

## Line's Development Strategy in the Mobile Instant Messenger Industry

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### *Abstract*

*This paper selected 'Line', the messenger application of Korea's leading software-based IT company 'Naver', and performed a case analysis specially in the early stages of the messenger industry. First, this study analyzed what the mobile messenger industry is and the external environment. Next, an internal analysis was carried out through the strengths and weaknesses through Naver Line's resources and capabilities. With this analysis, this study could evaluate the platform strategy, communication strategy, and the user basic strategy that Naver is carrying out. This study gave us more understanding of the mobile instant messenger (MIM) industry and understand Naver's growth strategy, which will provide great implications for the working staff of IT companies.*

**Keywords:** Line, Mobile Instant Messenger Industry, Platform Strategy, Communication Platform, Contents Platform

### 1. INTRODUCTION OF NAVER LINE

Since the invention of the world's first computer in 1946, computers and other IT devices have become indispensable in our daily lives. In addition, numerous IT companies have been born in the past 50 years and have experienced remarkable growth. Currently, Apple, Microsoft, Google, and IBM are in the top 10 in the U.S. Nasdaq market, while domestic companies such as Samsung Electronics, SK Hynix, Samsung SDS, and Naver are in the top 10 by market capitalization in the Korean Kосpi market. As such, the share of the IT industry in the world has expanded rapidly. It is worth paying attention to global IT companies because the recent rise of the Internet of Things, 3D printing, wearables, etc. is expected to further growth in the IT industry.

Hardware-based domestic IT companies such as Samsung Electronics and SK Hynix have a high market dominance in the global IT hardware industry. However, the performance of the domestic software industry in entering overseas markets has been sluggish to date. In this context, it is judged that software-based competitiveness is an indispensable factor for the Republic of Korea to become a true IT powerhouse in the future. Among these, 'Naver', a domestic leading software-based IT company, not only occupies the overwhelming No. 1 position in the domestic portal search share, but has also been growing rapidly in the global market through its recent messenger application 'Line'. Based on the capabilities of the No. 1 portal in Korea, this study determined that it is necessary to pay attention to the growth of 'Naver', which is increasing its market dominance around the world, and decided that it was the subject of enterprise analysis.

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Since Naver's business area is diversified into portals, lines, and other mobile apps, and there is a big difference in the size of its revenue, it is necessary to limit its business units for effective analysis. The portal business already holds the No. 1 position in the portal industry, and due to the nature of the business, the likelihood of threats from new entrants and substitutes is very low. On the other hand, the messenger application line has been growing rapidly since its launch in 2012 with an average monthly subscriber count of about 20 million. Among these, the messenger application market is in a phase of transition from the beginning to the growth phase, and as a result, competition between various global messengers such as WhatsApp, WeChat, etc. is fierce. Noting that LINE is driving Naver's entry into the overseas market and is an important new growth engine for Naver. On the other hand, other mobile apps do not show a significant share of sales, so they were excluded from the analysis.

The messenger application 'Line' was first launched in Japan in June 2011. Since its launch, 'Line' has become a sensational hit based on the 'cute and lovely' interface favored by the Japanese, surpassing 50 million subscribers in July 2012 and 100 million subscribers in January 2013. In October 2014, the total number of subscribers of the line is 506 million, and the number of monthly active users (MAUs) has exceeded 107 million. The line sends about 13 billion messages every day, a whopping 87 percent increase from the previous year [1],[2].

As of 2013, the country-specific occupation of the line is 50 million in Japan, 22 million in Thailand, 17 million in Taiwan, 17 million in Indonesia and 15 million in Spain. Since this is a figure released in 2013, it is estimated that the number of subscribers has increased considerably in each country since then. Meanwhile, Line's third-quarter revenue was KRW 2085 billion, up 57.1% from the same quarter of the previous year, and on a gross revenue basis, it was KRW 3281 billion, up 82.4% from the same quarter of the previous year. In addition, the in-line service 'Creators Market Sticker' shows a booming tax, and more than 20,000 sets of stickers are currently produced and sold. In addition, a total of 49 game services are provided through the line, generating high content revenue [2]. This study will analyze the process of whether Naver's Line could develop from a domestic company to an overseas global company. In particular, this study was analyzed from the perspective of Michael Porter's competitive strategy, focusing on Naver's external environment and Naver's internal environment at the time. This study could have very practical implications to find out the platform strategy of the messenger industry

## **2. EXTERNAL ENVIRONMENT ANALYSIS**

### **2.1 Mobile Instant Messenger (MIM) Industry**

Naver's line business is largely part of the Mobile Instant Messenger (MIM) industry. MIM is a service that allows you to chat in real time via a mobile phone [3]. The reasons why the industry to which the line belongs is limited to MIM rather than the traditional Social Networking Service are as follows: First, traditional SNS and MIM differ greatly in the purpose of use and basic functions. SNS is based on the function of informing various people of their own situation and satisfying the desire to know the situation of various people. MIM, on the other hand, is based on a feature that satisfies the desire to have a live chat with close acquaintances in a one-on-one or one-to-many format [3].

This difference in purpose of use also leads to differences in the size and openness of the network. Traditional SNS has a large-scale, open network, whereas MIM has a small, closed network compared to SNS. Because MIM's network is formed between close acquaintances, the network is also local, cultural. Finally, since the global competition for MIM is so high that it is safe to say that it is safe to call it the "Spring Chu Dynasty of Mobile Messengers", it is appropriate to analyze MIM separately from SNS.

## 2.2 Characteristics of MIM Industry

According to Bob Metcalf, the inventor of the iconic local area network Ethernet, the value of the network is proportional to the square of the number of participants. He called it the Network Effect, which means that as the number of participants increases, the value of the network increases exponentially. The MIM industry, in particular, has high network externalities, which have two important consequences. First, when the number of users exceeds the tipping point, the utility of using the messenger increases significantly, and the number of users increases more rapidly. Second, it incurs a high conversion cost for the user to switch to another messenger. Therefore, preempting the user network early can continue to dominate in the long run, so market preemption is important.

The MIM industry is expensive to develop messengers, but after development it is possible to disseminate apps at a lower cost. It doesn't require additional production facilities or distribution systems like manufacturing, but simply connects to the app store via a wireless network and users around the world can easily download it. Therefore, the cost of going overseas is relatively low compared to that of general manufacturing, which makes it easy to go overseas.

Third, importance of establishing a business model is important. Mobile messenger apps are often distributed for free, so downloads often don't lead directly to revenue. Therefore, after the app is down, various contents and functions are needed to attract additional purchases from consumers, and attracting advertisements from companies is also an important revenue model. Not only that, but constant updates and customer care are very important to make a profit.

Next, communication functions are being packaged. This is illustrated by the fact that most messengers offer not only text chat, but also free voice calls and free video calls. It also provides content such as various stickers and games, and it is easy to connect with other functions such as gifting and mobile payment. Therefore, messengers are easy to platform.

Lastly, partnering and cooperation with other companies are important. Mobile messenger providers are partnering and cooperating with other companies in various neighboring sectors to gain local know-how and rapidly expand their messengers. Partnerships are being made with local carriers, local online companies, and mobile phone manufacturers. For example, LINE partnered with Japanese telecom operator KDDI to make the line available when you signed up for KDDI's service au Smart Pass, and partnered with Taiwan's Vivo Telecom to run a sign-up promotion. Meanwhile, a large number of messenger providers are also partnering with mobile phone manufacturers to adopt a pre-load strategy of natively loading apps on their terminals in order to preempt their networks and dominate standards in the industry.

In order for mobile messengers to proliferate, complementary infrastructure such as smartphones, mobile networks, and mobile payment systems are needed. This is because if smartphone penetration and mobile communication network penetration are not achieved, the use of mobile messengers itself will not be possible. In addition, the development of mobile payment systems is also one of the important infrastructures, as it is difficult to make a profit in countries where mobile payment systems are not established. With the rapid adoption of smartphones and high-speed Internet, infrastructure is expanding. In addition, with the transition from traditional mobile phones to smartphones, mobile has begun to become more deeply involved in people's lives. The phenomenon of increasing smartphone usage time and mobile payment rate is representative of this. This change represents an opportunity for the Naver Line.

The number of mobile app developers worldwide is increasing. Therefore, companies that provide mobile messengers have created an environment where they can hire developers locally when they enter each country. The revitalization of this ecosystem presents an opportunity for mobile messengers such as Naver Line and others who are pushing for globalization.

### **3. ANALYSIS OF NAVER LINE**

#### **3.1 Resources of Naver Line**

The line has over 40,000 sticker designs and over 100 games. This is a far superior figure to other competitors. When it comes to developing content on such a large scale [4]. LINE leverages the Creators Market. The Creators Market is not designed by the designers of LinePlus but rather by the general subscribers of the line who produce stickers and distribute them through sales. Half of the sales go to the creators, and there has been a recent case of becoming a billionaire through sticker making [5]. In addition, as of the beginning of November, the market is gradually expanding, with 270,000 people registered as line creators in 145 countries around the world. As a result, sticker sales revenue accounted for \$417 billion, or 20 percent of the line's Q3 revenue of \$2085 billion, an increase of about 14 percent from Q2 revenue of KRW 365 billion [4], [5].

LINE is a subsidiary of Naver and can utilize content from Naver Portal. Currently, Naver offers 18 different themed content on the portal as of 2013, including webtoon, Naver cast, music, and knowledge shopping [5]. Recently, based on the popularity of webtoons and the like, line webtoons running on the messenger line have appeared, and line music that has been upgraded from Naver Music on Naver Portal has also appeared. As such, it has a variety of content resources that can be mounted on top of a messenger platform called LINE [6]. The other resource is a wide range of business models compared to other MIM industry competitors. Currently, the line is largely generating revenue through display advertising, stickers, and game content sales. In Q3 2014, Line Plus revenue accounted for 38% of total sales [4]. For other MIMs, however, WhatsApp is a paid app that has a business model based on app sales, and the main revenue model for other MIM competitors is advertising. As such, the line's diverse business model ensures a more stable return compared to other competitors [7].

Naver is committed to a corporate culture that emphasizes freedom and creativity. This corporate culture increases the efficiency of work by giving autonomy and convenience to the work environment of employees. In particular, LINE Corporation and LINEPLUS do not need to submit proposals to share new ideas. This allows members to come up with ideas without being limited by standards and allows them to quickly develop new services despite the large size of the company.

#### **3.2 Strength of Naver LINE**

First, Naver is the No. 1 portal business in Korea and has Naver Data Center "Each," the largest data center in Korea. Here, Naver will process and store all kinds of big data it has. Each uses a lot of effort and technology to turn down the heat of its servers in an environmentally friendly way, and in recognition of this technology, it has achieved a data center world-class score of 95 and a Platinum, the highest rating in the LEED [7]. In addition, the data processing and processing capabilities that have been cultivated through the portal business for 15 years since 2000 are important capabilities of Naver today and serve as a strength for the line that utilizes a lot of stickers and game content.

Second, LINE has the capability to provide an optimized platform. First of all, the line can transfer the know-how that Naver has built the platform through the portal business. In addition, Naver provides customized IT infrastructure operations and enterprise solution services suitable for Naver Portal and Line through a subsidiary called NAVER Business Platform (NBP). The line is being supplied with a platform infrastructure that can hold a lot of content through the NBP [8].

Third, Naver operates NHN NEXT, the largest SW talent training facility in the country. NEXT is a SW Talent Development Foundation corporation established in 2011. There are plans to invest 10 billion won a

year in NEXT in the future, a total of about 100 billion won over a decade, and it is characterized by the cultivation of a wide range of talents in computer science, regardless of major or educational background. By recruiting special talents trained through these academies, Naver is listening to the cultivation of talents. For reference, Line Plus hired 10 new employees this year for its permanent recruitment, with a competitive ratio of 1,000 to 1 [9]. Lastly, Naver is making bold R&D investments based on top talent. According to the Q4 2013 earnings report, research and development expenses were KRW 9925 billion, accounting for 42.93% of operating revenue. In addition, since Naver and Line Plus are software-based companies after all, their R&D capabilities are very important. According to the Naver Business Report, the company has been continuously increasing its share of R&D investments since 2009. The frequency of patent issuance that Naver currently has also continued to increase, and it now holds more than 30 patents [10], [11].

### 3.3 Weakness of Naver Line

The line is the "No. 3 messenger in the world," growing steeply to over 500 million cumulative subscribers in August, just three years and 2 months after its launch. However, the fact that the number of users of the line is mostly limited to a particular country is a weakness of the line. As of Q2 2014, in Taiwan, Japan and Thailand alone, the line had the No. 1 share in the MIM market, with a biased market distribution in Japan, Southeast Asia, Thailand, Spain and Taiwan. This means an uncertain user base, and for MIM, where the scale is determined in proportion to the number of users, the distribution of users is very important. In order to have a stable sales structure, it is necessary to acquire a wide distribution of users in the global market, and the United States and Europe, which account for a large part of the MIM market, already have WhatsApp in control, and China has a WeChat monopoly under the protection of its own government. Accordingly, it is not entering the global market in earnest. In the MIM industry, revenue comes from real users. This is because sales of advertising, sticker sales, etc. are generated from them. But the line currently holds a low number of real users. Currently, the number of Line subscribers has surpassed 500 million, but the number of active users who actually use the LINE app is 107 million as of October, well below the 506 million subscribers. In other words, the remaining 400 million people have only signed up for the line and are not a solid line's user base, and it is necessary to expand the user base by turning these potential customers into real users [12].

**Table 1. Main SWOT Analysis of Line**

Strength	Weakness
<ul style="list-style-type: none"> <li>• Know-how in portal business - DB processing, processing, platforming</li> <li>• R&amp;D capabilities, corporate culture</li> <li>• High-quality content resources</li> </ul>	<ul style="list-style-type: none"> <li>• Uncertain user base-imbalance</li> <li>• Market distribution - low real users</li> <li>• Low purchase rate outside of Japan</li> </ul>
Opportunity	Threat
<ul style="list-style-type: none"> <li>• Transition to a mobile experience</li> <li>• Activate the app development ecosystem</li> </ul>	<ul style="list-style-type: none"> <li>• Foreign messenger regulation by some national governments</li> <li>• The Rising Importance of Security Globally</li> </ul>

## 4. THE STRATEGY OF NAVER LINE

### 4.1 Platform Capability

Platform business, a concept that is at the heart of LINE's understanding of its current strategy, is a service that connects multiple providers and multiple consumers to provide a platform that can be easily exchanged between two or more groups. As a way to maximize the effect of sharing and utilizing resources that have become easier with the development of information technology, subscribers show a decrease in search and advertising costs due to the interaction between groups using network effects. Providing a variety of functions through a single medium can also be seen as a form of platform business. By providing multiple functions through a single platform, consumers can choose to cook.

## **4.2 Communication Platform**

In LINE's most basic service, the communication function, it is platformed in the form of LINE providing multiple functions directly. LINE has added voice and video calling functions to its existing free messaging features, and has launched a 'Line Call' service that allows people who do not use the line to make calls. It offers a 'Line Timeline' where you can communicate with friends with Line accounts with SNS and a 'Shake it' function where you can search for Line users around you by shaking your device. All of these features are available to users for free.

## **4.3 Contents Platform**

In content services, LINE is platforming in a way that connects multiple providers and consumers. The typical content that LINE offers is comics, games and stickers. 'LINE manga' uses synergies linked to SNS by providing LINE and manga viewing, East Sea the ability to recommend and share content among users. 'Line Games' are also being touted quite a bit, with many games in the top 10 downloads on the Play Stores of Southeast Asian countries. First of all, one of the things that comes to mind when you talk about the line is the sticker business. The sticker business of the line is the flagship business of the line, and the sales through the actual sticker sales are more than 20% of the total sales. One of the main factors of the success of the line, especially in Asia such as Japan, is the sticker business, which has a maximum daily transmission and reception of more than 180 million times, and the number of stickers that are being released is more than 20,000 sets [13], [14].

## **4.4 User Expansion Strategy**

LINE aims to increase loyalty to existing subscribers through an active user expansion strategy, which has a positive effect on revenue generation. As mentioned earlier, LINE has 54 million subscribers in Japan, 33 million in Thailand, 17 million in Taiwan, 18 million in Spain and 30 million in Indonesia, but with the exception of Spain, the major countries appear to be mostly concentrated in Asia. It also has an unbalanced revenue structure that generates 80% of profits in Japan, which has only 20% of the total subscriber base. The strategy of expanding the number of active users is that of Southeast Asia, Taiwan, Spain, Japan and South Korea, where the line has already successfully entered the market and has a large number of customers.

## **5. CONCLUSION**

As a result of the previous discussion, LINE is currently constructing its strategy around platforming services, and these services are an important factor in differentiating LINE from its competitors. Therefore, LINE needs to further strengthen its platforming services and shape its future strategy in the direction of developing it into its core competencies.

Strengthening the platforming service is largely divided into 'internal core competence' and 'external adaption to environment' of the platform. Internal core competence refers to the improvement of the content of the direction the platform is headed, the content of the platform's composition, and its structure with capabilities. The core competency inside the line was that it had know-how in the portal business based on database processing. The search engine of the mother company Naver was fully utilized. Along with this, it has abundant R&D capabilities, corporate culture, and high-quality content resources. In this paper, Naver's core competencies were analyzed by dividing them into four categories. It is each of the core competencies such as platform capabilities, communication platforms, content platforms, and user expansion strategies. Line also made very good use of leading adaptations to the external environment. For example, it quickly promoted the transition to a mobile environment and succeeded in adapting to a changing environment by focusing on active application. In addition, in the case of increased compatibility, which is part of the external improvement, the line is difficult to improve on its own, since it must be carried out sequentially according to the upgrade of the underlying OS such as IOS or Android OS, and in the case of server expansion to enhance security or maintain speed, the effect of the improvement is relatively negligible in that it is not much different from the current strategy of other competitors.

Through this study, it was possible to examine how Naver's Line was established and how it has grown into a global platform company. In addition, in this study, the research could be organized from the perspective of Naver's competitive strategy by analyzing the external environment and internal strengths faced by Naver Line. Through this, it was possible to give practical implications to many global platform companies and contribute to strategy theory from the perspective of competition strategy.

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