

Reporting a New Business Model in Electronic Market: A Case of Cyworld.com

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Abstract – Virtual Communities are many and varied have been around for a number of years now. Cyworld has all the makings of a successful website, with its unique and profitable business model. Our purpose in studying Cyworld is two fold ; we want to know the motivations people have for using the service and why they are willing to pay to use it. This study is based on motivation theory and flow theory to enhance our understanding of Cyworld user's behavior.

Keywords: Cyworld, Extrinsic Motivation, Intrinsic Motivation, Flow Theory.

1 Introduction

Virtual Communities are many and varied and have been around for a number of years now. It goes by many names such as Electronic Communities, Online Communities, Communities of Practice and Computer Mediated Communication, but what is common about all of them is their inability to translate their services into business performance. That is until Cyworld came along. Cyworld is a South Korean Virtual Community that has taken the country by storm. It has all the makings of a successful website, with its unique and profitable business model, down to the core service it provides which is sticky, enjoyable and innovative. That is not to say that no Social networking site has tried to make money from its member base. In the U.S., myspace.com operates a service similar to that of Cyworld, but like most websites, it derives its revenues mainly from advertising. One cannot help but wonder how sustainable this model will be in the coming years.

Our purpose in studying Cyworld is twofold; we want to know the motivations people have for using the service and why they are willing to pay to use it. We will approach the problem with a thorough study of Cyworld's business model and from there try to identify the reasons behind the pattern of behavior observed above. Once we know this, we can attempt to replicate these conditions for other online business in the hopes of making the online marketplace more hospitable and attuned to the needs of the consumers.

2 Business Model

Cyworld has created value by providing an online environment where members can easily and effortlessly act on their desire to maintain their relationships with their friends, family and acquaintances. As such, it is extremely important that Cyworld grow its member base because the more members it has, the more valuable its network and therefore its service in the eyes of the consumers.

It targets young people, with its core consumers consisting of the 20-something age group. They are the "Net" generation whose lifestyles revolve around the internet and have grown up with digital technology. Cyworld has been hugely successful in this demographic, capturing an impressive 90 percent of the segment.

Cyworld lets members post as many pictures as they want. Pictures are used as a medium of expression and for sharing experiences. Cyworld hopes that by storing member's personal information, it will inspire more loyalty from customers.

Unlike its predecessor and competitor Freechal, Cyworld does not charge its members for using the basic service; rather it operates an "on-demand" model that generates revenue from sales of digital items and background music used for customizing one's homepage and "mini me". This was a lesson Cyworld had learned from Freechal, which decided to charge a subscription fee for using its service and ended up losing its member base to Cyworld. This is in stark contrast with Western blogging

communities which make money from hosting services. The online currency used is called Dotori and this can be purchased through various means: credit card, mobile phone billings, gift certificates and bank transfers. One Dotori is equivalent to 100 Won (US\$0.10) and on average, Cyworld makes around 200 million Won (US\$200,000) a day according to the Samsung Economic Research Institute, making it one of Seoul's most successful internet companies. Online store sales accounted for 80 percent of Cyworld's US\$54 million revenue in 2004.

For a time Cyworld was content with only a single source for its revenue stream. An unlikely opportunity arose when the media started reporting on the negative effects of Cyworld in the workplace. Instead of service usage going down because of companies blocking access to Cyworld during working hours, disgruntled employees started using mobile Cyworld to check who had visited their mini hompys, read comments left by their friends, write comments on their friends' mini hompys and post photos taken with camera phones to their own mini hompys. The service peaked to a record high of 100,000 in one day, and more than 30 million phone-to-web services were accessed in 2004. This amounted to US\$5 million of revenue solely from its mobile service in November 2004. Revenue forecasts from mobile service alone in 2005 are estimated to be around US\$60 million.

3 Theoretical Issues

During the past decade, research related to IT usage has been based on beliefs that using IT helps to enhance his or her job performance. Currently, Cyworld services have been used as accomplishing a variety of purposes such as pleasure, enjoyment, fun, maintaining relationship, self-expression and offering information as well as means of heightening user's job performance. According to the motivation theory, intrinsic motivation refers to the pleasure and inherent satisfaction derived from a specific activity[Deci, 1975; Vallerand, 1997], while extrinsic motivation emphasizes performing a behavior because it is perceived to be instrumental in achieving valued outcomes that are distinct from the activity such as increased pay and improved job performance[Lawler & Porter, 1967; Vroom, 1964, Deci and Ryan, 1987].

Except the IT usages only for pleasure and enjoyment like playing on-line games, however, most IT usage depends upon both extrinsic and intrinsic motivation[Davis et al., 1992]. This phenomenon is apparent in IT services using internet[Agarwal and Karahanna, 2000; Moon and Kim, 2001].

Through the use of Cyworld, the users aim at offering or gathering information, expressing himself of herself to other users, keeping in touch, and maintaining relationship

which are part of extrinsic motivation. Further, intrinsic motivation offers fun and enjoyment to the users.

This study would like to invite motivation theory and flow theory to help our understanding of Cyworlds user's behavior.

The flow construct was pioneered by Csikszentmihalyi[1975]. Flow is the term used to describe "the holistic experience that people feel when they act with total involvement." The dimensions of flow included *intense concentration*, a sense of being in control, a loss of self-consciousness, and a transformation of time[Csikszentmihalyi, 1975, 1990, 1997; Csikszentmihalyi and LeFevre, 1989]. Such a concept has been extensively applied in studies of a broad range of contexts, such as sports, shopping, rock climbing, dancing, gaming and others. Flow theory, however, has recently been studied in the contexts of information technologies and regarded as useful when understanding user's behavior in internet services.

4 User's Commitment to Cyworld

4.1 What Motivates Members to Use Cyworld

4.1.1 Keeping in touch or Maintaining Relationships

The most cited reason why people use Cyworld is because their friends are on Cyworld. In fact, most users got started on Cyworld through a friend's recommendation. Cyworld is basically a service that helps people keep in touch with one another. Through blogs, messages and photos, members can share recent experiences with friends and read about what other people have been doing. It enables communication through asynchronous interactions, which means relationships are maintained more easily because users can control the level of interaction they have with friends. And by keeping abreast of their friends' lives, their friendship transcends time, space and distance because the intimacy of the friendship has remained the same regardless of where both parties are.

4.1.2 Feel good about oneself

Some users say that Cyworld makes them "feel good" or "feel special". When they see many visitors coming to view their mini hompy, they experience more motivation to use the service. The popularity meter serves to affirm their self-esteem and their competence in this arena, maybe to compensate for any shortcomings in skills in other areas. This is outlined by the Self-Affirmation Theory (Steele, 1988) which says that people will reduce the impact of a threat to their self-concept by focusing on and affirming their competence in some other area.

4.1.3 Self-Expression

With many different tools available, Cyworld also serves as a medium for "self-expression". What makes it even more attractive for users is the guaranteed audience they have for what they think, feel, say and do. Feedback is received almost immediately when friends leave comments and messages that may serve to reinforce such behavior.

4.1.4 Novelty

People derive utility from trying new things. By engaging in new experiences, they hope to add excitement to their lives and break from their normal routine. Novelty-seeking behavior is usually a consequence of boredom or curiosity and is motivated by intrinsic reasons such as for the value inherent in the process of switching per se or by extrinsic reasons wherein the novelty-seeking behavior is a means to achieving another goal (McAlister, 1982).

4.1.5 Adds Value to Offline Activities

On a practical level, Cyworld makes sense too. Users use Cyworld to "do research before going on blind dates". They derive a use for the service outside of the virtual world which makes it even more valuable as a social network.

4.2 Why Members Are Willing to Pay

There are 6 possible reasons behind a Cyworld user's willingness to pay for decorating his avatar and mini hompy. They are 1) Self-advertisement or showing off, 2) Fun and enjoyment, 3) Low price, 4) Gifts, 5) Self-efficacy, 6) Comparison with friend's mini hompy.

4.2.1 Self-Advertisement or Showing Off

It is human nature to crave acceptance. Everyone wants to be well-liked and admired, even if they have to spend money to achieve it. In Cyworld, it is no different than in real life. Users take care to craft their image in the way they want to be seen by others and they do this through the mediums of their avatars and mini hompys. They invest their time, effort and money in beautifying their online representations in an abstract attempt to highlight their desirable qualities for others to see and express themselves. One mini hompy featured a Mona Lisa painting in the mini room, probably with the aim to communicate a fondness for art. Another aspect of this behavior has to do with bragging. The more money one spends on decorating, the more digital items one has. And we all know that people always envy those who have more than what they have.

4.2.2 Fun and Enjoyment

Cyworld is a popular pastime among the youth. They enjoy dressing up their avatars and buying accessories like they would for themselves. They can also buy furniture for their mini rooms, skins for the background, background music, animated characters and gifts for their

friends. Like shopping, they derive enjoyment from making purchases they need or want.

4.2.3 Low Price

Although digital decorations are of no practical relevance, members are not put off because they cost very little. The low price is also cited as a reason why members foresee themselves buying more items in the future.

4.2.4 Gifts

The best way to maintain your personal relationship with people is by giving gifts. This is also the case in Cyworld with a little extra incentive added for the giver. The gifts benefit the giver in both intangible and tangible ways. What's intangible is the relationship between two members that is reinforced by the gift-giving, while the tangible part comes about when the meter measuring the giver's "Sexiness," "friendliness," "karma" and "kindness" go up.

Gift-giving can sometimes be an obligatory response. Having received gifts from friends, according to the social norm, the recipient must now reciprocate by giving gifts in return. This behavior is dictated by the so-called Reciprocity Norm (Cialdini, 1993) and is so powerful that one can even ask for more than what was given.

4.2.5 Self-Efficacy

When people find something they're good at, they usually stick to it. It makes them feel good about themselves when they have an outlet where they can apply their skills and be met with success. In Cyworld, this skill pertains to being able to dress up one's avatar and mini hompy in a manner which is attractive to other members.

4.2.6 Comparison with friend's mini-hompy

Members want their sites to conform to the norm in their peer group. They will compare themselves to someone who they think is reasonably similar to them in order to judge their abilities (Festinger, 1954). At the very least, their sites must maintain a level of standard comparable to that of friends so as to avoid being singled out for ridicule or unflattering attention.

It has been suggested that there are 2 outcomes when people do social comparisons (Diener and Fujita, 1997). If they are better off than others who are similar to them, called downward social comparison, they feel satisfied. On the other hand, if they are worse off than similar others, called upward social comparison, they feel dissatisfied and this may motivate Cyworld users to go on a buying spree to reduce the perceived disparity.

5 Issues in Cyworld and Its Future Direction

With 13 million members and each member given an unlimited image hosting capacity, Cyworld needs to spend a huge amount of money just to maintain the sites. Furthermore, it also needs to invest a lot on hardware like servers and network bandwidth, to ensure that storage and processing requirements are adequate for members' needs.

Cyworld has its eye set on penetrating the global market. It debuted in China on June 2005 and anticipates launching its service in Japan in October of the same year. The mobile-phone version of Cyworld China was released in July 2005, with the hopes of attracting around 25 million customers by 2007. Also on its to-do list are Taiwan, Hong Kong and Cyworld US which is scheduled to be introduced in 2006. It wasted no time in entering these markets because imitators have already sprung up in Japan and China, and if it expects to dominate the industry as it has done in South Korea, it must do so with a preemptive strike.

On the domestic front, Cyworld intends to make more tie-ups with mobile phone operators and to offer members the option to find and meet other members through a mobile position location system. Shops will open on Cyworld, and companies can host websites and collect information on members through the normal usage of the service.

Whether members welcome the aforementioned new services will depend on how much value-added they gain versus the costs associated with it, namely their loss of privacy. If they lose too much of their privacy, say if they get flooded with advertisements by companies hoping to sell them something, which is a problem that exists right now, they might be less willing to actively participate in Cyworld.

Mobile Cyworld plans to provide more sophisticated services such as allowing users to place their real-time streaming videos produced through mobile phones in their mini-homepages, and targets mobile traffic of 1.5 million users with 800,000 of these being monthly users.

The emergence of a new Ubiquitous Computing (UC) paradigm is a trend Cyworld should pay close attention to. UC exemplifies true mobility by having computing, content and connectivity everywhere (Morikawa and Aoyama, 2004). It requires the integration of Cyworld's mobile, online and offline services to give it a ubiquitous presence from the customer's standpoint. There remains a vast untapped potential in the provision of UC-driven services, and this may well be the future growth driver of Cyworld. when understanding user's behavior in internet services.

6 Lessons Useful for other Practitioners

For an online business to work, it must be devoid of technical complexity that may hinder users. It must be as simple as possible and created with the most unsophisticated user in mind. Cyworld was so successful because it required no new learned behaviors on the part of the user. Anyone with a basic literacy of computers is able to participate, making it appealing to a broad segment of the market. More than that, Cyworld was developed with an external focus. After observing that people used technology to stay connected to each other all day long, Cyworld capitalized on this trend by providing an alternative way to stay connected that was both sensitive to the behavior patterns of the youth and the distinctive mannerisms of Korean culture. It also leveraged on the level of infrastructure available in the country. With a broadband penetration rate of 78%, Koreans are able to appreciate elaborate online services that would take too long to download elsewhere.

A good business model is essential for a company's survival and ultimately success. Most online businesses suffer from not having a clear and well thought-out business model. Although a business might have a genuinely good idea or service, it won't last long without a concrete plan on how to make money. Indeed, Cyworld's business model deserves a good deal of credit for the company's impressive financial performance. Not only does it have an innovative revenue stream, it is also sustainable in the long run unlike other websites which generate the bulk of their revenues from advertising.

Branding is another important aspect of online business that Cyworld has excelled at. The Cyworld brand is so powerful that it has influenced colloquial language among the Korean youth. Its brand is a valuable asset that will raise entry barriers in an otherwise easy-to-enter industry and help it expand rapidly to overseas markets.

For Cyworld, continuous improvements are a necessity to remain competitive and equally important to retain current customers. By giving them a better overall experience and a wider range of options and recreational activities, frequency of visits and visit durations will increase, leaving room for the possibility of increased sales. In the case of Mobile Cyworld, it can also become a new and important profit source.

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