

## Market Entry Strategy of LINE in Japan

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Received: February 28, 2016., Revised: May 15, 2016., Accepted: May 15, 2016.

### Abstract

This study analyzed the successful case of Naver LINE's entry into the Japanese market. LINE pursued a strategy of establishing its dominance early on and implemented localization for Japan and thereby achieved success in the Japanese market. The various strategies adopted by LINE allowed it to win over 80% of the market share in Japan and function as a nationally ubiquitous mobile messenger. The conclusions to be drawn from our LINE analysis is that LINE must implement localization strategies suited to the characteristics of each country, as it had done successfully in Japan. In the Asian region, it should retain the platform that provides various contents while pursuing a localization strategy to secure competitive edge, by offering emoticons suitable for each country, such as Ramadan emoticons in Islamic regions.

**Keywords** : Naver, LINE, Market Strategy, Japan, PEST Analysis.

### 1. Introduction

Naver LINE is the name of the mobile instant message service application released by the NHN Corporation. It is the leading SNS application offered by Naver and was developed and released on June 23, 2011 by NHN Japan, Naver's Japanese subsidiary. The official Korean-language version of the service was launched in Korea on August 31st of the same year. Naver LINE's entry into the domestic market was relatively belated, since its release date was 1 year behind than that of KakaoTalk, but while KakaoTalk has a higher percentage of domestic registered users, the majority of the registered users of Naver LINE are located in overseas markets rather than in the domestic market. It is particularly notable that Naver LINE has a dominating share of the free mobile instant message market within Japan. This widespread use is evident in the fact that the phrase "do a LINE (ラインして)" has become common parlance in Japan. The major functions offered by LINE include free messenger, free voice calls, free video calls, and multimedia chatting (with the capability of sending messages, photos, locations, videos, voice messages, etc.) and there are more than 5000 stickers available either free or for purchase. Currently, the number of registered users worldwide has reached over 600 million and there are now 13 countries that have 10 million or more users, including Japan, Taiwan, Thailand, Spain, and Indonesia.

Naver launched LINE in February 2011, and in June of the same year, it expanded into Japan following the great earthquake in eastern Japan. The entry into the Japanese market was a success, and this success was followed by the entry of LINE into Southeast Asian markets including Taiwan and Indonesia. In January 2015, the total number of registered LINE users exceeded 600 million globally. LINE has continued its success by maximally exploiting the advantage it has gained by achieving dominance in the global communication service market early on, while simultaneously making meticulous efforts at localization.

At first, Naver had launched "NaverTalk," which was based on the Naver User ID, but it failed to outcompete KakaoTalk and lagged in the domestic mobile market. Naver did not give up, however, and turned its attention to the global market and succeeded in gaining more than 600 million registered users globally. Key to this success was Japan, the market that Naver targeted first. According to the "Group Chatting App (Service) Registration Rate and Usage Survey" conducted by Japan's MMD (Mobile Market Research) Lab, Naver LINE, with a registration rate of 86.4%, ranks first among similar apps and thus has absolute dominance in Japan. The goal of this study is to analyze

why LINE, which had initially failed to attract consumers in the domestic market, was able to earn such popularity among Japanese consumers.

The purpose of this study is to analyze the case of LINE's success in the Japan market, which served as the stepping stone enabling LINE to further expand throughout the global market. In our external environmental analysis, we will analyze the environmental conditions at the time LINE entered Japan and thereafter analyze LINE's global marketing strategy as a success case. A SWOT analysis will be performed on LINE. Lastly, based on these analyses, we diagnose the prospects for LINE and strategies for its further development.

## **2. Analysis of the Environment in Japan**

### **2.1. Political Environment**

At the time, Japan was experiencing various social and economic problems such as a low birth rate, an aging population, economic recession, and the dissolution of families and regional communities. In response, the Japanese government sought to solve these problems through the use of ICT, and in order to build an infrastructural high-speed communication network, it presented a national informatization strategy for Japan called "Path of Light" on August 31, 2010. This "Path of Light" was a plan to give all households free access to the high speed communication network by 2015, thereby reinforcing the foundation for implementing public applications for education, medical services, etc. To implement this plan, business operators with the necessary equipment were given special treatment such as the corporate tax and fixed assets tax. This facilitated the development of wireless internet in Japan, and this was the foundation that made it possible for Naver LINE to be created.

### **2.2. Economic Environment**

Following the global financial crisis, the value of the Japanese Yen rose sharply and many Korean companies entered the Japanese market. On June 23, 2011, when Naver LINE debuted in Japan, the exchange rate for 100 Yen was 1338.51 Korean won. Since the implementation of "Abenomics" in 2012, the Yen was greatly devalued, and as of October 2015, the exchange rate had fallen to 900 Korean won for 100 Yen, which clarifies how significantly high the Yen exchange rate was in 2011. Due to the Yen exchange rate at the time Korean companies competing with Japanese companies had competitive advantage in product prices. Thus the sharp rise in the value of Yen was an economic environmental factor that helped the entry of Naver LINE into Japan.

### **2.3. Social Environment**

Japanese animation films, characters, and digital contents such as video games were globally popular and the phrase "Cool Japan" was used to refer to these productions. The Japanese government used this to promote and export the country's cultural contents.

Empowered with an advanced animation and character market, Japan had the second largest market for a single country, and had a 52% share of the character market in the Asian region. Japan thus had the status of an advanced powerhouse in the animation and character industry.

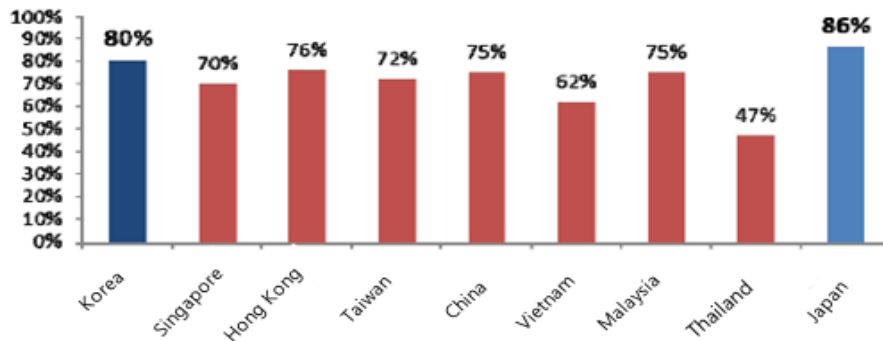
Furthermore, Japan not only possessed globally popular characters but also benefited from the strong protection offered by a well-developed license market. Japan maintained its dominance in character licenses, not only domestically but in the overseas market as well. Also, although the aging of the population meant that the number of younger people was proportionately smaller, there was a strongly developed character industry catering to adults.

### **2.4. Technological Environment**

Although the development of the wired internet industry took place more slowly in Japan compared to Korea, Japan was 3 years earlier than Korea in opening up wireless internet, and especially mobile services. Beginning in 2006, communication companies made wireless networks available, with major mobile communication companies such as KDDI (Google), NTT Docomo (Google) and Softbank (Yahoo JP) featuring the portal services of Google and Yahoo JP in their mobile phones, and this resulted in a rapid increase in mobile internet usage.

Also, from 2006, it implemented a flat-rate for data usage, which was one of the strongest factors in the development of mobile internet, and fees continued to be lowered through competition among the communication companies thereafter. Thus Japanese users had become familiarized with the mobile environment since their usage of feature phones.

According to a report by Japan Electronics and Information Technology Industries Association (JEITA) in 2010, the percentage of smart phones among the total number of mobile phones shipped in Japan was merely 4.1%, but this grew explosively to 41.3% within 1 year. Taking account of the population and per capita income of Japan, it was anticipated that high performance smart phones would be the majority.



Source: Nielsen(2013)

**Figure 1: Usage Rate of Wireless Internet**

## 2.5. Analysis of Main Competitors in Japan

There are about 4 major companies that can be considered leaders of the global mobile messenger market, including Naver LINE. Even global mobile messengers, however, have only achieved a very small market share in Japan. This is because LINE succeeded in exploiting its advantages as the forerunner in the Japan market. One characteristic of the mobile messenger is that due to the externality of the network, the product that is used by a large number of people will have greater utility. Because LINE offers greater utility, it is not easy to induce users to move to a different application. For a rival company to outcompete LINE, it must offer greater utility than LINE, but this is practically very difficult.

In Korea, KakaoTalk is the messenger that has the most widespread usage nationwide; likewise, LINE is the most widely adopted messenger in Japan. Even the combined total share of WhatsApp, WeChat and KakaoTalk falls short of 20% of the mobile messenger market in Japan. LINE is far ahead of the pack in the Japanese market, and competitor companies are reducing their services or changing their strategy.

### 2.5.1. WhatsApp

WhatsApp was founded by Brian Acton and Jan Koum, former employees of Yahoo!, in 2009. It is the globally top ranking mobile messenger that supports 27 languages and that can be used in a wide range of mobile operating systems, including Apple iOS, Android, Blackberry, Windows mobile, and Symbian.

In 2014, WhatsApp was acquired by Facebook for 19 billion dollars. By acquiring WhatsApp, ranked at the top of the industry, Facebook has set the foundation for positioning itself at the forefront of the global mobile messenger market.

### 2.5.2. WeChat

WeChat, a text and voice messaging service launched in January 2011, has over 400 million registered users globally, of whom 50 million have registered from outside China. Although it supports 18 languages, it is estimated that most users belong to the Greater Chinese community in various locations around the world. WeChat is also compatible with various mobile operating systems including Apple iOS, Android, Blackberry, Windows, and Symbian. WeChat is a large business operator in China that provides comprehensive internet services, including on-line entertainment such as music, videos and on-line video games through advertising as well as various communication services such as social networking services.

### 2.5.3. KaKaoTalk

KakaoTalk is a messenger service launched by Kakao in March 2010. It is available for free to smart phones users and is compatible with Apple iOS, Android, Bada, Windows, and Blackberry. In July 2013, 3 years and 3 months following its launch, the number of registered KakaoTalk users reached 100 million world wide.

KakaoTalk features a variety of main functions, including sending messages, photos, videos, voice, contact information and scheduling events with friends. There are also many additional functions available, including chatting plus, group chatting, group call, video games, and sending gifts. The profit strategy of KakaoTalk is not simply based on mobile advertisement alone but on a 'distribution platform' model, including various contents. Like Naver LINE, KakaoTalk has also entered the Korean and Japanese markets with its services.

### 2.5.4. Results of Competitor Analysis

#### - The Importance of Diverse Contents

Mobile message apps had initially been launched as an alternative to text messaging, but now, we must be aware that if these apps limit themselves to basic communication functions, they will not be able to ensure their full success. The three companies with the most users in Asia, namely LINE, WeChat, and KakaoTalk, are all aiming to develop a global platform and have provided various contents for user convenience in addition to the basic communication functions.

#### - Avoiding Excessive Advertising

As seen in the example of WhatsApp, contemporary users living in a world replete with advertisements are sensitive to ads and are easily fatigued by them. The success of WhatsApp is attributable to the developers, whose intentions for WhatsApp were based on their two decades of work experience at Yahoo! with advertisements. WhatsApp customers invest a small amount, \$ 0.99 per year, and in return are guaranteed an environment in which they can be more focused on mutual communication.

#### - The Difference in Revenue Structure

WhatsApp earns revenue by charging an annual usage fee of \$ 0.99 for their mobile messenger service. Meanwhile, LINE provides its mobile messenger service for free but is building a platform through which it can generate revenue through advertisements and contents including emoticons, video games, etc. WhatsApp, which has the highest ranking in the global market despite charging an annual usage fee, could be said to have a more stable revenue structure compared to LINE, which provides services for free. As of 2015, there were 900 million WhatsApp users already. If each of these are changed the annual fee of 1 dollar, this will mean a revenue of 900 million dollars, or around 1 trillion won.

## 3. LINE's Strategy for Entering the Japanese Market

### 3.1. Preemptive Strategy through Fast Decision-Making

At the time, NHN Japan (currently named the LINE Corporation) was deliberating the direction it should take with the social service that it was newly developing. The message app and the photo app had emerged as the two final candidates but following the earthquake that hit eastern Japan in March 2011, the company shifted to a new direction.

At the time, many people were having trouble communicating with their most beloved and close ones. Throughout society, there was a rapidly rising need for a communication service that connects people who are close, rather than an open SNS in which users interact with unspecified people whom they may not even know. Responding to these social changes, we focused all of our corporate resources on developing a smart phone messenger, which would become the core of our communication service." – Jung-ho Shin, LINE Plus CEO

Thereafter, LINE set the goal of launching the service within 2 months and committed itself to the project. The result was that development was completed within 2 months as planned, and LINE was launched in June 2011, right on schedule. Accurate perception of consumers' needs and quick decision making were the factors that empowered LINE to gain early control of the market.

### 3.2. Available for Feature Phones and PCs

2011 was the year that feature phones began to be replaced with smart phones in significant numbers in Japan. Nonetheless, there weren't yet many users who had the ability to utilize smart phones to their full potential and therefore Naver developed its service that to be compatible with feature phones as well, to ensure that it would gain dominance in the market before other companies began competing in the market. This tactic paid off well, allowing Naver to increase its number of users. Another successful strategy of LINE was to enable LINE to be run in linkage with computers (2012). More recently, many new and various applications have become available, the majority of which offer linkage between the messenger platform and PCs, but LINE offered its users such convenience from the very beginning, allowing it be used in the manner of PC software.

### 3.3. Free Calls

Among the various factors that enabled LINE to succeed in Japan, its free voice call function was a game changer. Although more recently released smart phones are capable of delivering calls with clear audio quality over Wi-Fi, LINE's free calls had a strong appeal in Japan, where the fee for voice calls is expensive. In the period following its initial release, LINE had a far higher percentage of feature phone users in the Japan market. A change in perception regarding free texts was another decisive factor that strengthened LINE's position in Japan.

### 3.4. Aggressive TV Advertising

LINE also greatly increased its marketing support and beginning in late September of the same year, it launched a TV advertisement campaign on a large scale. At the time, there was not much awareness of Naver in Japan, and therefore Naver selected Becky, a celebrity with nationwide popularity in Japan, as its model to focus on delivering a sense of trustworthiness and security to TV viewers. The content of the advertisement did not focus on LINE's main functions such as 'chatting' or 'free voice calls,' but instead increased its impact by imitating the format of a movie preview, in a manner that appealed to female college students or professionals who purchased smart phones. Naver's strategy was successful. Following the TV advertisement, the response from female viewers clearly improved and this was reflected in an actual increase in the number of registered users.

Word-of-mouth from people who had already begun using LINE further increased the number of LINE users and since Japan lacked a native mobile messenger at the time, LINE came to occupy the leading position in the Japanese market. This growth also led to increased LINE sales. Table 3 presents the percentage of LINE sales within the company's total sales, showing that the sales had been 4.7 billion won in the second quarter of 2012 but grew to 137 billion won by the fourth quarter of 2013, and the percentage of LINE sales within the total sales of Naver reached 21%.

### 3.5. Aggressive Investment in Mobile Games

In the Japanese mobile contents market, video games have achieved the highest growth. Not only in Japan but in Korea and in the global market overall, the type of contents that are most often consumed on smart phones are video games. In Japan, which already had a well-developed portable video games market thanks to companies such as Nintendo, an enormous mobile video games market had formed, valued at around 5 trillion won as of 2011. LINE took note of this market situation and invested aggressively in mobile video games.

LINE video games are currently serviced through a selective process following careful reviews. More than half of the video games feature characters exclusive to LINE and the selections mainly tend to be more casual video games. Video games that do not perform well are regularly removed from service, and LINE has maintained around 30-40 varieties of video games at a time.

### 3.6. Profit Model of Emoticon Stamps

LINE was the first mobile messenger to introduce various stickers, featuring characters exclusive to LINE since 2011, when smart phone usage was still in its early stages. The humorous facial expression icons and endearing stickers were a huge hit in Japan. Emoticon stickers, which communicated with facial expressions rather than language, was perfect for Japanese users who tend to prefer expressions that are subtler than blunt or direct statements. In Japan, the text decorating market had formed since the time of feature phones, and as of 2011, the value of this market was around 300 billion won (21.3 billion yen, as of 2011), demonstrating that Japanese users were very willing to pay for mobile emoticons. Observing this market situation, LINE built a revenue model for its emoticon stickers.

In addition to the stickers that are available for free, LINE offers sets of mobile emoticons stickers (each set containing around 40 stamps) at \$ 1.99 each. This proved to be a successful revenue model for emoticons, which are highly suited for interpersonal communications via messenger and which pose relatively little resistance among users.

#### 4. Conclusion

We have analyzed the successful case of Naver LINE's entry into the Japanese market. LINE pursued a strategy of establishing its dominance early on and implemented localization for Japan and thereby achieved success in the Japanese market. The various strategies adopted by LINE allowed it to win over 80% of the market share in Japan and function as a nationally ubiquitous mobile messenger.

The conclusions to be drawn from our LINE analysis is that LINE must implement localization strategies suited to the characteristics of each country, as it had done successfully in Japan. In the Asian region, it should retain the platform that provides various contents while pursuing a localization strategy to secure competitive edge, by offering emoticons suitable for each country, such as Ramadan emoticons in Islamic regions.

As we can see from the case of KakaoTalk, which entered the Japanese market after LINE, in the mobile instant messaging service industry, once one company has gained a stronghold in a certain market, it is very difficult for a latecomer to enter the market and expand its share. When KakaoTalk entered the Japanese market as a latecomer, it failed to distinguish its services from those of LINE and therefore lost the competition. Naver LINE ought to learn from this experience when it enters the European and North American markets.

For Naver LINE to enter the European and North American markets as new sources of revenue, it will have to compete with WhatsApp, which is the world's largest instant messaging service company. WhatsApp has performed strongly in North American and European regions and prioritizes the original basic chatting functions. It has gathered users and due to its early start, it now has 900 million users. This means that Naver must adopt a different strategy.

To succeed in the European and North American markets, LINE must adopt the strengths of its competitor companies while also pursuing localization strategies, which have proven to be LINE's strength. Instead of transitioning to a fee-based system such as WhatsApp, LINE should offer free services in which it has a competitive advantage over WhatsApp, while guaranteeing European and North American users an environment that allows them to focus on communication, which has been the attraction of WhatsApp. In addition, LINE should further strengthen software elements that will provide convenience for users. This does not necessarily mean pursuing revolutionary changes. Even simple functions may serve as a good strategy for success if they engage with the cultural and environmental conditions and taste preferences found in each country.

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