Cyworld: User Segmentation and Targeting

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Introduction

Smoke signals, telegraphs and telephones: communication in the modern world evolves quickly. The 21st century has been no exception. The rise of the internet heralded the growth of so called “online social networks” or simply “social networks” – websites where individual users carved out their own niche. Many of these networks have become household names to Americans: MySpace, Facebook, Linkedin and more.

For many Koreans between the ages of ten and thirty, social networking has meant one thing: Cyworld. Cyworld, a small social networking company, was founded in 1999 by a group of MBA students in South Korea. The network was revolutionary, pioneering user experiences, such as community gifting and public threads, that other networks would adapt years later. Cyworld underwent rapid growth, and in 2003, was acquired by SK Telecom, a billion dollar Korean mobile communications enterprise.

Cyworld employed a relatively unique revenue model of selling virtual items (“microtransactions”) to over twenty million users. However, by 2006, the social networking market was changing rapidly. Surveys and forecasts reflected declining activity and loyalty among current users. Additionally, an increasing percentage of users simply took advantage of the free services that were offered.

Hyung-Chul Joo, as newly appointed CEO of SK Comms (the online services division of SK Telecom), is faced with creating the vision for what Cyworld will become. Development of this vision requires not only a clear understanding of what Cyworld is today and how it got there, but also of how users extract value from Cyworld. Defining value creation, identifying market segmentation, observing their values and understanding Cyworld’s role in delivering those values are key to formulating a plan for the network’s future success.
Why People Use Social Networks

Knowing why people use Cyworld is fundamental to understanding how to retain users and attract new ones. Qualitatively, our team understood the need to connect with other people as a basic human need. Other “old media” types, such as radio, music and television, are “passive” – offering users a one-way conversation: the media broadcasts and the viewer consumes. These old medias may connect with a person on an emotional level, but do not provide real time feedback and are not dynamic. This leaves the most established part of the human social psyche unmet: relationships.

One of the most powerful differentiators for social networks is feedback, assumedly, from friends and family. On Cyworld, and most other social networks, a user can send messages, write on people’s “walls”, or blog about any subject they deem important. Through other features, such as Twitter, a user can instantly communicate what they are doing, thinking, feeling, or experiencing through a text message on their phone. This leads a user’s friends (and "followers") to reply with their insights. This, in turn, creates a feeling of connection beyond what any other informational internet site, movie, or song can provide. This connection often transcends differences in geography, gender, age or economic position – critical barriers to relationships that, according to our analysis, persist in modern East Asian cultures. Indeed, social networks are often criticized by authority figures in China, Korea and elsewhere for encouraging “inappropriate discourse” between young men and women.

Additionally, through these endless connections, a user has the capacity to explore what others are interested in. If, for example, a friend posts a new song, the user can listen and make judgments. A user can find friends who have seen a movie or visited a new restaurant. Based on their reviews, the user can make better purchasing decisions. Social networks expose other's experiences, helping to reduce the number of decisions a consumer has to make. Not incidentally, advertisers are awakening to the marketing potential of these living opinion forums.

Social networks are also playgrounds of creativity. Social rules define a limited public acceptance of creativity and speech. In traditional mediums, different points of view are met with high levels of judgment, creating a fight or flight sensation that limits many from expressing themselves. Social networking alleviates that with a sense of detachment. Individuals can express themselves in new ways that are seemingly not bound by the same public social rules. This gives creatives an opportunity to communicate their feelings and create new forms of expression with less fear of judgment. Examples of such forums for creativity include deviantArt.com, highly popular with Asian artists, where anyone can upload any artwork for free and have it commented on by friends and followers. Much like American employers that now check prospective hires’ Facebook accounts, many Japanese comic book companies now scan potential artists’ deviantArt portfolios.
This new creative expression is also driven by inspiration from exposure to others' individual contributions that are easily uploaded or posted. These can range from new pictures they have taken, to home page designs, to a range of creative media that these social networks provide. Specific to Cyworld, “avatars” (small, computer-generated cartoons that represent a user’s adventures on Cyworld) allow users to create an image of how they see themselves or how they would like to be seen.

Beyond the psychological aspects of social networking, there are organizational needs the platform satisfies. Among them is social planning connectivity. Events can be announced online; replies can happen at earliest convenience rather than having to change schedules or meeting inconveniently in real time.

Social networking provides a new form of communication and connectivity. With this connection comes a new realm of opportunities for companies to market and create revenue. Companies can create brand awareness through the use of feedback from “friended” (our read: engaged) customers, giving the company more opportunity to grab people's attention on these platforms right at the point of their purchasing decision. Furthermore, this process can be optimized through easy and efficient purchasing systems, made possible by smart advertising and referral links. Indeed, referral links themselves played a critical part in the initial growth of Cyworld.

User Segmentation

Our team analyzed the data of a sampling of 50,000 users to better understand the ABC segmentation (Active users, Buyers, and Connectors) and the relationships between them. Of note were the following:

- 52.03% of the users have low activity (0) regardless of the number of connections they have or the purchases they do. Of note, with this activity criteria, we don’t have any information about 50% of the Cyworld users.
- The probability of a user to have a low number of connections (33%) is about the same probability that a user will have a medium number of connections (32.6%). This in turn closely mirrors the probability that a user has a large number of connections (34.4%). And the same is applicable to the “purchases” criteria.
- Our findings also show that 21.80% of users who have low activity, also have low connections. Moreover, it suggests that about 13% to 14% of users who have high purchases or high connections have either high or low activities.
- We also observed that 17% of users with low connections have low purchases and 17% of users with a high number of connections have high purchases. In addition, 10% of users who have medium connections/purchases have low purchases/connections.
It seems that neither purchases nor connections can accurately express user segmentation because users are almost equally divided into three groups [Exhibit 1.]

We also note that purchases and connection number give very similar information when combined with activity, which suggests that these two criteria are highly correlated.

From the previous observations, it was clear why this data could not help to resolve Cyworld management’s debate about consumer behavior segmentation criteria. The available criteria are unable to intuitively express Cyworld consumer behavior.

This suggests that Cyworld needs to concentrate on other forms of segmentation. Our analysis indicates that the user age is a critical, understudied aspect for user segmentation, since it can determine much about the consumer’s behavior.

Because Cyworld was reaching a mature phase by mid-2007, where it already had 21 million users in a country of 50 million people and over 90% penetration in the 20- to 29-year-old market, it is our team’s opinion that Cyworld needs to target a new user base. The best candidate for this effort is what our team dubbed the “tween-teen” market: near-teenagers and teenagers from 12- to 18-years-of-age. According to our research, this target market’s disposable income was high in comparison to the national average – especially Koreans ages 31 and older. Furthermore, this market’s interests were much more media-focused, making digital marketing via Cyworld organic and more cost-effective.

The second segment that Cyworld should target is semiprofessional users between 20- to 26-years-of-age. This segment has specific, underserved needs such as professional networking and job-seeking communications.

Those two users archetypes are segments that have diverse needs Cyworld can satisfy. Additional understanding and market advantage can be taken from a richer analysis of particularly Korean usage behavior. For example, in Korea, dining is often lively and highly social. Would users enjoy live “foodblogging” on their minihompys while enjoying bibimbop at a traditional floor-seating café in downtown Seoul? Understanding superlocal behavior is critical to Cyworld’s success, if outside the immediate scope of this study.

What Attracts Cyworld’s Users

Created in 1999 by Korean college students, Cyworld was one of the first examples of social networking user communities. Cyworld’s concept was one of individual self expression and the “minihompy” was its first major success. Through the creation of a miniature homepage, users could demonstrate their creativity by designing a minihompy layout, including the purchase of virtual adornments. They could also purchase minihompy background music. Different from MP3 music player downloads, these were music purchases dedicated to a minihompy and driven solely by user desire to expand the expression of their minihompy with a theme song that friends would experience upon visiting. The social demand for minihompy enhancements created a revenue stream from specialized products.
Mindful that a minihompy was also a means of communication, where despite conflicting daily schedules, friends could post comments or share photos to communicate asynchronously, Cyworld leveraged its parent relationship with SK Telecom in the visionary launch of Mobile Cyworld in 2003. Via merged-in contact lists from SK Comms other services, like NateOn instant messaging, mobile users enjoyed enhanced accessibility. With the dedicated Mobile Cyworld interface, Cyworld users had greater flexibility in accessing their friends, being able to take advantage of commute time, or waiting in line somewhere instead of being restricted to their PCs at home and work.

In the beginning, initial members were attracted to Cyworld’s ad-free environment. Though this model was changing, Cyworld employed a different style of advertising than other social networks. Users were enticed to place advertisements on their minihompys in exchange for virtual Cyworld money. Then, upon clicking on advertisements, viewers were rewarded with Cyworld virtual items that could be used to enhance their own minihompy. This provided a unique motivation to encourage advertising click-throughs.

Whereas Cyworld’s focus on providing a Korean spin to social networking set Cyworld apart from global competitors in the Korean market; their functional attributes set them apart in the global market.

**Business Model**

Cyworld has several serious problems facing its continued relevance and growth. There are numerous new entrants into social networking in Korea, including international competitors MySpace and Facebook. Cyworld’s main revenue model, micro-transactions, is showing signs of exhaustion as Korean young people grow wary of paying cash for virtual goods. Indeed, those young people are actually tiring of Cyworld itself, with increasing percentages of users reporting less interest in the service. And finally, most critically, Cyworld seems unable to define why it is relevant.

After extensive analysis, it is our opinion that the best method for Cyworld to reinvigorate its mission and inspire its user-base is with bold, controversial steps forward. Cyworld should reassert its focus on Korean youth, provide rich media content relevant to their interests, and evolve Cyworld from a social network to a social hub, where social events are not just catalogued – but created. Simultaneously, Cyworld should open a relationship with Korean companies and work to become an indispensible marketing tool. Within five years, a Cyworld advertising campaign should be as natural a part of a Korean marketer’s toolkit as television or radio. In short, this is Cyworld: 2.0.
Age Restriction

“CONGRATULATIONS! YOUR PARENTS JUST JOINED FACEBOOK. YOUR LIFE IS OFFICIALLY OVER.”

In order to reassert its relevancy to young people, and their lucrative disposable income, Cyworld should publicly announce that it is restricting user access to those under the age of 30.

The initial negative feedback may seem severe, but their defiant market positioning will create a sense of privacy, exclusivity and loyalty for Korean young people. It will also, for better or for worse, generate renewed public interest in the site. As the crowd of unprofitable “professional networkers” thin, Cyworld will once again be seen as a lucrative marketing gateway by advertisers targeting youths. Furthermore, by being the one social network that is for young people by design and intention, Cyworld would strengthen its age group penetration and possibly increase its entrant into the valuable “tween” market (ages 12-to-18).

We admit that, currently, the above argument is educated conjecture. Our team was unable to find usage data from sites that had excluded a section of their user base and thereafter monitored user growth such as we are proposing.

However, we did find ample anecdotal evidence that restricting user growth can, inversely, encourage desired segment growth. Facebook was initially so popular because it was restricted to those with an “.edu” email address; MySpace was for garage bands. Dating website BeautifulPeople.com restricts membership to those an independent panel says are “beautiful.” Periodically – and very publicly – site administrators delete users whom they claim, from their pictures, have gained weight.

According to public statements, each of these strategies has proved highly lucrative for the companies involved.

Rich Media Content

“Over 95% of [South] Korean homes have Broadband internet connections… the highest percentage in the world.” – 2009, AFP

Cyworld users already share the minutiae of their personal lives; sharing their passions is the logical next step. And nothing impassions Korean youth like video games, pop music, and most importantly, hallyu, or televised dramas/”soap operas”. By combining all these hallmarks of Korean youth culture and bringing them online, Cyworld has the opportunity to become newly relevant to the everyday lives of their users, and create profitable partnering relationships with sponsoring companies. To do so, however, Cyworld management must take seriously the interests and subcultures of Korean young people. As follows is a brief synopsis of three major forces in Korean popular culture.
Video Gaming

They call him “The God of War”: Park Sung-Joon, a rotund, creamy-faced young man in his mid-20s. In South Korea, Sung-Joon enjoys the kind of celebrity that follows NFL players in the United States. Yet Sung-Joon is no sportsman: he is a video-gamer, a “god” of an online strategy game called Starcraft.

Starcraft pits three alien races against one another in real-time combat. Sung-Joon is credited with resurrecting the play-style of one race, the insectoid Zerg; is worth millions of dollars; is rumored to have numerous girlfriends; and is sponsored by so many corporations he has taken to wearing a NASCAR-esque jumpsuit covered with logos.

In South Korea, video games are a national sport with widely watched televised heavyweight matches against established teams, players and brands. And because of their mobile market presence, Cyworld has an opportunity to champion this phenomenon on its social network.

There are several ways to model this: a specialized gaming unit (i.e. RealNetworks’ RealGames); a vendor model, where game developers pay Cyworld to distribute their games on their network (i.e. the Steam network or the Apple iPhone app-market); or even the fully integrated approach, where games are both bought from vendors and developed in house, then completely integrated into the social network (i.e. Farmville or Mafia Wars on Facebook). Each of these examples offers opportunities for revenue, from a fee for the game, to distribution charges, to advertising.

Hallyu: Boys Over Flowers

Family, love, high school and dry cleaning: at least three out of four of the most important things in the life of a Korean teenager. And no television show so captures this emotion as the runaway hit Boys Over Flowers. Originally based on a Japanese comic book, Boys started airing as a live drama on Korean television in January 2009.

Currently Cyworld only serves as a resource for fans to show their love of the show. Our team asks Cyworld management to imagine the marketing possibilities if Cyworld became a part of the viewing experience itself. By combining Korea’s naturally powerful internet infrastructure, the growing sophistication of mobile devices, and savvy old-media partnerships, Cyworld can transform itself to an active participant in the way Korean youth consumes media. One possible execution: Premiere Events.
The highly anticipated season premier of Boys Over Flowers will be airing on Friday. All week, Cyworld has been advertising/micro-selling the event in various ways on its network: Boys-themed avatars, Jan-Di and Jun-Pyo ‘love hearts’, and pictures of dreamy artist Yi Jung’s latest masterpieces. Finally, on Thursday night, Cyworld announces that for $4,999 KRW (about $5 USD), users can host live streams of the episode on their Cyworld hompy for a select group of Cyworld friends. There’s a limited ‘supply’ – only the first 5,000 users can host the episode. Cyworld avatars across the network stream to the luck fews’ minihompys to watch.

The possibilities for monetization in the above model are many: reliable micro-transactions, partnership co-branding revenue (made more profitable because Cyworld’s users are overwhelmingly part of the television network’s target demographic) and incredible social buzz resulting in even more press attention. Indeed, the most formidable part of such a model is its “snowball” effect – each successful “premier” encourages positive buzz, which in turn encourages other partners to host premier events of their own.

Concluding Thoughts

Aside from reasserting relevancy and diversifying revenue channels, there are other ways that Cyworld can grow its market share and user experience. While outside the scope of this case study, they include (briefly): resurrecting the “referral bounty” for “hub” members; making a marketing push for t0weens and teens through a spinoff site; and innovating new networking tools such as “CityMeet”, where Cyworld connects users in common geographical areas with their mobile devices. With enough creative force, Cyworld can again be a market-defining social network that competitors can only envy.

Works Cited

Appendix

Exhibit 1 - Activities

Users with High Purchases (34.41%)

Exhibit 2 – Users with High Purchases
Exhibit 3 – Connections / Purchases

Connections/Purchases

Hi 35%

Low 33%

Med 32%