

Eharmony examination

Literature, Russian Literature



What kind of a platform business is the online personals market? What kind of network effects (direct, cross-sided, positive, and negative) does it leverage? How structurally attractive is it? The online personals market is a specific niche of social networking, and it is a sole-sponsor, proprietary platform business.

In terms of network effects, it could be seen as a one-sided network (users can instigate an interaction, or can have someone else instigate an interaction with them), but is better described as a two-sided market with men on one side, and women on the other (with the exception of homosexual sites which are clearly one-sided markets). Within this, there are both direct and cross-sided network effects. For direct, there are small positive effects (as a man, you want enough men on your side to attract women on the other side), but primarily negative effects (the more people on your side, the more competition you will have finding a match).

For cross-sided, there are positive effects (the more of the opposite sex there are, the more likely you will find a match), and negative effects (if there are too many people on the other side, it may be hard to search through the noise to find an actual match—not to mention that there can be liars, frauds, and other undesirable people on the other side of the network). To examine the attractiveness of the industry structure, a five forces analysis will offer us insight.

First, we can consider buyers' power. In this case buyers (prospective daters) do have some power in that there are a plethora of other options online (from Match to free sites), as well as any number of venues in the real world.

However, since they are individual consumers, they do not have scale power and must accept prices. Further, there is an overall opinion that meeting the right person is very hard, and thus there is a significant willingness to pay for a quality service.

Second, looking at the competitiveness of rivals, it is clear that there is a significant amount of competition (though concentrated within a few main players). Match is trying to copy eHarmony with Chemistry, and they have been increasing spend on advertising. Yahoo! also boasts a strong installed base that they can funnel into their Personals site. In addition, free sites keep everyone in check in terms of the amount they can charge.

Nevertheless, the main players have demonstrated price discipline, as prices have remained steady or even risen (in the case of the competition).

Third, the threat of new entrants is low / moderate. There are a hundreds of niche sites starting up every year, but for the most part, the built-in network effects of the three main players, as well as multi-homing costs, have kept the three leaders consistent over the years, and each year the vast majority of new sites fail. The biggest threat would be for a behemoth like Facebook to activate its users on a proprietary site, but so far this has not materialized for a number of reasons.

Fourth, the threat of substitutes is always present. In addition to the numerous ways that people can meet partners in the real world, there are also real world match services that pre-date the internet (as well as the threat of new technology and innovations changing everything). However, for the time being, online personal sites are clearly the most efficient and

affordable option for the masses. And lastly, there is really no bargaining power of suppliers. eHarmony controls all of its inputs.

Thus, the sum of these parts leads to a pretty attractive industry. It is not a winner-take-all market (multi-homing costs, while present, are not overwhelming, and the case mentions that many people are members of multiple dating sites), but the significantly strong network effects and stability of a few main players lead this to be a profitable industry (primarily for the incumbent leaders). What is eHarmony's competitive advantage? What differentiates it from its competitors? How does the company create value?

What is the value proposition to the customer? What kind of customer benefits the most? Can we calculate the company's competitive advantage by relying on the equation of willingness to pay minus cost, as discussed in the Google versus Microsoft session? Is the competitive advantage sustainable? The main competitive advantages of eHarmony are in its ability to offer high quality customers (which is really the "product" they are offering), and more accurate matches with superior ensuing relationships.

Just as Google's research and continual adjustments give it an advantage in offering more relevant searches, eHarmony's research department has created a match algorithm that greatly outperforms the results of its competitors (and arguably the traditional methods of meeting, as well).

Further, their long initial setup process serves to self-select only the most serious of consumers, which leads to an increased WTP of everyone who makes it through (and additionally, this has led to more women than men

signing up—an extraordinary feat since women have been the hardest customers to acquire in the online dating world).

The company differs from its competitors in its guided matchmaking (though Match has recently tried to copy this). Rather than allowing free range for the users to search through the database of potential mates, eHarmony first weeds out the non-serious and non-desirable applicants with its extensive questionnaire, and then uses its patented algorithm to find the best potential match. It takes this even further by then scrutinizing each potential match with additional questions before an actual interaction can begin, and this has ensured a much more accurate product than its competitors.

The company creates value by doing a lot of the work for its clients. While the initial time investment (45 minutes) may be longer than the traditional model, it then provides the service of searching through the millions of potential matches. This not only proves to be a more accurate way to find dates, but also saves a great deal of time (where most online daters spend a 7 times as much time searching for a partner as they do interacting). And for men, who are usually fighting over a scarcity of women, they benefit from the majority percentage of women who have become the core of eHarmony's paid customers.

Thus the value proposition for the customer is: better matches (and better quality people) with a much smaller time commitment. The customers who benefit most from this are people who are serious about finding a person for a long-term relationship (rather than those who are just browsing, or hoping to have flings with as many people as possible). With eHarmony's superior

product, we can calculate that their competitive advantage? $(WTP - Cost)_{eHarmony} > (WTP - Cost)_{Chemistry}$.

In this case, eHarmony's average price (of the four options) is \$37.45 versus \$34.14 for Chemistry, demonstrating the increased WTP of their customers. Further, their advertising strategy (avoiding costly broadcast networks in favor of more cost-effective national cable buys) has helped to keep costs down significantly in comparison to its rivals. By building up network effects and switching costs (including termination fees and amount of time / information invested in their platform), this can be a sustainable advantage.

But as with all social media, creating insurmountable switching costs is never really possible, and there is always a risk of new competitors or a game-changing technological shift. And the uber-popularity of sites like Facebook pose a significant threat, as they could integrate a sophisticated dating platform into their current offering, and instantly have hundreds of millions of potential customers at their fingertips. How much of a threat is Chemistry to eHarmony? How could Chemistry break eHarmony's network effects (direct and cross-sided)?

As with Google's search versus Bing, eHarmony is in a very advantaged and enviable position versus Match's Chemistry offering. The eHarmony product is clearly superior, with the eHarmony benefitting from years of learning and tweaking their algorithm (again, similar to Google's position). Further, their ability to point to the number of successful relationships they have continues to grow, and thus feeds the virtuous circle by attracting new customers. That said, Chemistry cannot be taken lightly.

Match comes in with the deep pockets of IAC, and the ability to match any investment that eHarmony makes—and we have seen this recently with their increased marketing spend. As a latecomer, Chemistry comes in with the benefit of being able to ride on eHarmony's coattails, learning from their success and mistakes and copying their offering. Further, most of what eHarmony offers while sophisticated, is not inimitable. In terms of ways that eHarmony can break eHarmony's network effects, they can certainly subsidize some of the switching costs (leave eHarmony and your first month or two are free).

Since women are the hardest customers to attract (and wherever they go, the men will follow), they could selectively subsidize the women—e. g. - women pay half price, and once they have built up a vast network of women, they would be able to charge a premium for the male customers. They could also beef up their offering so that they not only cover meeting people, but weddings, having children, and other stages of life that would enable them to extend their customers' lifetimes (as eHarmony has considered).

Another potential idea would be to create a network of niche sites all under the Chemistry banner where there would be sub-sites focused on a number of specific niches (based on lifestyle, religion, sexuality, etc.) and allow people to join the main site, plus one or two of the niche sub-sites for free. However, most importantly Chemistry needs to dramatically improve its matching competency. As a latecomer facing a dominant incumbent, it has to offer better results than eHarmony if it's going to break the network effects and challenge for the top position in the market.

That is not an easy task to accomplish, and it will cost a lot in research (to improve their matching skills), and then marketing (to let potential customers know about their improved product). Due to resource constraints (and need for strategic focus), eHarmony can only pursue one of the options: how would you go about ranking their relative merit? Once you have done that, choose your top-ranked option and evaluate it. To evaluate the four options on the table for eHarmony, we need to examine their merits on a number of key dimensions.

First, how does the strategy fit in terms of the company's current competencies and competitive advantage? Second, how does it serve to bolster network effects and strengthen the relationship with the current core customers? Third, how well does it address the competitive threat? And fourth, how does it position the company for future growth opportunities? {draw: frame} Upon consideration of these dimensions, it is clear to me that the best option is to grow the new business of handling life transitions. This is the most comprehensive strategy in terms of addressing the various needs of the business.

If this were a winner-take-all market, then defending the niche by rapidly increasing the number of paying members would be the correct strategy, but since multi-homing costs aren't overwhelming, we've established that this is not a winner-take-all market. Expanding to medium-term relationships does offer the upside of immediate growth opportunities, but more importantly, it unravels the competitive advantage and value proposition of having top-

quality, like-minded individuals who are willing to pay a premium for a better chance to meet a life partner (in some ways it is almost a different business).

Lastly, geographic expansion seems perfectly poised for disaster. While it would be the best opportunity for growth in both the near- and long-term, it also goes against the competitive advantage of offering the best matches based on detailed knowledge and understanding of their consumers. To do it properly, they would not be able to transplant the knowledge they've gained in the US, but would need to start again with new research in each country they wanted to expand into which is not an efficiently scalable model. Thus that leaves us with expanding into the new business of handling life transitions.

This offers the opportunity to have balanced growth—the lifetime of the customer grows from the “ finding a partner stage” to a potential for many years or even life. It also allows the company to capitalize on and build on the goodwill that they earn from their customers when they provide a positive (and life-changing) match, and diversify its revenue stream from purely subscription based into a mix of subscription and advertising. Further, the ability to keep customers longer can help to bolster the network effects as the network becomes larger and offers more value.

It also increases switching costs the more that one invests in building up a personal eHarmony ecosystem. In doing so, it addresses the competitive threat by beating the competition to further innovate and lock-in the customer base. And lastly, it builds on the current competencies and competitive advantages by leveraging the advanced research skills that are

a large part of eHarmony's success, with the collective R and knowledge serving as a barrier to entry for potential new entrants.

In order to successfully execute this strategy, there will be the need for additional resources. However, this will not be overwhelming and can all happen with internal investment. They will only need to build out and expand eHarmony Labs to continue the expanded focus from forming relationships, to the ensuing events that occur in each relationship. With the project already underway and experienced research scientists already on the payroll, eHarmony is in a much better position to act on this than its competitors.

There will be some additional marketing and sales investment needed to attract new customers who are already involved in committed relationships, but the majority of its growth will be organic in that they will be able to keep their "matching services" customers for much longer, and greatly reduce the churn rate. In terms of the competitive threat, I believe this will be enough to stay ahead of Match / Chemistry, and Yahoo! (as well as other new entrants). The name of the game is bolstering network effects, switching costs, and multi-homing costs to carve out a significant and stable market share, and this strategy accomplishes all three.

With more offerings, eHarmony should be able to capture more users (as well as keeping them longer) which will continue to feed its network effects. Additionally, having all of these services under the eHarmony banner will increase the amount of time and information supplied by the customers, and thus increase both switching and multi-homing costs. As a response,

eHarmony can expect the others to copy, though eHarmony is far ahead and better positioned in this field, so this is not an immediate threat. Additionally, they may find pricing pressure as the ompetition resorts to more desperate measures of cutting price (since they will not be able to compete on the product). In regards to this, they need to be firm in their pricing, knowing that they have the superior product, and continue to build up switching costs to keep their customers captive for the long term. With a superior product and strong network effects in place, eHarmony can expect a profitable life in the near future. EXTRA CREDIT: " Yellow Submarine," " With a Little Help from My Friends," " Act Naturally"