People use social networks primarily to keep in touch with friends and schoolmates. Often the homepage of the social networking website becomes a means of self expression for the users and their interactions with friends and strangers in virtual world results in personal or business relationships in the real world. CyWorld’s value proposition was to provide free, clean, easy and well integrated social networking platform.

The biggest asset for a social networking website is the size of its user base. Advertisements and paid items (selling virtual gifts or music) are just some ways of monetizing the user base. Any social networking website needs a critical mass of users called as “connectors” or “socializers” whose presence has an explosive effect on growth of its user base. These “connectors” or “socializers” are trendsetters with strong networks (personal connections) in real life and pull a lot of “wannabe’s” or “followers” to join the social networking website. Hence it is most important for CyWorld to identify and segment its population based on these ‘connectors’. Accordingly I would suggest the following segmentation:

- **Segment 1 - “Purchasing Connectors”:** Hi and Medium Connectors who are above medium on purchasing. Per Ex 9, we will have $11.02 + 17.27 + 10.71 = 39\%$ of CyWorld’s customers.

- **Segment 2 - “Active Connectors”:** Hi and Medium connectors who are above medium on activity. Per Ex 9, we will have $7.91 + 13.06 + 8.5 = 29.47\%$ of CyWorld’s customers.

- **Segment 3 - “Followers”:** All others.

Since these three segments differ in their needs, CyWorld would need to customize its value proposition for each segment differently and could perhaps use a different business model to monetize users in each segment. A unique value proposition for each segment could also greatly reduce the churn in each segment.

Segment 1 values paid items and the launch of 3D virtual items and possible partnership with iTunes would keep this segment engaged and excited about CyWorld. Segment 2 values networking and by seamlessly integrating their minihomps or Home2 pages with their mobile devices, CyWorld along with SK Telecom can create a unique value proposition for Segment 2 users.

Users in both segment 1 and 2 being socializers and trendsetters would create enough hype for followers or wannabes to follow suit. Segment 1 and 2 are the core customers for CyWorld and everything should be done to keep this user base excited and engaged to minimize membership cancellations.

Segment 3 however is not as valuable as it constitutes of occasional visitors or don’t purchase a lot. There may be a significant churn in this segment and so CyWorld should try to monetize the users in this segment while they last. Accordingly, CyWorld should minimize exposing segment 1 and 2 users to advertisements and pop ups and continue delivering on its original value proposition of free and clean social networking platform. However CyWorld should use advertisements as a source of monetizing segment 3 consumers.
Target Segment

Cyworld boasts of its 21 million users, with over 90% of penetration in the 20-29 year old market. Instead of segmenting users by level of engagement, it is recommended that Cyworld consider segmentation based on connection. The matrix “Connection and Purchases” (Ex. 9) shows that highly connected users are more likely to purchase compared to other groups. Cyworld users can be easily distracted by new entrants especially when the latter could offer something different such as free virtual gifts. Despite its large, valuable membership base in Korea, Cyworld must focus on creative ways to create value by gaining deeper insights on user motivation while monetizing the social site.

New Monetization Route

Among three proposed business models, it is recommended that Cyworld prioritizes Mobile Cyworld as the future business model over advertising, while keeping Paid Items as its main source of revenue. Cyworld should consider exploring Mobile Networking for the following reasons:

a) Competitive advantage: One of the most critical competitive advantages Cyworld has is the strong financial backing and infrastructure of its parent company, SK Telecom. Cyworld can leverage SK’s advancements in telecommunication to expand its capacity in the mobile space instead of just the traditional desktops. Aside from the stated benefits in the case, investment in mobile technology will also help increase switching costs among users and the barrier to entry in this industry.

b) Expand market space: Given its domination in current Korea’s mobile networking, Cyworld should strengthen its relationship with current users on mobile and continue to expand memberships among the mobile phone users. It will raise the barrier to entry before more players get into the market space.

c) Global expansion: Cyworld can certainly leverage SK’s global presence and strengthen its foothold in the international market, specifically Asian countries, before endeavoring the expansion towards the west. Cyworld has the advantage of some of its biggest rivals, e.g. MySpace and Facebook do not have in Asia – common cultural understanding. Furthermore, mobile networking mutually reinforces Cyworld’s Paid Item model as users in Asia are familiar with the concept of Paid Item and are more likely to purchase compared to the users in the western countries.

Nonetheless, Cyworld should not lose sight of its Paid Items business. As the paid items are purchased and used as self expression badges, uniqueness and exclusivity can be used to boost sales. Cyworld can create another wave of viral marketing campaign with creative, personalized “badges” at an affordable price range starting from its most valuable customers – the connectors that purchase. Each user will become the ambassador of the items and influence other users in his or her network.

As much as advertising sounds viable, Cyworld should re-evaluate that option before granting advertisers access to the revenue stream. Privacy is among the top concerns in gap analysis (Ex. 7) and monetizing through traditional online advertising may backfire if not handled carefully. In addition, Cyworld will be in a disadvantage position considering competition against global sites such as Amazon and Yahoo in Korea. Given the proven success of its media content platform, Cyworld can consider a more subtle, cross-platform product endorsement instead of direct advertising. For instance, virtual gift for minihompy can be synched with user’s mobile phone displays.
South Korea has one of the highest internet penetration rates in the world. With easy access to high speed Internet and with one of the highest education rates in the world, South Koreans have embraced e-commerce websites and social media websites.\(^1\) Social media websites such as Facebook and MySpace have exploded in usage in the United States, and South Korea has also experienced high participation rate especially among younger Internet users. Moreover, South Korea has the largest mobile users, and they are also quickly migrating to smart phones.\(^2\) Based on current revenue streams and forecasted Internet/mobile usage, Cyworld should proceed with a non-advertising model via the Mobile network targeting the High Activity Users first.

"South Korea has nearly as many cell phones as people" and mobile phones continue to get more powerful as smartphone adoption increase rapidly in South Korea.\(^3\) Mobile phones, the third screen, are becoming more powerful like the PC and consumers carry around them everywhere making them high in usage. Cyworld needs to focus on consumers that are most likely to be active and online via mobile.

Of the three activity-based segments, high activity users (HAUs), medium activity, and low activity, I have chosen to target the HAU segment for the following reasons: \(\text{This is very similar to the 2G planed by China Mobile.} \)

The HAUs are active and engaged online and with Cyworld. These consumers purchase disproportionately more on virtual goods and this segment is probably more likely to use the mobile application as well. They are also considered "connectors" and most likely will evangelize the mobile offering. This is group is far the most valuable in terms of current revenue and likelihood to adopt to new technology in social media.

HAUs are the most influential group so it will be important for Cyworld to expand their presence beyond the PC and into mobile. Cyworld should have a promotion or contest to engage these users relating to the mobile application. For example, Cyworld could engage the HAUs to create a mobile minihompy that other users can vote on. The winner(s) could win a state of the art mobile phone with Cyworld mobile already equipped.

HAUs are clearly a group that avoids advertising and a subscription fee. Freecah's massive exodus of visitors due to a subscription fee should be a lesson learned and do not charge a subscription fee. If Cyworld can discriminate the "connectors" or the HAUs from the rest of the group, they should look into do a targeted advertising model.

The engaged and connected HAUs will bring on additional users that will give Cyworld critical mass ripe for laser-targeted advertising. Once that mass is achieved, Cyworld can smartly target the larger medium- and low-activity users but avoid the HAUs. The Internet has ears, on PC or on mobile, so Cyworld can listen to consumer activity and discriminating on how to target their advertising. The HAUs which can be identified by simple metrics such as "# of times logged in" or "purchased X dollars of virtual good." For the remainder of the group, Cyworld should leverage the fact that the Internet can accurately segment its users based on activity and purchases, and serve relevant banner advertisement.

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\(^3\) MSNBC, 1/28/10, "Korea has nearly as many cell phones as people," accessed 5/27/10, [http://www.msnbc.msn.com/id/28893283/ns/technology_and_science/tech_deals/](http://www.msnbc.msn.com/id/28893283/ns/technology_and_science/tech_deals/)
With its current business model, Cyworld is in the mature stage of expansion as it already has 90% of its 20-29 year old target segment. Further, its main revenue source to date, virtual gifts and purchases, is losing favor with its customers so the steady growth it has seen since inception in January 2003 (case Exhibit 4) could finally begin to turn downward. Cyworld needs to adjust its business model, whether by attracting a new segment of users or adjust its product characteristics and offerings or else it will see its market leadership lessen against strong up and coming competitors. It must make these decisions carefully as a variety of factors will come into play including but not limited to how the competition will react and what competition will arise based on Cyworld’s decisions, how changes fit in with the rest of the company and its values, will the changes made confuse customers as to what Cyworld is and offers, etc.

Before addressing other segments that Cyworld can target to increase revenue, I will address the current segmentation the company uses (ABC). Active users are great to increase activity on the Cyworld webpages but without spending much money, this segment should be eliminated as the most desirable for the company. Though buyers are critical to giving the company revenue, this segment is reducing its purchasing of the virtual items so continuing to focus its efforts on this segment in the manner that it has is not a sound business decision. Though connectors don’t usually purchase virtual gifts and songs themselves, I would argue that it is the most important segment to Cyworld, at least how Cyworld currently segments the market. Connectors bring people together and while they themselves might not purchase items, they are driving traffic to the website through their large network of friends and many of these new users will become purchasers. In the book The Tipping Point, Malcolm Gladwell argues that a small group of connectors is what is needed to change social behavior, so Cyworld’s connector segment should be seen as the most valuable to pushing Cyworld to the next level.

The company should also consider new segments however. First, it specifically targets 20-29 year olds but looking at case Exhibit 6, 46% of the current users are 30 years old or older. Cyworld needs to understand the proper ways to approach segmentation. Since it currently is almost at capacity with its initial target segment, it now needs to shift focus to the older users to drive usage even higher and continue to strong growth the company initial saw. To attract this segment Cyworld needs to go beyond the minihompsy model and provide offerings that older people will use and pay for. This can include working with new media outlets to offer online subscriptions that will be housed on their minihompsys or have adult specific customizable minihompsys that remove the young adult feel to better attract older users.

Cyworld should also move beyond its computer based program and utilize other aspects of the company to push into the mobile networking segment. Since a major complaint of Cyworld is that people don’t have enough time to use the website anymore, having access to the minihompsys on the road will reduce the number of users who are leaving the service. It can also serve to replace text messaging for some users to drive usage up even further. Whether the company chooses age based segmentation or electronics based segmentation, it needs to find some way to reach new users and these are two options.

It can also reach new users by bettering its product. Users are growing tired of buying virtual gifts that don’t really exist beyond the computer screen. Though I strongly advise against increasing advertising because that will go against the clean image the company stands for, Cyworld can partner with some of these potential advertisers to increase revenue for the company through real-life gifts instead of virtual ones. Allowing users to give their Cyworld contacts birthday gifts to actual stores (say a gift certificate to Target), users will now find real value in spending money on the website instead of just make believe items. This will not ruin the clean image the company has strived for because it is in line with the purchasing model already in place but it will provide a new way to bring revenue in a way that users will actually find value in.