



The Progress of the "SM3.0" Strategy of South Korea's SM Entertainment Company

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Abstract. The present study aims to explore the progress of "SM3.0" strategy implemented by South Korea entertainment company SM Entertainment. By analyzing the specific content and innovative aspects of the SM3.0 strategy, this research evaluates effectiveness of SM3.0 strategy in reshaping the company's business model, enhancing market competitiveness, and addressing emerging challenges. From SM's perspective, this study will analyze the innovations of SM3.0 relative to its previous versions, and examine its short-term impact on revenue and other key events using CAS (Case description, Analysis, Suggestions) structure analysis. Additionally, this research will broaden its scope to include the economic benefits of Korean cultural dissemination and the entertainment industry. Finally, the present study will summarize the implementation outcomes and shortcomings of the SM3.0 strategy, and propose corresponding recommendations. This research employs literature analysis, case study, and data integration methods, aiming to provide valuable insights into understanding strategic transformation in the Korean entertainment industry.

Keywords: SM3.0, K-pop, Entertainment industry, Company strategy, Strategic transformation.

1 Introduction

As a pivotal component of South Korea's cultural industry, K-pop has achieved remarkable global success. Among the key players, SM Entertainment has emerged as an industry leader, whose strategic development in market expansion and business model innovation offers significant insights for stakeholders across the global entertainment sector. Against the backdrop of intensifying competition in the international cultural and entertainment industry, SM Entertainment has launched its "SM 3.0" strategy—a transformative initiative designed to enhance the company's competitiveness and global influence following a comprehensive organizational restructuring. An examination of the implementation progress and strategic underpinnings of SM 3.0 is therefore of substantial academic and practical importance. It not only sheds light on evolving trends within South Korea's cultural entertainment industry but also serves as a valuable reference for other entertainment enterprises formulating their own developmental

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strategies. Particularly at a critical juncture when the global cultural entertainment industry is undergoing profound structural transformation, such research enables relevant practitioners to anticipate emerging trends, adapt to dynamic market conditions, and effectively address future challenges.

2 SM Entertainment before “SM 3.0”

SM Entertainment, founded in 1995 by Lee Soo-man, is a leading large-scale artist planning and talent management company, with "SM" symbolizing "Star Museum." The company's core operations encompass music production, artist development, and derivative product planning. In recent years, SM has expanded into emerging domains such as virtual IP and the metaverse, positioning "Culture Technology" as its defining strategic differentiator. This core approach integrates seamlessly across the entire artist lifecycle and spans all stages of content creation and promotional workflows. Through a highly systematic and industrialized production model, SM has established a globalized artist ecosystem tailored to diverse regional aesthetic preferences, cementing its status as a pioneer in the K-pop industry [1].

The debut of the idol group H.O.T. in 1996 marked a turning point, as SM became the first South Korean entertainment company to successfully penetrate international markets. This era until 2010, later retroactively termed "SM 1.0", played a pivotal role in globalizing K-pop and establishing it as a distinctive cultural export of South Korea. The subsequent "SM 2.0" phase, which spanned approximately a decade, was characterized by exponential growth in digital reach and global audience engagement. By 2023, SM Entertainment had accumulated over 38.9 billion video views on YouTube, while its world tour concerts had attracted more than 20 million attendees cumulatively. During this period, the company transitioned from a producer-centric model led by Lee Soo-man as a key creative force to a more institutionalized management structure headed by a professional CEO, signaling the maturation of its corporate governance and operational framework.

However, like many traditional entertainment enterprises, SM has faced mounting pressures associated with digital transformation and industry disruption. In the later stages of SM 2.0, internal tensions—amplified by Lee Soo-man's dominant influence, corporate power struggles, and shifts in equity structure—culminated in leadership changes, with Lee Sang-min succeeding Lee Soo-man as the new board director. Externally, intensifying market competition, particularly from Hybe's strategic acquisition of a significant stake in SM Entertainment, further eroded its market position and underscored the urgency for strategic reinvention. In response to these internal and external challenges, and with a strategic vision for sustainable growth, SM Entertainment's shareholders and top management collectively resolved to transition into a new developmental phase—"SM 3.0", which was initiated in 2023 [2].

3 Introduction and Effectiveness Analysis of “SM 3.0”

3.1 IP Strategy

The IP business is expanding rapidly, but the single production team in the existing system struggles to meet operational requirements. Therefore, SM Entertainment has launched a multi “production center/label” system to create high-quality IPs.

First, production capabilities are decentralized to multiple production centers and labels. The A&R heads of each center form a committee for collaborative decision-making [2]. Each production center manages its artists exclusively and has autonomy from production to decision-making. However, tasks such as casting and artist training are shared to avoid duplication and waste. Secondly, to maintain musical individuality, each center has creative autonomy. Meanwhile, the music boundaries are expanded through internal labels (emphasizing original works) and external labels (investing in potential external artists/companies). SM Entertainment plans to establish its own music publishing subsidiary and offer employees the opportunity to hold shares, which can retain core talents and become a new source of income. Third, resources are allocated according to different stages of artists (debut, peak, transformation). Performance-based rewards are given to artists based on the profits they generate, enabling “long – term, co – existence” between artists and the company.

This strategy emphasizes the production and management of IPs based on a profound understanding of fans and the market. Since the implementation of this strategy, driven by the IP committee, the artist planning has evolved from launching one group every 3.5 years on average to arranging the debuts of two groups, RIIZE and NCT WISH, by the end of 2023. This ensures business sustainability, expands production capacity, and accelerates the IP production speed. The frequency of artist album releases has significantly increased. The company may produce more than 30% more albums annually compared to before, with an expected sales volume of 18 million copies, a 30% increase from the 14 million copies in 2022 [3]. The company also plans to publicly announce the schedules of IP debuts, album releases, and concerts on a quarterly basis as expected, while maintaining production quality amidst internal competitions.

3.2 Business Strategy

Original IP Business (including core segments such as digital music, physical albums, concerts, and artist management) acts as the core revenue source and driver of the 30% annual growth rate [3]. To address existing issues and expand the system, initiatives focus on the internalization of core businesses, multi-production center IP expansion, and digital music upgrading. By the end of 2022, the contract with Like Planning was terminated ahead of schedule, and SM Brand Marketing that responsible for core businesses like merchandise (MD) was fully internalized. For the concert business previously managed by Dream Maker, a strategic shift was made to a bidding model to collaborate with top global enterprises [4]. These measures have effectively reduced profit leakage and improved operational efficiency, with tangible outcomes including an expanded IP production system, increased frequency of concerts and fan meetings (over

20 global concerts per artist team annually), optimized digital music services (e.g. enhanced streaming and promotional efforts), and reduced logistics costs for physical album sales.

Derivative IP Business, a core growth engine with far higher profitability than the original IP business, aims to increase its revenue share from the current 23% to 40% by 2025 [3]. To transition to a high-margin model, strategies emphasize strengthening MD/IP licensing, developing original IPs and global layout. Specific actions include integrating artist collaborations (e.g. NCT×Sanrio) and the "KWANGYA Concept" into artist activities (e.g. physical albums, concerts), then monetizing MD through targeted advertising. Centered around the "SM Culture Universe" concept, efforts are underway to monetize artist IPs via online integration, build an exclusive SM IP system, and expand into global markets. These practices have significantly boosted profits, and solidified brand image and credibility, with the most direct evidence being the remarkable increase in attendance rates for the 2025 SM TOWN Global Tour themed "The Culture, The Future."

Fan operation and video content segment has also undergone strategic optimization. The previously fragmented nine fan platforms were integrated and upgraded into a unified platform directly operated by SM Entertainment [2]. A video IP business center was established, and talents with experience in producing popular content were recruited to enhance content creation capabilities. Additionally, content is now licensed to broadcasters and cinemas to expand distribution channels. These measures not only diversify revenue streams but also improve fan experience, increase fan loyalty, and ultimately boost artist visibility.

3.3 Global Strategy

For global expansion, SM Entertainment focuses on the construction of localized production centers and market adaptation strategies in global markets. Based on the existing foundations and potential of different markets, it adopts differentiated promotion strategies and flexibly adjusts strategic priorities [2,5]. The implementation steps are as follows: First, initially globalize its domestic multi-production centers, sign overseas members, and provide support. Second, retain IP production in the domestic market while transferring management and commercialization to local entities (responsible for monetization activities). Finally, enable local organizations to lead the entire production department to achieve localized operations [4].

As a traditional core market, Japan has a strong fan base. SM3.0 plans to leverage existing advantages for rapid upgrading: establishing a global production center in Japan to make it the "Second SM Entertainment" aiming to help post-pandemic sluggish offline activities recover to six times the level of a year ago. In September 2025, RIIZE set a record as the fastest K-pop boy group to perform at the Tokyo Dome, demonstrating the expansion of SM Entertainment's influence in the Japanese market.

As a high-potential market, the U.S. sees organic growth in physical/digital record revenues. Meanwhile, American music charts have significant global influence, and the market has strong purchasing power. SM3.0 plans to establish a joint venture with strategic partners to quickly stabilize its business. As the company's artists gain more

exposure at American music festivals and fashion weeks, its market share continues to grow.

As a future growth point, Southeast Asia has stable but small-scale concert and management revenues, with fans preferring members with local backgrounds in foreign groups. SM3.0 plans to establish local bases through “medium to long term” approaches for gradual penetration. Carmen, a member of the new girl group Hearts2Hearts and SM Entertainment's first artist of Indonesian descent, has indeed generated widespread discussion and support.

3.4 Investment Strategy

2021 witnessed K-pop driving South Korea's K-content exports to a staggering \$12.45 billion. The direct impact of K-pop primarily spans three core areas—streaming, derivative industries, and advertising/marketing. Indirectly boosting sectors like tourism and digital platforms, thereby contributing to the overall growth of the national economy [6]. Against this backdrop of intensifying competition in the South Korean entertainment industry, SM Entertainment's investment strategy focuses on acquiring new labels through IP monetization and exploring emerging fields such as the metaverse [7].

Centered around independent innovation and strategic positioning for future entertainment formats, SM Entertainment has upgraded its traditional fan interaction platforms to incorporate metaverse and AI concepts [4,8]. Under its "SM 3.0" strategy, the company plans to establish a "Virtual IP Production Center" dedicated to virtual avatar R&D, exploring application models that integrate with real artist activities. In 2024, Nævis—a virtual artist modeled after the girl group aespa—debuted, expanding IP portfolio, aligning with future entertainment industry trends, driving the transformation of traditional entertainment into new digital formats, and catering to the evolving entertainment needs of young user groups.

Two-track investment model balances short-term profits (e.g. music publishing) with long-term growth (e.g. AI R&D and applications), supported by a total investment of 1 trillion won. The goal is to enhance global competitiveness and achieve sustainable growth [4]. For the short term, SM is acquiring music publishing companies to provide core content support for IP creation; purchasing labels in the Americas to drive IP localization in the region; and upgrading fan platform functions via big data analysis to develop derivatives and create additional IP value. For the long term, SM3.0 is focusing on growth drivers for the next 5–10 years, providing financial support for global market expansion to achieve differentiated coverage. Through its wholly-owned subsidiary Studio KWANGYA, SM is investing in meta-human technology and visual effects to create differentiated experiences, forming core competencies for long-term growth.

4 Discussion and Suggestion

4.1 Target Market Segmentation

From the perspective of market strategy implementation outcomes, Japan and South Korea, as key markets, have seen SM Entertainment roll out exclusive merchandise and

post-concert close-range handshake events tailored for the Japanese market as part of its fan benefits. However, this regionally biased fan operation strategy has led to escalating dissatisfaction among overseas fans, disrupting market balance and posing a risk of South Korea market erosion. In the U.S. market, tour operations resulted in losses due to insufficient marketing efforts, and low consumer purchasing intent led to negative growth, reflecting strategic missteps in this region. More critically, SM Entertainment has failed to develop specialized strategies for the Chinese market—where it holds a high sales share and significant growth potential—treating China merely as a sales destination for merchandise while neglecting long-term benefits such as brand loyalty and sustained fan engagement, as well as profit growth opportunities.

To address these issues, SM Entertainment should enhance market research. To standardize fan benefit standards across Japan and South Korea, fostering a virtuous cycle. For the U.S. market, adjustments should prioritize strengthening brand marketing to improve market awareness. Regarding Asian markets like China, despite the challenges foreign companies face when entering the Chinese market, WayV—the Chinese group of NCT debuted under SM2.0—has adapted to the market environment and maintained SM Entertainment's operations in China [9]. The successful expansion of K-pop in Asian markets is largely attributed to commercialization strategies, which effectively drive consumer participation and purchasing behavior [10]. SM Entertainment should therefore develop localized content to tap into market potential, launch products aligned with Asian consumption habits, and improve consumption conversion rates.

4.2 Leverage Fan Economy

From the perspective of fan psychology, the frequent release of merchandise driven by a rush for profit realization, coupled with the company's varying degrees of attention to different markets, has created a psychological disparity among fans, raising suspicions of being a "consumption trap". The idol-fan exclusive chat software Bubble, developed in collaboration with Lysn, has enhanced fans' sense of intimacy with stars and privileged honor [1]. This indicates that idols serve as emotional anchors for fans, meaning that the company's unfair treatment of idols will translate into fan anger. Therefore, SM Entertainment should attend to fan emotions, fairly allocate resources to idols to avoid dissatisfaction arising from unfair treatment, rationally plan the frequency of merchandise releases, clarify design logic, reduce regional differential treatment, and preserve fans' sense of privileged "being valued".

From the perspective of fan consumption. Entertainment companies can effectively enhance the commercial value of idols through precise fan profiling and differentiated idol's personal strategies, converting fan emotions into actual consumption behaviors, which holds enormous potential for profit growth [11]. According to secondary market data, after the popularity of photocards that given by album sales fades, the popularity of idol-themed dolls surges—derivative businesses have revitalized the fan economy. However, the company's unwillingness to launch secondary sales has led to profits flowing into the secondary market. In addition to targeted secondary sales to recover profits, SM should develop more forms of merchandise using idol IPs, adjust the

structure of derivative products based on fan purchase data, and improve monetization efficiency.

4.3 Sustainable Development

The entertainment industry is undergoing rapid transformation, primarily driven by technological innovation, with technological applications propelling its modernization [8]. SM Entertainment’s metaverse concept stands at the forefront of the industry, however, due to immature technology in its subsidiaries, the virtual idol Nævis has failed to establish a stable and consistent identity due to repeated modeling adjustments—this has undermined user perception and acceptance, hindering the formation of a lasting, profound user impression. To address this, SM Entertainment should strengthen the technical capabilities of its subsidiaries, enrich personalized interaction functions through technological innovation, and align with industry development trends.

SM Entertainment’s revenue is highly dependent on artists. At the group level, under the multi-production center system, older groups are paired with newer ones—even though artists receive a high proportion of profit sharing from tours, the company’s portion of profits ultimately flows into the training of new groups, creating a resource allocation bias that leaves older artists feeling neglected and unbalanced. At the individual level, within groups, there is a lack of uniform standards for media exposure, personal activity opportunities, and promotional resource allocation. This has led to popular artists losing their original popularity due to inadequate resource support, artists missing the golden period for solo debuts, finally resulting in a decline in commercial value, etc. Tight schedules causing physical and mental exhaustion—all of which easily trigger contract renewal issues. Additionally, the company’s condoning of artists’ moral lapses and public relations strategies that sacrifice artist images for attention have eroded fan trust, damaging both artist and company reputations. Therefore, SM Entertainment must establish and optimize resource allocation mechanisms based on market feedback and stakeholder needs, strengthen artist management, and refine public relations strategies to minimize risks.

The multi-production center system also poses several potential challenges. First, SM Entertainment’s early “family concept”—characterized by close interactions between groups, effectively attracted niche user groups and extended affection for older groups to newer ones. However, reduced interaction between centers at present has weakened the consistency of this brand image. The company should moderately restore cross-center group interactions to preserve users’ brand memory. Second, shared work across centers has led to decreased information transmission efficiency and increased management costs. Each center should collaborate more closely, integrate efforts, leverage their respective strengths, and merge public resources appropriately to reduce communication costs. Third, the excessively fast launch of groups and album releases relies heavily on concert revenue, so that financial disruptions could break this virtuous cycle. The company should optimize business rhythms, exercise reasonable control, ensure stable funding, and avoid disruptions in the value chain. Fourth, as a major structural change, the multi-production center system lacks operational experience, leading to management issues such as disorder in offline activities. The company should

optimize processes, promote them company-wide, and clarify the internal functional structure of each center.

5 Conclusion

SM 1.0 and SM 2.0 primarily relied on the personal leadership of Lee Soo-man, whereas SM 3.0 emphasizes a multi-production center system, which has enhanced production efficiency, decentralized authority, and facilitated professional management. SM 3.0 places greater emphasis on the commercialization and diversification of artist IPs, expanding the value of artist IPs through an IP accelerator system. The company is actively exploring emerging fields such as the metaverse and increasing investments in virtual idols, AI interactive platforms, and overseas labels.

Overall, SM 3.0 is guided by the multi-production center system, with a two-track investment strategy supporting both core original IP businesses and derivative IP businesses. It emphasizes the internalization of various functions, clarifies corporate characteristics (preserving original concepts while innovating in the "metaverse"), and then strives to expand market share. However, issues such as inappropriate market strategies, problems involving fans and artists, insufficient technical support, and flaws in the multi-production center system indicate that SM Entertainment should optimize and update its SM3.0 strategy from three key dimensions: segmented markets, fan economy, and sustainable development. This will enable the conversion of short-term achievements since the implementation of SM 3.0 into long-term benefits, assisting the company in achieving steady progress in the South Korean entertainment industry.

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