

Cyworld – case analysis

Business, Marketing



Situation Analysis Company: SK Comms Product line Internet Cyworld Social networking Biggest player Value proposition: providing users with a free and clean community with limited advertising and an almost exclusive focus on social networking Life cycle: mature phase of growth NateOn Instant messaging Biggest player Linked to Cyworld Home2Social media Media platform Video: 50M; +50K/day News: Pictures: +5M/day Cyworld revenue segmentation (2006) Paid items: \$67M (72%) Virtual items: \$15. 45M Average price: \$1 Items sold: 32M 3D virtual items: \$0M 010 projected: \$(120M – 2010 paid item sales Music: \$14. 48M Selling ~200K/day Average price: \$0. 50 Can be solved technically with blocking Lack of useful information Don't want ads in a “ clean” environment Lack of time Customers getting bored Because: lack of relevance Not leveraging personal applications Goals Retain users Customize/targeting experience Increase revenues Grow users Possible Options 1) Paid Products Music accounts for 50% paid revenues (36% of total revenues) Growing at a rate of 10% a year 3-D Virtual Gifts Expected to generate \$120m in revenue

Maintain current levels of advertising, careful not to disrupt customer preferences for an ad-free environment Pros: low marginal cost, already established market, integrity to original value proposition of a “ clean, ad-free environment”. Cons: ignoring the largest market (890m potential revenues), not solving the attrition problem of people tiring of virtual gifts, 2) Acquire a gaming company (acquiring Empas was approximately \$30M) Own company (buy for \$3 -- \$5 M; or enter into a license agreement where we have a gaming contract.... reate a certain number of games per year and collect a small percentage of proceeds) Positioning Statement: Marketing

Analysis Product Price Market Analysis Founded in 2001, Cyworld initially began as a social networking company before it was acquired in 2003 by SK Telecom. It offered a trusted and ad-free platform to stay connected with friends and family via a “minihompys” where users could post information and updates. At the time of acquisition Cyworld had a membership of 1 million before reaching critical mass in 2004 and growing to 21 million in a country of 50 million people.

Since then, Cyworld has offered a variety of features such as NateOn, an instant messaging service acquired in 2002, a virtual item market, a music store, a blogging service, a “plaza” for sharing user-generated media, and a Home2—a hybrid model of blogs and minihompys. Cyworld currently enjoys 90% market penetration for the 20-29 year old demography and accounts for 50% of SK Telecom’s profits with 72% coming from paid items, 16% from advertising, and 12% from mobile services. However, users are tiring of buying virtual items and decreasing site usage (64% decreasing versus only 13% increasing).

A function of the site’s privacy model forces some users to de-register and re-register when relationships get broken instead of simply being able to unfriend or block users as is an option on Facebook. This led to 10,000–15,000 new users signing on per day, but also 5,000 users cancelling their subscription. Recent data has also shown that Cyworld users have become increasingly more segmented with regards to usage frequency and money spent. 27.5% of users logged on 3 times or more per week, but these users account for 93% of the usage and furthermore 35% of total purchases coming from 15% of users.

The original value proposition of Cyworld was focused on providing a clean and safe social network. The addition of features such as the virtual marketplace and media-sharing platform has evolved the site to being a focal point of entertainment and self-expression. The business model of Cyworld must continually reflect the site's growing importance in the lives of their users. Cyworld must create an enhanced value proposition for its current customers so they can better focus on revenue extraction from their high- and mid- frequency users.

The main springboard from which Cyworld has launched most of their successful add-ons has been its pre-established network of friends which each user has collected over the years. However, these networks, once they are acquired, become a static list of superficial relationships. Though users are currently able to chat with or broadcast to their networks, there is limited actual relationship-building. Cyworld must now step in to remedy this gap in emotional closeness by creating a way for users to engage and strengthen their network.

What is the best way to create closeness? Options Our initial analysis of consumer demographics, user behavior and preferences, and overall gaps in the revenue and functionality model, have led us to these possible answers to that question: 1. Restructure existing business model to shift primary revenue-driving focus to advertising, similar to social network competitors, Facebook and Myspace; and paid search competitors Naver and Google. With growth rates of 46% in 2005 and 29% in 2006, Advertising represents a thriving opportunity for Cyworld.

While this option could boost Cyworld's revenues significantly, it poses risks, considering consumer concerns with privacy and the company's commitment to a clean and free online environment. 2. Develop a new music sales strategy to enable users to download music to personal MP3 players, following the iTunes model. Songs currently downloaded by users can only be used as background music for minihompys. Yet, music represents a profitable option as Cyword would be able to retain more than 50% of revenues.

However the streaming to MP3 process could be a complicated and costly transition given the wide range of system and compatibility requirements. 3. Develop user-specific personalized applications, product recommendations, and shopping options to encourage increased site-usage. Specifically, as the Cyworld High Frequency User ages beyond the 19-29 range, the Cyworld platform for decorating minihompys is becoming less relevant. The company needs to increase the relevance of its services by introducing specificity and targeted marketing.

However this may also raise privacy concerns and dilute the previous value proposition of a clean environment. 4. Cyworld could acquire gaming companies to develop games targeted at current users. This would both increase site usage and provide users with an opportunity to further connect with contacts via a friendly and competitive venue. In addition, as users start their own families, the Cyworld gaming environment can serve as an educational and entertaining option for their children. Our answer is online gaming.

While Cyworld should try to maintain the current level of sales of music and virtual items (especially with the development of 3-D virtual gifts driving revenue to \$120 million in 2007) and fix the privacy glitch which forces users to register and re-register, the majority of their focus should be on gaming. Cyworld should use gaming to allow members to strengthen their preexisting relationships and form new ones. This would eliminate much of the risk of engaging with strangers online and inject accountability into the way people compete in these games.

Instead of being a platform where users share what has already happened, users can now log on to Cyworld for a new challenge, a new way to interact with old friends, and the possibility of a new story generated on the site itself. Strategy Implementation: Cy-Game (4 P's) Product "Cy-Game" will be created via a combination of Cyworld's \$20M acquisition of Game Me, a network of online gaming technology start-ups in South Korea for exclusive use of their games. User-targeted games will be offered and sold via an application store that Cyworld users can easily access—whether on their home computers or mobile phones. Cy-Game's launch will target High Frequency Users first, leveraging the consumer information Cyworld has gathered for the past 12 years. The goal of Cy-Game will be to provide users with gaming and entertainment options for every stage of their lives—from the first year college student, to the mid-twenties urban professional, to the mid-thirties married parent looking for a safe and easy pastime to share with their friends, and family. Price The Cy-Game pricing model will be as follows:

A. Pay-to-Advance Games: Users will have access to a large database of free games.

However, in order to advance to the highest levels of the game, users will be required to purchase special weapons, treasures, and secrets. The fee to acquire each add-on will start at \$. 05 and increase incrementally with importance. These virtual enhancers are crucial to advance in the game and remain competitive. B. Initial Buy-in Games: Cyworld will extract 5% of the buy-ins from users participating in gambling-intensive games such as poker or bridge. C. Subscription Games: Users can access these games for free or for a fixed price of \$36 a year.

Paid subscribers can enjoy ad-free gaming, while non-subscribers will be shown a fixed number of ads per hour. We estimate the total annual revenue generated from gaming to be \$6M (2 from Free Games and 4 from Paid Games) FINANCIALS HERE. Promotion To promote the launch of “ Cy-Game,” Cy-World will offer all existing users a free two-month ad-free subscription and a \$10 credit to be used in the buy-in or pay-to-advance games. CyWorld will also sponsor a “ So You Think You Can Game” contest to be broadcast on Korean MTV.

The winner, deemed “ Korea’s Next Top Gamer” will win \$50, 000. Placement Cy-Game advertising will run predominately on the Cyworld homepage. However, we will also leverage Game Me’s existing marketing strategy to promote the new partnership with Cy-Game. That marketing strategy includes traditional television and print advertisements. City-Wide murals and billboards will also be prominently placed in city centers and near universities. Cyworld’s goal is to attract gamers to Cy-Game while increasing overall Cyworld signup and usage frequency.