Competitive behavior in the Korean search market

MIT Students
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- Firm background
- Challenges facing the firm
- Strategy
- Technology
Firm background

- Founded in 1995, Daum is the 2nd largest web portal in South Korea, offering services such as e-mail, search, online communities, maps, shopping, news, and much more.

- Portal
- Search
- E-Mail
- Cafe
Daum’s business is mostly ad-driven

Daum % of revenues by business segment

95% ad-driven in MRQ
It competes in a two-sided market

User Demand

Advertiser Demand

Network effect

Increased advertiser demand from site traffic explosion

More traffic

Image by MIT OpenCourseWare.
In the past, strategic focus drifted...


- Daum media
  - News
  - Open community
  - Try to globalize

- Daum UCC media
  - Video service
  - Open community

- Multi-window

- Mobile

- NAVER

- Search

- Local Search

Open the Korean Internet world
- Free email
- Online community
... and now must play catch up with the competition

Revenues

<table>
<thead>
<tr>
<th></th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
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</thead>
<tbody>
<tr>
<td>Daum</td>
<td>2bn won</td>
<td>3bn won</td>
<td>4bn won</td>
<td>5bn won</td>
<td>6bn won</td>
</tr>
<tr>
<td>Naver</td>
<td>8bn won</td>
<td>10bn won</td>
<td>12bn won</td>
<td>14bn won</td>
<td>16bn won</td>
</tr>
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</table>

Net Profit Margin

<table>
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<tr>
<th></th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daum</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Naver</td>
<td>20%</td>
<td>25%</td>
<td>30%</td>
<td>35%</td>
<td>40%</td>
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Market capitalization

- Daum: 108.2bn won
- Naver: 928.7bn won
- 8.6x difference
Daum has begun gaining ground

Search Market Share (by query)

Aug 2010 Monthly UV/PV

<table>
<thead>
<tr>
<th>Domain</th>
<th>UV</th>
<th>PV (000s)</th>
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<tbody>
<tr>
<td>Naver</td>
<td>31,031,414</td>
<td>24,590,337</td>
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<tr>
<td>Daum</td>
<td>28,925,149</td>
<td>17,356,675</td>
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<tr>
<td>Nate</td>
<td>24,652,649</td>
<td>7,322,468</td>
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<tr>
<td>Yahoo!</td>
<td>16,514,010</td>
<td>2,137,653</td>
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</table>

News E-mail Café

<table>
<thead>
<tr>
<th>Domain</th>
<th>News</th>
<th>E-mail</th>
<th>Café</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daum</td>
<td>3,152,332</td>
<td>2,313,115</td>
<td>5,586,706</td>
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<tr>
<td>Naver</td>
<td>1,379,158</td>
<td>1,585,868</td>
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<td>Nate</td>
<td>1,865,440</td>
<td>1,027,160</td>
<td>497,766</td>
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<tr>
<td>Yahoo!</td>
<td>580,500</td>
<td>165,767</td>
<td>-</td>
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</tbody>
</table>

Share of search queries is growing...

...and share of Unique Visitors and Page Views is highly competitive
Daum’s new strategy has 3 elements

1. Mobile
2. Kiosk
3. IPTV

- Each is a part of a broader “multi-screen” strategy
- Focus is on providing more targeted local services, and expanding untapped network of local advertisers
New platforms allow for greater focus on local search

- Customers segmented by geo-targeting, geo-location keywords, and IP addresses across multiple platforms using “Rainbow System” for local ad sales
  - Mobile, IPTV, Kiosks
- Expose right customers to right ads
- Expected to drive significant revenue growth

![Local Business](chart.png)

(Unit: KRW billion)
- IPTV
- MAP_data/API
- Signage AD
- Local Search AD
- Total

2009: 3.13
2010(E): 9.85
2011(E): 21.05
A new ad bundling strategy will unlock additional revenue

Initial Strategy: Bundling across platforms

Follow-On Strategy: Introduce individual platform option
Local search designed to tap Longtail ad market

\[
\ln(\text{Sales}) = 17.33 - 0.7615 \times \ln(\text{Rank})
\]

\[
\ln(\text{Sales}) = 15.59 - 0.47628 \times \ln(\text{Rank})
\]

Monthly reconnect rate = 25%

Image by MIT OpenCourseWare.
Questions?
Appendix
1 Mobile service offerings

m.daum.net  Strategic Apps

- Optimized for mobile environments, including iPhone & Android
- Currently offering 25 services on m.daum.net (email, café, news, dictionary, stock and more) and 8 application based services
2 Digital signage / Metro Kiosks

- Currently ~900 digital signs placed in 117 subway stations
- Daily average traffic of ~6mm people
- Exclusive business rights from Seoul Metro
3 IPTV

- Optimized marketing platform for local advertisers
- Expanding rapidly with the growth of digital TVs
- Collaboration with KT Qook, CJ Cable, and LG’s IPTV