How Does a Tortoise Catch up a Hare?
: The Case of Instant Messenger in Korea

Sang-Myung Lee[†] · Jeong-Il Choi[††] · Sanghyung Ahn[†††]

ABSTRACT

SK Communications entered Korean instant messenger market as a late-mover in 2001 and its instant messenger service "NateOn" was placed in competition with Microsoft's "MSN Messenger", the leading service provider at the time. NateOn studied the nature of users accurately and gradually increased its market share through various services, and in September 2005, it succeeded in overtaking MSN as No. 1 in the market. The success of NateOn is a case where a late-mover overcame the buddy-list network, a powerful competitive advantage, of the incumbent.

By studying the changes in the instant messenger market of Korea, we try to examine the causes of NateOn's victory and MSN's loss. Through this, we wish to give implications for managers who endeavor to discover the internal and external strategies the leading business has to implement to remain ahead, and how a late-mover can overcome the lack of resources and capacity to leave a mark in the market.

Key words : The Internet, Instant Messenger, First-mover Advantage, Network Effect

1. Introduction

Aesop's fable of the tortoise and the hare is a well-known childhood story. The moral of the tale of the swift but lazy hare's defeat in a race against a slow-moving but steady tortoise is that even late-starters can produce better results than those that are ahead if they take it "slow and steady."

Illustrations of this fable can be found in various phenomena in industries today. In a market dominated by a leading business, a late entrant with low recognition and market share can overtake the leader through various strategies. But unlike the hare in the fable, the leading business is not always lazy while it is ahead. It continuously tries to maintain competitive advantage by conducting market analysis, and undergoing development and improvement to satisfy consumer needs. Sometimes such efforts prevent the entry of competitive businesses into the market or fundamentally deter their growth. This is conceptualized as first-mover advantage[15][11].

But this is not without pitfalls. Too much consumer-dependency or excessive investment in the early stage can lead to a misunderstanding of a changing market. Even if the leading business reads

market trends accurately, it could be difficult to make a strategic decision because of the burden of having to collect the return on prior investments. This would be enough for it to lose its leading position to products by competitive movers more suitable to changing market trends[23][6].

The dominant position of the incumbent can be maintained for a longer term in a market with less change. This is because the change in consumer behavior is predictable, and the business can use its domineering position to control the changes in the market to a certain degree. But for markets where the speed of change is like a flowing river and unpredictable, the entry of competitive movers after carefully studying the market can pose a threat to incumbents[24][22].

The speed of change in markets varies by industry. One of the fastest-changing markets is the internet market where technological development is rapid and competition intensive due to low entry barriers. So, leading businesses implement diverse strategies to prevent consumers from moving to competitor services by addressing market changes appropriately and heightening user loyalty[22].

The instant messenger market is the most captivating market in the Internet service industry. Beginning with the ICQ Messenger in 1996, more than 1.5 billion people around the world communicate through the on-line window today. Stimulated by the huge market, dozens of messenger services have been introduced and the advancement in internet technology has combined it with various communication technologies so that users can communicate through the messenger anytime, anyplace. Such progress in instant messengers triggered an intensive competition among service providers, leading to only a handful of service providers dominating the market today.

Unlike other industries, the internet service market allows users to move from one service provider to another with relative ease[2][21][16]. This is because users can use a new service by a few clicks on their mouse. Such user convenience is the largest risk to the service provider. Despite huge investments to provide a service, users can easily move on to another service.

But in contrast to other internet services, the instant messenger service market has elements that limit the movement of users. The 'buddy list', which is a list of personal contacts the user creates to communicate through the messenger, makes it difficult for the user to transfer to a new service, thereby acting as a kind of entry barrier. This barrier can prove positive for an early-entrant service provider in a leading position in the market. But despite these characteristics, late-movers are performing increasingly well.

In 2001, SK Communications entered the domestic instant messenger market as a late-mover and its instant messenger service "NateOn" was placed in competition with Microsoft's "MSN Messenger", the leading service provider at the time. In contrast to the dominant player, NateOn studied the nature of users accurately and gradually increased its market share through various services, and in September 2005, it succeeded in overtaking MSN as No. 1 in the market. The success of NateOn is a case where a late-mover overcame the buddy-list network, a powerful competitive advantage, of the incumbent.

By studying the changes in the domestic instant messenger market, we try to examine the causes of NateOn's victory and MSN's loss. Through this, we wish to give implications for managers who endeavor to discover the internal and external strategies the leading business has to implement to remain ahead, and how a late-mover can overcome the lack of resources and capacity to leave a mark in the market.

2. Review on Previous Work

2.1 First-mover (dis)advantage

First-mover advantage has been explored from various research areas and is generally accepted by theoretically and practically. Defining it as "the ability of pioneering firms to earn positive economic profits (i.e. profits in excess of the cost of capital)," Lieberman and Montgomery argue that first-mover advantage comes from technological leadership, preemption of assets and the creation of buyer switching costs[15].

Various research has provide empirical supports of the pioneering advantages[11][12][5][10][17].

Despite this general acceptance and supports, researchers have found that there are also potential disadvantages of being first in the market. In particular, if we measure the 'advantage' to performance with survival, there is significant survival risks inherited with pioneers. Cassidy very well described this phenomenon as "we observe industries emerge over the dead bodies of their early pioneers"[7]. Several research has suggest a theoretically framework why early movers face challenges[18][23][25]. Several research has empirically supported this inevitable risk to the first-movers[8][1].

Recent research tries to solve this obvious controversy and show the condition where the first-movers can enjoy its advantage. They try to find its solution through exploring business environment of specific industry[24][22]. Suarez et al contend that industry dynamics is a key to first-mover advantage. Further, they argue that both market and technological evolution paces determine pioneers performance potential. Robinson et al. also categorize products into two sub-sets (really new products vs. incrementally new products) and examines their survival risks[22]. They conclude that market pioneers are more likely to fail when it starts a new market with a really new product, but not when they start with an incremental innovation.

2.2 The Advent of Instant Messenger

The desire to communicate arises for various reasons, all-the-time. The most familiar and intimate way of communication is direct face-to-face communication. If this had not been possible in the prehistoric times, fire or smoke was used to deliver messages accurately and drawings on cave walls were a record of their daily life. In internet-based modern times, however, communication methods have evolved to include e-mails, and Instant Messenger (IM) and SMS (Short Message Service) services.

The advancement in the Internet and communications linked the world into one, facilitating rapid change in all fields, including society, economy and culture[4]. In

step with such changes in modern society, the method of delivering messages and sharing information are also making great transformations. The convenience and easy-to-use features of the e-mail has established it as a common way of communicating, but people continuously sought for a swifter way to share information. And due to the inconvenience of previous on-line communication methods, a new desire began to surface. "Is there a faster way to communicate?" "Can't I chat while I'm working?" These needs brought about the advent of the instant messenger[13].

Development in high-speed and wireless telecommunications networks quickly led to the construction of an "always-on" internet access environment, stimulating the expansion of the instant messenger market. Latest functional improvements, such as the transmission of files and video files, internet phones, SMS, and the provision of diverse internet contents, such as news and music, are increasingly expanding its area of usage.

2.3 Definition and Functions of IM

The instant messenger is an internet service where more than two users can send and receive short, personal written messages almost simultaneously[13][9]. Each messenger user has a buddy list, which is a list of correspondents that informs which correspondent is logged-in or off. This buddy list is stored in the database of the user's messenger service provider. Another feature of this service is interoperability, which means that users of different messengers can communicate with each other. However, most messenger service providers limit interoperability with competitive messengers in order to protect their database. Therefore, users must use the same messenger in order to communicate. According to the Forrester Research in 2003, about 25% of total users used more than one messenger service.

Messenger service-related programs are downloadable from the website of the preferred service provider, easily installable to the PC, and in most cases, free of charge. Although messenger services were popular as simply a communication method in the early stage, today, businesses are increasingly using it for business

purposes. They mainly provide services such as real-time message transmission, file transmission, contents services, multimedia communication, wireless message transmission and games[20]. In addition to such basic functions, service providers compete to offer differentiated services[14].

The function of the instant messenger has multiplied from the previously basic form of communication that only aimed for the delivery of messages to business meetings and personal information management. Today, there are over 20 types of messengers that are popular in the domestic market. Previously, these different programs were not inter-operable and only users of the same messenger could communicate with each other. But now, with the recent platform standardization, communication between users of different messengers has become possible. Messengers support multi-user chatting, voice chatting, and even the transmission of large-capacity video files and mobile SMS. Furthermore, it provides diverse services, such as news, and securities and music information.

3. Early Competition in the IM Service Market: Dominance of MSN

The history of the instant messenger goes back to June 1996. The establishment of Mirabilis by Yair Goldfinger, Arik Vardi, Sefi Vigiser and Amnon Amir can be seen as the beginning of the instant messenger. In November the same year, ICQ was born. On May 22, 1997, AOL (America On Line) acquired Flash Communications which developed the AOL Instant Messenger. In March 1998, Yahoo! announced the Yahoo! Messenger Beta Version, and three months later in June, AOL inquired I

ICQ at $287 million. The messenger service has a relatively brief history. Since the introduction of AOL's messenger service, the number of users has continued to increase exponentially.

3.1 Instant Messenger Market of Korea

Korea's instant messenger service by Korean

company first came alive with Digito.com's Soft Messenger in November 1998, and today, there are some 30 messenger services in the domestic market alone. In July 1999, Microsoft launched its Korean version of the MSN Messenger, and Buddy buddy Co., Ltd, launched a messenger service called 'Buddy buddy' in January 2000. The unique feature of this service was that its users were largely in their teens, compared to other services that had a wide age range in its users. In September 2000, Daum Communication acquired Youin Communications, the No. 1 messenger provider at the time, and began to provide messenger services under the brand name 'Daum Messenger.' SK Communications entered the market with NateOn in 2001. In the early stages, NateOn offered 50 free text messages per month to SK telecom users. In addition, Dreamwiz's Genie and Neowiz's Say Club Tachy among other messenger players competing in the domestic market. In case of Genie and Tachy, users under the age of 24 reached 62.5% and 56.8%, respectively, and like BuddyBuddy, their major consumers were concentrated on the younger age groups.

The chronology of the Korean messenger market can be divided into three stages of 'Introduction', 'Growth' and 'Maturity' based on the quantitative change in the number of users.

① Introduction Stage (1996~1999)

Messengers were initially introduced to the domestic market in 1996 by foreign businesses, such as Mirabilis and AOL. These messengers were that of foreign companies, and not only was the users' recognition of instant messenger services low at the time but the range of users was limited to those in special situations where they had to transact with people in foreign countries. Also, because foreign players, such as AOL, had not entered the Korean market officially, they did not provide customer-oriented services, such as Korean language support. There were seven or eight instant messenger service providers in the market at the time. However, there were no domestic messenger service providers and early adapters had to download the program from foreign company websites and install it

on their PC.

The first messenger provided by a Korean company was Digito's Soft Messenger in November 1998, and in February 1999, Youin Communications launched a service called 'Internet Friend'. In the second half of 1999, Microsoft's MSN Messenger (Korean version), Yahoo! Korea's Yahoo! Messenger(Korean version), Dreamwiz's Genie, Dreamline's Todream, Chollian's Quick Messenger(CQM) and Naunuri's NiM entered the market.

② Growth Stage (2000~2002)

From years 2000 to 2002, the number of messenger users began to increase dramatically due to the huge rise in the number of internet users, broadband users and messenger service providers. This led to a heightened competition in the messenger market and the market size expanded rapidly <Table 1>. According to a study by the Korea Information Society Development Institute (KISDI), the proportion of messenger users among internet users was at 16% at the end of 2000[19]. Also, according to NetValue Korea's study, messenger usage increased from 25.8% in January 2001 to 29.9% in February, 33.8% in March and 40.4% in April the same year. However, Research International's study results showed that the trend of sharp increases in the number of messenger users from 2001 to November 2002 began to curb somewhat since the end of 2002.

<Table 1> Major Domestic Messenger Developers in 2001

Business	Product	Offering Firms
Digito	Soft Messenger	Simmani, DreamX, Korea.com
Bluebird Soft	Bluebird Messenger	Thrunet, Shibiro, Freechal, Nownuri
Buddy Buddy	Buddy Buddy	Lycos, Interpark and others
Seefriend Communication	Seefriend	SBSi, Altavista, Garosu.com
Jiran.com soft	Cool Messenger	Shinyoung Securities, Samgsung C&T
Innovay	Netssenger	Roonets and others

Source: Moazine

The characteristics of this Growth Stage are that the

foreign players that had initially dominated a significant portion of the market in the early stages and domestic messenger developers lost their market shares quickly to internet portals, allowing them to occupy most of the market.

③ Maturity Stage (2003~Present)

From 2003 to the present, the growing trend in the number of messenger users has slowed down, entering the maturity stage. This is due to the near saturation of internet users and broadband internet subscribers, the low number of new potential users of the messenger market considering the considerable time that has passed since the introduction of messenger services, and the small number of new providers entering the market. The total number of internet users rose by a mere 6% from 26million in December 2002 to 29million in December 2003, and this slowing down of the growth trend show that the market is already near saturation.

An important happening during this period was that Microsoft's MSN took measures to block connection with other messengers. Although SK Communications, Dreamwiz and several other domestic players developed their messengers to be inter-operable with MSN, MSN implemented its 'Messenger License Policy' which permitted only the licensee to develop and distribute the program that can access the interconnection service, claiming various reasons, including security issues. However, Microsoft Headquarter's policy changed thereafter and this policy is no longer valid.

3.2 Emergence and Growth of MSN

By mid 1999, Soft Messenger became the leader in the market with some 350,000 subscribers and 7,500 simultaneous log-in users, followed by Youin Communication's Internet Friend which facilitated the expansion of the market with 230,000 subscribers.

Despite such growth, their leadership position was not stable at all. The Korean internet market at the time was still in its early stages. The percentage of PC ownership in 2000 was 70% but internet proliferation

was only at 49.8%. Most users were already more familiar with the PC communications rather than the internet where they had to input complicated addresses. Also, accumulated information was relatively more concentrated on PC communications, and active users were not "active" in moving to the Internet[14]. Digito.com's Soft Messenger had an internal problem also. Its strategy was to acquire many users in a short period of time by concluding various business alliances in providing the services, but the company's capabilities and resources were too heavily focused on alliances and failed to invest in strengthening internal competences, such as contents development.

Also, during the period from 2000 to 2001, instant messenger developers and service providers were largely separate companies. Large portals, such as Daum, were passive about the changes in the messenger market and more intent on strengthening its portal services. This was because the users' recognition of the messenger was not much different from the "chatting" services they were already using.

On September 16, 1999, Microsoft announced its 'Korean MSN Messenger Service', a free-of-charge instant messaging application program that not only enabled Internet users to send and receive messages with speed and ease, but also integrated MSN's other communication and community tools.

The MSN Messenger informed the user of the log-in status of correspondents, whether they were on-line or unavailable, and enabled its 50million users worldwide of its free-of-charge web-based e-mail service, MSN Hotmail, to send and receive on-line messages and e-mails. Furthermore, for the first time in the industry, users could exchange messages with friends or family that used other services, such as AOL Instant Messenger (AIM), with one instant messaging application. The MSN Messenger not only enabled Hotmail users but also AIM users to communicate freely. Also, users of MSN Hotmail or AIM could make queries or add functions through the "Wizard function" and, regardless of the service used, they could communicate with people without running various messaging applications. The size of the MSN Messenger 1.0 program was 320KB, the smallest

among instant messaging client applications at the time. Additionally, not only could it be operated on the background, it also automatically notified the user of the log-in of a correspondent, the arrival of a message, and each user's status information, and even enabled users to select their on-line status for themselves (for example: On-line/Away/Be back soon/On the phone/Out for lunch, etc).

The MSN Messenger offered services that were easy-to-use and diverse compared to its competitors, and managed to transform the users' recognition on instant messengers. Also, based on interoperability, it permitted incumbent users to easily move to other services, thereby lowering the entry barrier into the market. MSN messenger soon took over the leading position in the Korean IM market with more than 70% of market share.
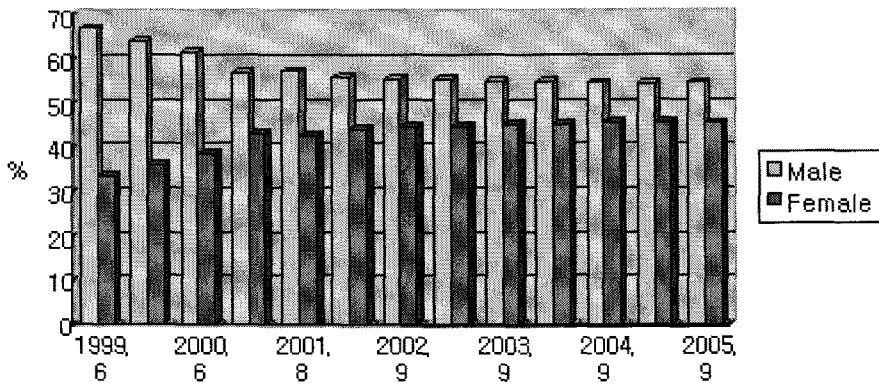
4. NateOn's Leapfrogging

4.1 Changed Market Condition and MSN

What first used to be a simple way of communication during the early stages, the instant messenger is now equipped with many cutting-edge functions, such as internet queries, entertainment (including music and games), real-time email, wired and wireless integrated message services, e-commerce and video chatting. These are the efforts of service providers to meet user demands and survive the intense market competition. Instant messengers are no longer a supplementary additional service. From the moment users turn on their computers and log on to the internet until they switch their computers off, messengers have become a part of the daily lives of 30million domestic internet users, including workers, students, and even the elderly.

In the early 2000s, the messenger remained as a simple "chatting" function, but from a turning point in 2001, it recorded an explosive growth in the number of users. In the early period, messenger services offered by middle-and-small-sized portals were popular, but gradually, messengers operated by large portals, such

⟨Table 2⟩ Gender Proportion Trends of Internet Users[1]

⟨Table 3⟩ Major Instant Messenger Users in 2003

(Unit : %)

MSN Messenger	54.4	0.0	6.0	12.0	23.2	73.5	81.1	70.9	55.7	65.0	55.0	55.6	33.3
Buddy Buddy	25.7	76.2	51.8	63.9	59.5	17.9	3.0	1.8	2.3	12.5	0.0	0.0	0.0
Sayclub Tachi	21.7	4.8	31.3	36.1	38.4	22.8	8.7	7.0	17.0	15.0	20.0	0.0	0.0
NateOn	13.4	4.8	2.4	0.6	5.5	22.2	20.0	10.3	12.5	10.0	10.0	11.1	33.3
Daum Messenger	12.6	38.1	19.3	8.4	5.9	9.3	14.5	18.2	13.6	22.5	35.0	33.3	33.3
Dreamwiz Genie	8.2	0.0	6.0	13.3	23.6	8.7	0.9	1.2	0.0	0.0	5.0	11.1	0.0
Yahoo Messenger	2.6	9.5	2.4	1.8	0.4	1.4	2.3	6.1	9.1	5.0	0.0	0.0	0.0

obs.: data on users above 50 years old should be interpreted carefully due to low number of users

Source: Korean Click

as MSN Korea(Microsoft Korea), SK Communications, Yahoo! Korea, and Daum Communication, began to dominate the market.

Entering the market in 1999 and recording rapid growth, MSN dominated the market by maintaining a market share of over 70% based on the growth of the instant messenger market. But changes in the Internet market warned of new challenges for MSN.

First issue was the changed user base. Most of the early Internet users were men. But gradually, the number of women users increased, piquing the interest of businesses towards a business model that could attract the attention of these rising numbers of female users rather than men users that did not accumulate ⟨Table 2⟩. This signified a change from the previous method which focused on complicated but diverse functions to a method that concentrated on design and

convenience. Furthermore, among the Internet's wide array of services, interpersonal communication services, such as the messenger, have users mainly in their teens to their early 30s. A representative feature of younger users, who are the major actors on the Internet, are active in stating demands, and have a low switching cost, meaning that they are willing to move to better services or better prices. The MSN Messenger, however, was more popular among the 30s because they were an age group that did not enjoy going on to new services and it did not require the installation of another program. Also, it was a program that could be used internationally with users in foreign countries, another advantage of the MSN Messenger over other competitors. But in the end, these advantages became a disadvantage, influencing changes in the market⟨Table 3⟩. Maintaining its lead, MSN Messenger, with a majority of users in their 30s, tried to respond to demands of incumbent users and add new functions. However, the new users of the

---

1) Number in above table has been readjusted based on Korean Click's IM user data.

Internet were the younger generation, from their 20s to the early 30s. And MSN fell into a state of inertia, a common phase for market leaders. Locked in by its fixed assets, leaders often fail to address threats posed by their competitors[3].

Besides, although MSN was leading the market, it did not have a wide user base. Most of its users were concentrated in office workers in their 30s. But students in their teens had a higher preference for BuddyBuddy which had a cute interface compared to MSN's somewhat rigid feel. In the end, MSN failed to capture users that would enable it to dominate the market. Failing to acquire market share in younger users, in a situation where it had to continue to capture more new users, MSN was stuck into a trap.

Second, rapid technology development made it possible for late-comers to catch-up or copy the key features of the dominant players services. This is quite true with most Internet services. Users could easily experience other services because the market had a low entry-barrier. Also, competitors could easily benchmark successful service providers to offer enhanced services and functions. Furthermore, the instant messenger market presented the conditions for users to use more

than two different services at a time, due to its small file size and easy-to-use and simple design. This help users in overcoming interoperability problem and work as a threat to the incumbent leader.

4.2 NateOn's Entry and Its Strategy

As a late-mover to the IM market where a strong network externality of the 'buddy list' exist, SK Communications' NateOn Messenger implemented many strategies to overcome its disadvantageous position since its launch in 2001.

NateOn was slow, but steady. They did not hurry. NateOn actively benchmarked the design and functions of MSN, the leader of the market at the time, and tried to reduce any unfamiliarity which users could face while using its services. Also, it focused on the trend of the messenger age group getting younger, from the 30s to the 10s and 20s, and the rise of women users, and tried to provide services that these new users desired. Only after gaining recognition from users with its MSN-like design and service, NateOn began to provide unique and specialized services through upgraded versions. NateOn appealed to users in their

⟨Table 4⟩ Comparison Between Functions of MSN Messenger 2.0 and NateOn 1.0

Functions	MSN	NateOn	Contents
Avatar	O	O	NateOn doesn't have Avatar building function in the messenger
Profile Picture	O		MSN allows uploading video file in the messenger
File Transmission	O	O	
File Sharing	O	O	MSN have only file sharing function, NateOn have folder sharing function
Program Sharing	O		
Live chat	O	O	NateOn doesn't have a function to check if sound is being transmitted when live chatting
Remote Assistance	O		
White Board	O	O	In NateOn this service is called 'ink chat'
Webcam		O	
P2P Game	O		
Save Conversation	O	O	
Backgroud Image	O	O	
SMS		O	MSN is preparing a service that send urgent offline messages to cell phones
Multilateral Conversation		O	
Offline Message	O	O	NateOn allows file attachment
Emoticon	O	O	
Floating	O		Allows floating the body in the desktop

Source: Korean Click

20s more than other competitors because it quickly grasped and provided the services and functions they wanted in a timely manner. For instance, its free-of-charge SMS services, which first began with NateOn 1.0 <Table 4>. NateOn offered SK Telecom subscribers monthly 100 free text messages, and KTF and LG Telecom subscribers monthly 50 free text messages. Users wanting to use the free SMS service began to use NateOn, and subsequent demands for upgraded services led to improved versions with continuous improvements in design and function. Offering free SMS services at the time of launch was the major factor in inducing messenger users to NateOn and it is still one of its main service functions. The instant messenger users at the time were mostly in their teens to their early thirties, and not many of them were active economic players. They were using the messenger service instead of their mobile phone SMS function to lower their telecommunications costs. The support of SK Telecom, the No. 1 in the mobile phone market at the time, in a situation where cost-sensitive younger users were the main players, facilitated mobile phone users to use the instant messenger. In this process, NateOn with its unique free-of-charge SMS service and stronger communication function, which were advantages over other competitors, could overtake others and win the leading position in the market.

Also, SK Communications, the operator of NateOn, took note of the fact that about 30% of its 17million Cyworld (a personal blog portal service website) users did not use its messenger services, opened its 3.0 Version which offered the connectivity with Cyworld in September 2003, This service enabled the user to access the mini-homepages of friends in Cyworld through the user's friends list on NateOn. In addition, users could easily invite their friends to NateOn by accessing their Cyworld address book on the messenger screen, and when sending a text message through NateOn, the receiver was introduced as a messenger friend. To facilitate this process of 'dual usage,' SK Communications launched a new "ID Management" service which enabled users to automatically join NateOn with their Cyworld IDs.

With a simple click, users could join NateOn without having to go through the trouble of subscribing to the service, and this led to a dramatic increase in the number of NateOn users, eliminating users' any possible inconvenience. The functions that enabled easy access to related websites led to easier transfer of new users. Also, they helped expand the scope of the messenger, thereby increasing usage, and consequently having a positive influence on expanding the messenger market. According to the "Final Report on the Progress of Information Technology Usage in 2nd half of 2007" by the National Internet Development Agency Korea, 47.8% of the Internet users used the instant messenger during the past year, and 43.8% used it during the past month. Also, by age group, those in the 20s were the heaviest users with 77.1%, followed by 56.6% of age 6-19 users, and 46.7% of those in the 30s. The main purposes of using instant messengers, apart from "chatting", which was the dominating reason for a majority of users, were visiting blogs/mini-homepages, writing and receiving e-mails, and using SMS services. This is largely because the majority of users are students from middle-schools up to colleges, who are sensitive to communicating through the web, and have little resistance to accepting new technologies. Also, since telecommunications costs, including mobile phone costs, can act as a burden to these users, their heightened interest in free SMS services is quite natural. We can say that services based on community activities, such as blogs/mini-homepages, and SMS services can affect the instant messenger platform.

Propelled by the strong support of young users, NateOn introduced an upgraded version (Version 3.5) that was more improved than MSN's file transmission and real-time chatting functions, breaking the old formula of 'office worker user=MSN messenger.' Furthermore, through its new function of one-on-three voice and video chatting service, users could use the messenger to hold small-size meetings, encouraging more businesses to move from MSN to NateOn.

NateOn was not lazy in strengthening its internal capabilities through upgrading graphics and user-friendliness. Initially, NateOn was considered to

be weaker than MSN in terms of icons, but NateOn turned the tables by considerably updating its flashcons and emoticons. Also, by integrating its free SMS service with the multi-media function, such as music albums and open music album services, it managed to evolve into an instant messenger providing integrated services. In addition, NateOn made it easy for its users to use its integrated services. It not only acted as the basic messenger function, but it was also a gateway that offered direct access to various websites of SK Telecom and SK Communications.

These strategic efforts proved as performance. In 2003, when MSN was leading the market, the proportion of NateOn users that also used MSN reached 75%. But, as the late-mover NateOn's growth began to take off, the number of MSN users that used NateOn as well, increased rapidly. These changes were not only brought on by MSN users moving to NateOn, but also by the fact that new users did not use MSN and NateOn at the same time. It seems that instant messenger users after 2005 did not find any trouble using only NateOn for sending and receiving messages. More unfortunately for MSN, an analysis on "double users" also showed a stark difference. Among users of both NateOn and MSN, 55.8% said they spent more time on MSN in March 2005, but by January 2006, the situation was reversed and 60.6% said they spent more time on NateOn.

4.3 Strategic Direction of NateOn

The recent advances made in internet and wireless communications technology is bringing down barriers between the Internet and communications, and the market in changing into a market of convergence, integrating various technologies with services. The improvement of internet transmission speed and wireless internet technology has enabled Voice over Internet (VoIP) services. VoIP services offer lower prices compared to fixed-line telephone communications, and it has already acquired a great number of users worldwide since commercialization. In step with this development, SK Communications launched 'NateOn Phone', a VoIP service based on portal services and

NateOn, in 2006, and has since acquired 2.45million users, maintaining its lead in the market. The rise of instant messenger-based integrated services are reinforcing the NateOn network in the market and acting as a barrier to deter the transfer of users to other services.

5. Conclusion

According to the "Study on Internet Messengers" by Embrain, an on-line research company, 72.4% of internet users used instant messenger services in 2008. This means that seven out of ten internet users use instant messengers, signifying that it has now become a popular way of communicating in the modern era. With the increasing number of people using various services, such as mobile phones, IPTV, and digital cable TV, household telecommunications costs are also rising. Furthermore, telecommunications services are becoming more personalized and complicated from the previous concept as a 'household' service. In this context, communication methods, such as the instant messenger, not affected by log-on times or data transmission volumes, are expected to continue to attract more users. However, without an obvious profit-generating model, the instant messenger could easily remain a simple way to communicate. But with the increase of interpersonal communication, and its use as the facilitator in expanding portal users, it managed to establish an important position in the internet market. Furthermore, its convergence with broadcasts and telecommunications, the scope of the instant messenger has also expanded, and it has become a daily tool for the modern person, such as the mobile phone. Like the air that we breathe, the instant messenger is becoming essential to the internet world. It, naturally, turns out as a harshly competitive marketplace.

Recording continuous growth since its commencement in 2001, NateOn is maintaining a strong lead as #1 in the domestic market with 25million users and 16.62 million monthly users in 2008, more than four times that of #2 player, MSN. NateOn did not only amplify its

basic chatting function, but it also managed to evolve into an integrated communication service by including notes, e-mail and SMS services, and by connecting to Cyworld, it increased user-convenience. These efforts led to a three-fold increase in the number of "buddies" on the user's "Buddy list", from 12 in 2005 to 40 in 2008. Also, NateOn showed great consideration to the convenience of minority users by developing the first instant messenger based on Linux. It has also developed the "Business NateOn" which encourages the use of the instant messenger service in facilitating work processes and meetings.

We explored the strategic efforts of NateOn in order to take over the number one position in the instant messenger. It is very unique case of showing 'leapfrogging' in the Internet marketplace where a very strong network effect exist. We conclude the secret of this success by emphasizing the fundamental wisdom of management: observing external trends by sensing the changed customer demands and strengthening internal capabilities through strategic planning.

References

[1] Aaker, D., & Day, G. (1986). "The Perils of High-Growth Markets" Strategic Management Journal, 7(5): pp.409-421.

[2] Amit & Zott (2001). "Value Creation in the E-Business." Strategic Management Journal, 22(6/7)

[3] Bower, J., & Christensen, C. (1995) "Disruptive Technologies: Catching the Wave." Harvard Business Review, Jan/Feb.

[4] Capra, F. 1984. The Turning Point: Science, Society and the Rising Culture. NewYork,NY:Bantam.

[5] Carpenter, G. and K. Nakamoto (1989), "Consumer Preference Formation and Pioneering Advantage," Journal of Marketing Research, 26 (August), pp.285-298.

[6] Carpenter, G. and K. Nakamoto (1990), "Competitive Strategies for Late Entry Into a Market with a Dominant Brand," Management Science, 16 (October), pp.1268-1278.

[7] Cassidy, J. 2002. Dot.com; How America Lost its Mind and Money in the Internet era. NewYork, NY: Hyper Colins.

[8] Golder, P. and G. Tellis (1993), "Pioneering Advantage: Marketing Logic of Marketing Legend?" Journal of Marketing Research, 30 (May), pp.158-170.

[9] Hwang, K., & Yang, S. (2005) "Instant Messenger" Kyung book National University Journal.

[10] Kalyanaram, G. and G. Urban (1992), "Dynamic Effects of the Order of Entry on Market Share, Trial Penetration, and Repeat Purchases for Frequently Purchased Consumer Goods," MarketingScience, 11(Summer), pp.235-250.

[11] Kardes, F. and G. Kalyanaram (1992), "Order-of-Entry Effects on Consumer Memory and Judgment: An Information Integration Perspective, Journal of Marketing Research, 29 (August), pp.343-357.

[12] Kerin, R., P. Varadarajan, and R. Peterson (1992), "First-Mover Advantage: A Synthesis, Conceptual Framework, and Research Propositions," Journal of Marketing, 56 (October), pp.33-52.

[13] Ko, D. & Park, J. (2002). "The Application and Principals of the Instant Messenger". Korea Telecom Research Journal.

[14] Lee, Sang-Myung and Ungson, Gerado R.(2008), "Towards a theory of synchronous technological assimilation : The case of Korea's Internet economy, Journal of World Business(Sep), Vol43,#3.

[15] Lieberman, M. and D. Montgomery(1988) "First-Mover Advantages," Strategic Management Journal, 9, pp.41-58.

[16] Liebowitz, S. (2002). "Re-Thinking the Network Economy: The True Forces that Drive the Digital Marketplace." AMACOM, NY.

[17] Lilien, G. and E. Yoon (1990), "The Timing of Competitive Market Entry: An Exploratory Study of New Industrial Products," Management Science, 36 (May), pp.568-585.

[18] Marvin, B., Lieberman, M. and D. Montgomery (1998), "First-Mover (Dis) Advantages: Retrospective and Link with the Resource-based

View," Strategic Management Journal, 19(22).

[19] Ministry of Information and Communication (2007). White Paper.

[20] Nardi, B. A., Whittaker, S. and Brander, E.(2000), "Interaction and Outeraction : Instant Messaging in Action," CSCW 2000: pp.79-88.

[21] Porter, M. (2001). "Strategy and the Internet." Harvard Business Review, 79(3): pp.62-79.

[22] Robinson, W. & Min, S. (2002) Is the First to Market the First to Fail? Empirical Evidence for Industrial Goods Businesses. Journal of Marketing Research (39): pp.120-128.

[23] Shankar, V., G. Carpenter, and L. Krishnamurthi (1998), "Late Mover Advantage: How Innovative Late Entrants Outsell Pioneers," Journal of Marketing Research, 35 (February), pp.54-70.

[24] Suarez, F. and Lanzolla, G.(2005), "The Half-Truth of First-Mover Advantage." Harvard Business Review, Vol. 83 (4): pp.121-127.

[25] Tellis J. Gerard; Golder N. Peter(1997), Will it ever Fly? Modeling the Takeoff of Really New Consumer Durables, Marketing Science, Vol.16, No. 3, pp.256-270.

Sang-Myung Lee

2005 Ph. D. Univ. of Oregon
1997~1998 Research Associate, KSIDI
2005~2006 Assistant Professor U. of Redlands, US
2006~Assistant Professor, Hanyang University
Research Interest : Strategic Innovation, New Technology Adoption
E-Mail : sanglee@hanyang.ac.kr

Jeong-Il Choi

2005 Ph. D. Univ. of Nebraska
1994~1998 Senior Research Associate, KISDI
2005~2007 Assistant Professor Merrimack College, US
2007~Assistant Professor, Soonsil University
2007~Vice President, Media & Future Institute
Research Interest : Online Business Model, Convergence of Broadcasting & Telecom
E-Mail : jichoi@ssu.ac.

Sanghyung Ahn

1985 Ph.D. Carnegie Mellon University
2005~2007 Dean, College of Business, Seoul National Univ.
1985~ Professor, College of Business Administration, Seoul National University
Research Interest : Resources Allocation & Optimization, Performance Evaluation
E-Mail : shahn@snu.ac.kr