CASE: SM-222
DATE: 05/14/14

SK PLANET IN 2013: A KOREAN GIANT'S BIG BET ON THE U.S. MARKET

"This time, it will be different. We are not going to just copy and paste our Korean business to the U.S. and global markets. Through a variety of methods, we will combine our extensive Korean experience with a talented global executive team, and take full advantage of the recent worldwide mobile paradigm shift underway."
– Jinwoo So, CEO, SK Planet, interviewed on May 20, 2013, by the Wall Street Journal

INTRODUCTION

It was late September 2013, and Jinwoo So, CEO of SK Planet, sat at his corner office in the famed T-Tower building in the center of bustling Seoul, reflecting on the past two years since the creation of SK Planet. There'd been a flurry of transformative organizational changes—including the spin-out of SK Planet from its telecom parent, its merger with a major sister company, and the sale of a strategic stake in South Korea's #1 music streaming service, Loen Entertainment.

In addition, the company has focused on establishing initial beachheads in international markets and hiring new executives to drive SK Planet's global growth. After setting up a 15,000 square foot U.S. headquarters in the heart of trendy SoMa district in San Francisco, and hiring the first batch of his U.S. executive team, So was now contemplating the strategy for the next three years to fulfill his ambitions of establishing SK Planet as a global force in consumer mobile and web services.

With an existing portfolio of market leading web and mobile services in Korea, over $1 billion in revenues and over 4,000 affiliated employees worldwide, So was reviewing his options for an aggressive global expansion phase for 2014 and beyond. He had amassed a war chest of nearly $600 million in cash, a portfolio of leading Korean services that he could potentially take global,

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and an initial foundation of organic initiatives in the U.S., Turkey, Singapore, Indonesia and Japan.

In an executive memo, So's team had prepared three strategic options for his evaluation. These possible objectives represented different potential paths forward:

1) **Port or rebrand SK Planet's top-ranked Korean services to the U.S.**. SK Planet enjoyed a large native user base in the tens of millions, spanning several well-developed and cutting-edge platforms. But these platforms were built largely for the Korean market, and their idiosyncrasies might not "translate" to U.S. audiences, literally or figuratively. Furthermore, many of these services would face entrenched, direct competition within the U.S..

2) **Develop or expand organically, by way of chartering new SK Planet divisions under experienced Korean or American executives**. SK Planet could spin off, seed, or wholly fund its own divisions or start-ups in the U.S.—whether to develop new technologies and apps, or to mine its existing portfolio for inspiration. The downsides of such an approach would involve delays in getting new divisions off the ground, and the need to invest significant time and energy in researching the U.S. consumer market, with which many of SK Telecom's executives were largely unfamiliar.

3) **Mergers & Acquisitions**. With its nearly $600 million war chest, SK Planet could acquire, or at least gain significant interests in, U.S.-based content providers, app developers, intellectual property, start-ups, and services. Such a strategy would be tempting, but would involve a high degree of risk. And if not managed carefully, mergers could lead to culture clashes between U.S. and Korean executives, and/or corporate executives accustomed to methodical planning versus start-up teams accustomed to more fast-paced, chaotic business environments.

BACKGROUND

SK Planet—a combination of "**Pla**tform" and "**Net**work"—was a big company, carved from an even bigger one: SK Telecom, the market-leading mobile carrier in South Korea, with a subscriber base of 27 million and a market share of 50 percent. And SK Telecom was itself a subsidiary of something even larger. SK Group, its parent company, was the third largest conglomerate, or *chaebol*, in South Korea. Only Samsung and Hyundai were bigger.

Samsung and Hyundai were more recognizable brands overseas, and that recognition was the result of decades of relentless efforts to tap foreign markets. SK, by contrast, was relatively unknown by Western consumers. SK was highly profitable, but confined in many respects to the large, concentrated, and increasingly crowded domestic field (albeit with strong toeholds in China and other nearby markets).

SK Telecom had tried, and failed, to expand its reach in the mid 2000s. Its most notable effort was Helio, a mobile virtual network operator (MVNO[1]) launched in 2005 in a 50/50 partnership with EarthLink, an American Internet service provider. Helio struggled in the U.S. (as did most MVNOs), and by 2008, SK had divested itself of its interests in the venture. For the next few years, it retreated back to the relative comfort of the Korean consumer market. SK intended, once again, to try its luck in the U.S., but only after carefully examining the lessons Helio had provided.

By October 2011, SK was ready for its second chance.[2] This time, the stakes would be higher. SK Telecom Co-CEO Jinwoo So was tapped to head the newly formed SK Planet. So was given a strong balance sheet with sizeable cash, and received a *carte blanche* mandate to pursue international growth as he saw fit. The U.S.—the site of Helio's failure—would be his first major target. It was, for SK, both a glaring weakness and an enormous opportunity.

Given SK Telecom's unsuccessful attempt to expand its mobile network to the U.S.—and given the general shift in gravity from carriers to device-based platforms—SK Planet was mandated with expansion by way of *value-added content*: applications, services, and other "over-the-top" (OTT) plays that could function independently of SK's own mobile network.

To that end, SK Planet quickly rolled up a portfolio of some of the top Internet and mobile services in Korea, including a top search portal, its first and largest social networking service (SNS), and a top-ranked Internet messenger platform.

Corporate History and Structure

SK Group (Sunkyoung Group)

SK Group was a diversified *chaebol* (holding company) with 2012 revenues reported at approximately $140 billion (₩158 trillion[3]). It was one of the largest public companies in Korea, and among the largest in the world (it ranked at #65 on the Fortune Global 500 list in 2012). SK derived approximately 58 percent of its revenues from Energy & Chemicals, 23 percent from Information, Telecommunications & Semiconductors, and 21 percent from Marketing & Services. (See **Exhibit 1** for a list of SK Group's major business areas, governance structures, and revenue sources.)

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[1] A mobile virtual network operator (MVNO), sometimes known as a mobile other licensed operator (MOLO), is a wireless communications service that does not own the network infrastructure over which it operates. In the case of Helio, the MVNO entered into a licensing agreement with Sprint to make use of Sprint's wireless network for the transmission of Helio's service. MVNOs often rely on branding, exclusive content offerings, and other incentives to differentiate themselves as providers.

[2] SK Planet, Inc., "About SK Planet." http://www.skplanet.com/eng/aboutus/skplanet_is.aspx.

[3] For the sake of clarity, all financial figures hereafter, with the exception of those in Exhibits, will be reported in US Dollars (USD) as approximated by average conversion rates from South Korean Won (KRW) at the time of this writing in October 2013 (1 USD = 1,085.71 KRW). SK Telecom, being a Korean company, makes public disclosures in KRW. Exhibits have been provided directly by SK Telecom, and so they are represented in KRW to reflect accurately the company's financial reporting. Students may use the exchange rate reflected in this case, or for quicker approximations at the expense of a small degree of accuracy, may be permitted to round to 1 USD = 1,000 KRW.