

eHarmony Harvard Business Case
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Abstract

The purpose of this thesis is to examine the eHarmony Harvard Case Study and to make recommendations for how the company should advance its strategic business plans.

This thesis first examines the company and its history. The examination begins with the strategic position that eHarmony was involved in during the time of this case. The age of the Internet brought about an entirely new option for dating. The thesis then progresses into an analysis of the company and the industry within which it lies. eHarmony competes against hundreds of online dating websites, they have had to find a way to manage and maintain a competitive edge. Based off the industry and the strategic positioning, the thesis goes on to describe possible solutions for growth and movement at the turn of a new technology era.

Finally, the thesis describes the current environment of online dating and provides evidence for how eHarmony should advance with technology. eHarmony has to find a way to compete in the age of smartphone applications. Consumers have access to information at the touch of a finger. If eHarmony can use the advancements in technology to their advantage the company can continue to grow and expand. This thesis hopes to offer insight into the case analysis and therefore, contribute to improving the understanding of strategic management principles.

Background

eHarmony was founded in 1998 by Dr. Neil Clark Warren and Greg Forgatch, but did not officially launch until 2000. Dr. Warren studied marriage and family relationships for 35 years and authored nine different books on love, marriage, and emotional health. When eHarmony was created, Dr. Warren wanted the website to focus on matching individuals in

long term relationships. eHarmony was also founded on Christian, family principles. The matching process was targeted toward older individuals, as well as, those individuals seeking heterosexual relationships. Dr. Warren and his son-in-law, Greg Forgatch, wanted eHarmony to stand out among the numerous, competing dating sights. Therefore, they invested their resources into creating a matching algorithm that would pair individuals for lifelong, serious relationships.

In the early years of the company, Dr. Warren wanted to spread the word about eHarmony to audiences he knew would be willing to give it a chance. Dr. Warren appeared on television and talk shows, but he also appeared on Christian radio stations. This method of targeting specific segments of users, allowed the company to grow. However, Dr. Warren understood that the company would need to reach a broader market of users. With this in mind, eHarmony soon created television ads that were largely successful for the company. The ads usually consisted of a heterosexual couple discussing how wonderful eHarmony was at bringing them together, and how they never would have found each other without the expertise of Dr. Warren's matching system. After the couple would finish speaking Dr. Warren would make an appearance to emphasize why he believed eHarmony's matching system was the best. These advertisements were successful for the company due to the practice of showing real people in successful relationships as a result using of eHarmony. The first advertisement paid for itself within the first week, based on the number of new paying members acquired. After a few years of running the successful advertisements, eHarmony tried to change the message in their advertising. This time they showed a lonely individual looking for a compatible match. This change backfired almost immediately; it made consumers feel anxious and worried about their futures. The

company quickly transitioned back to its initial platform of focusing on the happy ending obtained from using eHarmony's services. The success of these campaigns made eHarmony one of the only online dating websites to exhibit proven success in the implementation of offline advertising.

When starting eHarmony, Dr. Warren's aim was to create a different type of online dating. eHarmony begins with a lengthy personality profile that all users have to fill out. This profile is the basis for all of the matching algorithms. The profile originally started with 436 questions, and then eventually pared down to 258 questions. The length of the profile was a staggering difference in comparison to eHarmony's competitors. The questionnaire routinely took about 45 minutes to complete; therefore, many men would not fill the form out in its entirety. This lead eHarmony to observe an increase in female users compared to male. The personality profile was a way for the company to eliminate potential members who were not using the site for the right reasons. eHarmony on average declined to sell memberships to 20% of the individuals who filled out a personality profile. This percentage cost the company an average of \$10 million per year. However, the company found that this was a result that the company was willing to endure if they wanted to keep the values of their company in place.

After eHarmony made a match between users, each individual would then be notified of the match. The two individuals could then determine whether they wanted to engage any further in the relationship. Another key segment to eHarmony's platform was the guided communication that they offered for users who had been matched together. This process began with each user answering five pre-generated questions. Their match could then read these answers before continuing on to the second phase, which asked questions

that are more personal. The third step was to move into open communication with one another. This phase consisted of both matches communicating openly and planning to meet with one another. Many users discovered the guided communication process to be both long and drawn out, so eHarmony created a “fast track” version of communication. This advancement led to more continued subscriptions and more matches opting to communicate with one another.

Although eHarmony had created a matching system unlike every other competitor in the industry, there were still many downfalls to their program. Users continued to complain about the long process of matching, the limited target market, as well as the high price tag attached to a subscription. Every business will experience struggles in areas that can be improved. eHarmony was born during the Internet age, due to the ever-changing Internet, sometimes on a daily basis, eHarmony must be able and willing to evolve with it.

Analysis

Before the age of the Internet and online dating, there were other methods to match making. Individuals would use their resources to meet new people who might potentially turn into a relationship or friendship. The strategy of meeting people in the real world had many flaws, and there were limitations to the market, the atmosphere, and the resources available. The flawed system left an open gate for new competitors to arise and make profit on the drawbacks of the substitutes. eHarmony and online dating in general decided to take this flawed system and develop it into a new industry. As a company striving for competitive advantage in this industry, eHarmony did a good job diversifying themselves away from their competitors. According to Porter’s Five Forces model, eHarmony was in good standing when they entered the market. The major barriers to entry consisted of high

advertising costs and network externality. eHarmony had to focus 40% of their revenue into advertising in order to stay ahead of the market. The more customers who used online dating websites in return helped to build the image of using the Internet for dating purposes. Both the buyer and supplier power is very high in this market. The power in this market is also very different from other markets, in that the buyer and supplier ultimately go hand in hand. The supplier on one end can wind up being the buyer on the other end of the transaction. The rivalry and competition within this market is extremely high. The industry has an inflated price competition as well. Online dating websites focus around a high fixed cost, which is in turn focused around high advertising costs. The most successful way that online dating websites compete with one another is through advertising. This makes marketing and advertising one of the highest areas of fixed costs for these businesses. eHarmony does a very good job of advertising their product, the company has seen wonderful growth from successful advertising campaigns. The success that they have experienced from their campaigns is one of the reasons why eHarmony is protected from their competitors. The threat of substitutes is the final topic of discussion. However, substitutes are not really a problem for this industry because the business was built on the failure of substitutes. Traditional dating, also known as the substitute for online dating, failed in the eyes of consumers. Therefore, online dating emerged as a result of both the internet age and the failure of traditional dating.

Beyond the five forces model, eHarmony has a competitive advantage over many other online dating websites. This competitive advantage stems from many different company attributes. The first advantage is the matching algorithm that eHarmony has patented. This software is used to match individuals on 29 dimensions of capability.

However, first the consumer must fill out a lengthy questionnaire in order for the software to have all of the necessary information. The second advantage comes from the credibility of the company and executives. Consumers trust the system because of the success that they have seen displayed by past users. They also trust the founder Dr. Warren and his expertise in the field of marriage and love. The third competitive advantage is what many competitors have tried to duplicate, that is a niche environment. In a way, eHarmony has created a niche environment by limiting the acceptance of users and by focusing their advertising on those looking for long-term, committed relationships. The final competitive advantage is limited matching. This tactic is a process that only eHarmony uses. When eHarmony finds a match for a user, the company only allows the user to view five different matches. Each of the five matches also can only view five matches. This creates a limited segment of matches and in turn adds value to each of these matches. Through the added value, greater success is achieved while encouraging interaction. All of the competitive advantage is built around the niche environment created by eHarmony. If eHarmony tries to break away from the niche environment, they will undoubtedly face downfall. There is a certain cost associated with the niche environment, when a segment of the environment is changed then the result would be a spike in operating costs.

Competitors

eHarmony has four main competitor segments. These segments include paid do it yourself sites, free do it yourself sites, niche sites, and social media. Paid do it yourself sites include some of eHarmony's top competitors including Match.com and Yahoo! Personals. These sites function very similarly to eHarmony. They typically offer a questionnaire that proceeds to match you with other users. After they have found potential matches, the user

must pay a membership fee in order to communicate with the matches. The second competitor group resembles paid do it yourself sites, but they are free do it yourself sites. This group contains sites such as OkCupid and Plenty of Fish. The process is the same as Match.com and eHarmony, however these sites do not charge the member a fee to join. Instead, these sites generally make their profit off advertising. Niche sites are also a large competitor to eHarmony. These sites focus their services on a specific group of people. Some of these sites charge a membership fee and others do not. The niche sites arrive and disappear quickly within the industry, and take a large percentage of online dating sites. There have been over 850 different niche-dating sites discovered. The final competitor group is social media. Social media can be considered a competitor because its foundation of connecting with friends and conversing electronically lead to developing relationships. However, social media sites are not considered a strong competitor because many users falsify the information that is registered into the profile status.

Solutions

One option is to change the target market of customers, instead of focusing attention on an older generation of customers seeking long-term relationships they could begin to focus on a younger generation of customers seeking casual dates. These individuals are whom the market applications such as Tinder, Happn, and Bumble are targeting. In the fast-paced environment of today, these applications are becoming more and more popular amongst individual's seeking dating relationships. These competitors are also beating eHarmony because they are open to all types of relationships. Competitors welcome the LGBT community, casual daters, and even married individuals. eHarmony is at a

disadvantage since they continue to focus on the original values of the company and what they stands for.

The second option for eHarmony is to grow and expand into other countries. Global expansion is a huge undertaking and requires a great deal of time, money, and resources. The case mentioned that the company was considering an expansion into the English speaking countries in Europe. After this expansion, the company would then look into other options of global growth. This is a promising option for eHarmony, global expansion is one of the best ways to grow a business and diversify a market place. However, in this case, eHarmony is already far behind their other competitors who have been in the worldwide markets for years. eHarmony's largest competitor Match.com was present in over 30 countries by 2005. This number has continued to grow as the business has grown.

• The third option for expansion that was mentioned within the case was the growth of business strategy. eHarmony has considered many different routes in which the company can grow. The business has built a very successful program through research and development. However, one of the toughest decisions to make is whether to build different brands or to expand the existing brand to new markets. The developers at eHarmony had many different ideas for changing the market and business. They could create a site that would solely focus on weddings, pregnancy-fertility, parenting, and elder care. These new sites would be free to users and would offer members the same expert level advice currently offered by eHarmony. This change could bring in large numbers of new users. By broadening the brand of eHarmony, more users will recognize the name and be able to associate the existing positive reviews with the product and service being offered.

The final option called for eHarmony to refocus their growth on the principles that made them successful to begin with. The company needs to focus on the success that they have had and continue to grow through that. Fast track communication is encouraged to those who are looking for a serious relationship and many paying members use the services to connect with matches on a deeper level. This chemistry is the type of service that a customer cannot receive from an application like Tinder or Bumble.

Advancements in Technology

One thing that eHarmony needs to focus on in the industry today is the uprising of smartphone dating applications. There are dozens of dating apps on the market today. Some of the most popular include Tinder, Bumble, Happn, and OkCupid. These applications are generally targeted toward a younger generation of users who are focused on casually dating and “hooking up”. These applications tend to cost very little or are offered free of charge. The community of users has even dramatically changed just in the last few years. The increase in youthful mobile dating has created an increase in users. In 2015, Tinder was estimated to be worth \$1.6 billion and was projected to bring in \$121 million in subscriptions due to their launch of Tinder Plus (Harwell, 2015).

Tinder is a good example of an application that has shifted to a new market. Tinder used to be considered an application used to find a single male or female who might be interested in a casual “hook up”. Over time, many users have found that the “Tinder hook-ups” actually turn into lasting relationships. I, personally, have several friends who have met their significant other while using Tinder. The dynamic of these applications is changing constantly and requires companies like eHarmony to uproot and change their

strategy. Match.com decided to follow along with the change in user usage, so they created a smartphone application for their business.

Since Tinder began in 2012, the company has grown tremendously. The company has been able to acquire 17 million more memberships than eHarmony in a span of 5 years compared to eHarmony's 17-year history. Not only does Tinder have more memberships, but also they have more individuals visiting their app and using it on a daily basis. There are an average of 1.4 billion swipes per day on the Tinder application (Fottrell, 2017). If eHarmony could generate half of that audience on an updated version of their application, they would see an increased spike in membership, profit, and revenue.

Many users of Tinder view that the application to be an avenue of meeting casual daters or those who are looking for a "hook-up". Tinder is trying to alter the way users view the application. However, many users are not even accessing the application in search of meeting someone special. An online video published by the Wall Street Journal stated that 44% of the users on Tinder were not even searching for a relationship. The 44% were strictly online for a confidence boost (Fottrell, 2017). This is the advantage that eHarmony has over these new dating applications. Members of eHarmony know that they are using the site to find a potential partner or spouse. The stigma that is associated with eHarmony is not one that can be easily changed. Brand perception is a huge contributing factor of how consumers follow a brand. eHarmony has a brand image of "lasting love and marriage". eHarmony needs to use this brand image to develop their new technology. The future users will be able to distinguish eHarmony from the multiple other dating applications who focus on different aspects of relationships.

My Recommendations

Global expansion

The first key factor in eHarmony's struggle for growth is the lack of globalization. Many of the most successful companies in the world suffered before deciding to expand globally. Diversification is one of the most important requirements for business success and wealth. Diversity has to be seen within the company as well as in its customer base. While eHarmony was on the pathway to growth and better consumer satisfaction, their competitors were growing their businesses in different ways. Hundreds of smaller companies had started picking away at eHarmony's target market by focusing their efforts toward individual groups such as FarmersOnly, SingleParentLoveLife, BlackPeopleMeet, and JDate. These websites had small advantages over eHarmony because they were typically low cost and they focused dramatically on different religion groups, ethnicities, and professions. With the up rise of the smaller, more focused niche groups, some of the larger companies like Match.com decided to move their business overseas. These companies found a way to continue expansion of their businesses. This was a profitable decision for many of eHarmony's competitors. This expansion was exactly what eHarmony needed to proceed with as well. However, they were behind in the process and ended up becoming a follower in the already dominated market.

eHarmony has made several great advances to help their business grow and to expand the format of matching so that it can appeal to a large crowd of customers. They have created several different alternative sites for users of different ethnicities and backgrounds. Many users who are seeking casual relationships are still not willing to spend the time and effort on eHarmony's website. However, Tinder users are able to create a simple profile and even link the account to their Facebook page to make the process faster.

This allows for more seeking and selecting of prospective relationships to take place. The application is not focused on matching the couple based on a 200-question quiz. Instead, the app lets users swipe right if they are interested and swipe left if they are not. This is mainly based off a short biography and a couple photos of the individual. This type of matching is what the millennial generation wants from dating websites and apps.

Along with the faster, easier process of matching, about 60% of Tinder's users come from outside North America (Smith, 2017). This means that less than half of the users on Tinder are located within the United States, Canada, or Mexico. Tinder has taken the very successful dating application and turned it into a worldwide phenomenon. eHarmony has done a fairly good job at crossing the borders with their matching process, but they have not advanced as rapidly as they should have. In order for the company to stay up to date with the ever-changing dating world, eHarmony must be able to adapt and change quickly to new business plans.

Target Market

Manipulating and changing the target market for eHarmony is the second step the company should take if they want to increase membership and sales. Many dating sites and smartphone applications are using social media to spread the word about online dating. Millennials are jumping into online dating and they are beginning to use this technology to find dates, friendship, and even as a confidence booster. The new applications are dominating the market and taking many users away from traditional online dating. If eHarmony wants to compete in this market, they need to reevaluate both their strategy for business as well as the market that they are intending to use. The strategy of the company needs to focus on matching individuals who are looking for relationships. The younger

generation of consumers are not looking for marriage and commitment. Millennials want to have and casually date. Only 7% of the single adult population admits to seeking a romantic partner. eHarmony can use their research and development to form simple questionnaires that will match people based on segments of friendship and compatibility. If the company chooses to lessen the amount of technology it takes to match current members, then the business will have more room for growth. eHarmony can decide to focus their efforts on better advertising and growing their brand instead of applying all of their resources into research and development. The other staggering fact from my research shows that 79% of Tinder users are Millennials. (Smith, 2017) According to an update from the 2015 United States Census, the number of Millennials has surpassed the number of Baby Boomers. This is a large market of an estimated 83 million individuals between the ages of 17 and 35 (Bureau, 2015). This is the target market that applications like Tinder and Bumble have tapped into. eHarmony needs to alter their business plan and the technology that they have so that they also can reach out to this younger population.

Conclusion

eHarmony is in a market where there is limited availability for growth. The many solutions that have been proposed are at best short-term success stories. Growing the business model internationally might increase profits and membership in the short term. However, branching into these new markets would cause the company to have to redesign the matching algorithm software. This would lead to higher product, research, and development costs. The same outcome is also possible when advancing into new markets. If eHarmony focuses on changing their target market, they will be forced to change their patented software system. This outcome will bring in more customers but will ultimately

demand too much funding from the company itself. eHarmony is in a very tough industry and the company is at a place of slow growth. Unfortunately, the cost and resources make it difficult for eHarmony to grow. One of eHarmony's only options for growth is to advertise more. If the company will take the time and effort to create new advertising campaigns they can continue to grow at a slow and steady rate. However, eventually the resources needed to continue with advertising plans will diminish, and the company will find itself back at square one.

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