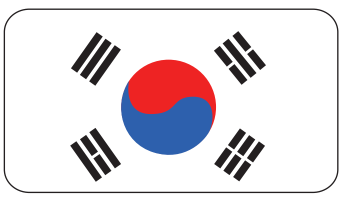

DIGITAL FILM & ANIMATION

MARKET OPPORTUNITY PROFILE | **KOREA**

MARKET OVERVIEW

Korea's digital film and animation sector is not large. According to estimates from the Statistics Survey of the Korea Culture Industry, the 2008 turnover in this sector was US$620.4 million. The sector has not grown significantly over the past three to four years. The average annual growth rate between 2006 and 2008 was just eight per cent. During the 1990s, Korea's digital film and animation sector saw explosive growth. Korean studios made the lion's share of their profits from "OEM animation," or animation production deals, mostly from the United States.

Nelson Shin's AKOM studio struck the prototypical Korean OEM deal in 1989,when it animated the first season of The Simpsons. More recently, South Korean OEM deals have been on the decline, with clients going to other markets (such as China, India and the Philippines) to get their projects completed. Because of its long history as a pure service provider, there is a general sense that there may be a lack of know-how within Korean studios to develop original content. There were 276 animation firms in operation in Korea employing more than 3,924 people in 2008. Most firms are small or medium-sized enterprises that do not have the financial resources to market and commercialize their ideas. While the Korean animation industry may have higher costs than other markets, the industry can put together an overall competitive package. Studios in Korea are technically equipped to deliver a world-class product and leading players have significant contract experience with major global studios. Therefore, while price and cost arbitrage are important factors when outsourcing in the animation sector, Korea does provide good overall value.

*The 2009 Statistics Survey of the Korea Culture by the Ministry of Culture, Sports and Tourism.

OPPORTUNITIES

Increasing production costs are a cause for concern in the Korean industry. Costs will not drop easily in the future as consumers continue to demand higher quality graphics and storylines. As part of their strategies, Korean firms know that market share gains will be dependent on their ability to produce a diverse range of new titles and expand their business into international markets while marginal improvements will come from a combination of revenue growth and cost reductions. From the perspective of international partnerships, South Korean firms are most interested in opportunities to bring existing console games into the online market and are open to collaborations with B.C.-based market leaders. They also offer their proven online game monetizing business models as a potential revenue opportunity for B.C.-based games developers. In an effort to inform the B.C. industry about market opportunities in this sector in Korea, survey research shows that second tier players in Korea are looking for all types of partnerships with B.C.-based companies. This includes acting as outsourced developers of digital content, co-production, distribution and general partnerships.

REGULATORY/COMPETITIVE ENVIRONMENT

The Korea Media Rating Board (KMRB), in collaboration with the Ministry of Culture, Sports and Tourism, does ratings for the digital film and animation sector. The KMRB is responsible for assuring the ethics and spirit of films, video products, games and advertising products meet local laws and regulations.

For years, the Korean government has invested heavily in the animation sector. In 1995, the government primed animation studios with incentives, changing the industry's status from service to manufacturing (triggering a 20 per cent tax break) and launching the Seoul International Cartoon and Animation Festival. In 2000, it set up the Korea Culture and Content Agency to help develop and train the industry and provide funds for production and co-production. As in other new media sectors, the national government's financial support induced local governments to get involved with digital film and animation. Seoul authorities fully supported the multi-purpose Seoul Animation Centre with its training academy, museum, libraries, theatres, exhibition halls, festivals and incentive award programs for animators. Bucheon and Chunchon City have offered help for office rent and production costs to animation studios in their provinces.

Most digital film and animation studios in South Korea are private and company data is generally not publicly available. Major animation studios in South Korea include: Dongwoo Animation: Dangwoo is a 2D and 3D animation and games production studio, established in 1991, with a staff of 90. Dongwoo has worked extensively with U.S. companies, including Sony Columbia, Warner Bros and 4Kids Entertainment on shows like Scooby-Doo, Men in Black and Godzilla. It has co-produced a number of productions including What About Mimi and Yvon of the Yukon with Studio B in Canada.

Ocon Inc. Animation Studios: Established in 1996, Ocon started as a 3D studio and has now extended into merchandising, publishing and branding. Ocon offers complete 3D Studio capabilities (business planning, scenario creation, art design, modelling, animation, composite and editing). The company has extensive 3D animation development and broadcasting experience with more than 750 episodes.

Sunwoo Entertainment Group: One of the largest and most established studios in Seoul, Sunwoo produces high quality 2D, 3D and Flash Animation. Although it has shifted its focus from 2D to digital and 3D, Sunwoo has produced for Disney, Nickelodeon, Cartoon Network and Universal. It produces about 140 episodes a year. Recently, Sunwoo established offices in China and Singapore.

Daewon Media : Daewon is one of the oldest animation studios in South Korea. Founded in 1973, the company has implemented several outsourced projects for Japanese and U.S. companies. Recent titles include Vectormen: Warrior of the Earth 1 & 2, Spirited Away (with over two million theatrical viewers) and Powermaster Maxman. In terms of engagement strategies with these market leaders, B.C. companies may wish to work with them as outsourced content providers on a property. Once capabilities have been assessed and relationships built, co-productions can follow. All of these players have significant expertise in international co-productions that can leverage the skill sets of a B.C.-based studio and its Korean partner. Korean studios are moving up the value chain to offer not just creative services but also to be part of content distribution through the networks they have established with international studios. Therefore, B.C.-based firms that establish longer-term relationships with Korean studios can look forward to more profitable distribution ventures that leverage their Korean partner's networks, especially in the high growth Asian markets.

MARKET ENTRY STRATEGY

Industry analysts suggest that the digital film and animation sector in Korea faces a strategic conundrum. On the one hand, animation studios recognize that it is crucial for them to cater to overseas market demands in order to grow. On the other hand, in the late 1990s there was significant downsizing of the overseas animation industry which caused Korean studios to focus on the domestic market.

Analysts suggest that while Korean animation technology may be superior, animation studios lack good storytelling, are inexperienced in marketing and tend to focus on a uniquely Korean style. While the Korean animation industry may have higher costs than other markets (such as the Philippines, China and India), the industry can put together an overall competitive package. Backend capabilities in Korea are solid, studios are technically equipped to deliver a world-class product, educational institutions emphasize development of creative skill sets and leading players have significant contract experience with major studios. Therefore, while price and cost arbitrage are important factors when outsourcing in the animation sector, Korea does provide good overall value to a project.

In Korea, the importance of the 3D industry has been highlighted since the success of the movie "Avatar" in 2010. The Department of Culture has recognized the Digital Film and Animation market as the core of the 3D industry, according to the Ministry of Culture, Sports and Tourism (The report on plans to boost the content industry in 2010). A lack of content is anticipated due to the expansion of broadcasters providing integrated channels with four new broadcast companies. As a result, B.C. companies that own content are advised to enter into contract swith Korean domestic broadcast companies in advance to maintain a favourable position. Domestic companies that work with foreign companies are eligible for a maximum subsidy of KRW 5 billion (approximately US$4.5 million) per project under government policies. (The Ministry of Culture, Sports and Tourism)

Moreover, a funding strategy for successful domestic market entry is recommended for broadcasters who are under financial pressure such as Dong-A Ilbo and MK business news.

* Reference

Four new broadcast companies were added at the end of 2010: Chosun Ilbo, Choongang Ilbo, Donga Ilbo and MK business news (selected by the Korea Communications Commission)

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LINKS AND REFERENCES

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  www.kiba.or.kr
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  www.kofic.or.kr

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