

# NAVER D-Place Report

# 2021

## Economic Valuation of NAVER SmartPlace – a free digital platform for offline SMEs

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# EXECUTIVE SUMMARY

Along with user-dedicated services that help users navigate through offline small and medium enterprise (SME) information such as local restaurants, hair salons, and accommodations, NAVER also offers “SmartPlace,” a free digital platform for offline SMEs to directly manage their information displayed on NAVER services.

As of December 2021, the number of offline businesses that directly manage and operate SmartPlace totaled about 2.08 million, a 15% increase from the previous year. With SmartPlace, offline SMEs can provide basic store information to NAVER users without having to build a separate website and gain free exposure and promotion opportunities on various NAVER services such as NAVER Search, Maps, Navigation, and SmartAround (AI driven place recommendation).

In addition, offline SMEs can strengthen their digital connectivity to customers by actively providing detailed information on store updates, menus, photos, and addresses, while also using a variety of tools to improve the store’s operational efficiency, such as NAVER Booking, Orders, SmartCall, and TalkTalk (customer chatting).

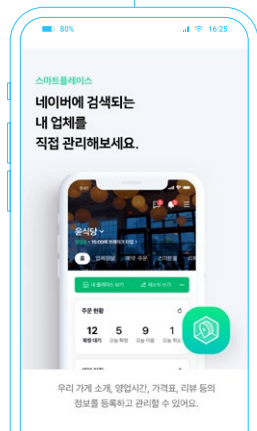
Professor Yoo Byungjoon of Seoul National University Business School and his research team conducted data analysis to estimate the economic value of NAVER SmartPlace, a free digital platform for offline SMEs.



## NAVER SmartPlace

SMEs can manage their store information exposed on NAVER services

A total of 2.08 million businesses are using the service



## NAVER TalkTalk

Chat with customers without having to add them as contacts or install apps



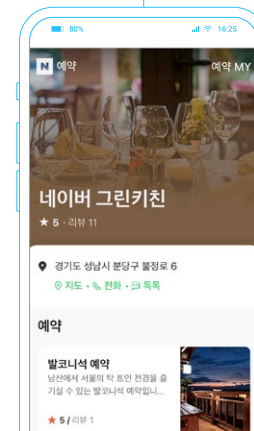
## NAVER Order

Upload menu and offer contactless ordering and payment options



## NAVER Booking

Receive reservation and payment through mobile devices



## NAVER SmartCall

Manage customer relations with a virtual phone number (050)



The analysis found that NAVER SmartPlace, as a free digital platform, contributes to creating **KRW 46.1 trillion worth of economic value annually for offline SMEs (KRW 27.39 million per business).**



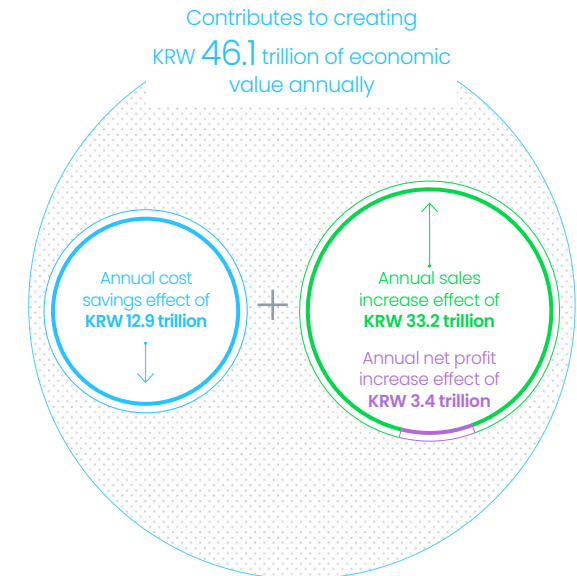
## 1. Free exposure on NAVER services (NAVER Search, Maps, Recommendation, etc.) estimated to induce growth in annual sales by KRW 33.2 trillion

- A. Free exposure on NAVER services induces annual sales of KRW 33.2 trillion and estimated income (net profit) of KRW 3.4 trillion
- On average, KRW 19.7 million and KRW 2.03 million were induced in annual sales and net profit respectively per business
  - Average annual sales and net profit were 7.9% and 5.8% greater respectively than the national SME average collected by Statistics Korea

## 2. Estimated annual savings of approximately KRW 12.9 trillion for offline SMEs that use NAVER SmartPlace as a free platform

- A. KRW 12.6 trillion of advertisement costs saved from free exposure on NAVER services (NAVER Search, Maps, Recommendation, etc.)
- B. KRW 219.2 billion of website development and maintenance costs saved from using SmartPlace for free
- C. KRW 72.5 billion of advertisement costs saved from running ads through 'Local SME Advertisement' at a much lower cost (compared to advertising on global search engines)

### Economic Impact of NAVER SmartPlace on Offline SMEs



These results show that as offline SMEs meet NAVER SmartPlace and become better discovered and connected to potential customers at a lower cost, additional economic value is being created.

This verifies, based on actual data, that an online platform does not threaten the survival of offline SMEs, but instead creates a partnership for mutual growth. It confirms that various technologies, tools, and services powered by an online platform can materially help offline SMEs in overcoming challenges and creating new opportunities.

The findings further bear importance in empirically verifying that digital platforms and offline SMEs form a win-win relationship instead of a zero-sum relationship.

Based on this baseline study, there can be possible follow-up studies that provide implications on how offline SMEs can more strategically use various detailed functions such as NAVER Booking, Order, SmartCall, and TalkTalk.

# CONTENTS

01

**05 INTRODUCTION**

- 1. Background
- 2. Purpose and Expected Outcome

02

**07 ANALYSIS**

- 1. Cost saving effect from SmartPlace
- 2. Sales increase effect from SmartPlace

03

**11 CONCLUSION**



NAVER D-Place Report 2021 is an interactive PDF document. Feel free to navigate through features and access embedded websites.

# INTRODUCTION

## Background

### A. The Socio-Economic Importance of Small and Medium Enterprises (SMEs)

Korea's economy and employment are highly dependent on SMEs: in 2018, Korea reported the 5th highest self-employment<sup>1</sup> rate among OECD members, which was 10%p higher than the OECD average (15.3%)<sup>2</sup>. Moreover, SMEs have absorbed the job losses of wage workers during economic crises in the past such as the Asian and global financial crisis, acting as last resort for maintaining the national employment level.

- SMEs account for 84.8% of the total number of businesses (as of 2019)<sup>3</sup>
- 36.9% of all those employed work in SMEs (as of 2019)<sup>4</sup>

### B. Difficult times for SMEs

Despite such socio-economic importance of SMEs, their difficulties have worsened due to the COVID-19 pandemic, soaring raw material prices, and interest rate hikes. Sales and employment declined, while loans and closures increased.

- Compared to the same period last year, sales decreased by: 29% during the first wave of COVID-19 (March 2020), 25% during the second wave (September 2020), and 32% during the third wave (December 2020).<sup>2</sup>
- In particular, the bottom 16% of businesses with annual sales of less than KRW 50 million accounted for only 38.6% of the restaurant business in the previous year.
- The number of self-employed people with employees is 1.3 million, the lowest in 31 years since 1990.<sup>5</sup>
- In the first quarter of 2021, loans from financial institutions for self-employed business owners increased by 16.2% compared to the previous year, while loans from non-bank sectors increased by 24.4%.<sup>6</sup>
- In 2020, the number of cases for government-subsidized store demolitions increased by 151% compared to the year before.<sup>7</sup>

<sup>1</sup> Note: Based on OECD statistics, it is the sum of the number of employers with employees, sole proprietors, and unpaid family workers.

<sup>2</sup> Source: Ministry of Strategy and Finance (2019), "Proportion of self-employed in OECD member countries over the past 5 years"

<sup>3</sup> Source: Ministry of SMEs and Startups (2019), Status of Small Businesses

<sup>4</sup> Source: Korea Credit Data & Office of Assemblyman Lee Dong-ju(2020), changes in card sales for small businesses in 2020 compared to 2019

<sup>5</sup> Source: Bank of Korea Household Debt DB & Office of Assemblywoman Jang Hye-young (2021)

<sup>6</sup> Source: Ministry of SMEs and Startups & Office of Assemblywoman Yang Geum-hee(2021)

<sup>7</sup> Source: Statistics Korea (2021), August Employment Trends



## Purpose and Expected Outcome



- Analyze and corroborate the impact and contributions of a digital platform on the performance of offline SMEs, the central axis of the Korean economy, by studying the case of SmartPlace, a free digital platform for offline SMEs.



- Promote understanding and interest for SMEs by analyzing their current status and trends, and provide basic material for developing their digital strategy.



- Enhance SME business value and ultimately contribute to the growth and development of SMEs by calculating and corroborating the socio-economic value of their digital transformation through NAVER SmartPlace.

# ANALYSIS

## 1. Cost savings effect from using SmartPlace

A. Estimated annual savings of approximately **KRW 12.6 trillion** in advertising cost from free exposure on NAVER services (NAVER Search, Maps, Recommendation, etc.)

= **A** Number of businesses registered with SmartPlace subject to analysis X **B** Average weekly clicks per business X **C** Global CPC benchmark for search ads X 52 weeks



**A**

**1.69** million

**Number of businesses registered with SmartPlace subject to analysis**



**B**

**202** clicks

**Average weekly clicks per business**



**C**

**KRW 711.9**

**Global CPC benchmark for search ads**

Restaurants and shopping/retail businesses<sup>1</sup> registered with SmartPlace (as of June 2021) X Activation rate (78.5%)<sup>2</sup>

Average number of clicks per week from 860,000 randomly selected businesses registered with SmartPlace (January 2020 - June 2021)

Global average CPC<sup>3</sup> of search ads in Q2 2021: KRW 711.9 (CPC \$0.63 × Exchange rate USD/KRW 1,130 as of late June 2021)

<sup>1</sup> Top 2 categories with most sales according to December 2019 Retail Sales Statistics (Statistics Korea)

<sup>2</sup> Note: Based on restaurant closure rate in 2019 (21.5%), to account for businesses still registered on SmartPlace even after business closure

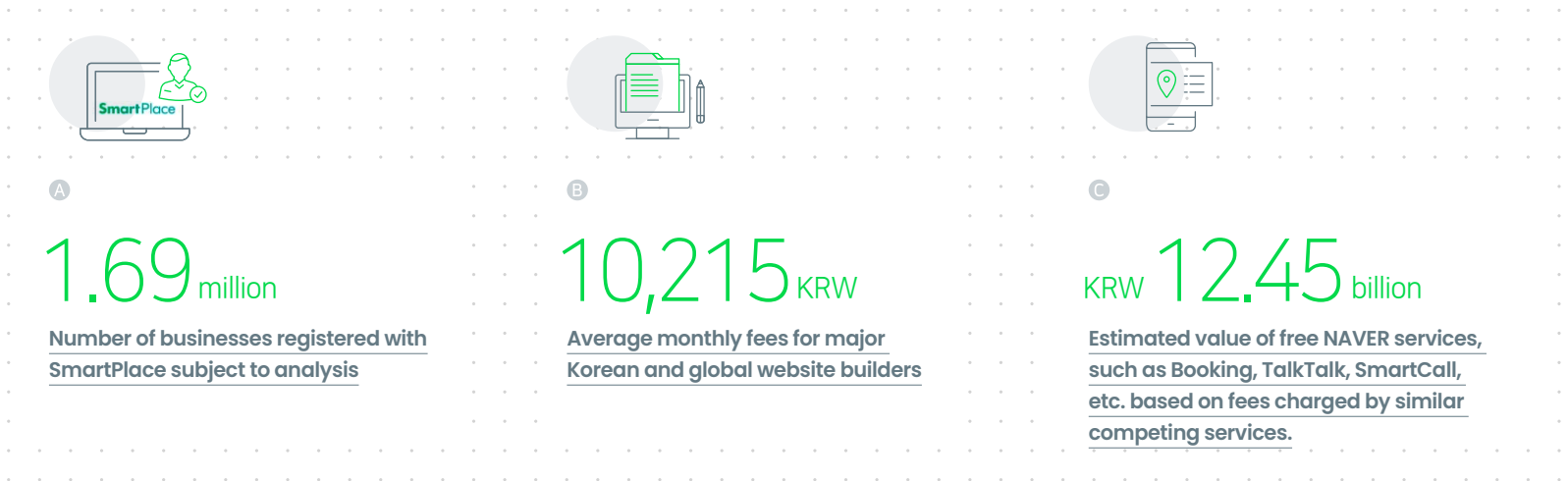
<sup>3</sup> Source: SKai (2021), Digital marketing quarterly trends report



# 1. Cost savings effect from using SmartPlace

## B. KRW 219.2 billion saved annually in website development and maintenance costs

= A Number of businesses registered with SmartPlace subject to analysis X B Average monthly fees for major Korean and global website builders X 12 months + C Estimated value of free NAVER services, such as Booking, TalkTalk, SmartCall, etc. based on fees charged by similar competing services.



Restaurants and shopping/retail businesses registered with SmartPlace (as of June 2021) X Activation rate (78.5%)	Arithmetic average of the lowest fees of Korea's top website builder <sup>1</sup> (Imweb) as of November 2021 and top 2 <sup>2</sup> global website builders (Wix, Squarespace) in 2018	Estimated based on fees charged by similar service providers: Booking KRW 870 million <sup>3</sup> , TalkTalk KRW 1.97 billion <sup>4</sup> , SmartCall KRW 9.62 billion <sup>5</sup>
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<sup>1</sup> Note: Based on NAVER Trends Search as of December 2018

<sup>2</sup> Source: Statista (2018), Market share of the leading website builders worldwide as of 2018

<sup>3</sup> Note: Average annualized price for WordPress plugins sold over 5,000 as of November 2021 (KRW 8,061, based on 5 years of depreciation period for software as intangible asset) X Number of businesses using the service (107,000); Calculated based on reservations, as plugin functions do not strictly distinguish between reservations and orders.

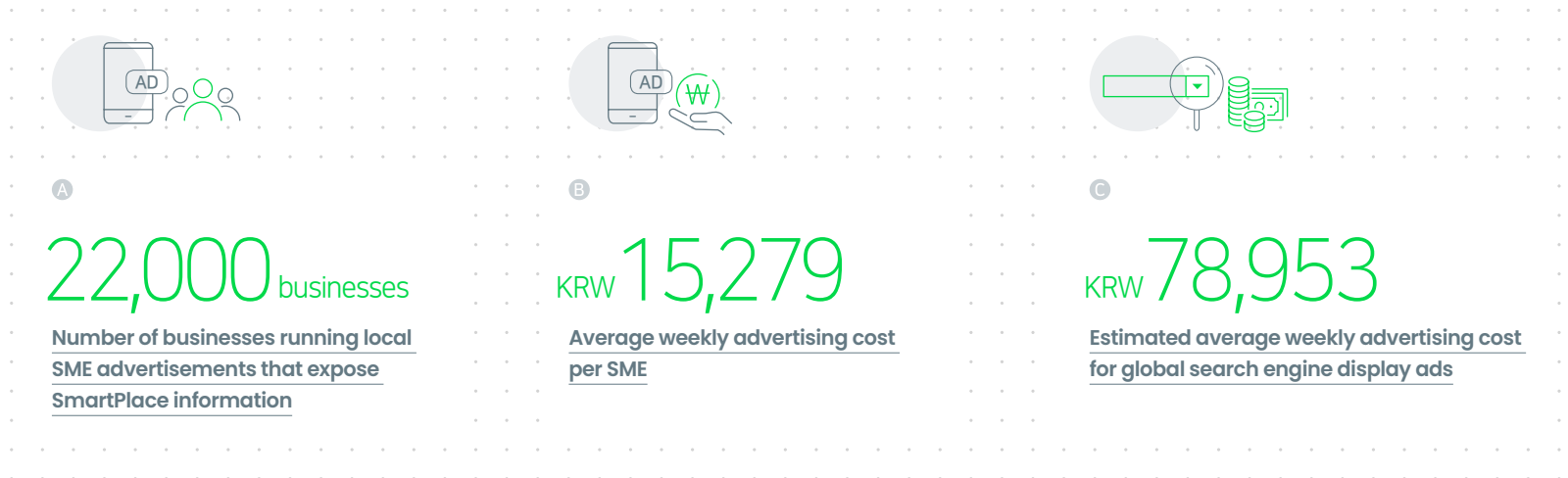
<sup>4</sup> Note: Average annualized price for WordPress plugins sold over 5,000 as of November 2021 (KRW 16,950, based on 5 years of depreciation period for software as intangible asset) X Number of businesses using the service (116,000)

<sup>5</sup> Note: Average annual fees for robocall blocking service by SK Telecom, KT, LG U+ (KRW 13,200) X Number of businesses using the service (729 million); the cost of outgoing calls was not considered

# 1. Cost savings effect from using SmartPlace

## C. KRW 72.5 billion saved annually in advertising costs compared to global search engines

= (A) Number of businesses running local SME advertisements X 52 weeks X  
 (B) Average weekly advertising cost per SME - (C) Estimated average weekly advertising cost for global search engine display ads)



Number of businesses that have run a local SME advertisement <sup>1</sup> at least once in 2020	Average weekly clicks due to local SME advertisements for each business that has run a local SME advertisement at least once in 2020 (104 times) X Average weekly PPC (KRW 147)	Average weekly exposures due to local SME advertisements for each business that has run a local SME advertisement at least once in 2020 (25,000 times) X Global search engine display ads CPM benchmark <sup>2</sup> (KRW 3,175) <sup>3</sup>
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<sup>1</sup> Note: Local SME advertisement is a banner ad exposed to local users using NAVER content services. SMEs enjoy an exclusive rate of KRW 0.5 per effective exposure.

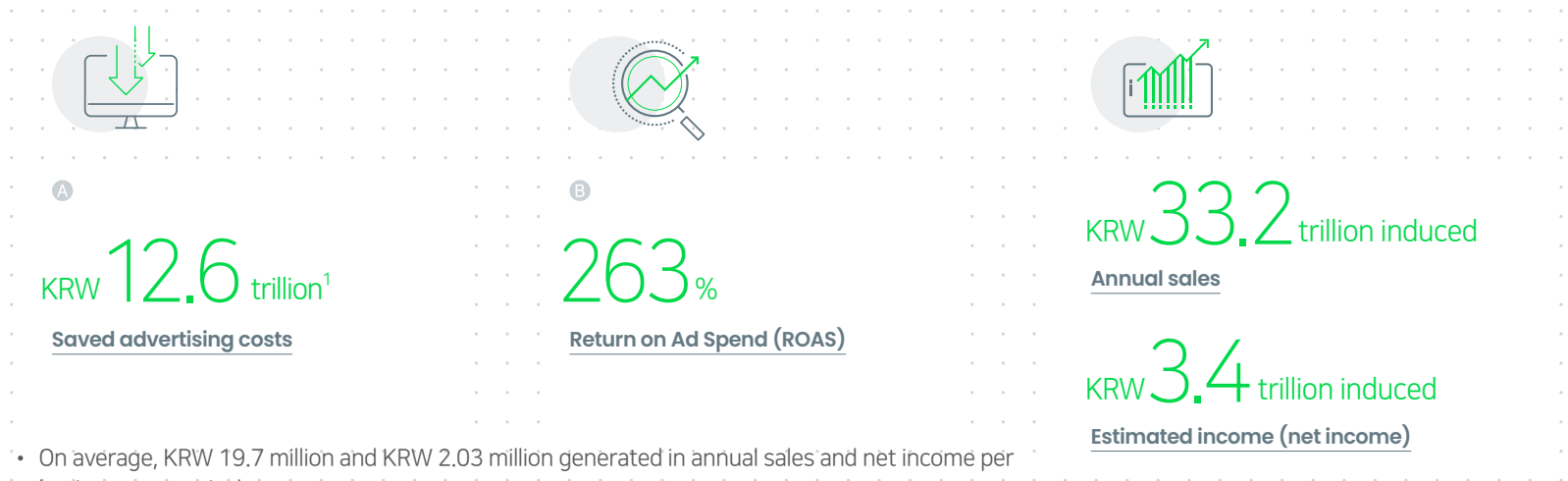
<sup>2</sup> Source: Adstage (2019), Google Display Ads CPM, CPC, & CTR Benchmarks in Q4 2019

<sup>3</sup> Note: Calculated by converting the global search engine Display Ads CPM Benchmarks in Q4 2019 based on the exchange rate for late June 2021

## 2. Sales increase effect from using SmartPlace

A. An annual sales increase of approximately **KRW 33.2 trillion** (net profit of KRW 3.4 trillion) is estimated from free exposure on NAVER services (NAVER Search, Maps, Recommendation, etc.)

= **A** Saved advertising costs X **B** Return on Ad Spend (ROAS)



- On average, KRW 19.7 million and KRW 2.03 million generated in annual sales and net income per business respectively
- This effect accounts for an increase of 7.9% and 5.8% in average SME<sup>2</sup> sales and net profit respectively

<p>Based on 2016 Nielsen Catalina Solutions benchmark (sales from every KRW spent on ads)<sup>3</sup></p>	<p>Sales generated (KRW 33.2 trillion) X (1 - simple expense ratio (89.7%))<sup>4,5</sup></p>
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<sup>1</sup> Note: 1-A. Estimated advertising cost savings from NAVER Search exposure  
<sup>2</sup> Note: Based on sales of lodging, restaurant, and wholesale/retail businesses from the 2019 SME Survey, Statistics Korea (2020)  
<sup>3</sup> Source: Nielsen Catalina Solutions (2016), Multi-Media Sales Effect Studies from 2004 - Q4 2015  
<sup>4</sup> Source: 2020 Expense Ratio [Table], National Tax Service (2021)  
<sup>5</sup> Note: Simple expense ratio for estimating the amount of income of SMEs in the food/Korean food sector is applied

## CONCLUSION

This study empirically analyzed SmartPlace data to evaluate its impacts and contributions to SMEs, as a free platform for digital expansion of offline SMEs. The findings are as follows:

### 1. SmartPlace provides KRW 12.9 trillion (average KRW 7.63 million per business) worth of benefits to offline SMEs annually through free exposure on NAVER services, free website development and maintenance, and low-cost advertising services exclusively for SMEs.

- KRW 12.6 trillion saved in advertisement costs from free exposure on NAVER services (NAVER Search, Maps, Recommendation, etc.)
- KRW 219.2 billion saved in website development and maintenance costs from using SmartPlace for free
- KRW 72.5 billion saved in advertisement costs from running ads through local SME advertisement at a much lower cost (compared to advertising on global search engines)

### 2. Additional sales predicted from free exposure on NAVER services (search, map, recommendation, etc.) are estimated at KRW 33.2 trillion per year, with subsequent net profit at KRW 3.4 trillion. This is, per business, increasing KRW 19.7 million and KRW 2.03 million in annual sales and net profit, which is equivalent to increasing 7.9% of sales and 5.8% of net profit for an average SME.

- NAVER service exposure induces KRW 33.2 trillion in annual sales and KRW 3.4 trillion in estimated income (net profit)

**In sum, it is estimated that SmartPlace provides offline SMEs with economic benefits worth of KRW 46.1 trillion (average KRW 27.39 million per business) and an estimated income (net profit) of KRW 3.4 trillion.**

Recently, offline SMEs are facing unprecedented challenges due to COVID-19, soaring raw material prices, and interest rate hikes. Amid these difficulties, NAVER is providing a free digital platform dedicated to offline SMEs through NAVER SmartPlace, along with various functions such as Booking, Order, SmartCall, and TalkTalk, so that diverse offline SMEs can be better exposed and connected to NAVER users (potential customers).

The results show that SmartPlace and its various functions are contributing to creating real economic values for offline SMEs by empowering them to reach out to potential customers at a lower cost.

We hope that offline SMEs overcome their limitations and ultimately improve their performance by proactively and strategically utilizing a free digital platform like SmartPlace.



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