforms in the digital era. In summary, this study provides a richer insight into how entertainment brands might exploit marketing theory in order to win in a post-globalized and digitalized world.

Keywords: Marketing Strategy; Brand Globalization; Fan Economy; K-pop; SM Entertainment.

1. Introduction

1.1 Research Background and Topic

With the advent of digital technology, global networks, and fan economy, the international entertainment industry has changed dramatically in the past few decades. The most visible cultural export is K-pop, which has become a sign of South Korea's soft power and global cultural reach. According to a 2023 report by the Korea Foundation, the number of global Hallyu (K-wave) fans has exceeded 178 million across 118 countries, marking a sixfold increase over the past decade [1]. In particular, K-pop has driven a substantial portion of this growth, with BTS, BLACKPINK, and SM artists contributing significantly to streaming numbers, global tours, and merchandise. Within this movement, SM is well-remembered as a first mover and market leader characterized not only with its agile branding tactics of artists, aggressive approaches of global-reaching and endless chain of content but also as an early adopters of multi-platform contents distribution. Its relatively unique expertise at combining traditional entertainment-making and digital marketing based on data analytics have helped it to develop a zealous fanbase across continents.

Utilizing SM Entertainment as a case, this essay examines how entertainment companies strategically locate themselves in the world stage. Through an analysis of such core marketing strategy, this paper seeks to discuss if and how entertainment brands penetrate into a new cultural and geographical territory.

1.2 Research Purpose and Significance

The core objective of this study is to analyze the strategic logic behind SM Entertainment's marketing operations. Through an in-depth analysis of its brand positioning, product portfolio, communication channels, and digital content strategy, this paper will explore how these practices drive the success of entertainment companies in the era of globalization.

In addition, this study also aims to provide practical references for Chinese entertainment companies, especially in the context of seeking international development and achieving cross-cultural communication. SM's experience can provide valuable references and insights for them.

1.3 Research Methods and Structure

This study adopts a multi-method approach, including case study analysis, literature review, and comparative analysis. Secondary data such as social media metrics, publicly disclosed business reports, and media coverage are used to support empirical observations and argumentation.

The study begins by reviewing key marketing theories including the STP framework and the 4Ps of marketing. It then introduces and analyzes SM Entertainment's specific market strategies within this theoretical context. Finally, the study presents a synthesis of findings based on data analysis and offers reflections and implications for entertainment businesses in China and beyond.

2. Theoretical Foundations of the Entertainment Industry and Marketing Characteristics

2.1 STP Strategy Analysis

SM Entertainment has successfully implemented the STP (Segmentation, Targeting, Positioning) strategy to establish a dominant position in the global entertainment industry. The company primarily targets Gen Z and teenage fan groups, who are highly active on digital platforms and deeply influenced by pop culture. According to Statista data, Gen Z spends at least 2.1 hours daily consuming short videos, and these consumers demonstrate strong emotional investment in idol figures, making them ideal participants in the long-term fan economy [2].

The company's brand positioning emphasizes its role as a global representative of K-pop, promoting themes such as emotional connection, aesthetic innovation, and cultural pride. SM does not simply position its artists as performers but rather as lifestyle idols with rich narratives and immersive fan experiences.

In terms of market segmentation, SM adjusts its strategies based on key regions: in Japan and South Korea, traditional media and physical album sales remain influential; in China, short video platforms and virtual concerts are crucial; and in Western markets, YouTube, Spotify, and collaborations with global brands play a central role [3]. This flexible strategy enables SM to achieve localized operations while maintaining a consistent global brand image.

2.2 The 7P Framework in Entertainment Marketing

To fully understand SM Entertainment's marketing capabilities, the extended 7P framework—which expands the traditional 4Ps (Product, Price, Place, Promotion) with People, Process, and Physical Evidence—offers a more complete view.

2.2.1 Product

SM Entertainment's product strategy goes beyond music alone, instead building a comprehensive product ecosys-

tem encompassing "artists, digital content, merchandise, and virtual idols." First, for artist content, SM adopts an "infinite expansion" model (e.g., NCT), using global sub-units (NCT 127, NCT Dream, WayV) to cater to diverse market demands [4]. In digital products, for example, aespa's AI member "NAEVIS" expands the metaverse entertainment experience, with its single "Next Level" accumulating over 300 million streams on Spotify. For merchandise, SM implements album tiers (standard edition/limited edition), creates virtual cards (NFT digital cards generating $2.1 million in single-transaction revenue), and enhances fan emotional consumption [5].

2.2.2 Price

Pricing is based on a tiered strategy. Prices for albums, concerts, and fan membership services are set to attract both the mass market and high-end audiences. Limited edition merchandise and exclusive digital content are used to create a sense of scarcity and enhance value. SM Entertainment demonstrates remarkable innovation in its pricing strategies, leveraging fan psychology and spending power. For example, the NCT Golden Age album applied a tiered pricing model: the standard edition ($25), which included a CD, photobook, and random photo card, appealed mainly to student fans and accounted for 62% of total sales; the limited edition ($120) came with exclusive items such as a signed poster, unreleased behind-the-scenes content on a USB, and handwritten letters from members [1]. This scarcity marketing strategy led to 100,000 copies selling out on the first day, with Chinese fans contributing 78% of total purchases—ultimately driving the album to the top of the Billboard World Albums chart. Beyond physical goods, SM also monetized emotional engagement through the Bubble subscription service, which offers paid private messages. Fans pay an annual fee of $120 (or $1.2 per message) to receive daily texts or voice messages (pre-approved by managers), creating a sense of "exclusive companionship." In 2023, Bubble contributed 19.7% of SM's total revenue, with an ARPU (Average Revenue Per User) of $8.5—surpassing Netflix's $6.3. Furthermore, SM capitalized on digital scarcity through NFT photo cards for NCT 127, offering standard cards ($10, unlimited) and rare cards ($500, limited to 100) featuring animated AR images and member autographs. This initiative generated $2.1 million in a single comeback, accounting for 12% of the album's total revenue [1]. These pricing strategies highlight SM Entertainment's forward-thinking approach to emotional commerce and digital asset monetization.

2.2.3 Place

SM Entertainment utilizes diversified distribution channels, including YouTube, V Live, Instagram, and global e-commerce platforms such as Amazon and Weverse Shop. These platforms enable instant, borderless access to content and products. For example, Blackpink's "How You Like That" reached over 100 million views on YouTube within 24 hours of its premiere, and NCT's "Sticker" went viral on TikTok [6]. Additionally, the SMTOWN Complex Cultural Space (Seoul/Tokyo) combines a holographic theater with retail, achieving an offline conversion rate of 38% [1].

2.2.4 Promotion

SM Entertainment uses a multifaceted marketing approach by means of strong viral digital contents, brand partnerships and fan-involving activations, to forge emotional bonding between artists and their international fans. At the heart of this is short-form viral videos, using platforms like TikTok and Instagram Reels to increase exposure, visibility and user play at low spend. Lastly, strategic brand affiliations, especially with luxury brands from the fashion sector, increase the artist's cachet and generate multi-sector media value. Like, for instance the Celine x Lisa partnership that was said to have earned more than $1.37 million in media value, evidence of the retail symbiosis between K-pop idols and luxury consumer brands [6].

And PR events specifically and storytelling and monetizing in general are all important part of that. EXO's D.O.'s fan meeting live stream before military enlistment is only one of many such cases that have generated more than $5 million in single-event revenues [7]. SM also capitalizes on the influence of this fan-led support culture, with fanbases around the world coordinating across regions (through temporal events such as synchronized digital campaigns, to offline promotion) that helps further cement the feeling of group identity and a sense of belonging. These are promotion techniques that can extend your brand's reach within a human touch and can be the engine to the viral chain effect on digital platforms.

2.2.5 People

In SM Entertainment's branding model, an artist is not just about performing, he is an essential part of the company's branding value. Their brand, identity, and interaction personas are carefully customized to promote brand equity and retain fans. The company implements an extremely rigorous trainee elimination system, with an acceptance rate of below 2%. As a case in point, BoA received professional training at age 9 and debuted at 13 after training for four years straight [4]. In addition, SM utilizes co-creation modes to enhance the fans' enthusiasm. For example, in EXO's Obsession MV, we voted for the ending and it's a relatable example of how participatory marketing

can lead to emotional investment.

2.2.6 Process

"SM entertainment runs a standard, industrialized idol production system Model allowing mass production and mass creativity" [4]. Its cereal box training model (four stages—global recruitment from 25 countries, multi-skill training, concept testing like partnering with Black Mirror "Fandom for the Data King" NFT developers and data-informed iteration such as optimizing NCT's subunit structures based on Spotify data2) demonstrates how strategic coordination and feedback loops help to keep content relevant. It also has a 72-hour crisis response process in place, evident from how it managed aespa's 2023 AI ethics scandal efficiently, with brand conservancy in digital worlds [5].

2.2.7 Physical evidence

SM penetrates brand through digital with Physical and Digital touchpoints that immerse and anchor Fan Loyalty. Offline, the SMTOWN complex has iconic features such as the "Handprint Wall" and holographic concerts, with aespa's 2023 metaverse performance alone bringing in $2.1 million in sales [5]. Online, the company encourages collectible value on the digital platform via NFT-based photo cards (i.e. NCT 127 limited editions) and AR-integrated virtual fan signing events. These encounters form evidence of brand authenticity and media of emotional immersion, acting to break down the barrier between the virtual and the physical in K-pop fan culture.

2.3 Global Marketing Paradigm of the K-pop Industry

Globalization of the K-pop industry from traditional western entertainment industries. Contrary to the previous wisdom, which suggested to "succeed domestically then venture overseas," K-pop agencies (especially SM Entertainment) have put a global orientation into the brand and content design from the beginning with proactive and systemic global strategies. That is a model of the global market which is combined with local operational, digital innovation and cultural integration and enables the consumer's crossing regions, and the consumer's crossing the indigenous markets.

A good reference who can provide insights on this shift is SM Entertainment, a company that has established a large number of fans all over the world, using business models that operate over several platforms and cross-cultural content. Artists regularly receive multilingual training, and group configurations are meticulously planned to meet market demand (think EXO's M/K trainee pairing or NCT's modular sub-unit system). Furthermore, SM Entertainment is actively using "transmedia storytelling"

tactics, and making the music, TV dramas, SNS content, online variety shows and even interactive games organically combined to highlight the brand experience ecology. Data-driven localization is another crucial aspect of K-pop's global marketing strategy. SM Entertainment also measures streaming data from Spotify, TikTok and Weverse, frequency of fan engagement, merchandise sales and promotion effects by regions, to apply to real-time changes of each region's promotional flow. This adaptive approach enables the company to present a cohesive global image while being responsive to local consumer behavior and cultural norms.

Second, K-pop utilizes a "glocalization" method for cultural output and assimilation. Such as SuperM's debut in the United States, collaboration with Western artists and participation in international music festivals that make the local market combination and the Korean wave culture to be integrated without losing the originality [1].

In general, globalization paradigm of K-pop is the change of Single Market dominated-type towards Multi-center Brand architecture-type. Establishing a shared model for content, brand identity and consumer journeys across cultures and platforms. SM Entertainment's model of standardization flexibility in global distribution illustrates that Asia n entertainment corporations can penetrate the Western-centric media hegemony and build a flexible and supple global branding strategy for digital age.

3. A Systematic Analysis of SM Entertainment's Marketing Strategy

3.1 Artist Pipeline Development and Cross-Media Content Ecosystem

3.1.1 Industrialization of Talent Development Mechanism

SM has created multilayered scouting networks that cover 25 countries, and China represents 32% of total recruits. The acceptance rate stands at 1.8% which highlights how much of the pipeline is exclusive [7]. There are four stages to the trainee elimination process: the Preliminary, a High-Rank Training Been, the Debut Evaluation, and the Elimination Check-up. The second one questions actual performance through real time consumption data — like how Spotify streams in real time effect actual roster changes for modular groups like NCT.

Compensation-wise SM follows a "7:3 profit-sharing model" (70% company / 30% artist) which is certainly less attractive to the artists than at similar competitors like YG Entertainment (reportedly "4:6 spread"). This is a financial model consistent with the company's focus

on control and capital recovery in deploying its extensive training infrastructure [8].

3.1.2 The commodification of emotional labor

Going beyond technical proficiency, SM capitalizes on the emotional labor of its artists with intimacy-focused fan experiences. An interesting case is the Bubble app, a paid messaging app with 5.8m MAUs and ARPU of 8.5$, accounting for 19.7% of SM's total digital revenue in 2024. They sell the illusion of intimacy to the users, that way the users stick with it and are more likely to pay [5]. Combined, these practices reveal how SM's artist pipeline is not just a talent generator but also a central marketing machine that is deeply entwined with its content production, audience focus and revenue generation.

3.2 Technology-Driven Innovation: Virtual Idols, AI Integration, and Media Dissemination

For a long time, SM Entertainment has led the convergence in the entertainment industry with the development of virtual idols, AI system technologies and media through dissemination systems. But those new patterns of content production and fan engagement are also changing the entertainment businesses' value chain in the digital era.

3.2.1 Virtual Idols and Scalable Corporate Assets

One such ambitious effort is the creation of virtual idols—virtual performers with personalities and personas coded in themselves. SM's group aespa, for instance, mixes human members with virtual avatars ("ae" counterparts) in order to show a dual-reality narrative that involves the physical world with the virtual world. This technology allows fan-friendly interaction on a scale devoid of space or time, and unbounded by the frailties of human form. Aespa drew $2.1 million in digital revenue from its metaverse concert in 2023, solidifying the commercial case for virtual performance as a revenue stream that is decoupled from traditional touring [9].

3.2.2 AI-Driven Personalization and Content Optimization

SM also uses AI technology in fields, including content recommendation algorithms, facial recognition for an augmented reality (AR) fan event, and automatically translating system(s) for foreign-language content. AI technology tracks fan behavior across platforms to determine the best release timing, ad placements, and cross-platform storytelling. In 2022, SM tested an AI-based music recommendation system on its mobile app, resulting in a 27% increase in length of user engagement [1]. These integrations further increase customization and help to focus promotional spend.

3.2.3 Mechanisms for Dynamic and Decentralized Dissemination

Unlike the broadcasting model, SM has established a global platform-specialized in distributing content around the world including YouTube, TikTok, and V Live-to build a global decentralized content distribution system. And they provide direct-to-fan communication and viral content distribution. Critically, SM UK rewards chop-version of content, which is more in line with platform algorithms and Gen Z consumption habits! Clips of NCT dance challenges and behind-the-scenes rehearsals, for example, have total more than 100 million views on TikTok, acting as a low-cost marketing tool with maximum reach.

What's more, SM incentivizes UGC (User-Generated Content) creation with challenges, remix rights, and AI-generated fan art co-creation, allowing fans to feel like co-creators. This transition from passive observer to active fan further bolsters fan loyalty and allows brand narratives to organically live on and grow self-sufficiently.

3.3 Global Distribution and Market Penetration Strategies

The fact that SM Entertainment is a global corporation is not just because their idols have been adeptly branded, content innovated and their product efficiently utilized, however, their artificial joint production model plan concerning the distribution in the world market is also a contributing factor. While many entertainment companies venture out to other territories after achieving success in the domestic market, SM bakes globalization into its very core, preparing content, group type, and distribution for an international crowd from the outset.

3.3.1 Multi -Region Grouping and Localization

SM's concept of market is also embodied in the group formation. For instance, EXO debuted with two subgroups: EXO-K promoting in the Korean market and EXO-M promoting in the Chinese market, the latter promoting music locally in the Korean and Chinese music industries, utilizing the same songs but denominated in two languages.[9] Likewise, NCT (Neo Culture Technology) is created with a modular group system in which there are subunits that are rooted in Seoul, Tokyo, and the U. S., can be scaled based on streaming data, fan density, and regional attention.

There's more to localization than language and music – it also involves styling, content themes, and platform strategy tweaked for each territory's media preferences. For example, whereas Japanese rollouts can be physical-album-centric, U.S. campaigns prioritize placement on Spotify playlists, charting on Billboard and premiering on

YouTube.

3.3.2 Strategic Partnerships and Platform Integration

To guarantee broad availability and regional trust, SM group works with key local distributions and platforms. In China, the company partners with Tencent Music Entertainment and Weibo to attract local users. It works with Avex Label Group in Japan for distribution and with The Orchard, Sony Music's independent label distributor, in North America and Europe for digital and physical releases.

Additionally, SM tactically aligns content drops with different time zones, as well as geo-targeted marketing, so that releases enter when engagement is at its highest in the most important-though diverse—to markets, including the U.S, Southeast Asia, and Latin America. The result is maximum impact on day one and extra algorithmic juice across platforms like YouTube and Spotify.

3.3.3 Cross-border e-commerce Merchandise Circulation &Logistics

For direct-to-consumer (DTC) merchandise sales, SM uses Weverse Shop, Amazon, and Rakuten, and it is no longer reliant on traditional retail chain channel, and profit rate control has been reinforced. Overseas shipping infrastructure via regional warehouses - minimize time of shipping and give prominent priority support to the fan experience. For instance, limited-edition comeback promotion merchandise is frequently released for global pre-order, and logistics companies are commissioned to deliver the goods to fans in more than 50 countries.

4. Competitive Landscape and Strategic Challenges Facing SM Entertainment

SM Entertainment operates in a highly competitive environment, primarily contending with two major Korean entertainment agencies: YG Entertainment and JYP Entertainment. While all three firms share similar origins in idol production and multi-platform content creation, they differ significantly in strategic positioning, market focus, and revenue structures.

4.1 Strategic Positioning and Market Differentiation

SM Entertainment focuses on large-scale idol groups with complex worldviews (e.g., NCT's modular structure, aespa's metaverse narrative). Its strategy emphasizes technological integration (AI, virtual idols) and high-volume global content distribution [1].

YG Entertainment has traditionally emphasized artist autonomy, hip-hop identity, and high-impact branding. Groups like BLACKPINK are fewer in number but operate at premium positioning, focusing on luxury fashion partnerships and Western media visibility [8].

JYP Entertainment adopts a leaner, data-driven model emphasizing agility and cost-efficiency. Groups like TWICE and Stray Kids are optimized for pan-Asian appeal and digital monetization (e.g., Japanese sales, YouTube content engagement).

4.2 Financial Metrics and Global Footprint

Table 1. Financial Metrics and Global Footprint (2023 Data)

Company	2023 Revenue (KRW)	Operating Profit	Global Fandom Size (Est.)	YouTube Subs	Top Market
SM	₩954B (~$710M)	₩84B	~82M+ (incl. NCT + aespa)	30.6M	Southeast Asia, China
YG	₩536B (~$400M)	₩94B	~63M (mainly BLACKPINK)	89.1M	U.S., Japan
JYP	₩455B (~$340M)	₩116B	~59M (TWICE + Stray Kids)	33.7M	Japan, South Korea

SM has enjoyed sales and the number of global artists that are top of the Korean market, but there are differences in profitability ratio, as there are fixed cost hikes because of the system of multiply groups, and important part in the high cost due to the training infrastructure and the digital R&D investment (Table 1) [8, 10, 11].

Profit Efficiency: SM's profit ratio (about 8.8) is far lower than JYP's (more than 25), which sparks questions about business activities. However, the modular group method is of high managerial complexity and is expensive.

Brand Differentiation Saturation: In the age of metaverse and AI, the branding overhead across the industry is making SM's early-mover advantage less effective. Other agencies are making ground in virtual content and global strategy, narrowing the outer edges of differentiation.

Market Volatility in China: From the geopolitical view-

points to (the) platform regulation, K-pop the distribution in China still facing threats. Because SM is so heavily dependent on Chinese fanbases (particularly for EXO and WayV), regional instability puts revenue at risk.

contracts and Governance risks: recent shareholder disputes (Kakao vs HYBE) and high-profile contract cancellations have experience to tarnish brand/image and impact on internal harmony.

5. Future Strategic Recommendations

5.1 Recommendation 1: Improving Economic Efficiency with Structural Optimization

Although no.1 in terms of sales and technology within Korea's entertainment industry, SM entertainment has a low profit rate (especially compared with JYP). This suggests that their operations need reform. Its multi groups system (e.g., NCT modular structure) complexity and resource needs lead to high fixed costs and managerial slackness [12]. It is recommended that SM:

(1) Simplify the internal group, and members are not repeated to join and while the announcement redundant.

(2) Standardize training and debut evaluation, using AI as performance predictor.

(3) Rebalance artist and company revenue split, resulting in increased Artist satisfaction and reduced Churn.

(4) Not only would this enhance their ability to save costs, but it would also enable the company to scale the business beyond the global markets.

5.2 Recommendation 2: Enhancing Development of Intellectual Property (IP) and Content Ecosystems

As competition heats up in AI entertainment and metaverse experiences, SM's first-mover edge is starting to wear thin. If they want to continue to differentiate and lead, they need to further build out their IP-based content ecosystem:

(1) Further develop multi-format storytelling across music, webtoons, games and virtual concerts to increase audience engagement.

(2) Invest in the development and production of original IP beyond traditional idol branding, (ie developing and producing in-house animations, or character universes, or transmedia franchises).

(3) Convert long-tail content into digital collectibles (e.g., NFTs), AR-leveraged merchandise, and unique fan experiences.

Through its transformation from idol agency to multi-layered cultural IP platform, SM may be able to protect itself against volatility in the artist lifecycle and construct more sustainable fan engagement.

6. Conclusion

This paper has explored strategic marketing under the context of globalizing K-Pop with the case of SM Entertainment. Based on an examination of SM's STP (segmentation-targeting-positioning) strategy, 7P (product, price, place, promotion, people, process, physical evidence) marketing model and technological innovation—in particular its adoption of virtual idols, AI (artificial intelligence) incorporation and global distribution strategies—this article demonstrates that SM has effectively situated itself as a trailblazer in the new wave of digital entertainment and transnational fan culture.

Against YG and JYP SM is more complex and innovative, but also contracts the returns, brand differentiation and market stability problems, even more so in geopolitically-sensitive countries, like China. SM's modular group structure and vast world-building model has been the foundation for SM's successful overseas expansion, but to maintain those will consume enormous operational and financial resources.

This paper suggests two paths to long-term competitiveness: one is to improve operating efficiency by simplifying group structures and optimizing cost models; the other is to extend the company's IP-based ecosystem with pool style creative and long tail monetization strategies.

SM Entertainment's conversion into a global cultural IP platform, from a conventional idol agency, provides meaningful implications to other entertainment companies considering globalization. The way that it manages the equilibrium of emotional branding, technological innovation and fan economy monetization makes it a copy-worthy and constantly updated blueprint to guide the coming era of the global entertainment industry.

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