

“The State of the Industry”

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Good morning.

We're all here for the same reason. We all believe in the online dating business and we all believe that it has a huge financial potential to offer us. I know I do. Today I'm going to share with you where I feel the industry is currently at and where I feel it is going.

For those of you who don't know me I'm Meir Strahlberg, and I've been in this business a long time, over 10 years. Welcome to The State of the Industry 2005

So let's start off by looking at some numbers. Jupiter Research forecasts that the online dating industry will grow to \$550 million in 2006 from \$220 million in 2002. Bear in mind that these are only projections and that these forecasts are from October 2003. A new report will be out in a month. I think these projections are low, but even if Jupiter is correct, winning a small piece of a half a billion dollars is still a good business. And that's only in the U.S.

Year	U.S. Revenues	Growth %
2002	\$224	-
2003	\$396	77%
2004	\$473	19%
2005 (forecast)	\$516	9%
2006 (forecast)	\$551	7%

Jupiter's report also showed the percentage of U.S. Internet users who took certain actions on online dating sites. 21% browsed personal ads online, 13% posted personal ads, and 5% became paying members.

Why I Am So Optimistic About This Industry

Now I will outline why I am so optimistic about this industry and why I think the half a billion-dollar figure is conservative.

1: More people are using online dating sites.

This industry is becoming more accepted and Online Dating is becoming more and more mainstream every day.

When I started out in the telephone dating industry, only geeks and losers that used these services. Today, you can meet your soul mate online and find someone to marry. Or, if you are looking for a non-committed relationship, you can find a date for every night of the week.

The concept of online dating is becoming more and more socially acceptable and it will continue becoming more socially acceptable especially as dating companies advertise through television and radio.

Many of you assumed that when Yahoo entered into this business it would leave less room for the rest of us. I think it was the best thing to happen to this industry. It made people aware of online dating and gave the concept legitimacy.

More and more people are going to come to our sites, more people will join, and more people will pay.

2: Higher Cost of Membership

The second reason why I think the half a billion-dollar number is conservative is that I think that prices are too low and that average member values are going to increase.

If you're single, or if you can remember to back when you were single, you know how important dating is and how much money you spend to get a date.

You spend money on clothes, you spend money on makeup, you spend money on perfume, and perhaps you think that driving a nice car will get you the girl you've always dreamed of. But it's obvious that you've spent, and spent a lot. So I think that asking for more money than \$20 per month, to find a date is not unreasonable.

Yahoo recently announced a higher price point for their Premium product. They're charging \$35 per month. The basic price is \$20. I think that many companies are going to follow suit. And I think that the consumer will be willing to spend more.

3. Industry Improvements

The third reason for my optimism is that I think that we are getting better at addressing what the consumers need and what the consumer wants. This insight, along with constant improvements to our products will lead to higher conversion rates for the industry as a whole, certainly better than 5%. Among the improvements consumers have seen are: better matches, better searches, better tools and greater ease of use.

Issues Facing The Industry

To an outsider, all of my reasons for optimism sound great, but for those of you involved in the day-to-day aspects of running a dating company know that there are many issues facing the industry.

The two main issues facing the industry are: the rising cost of media and increased competition.

1. The Rising Cost of Media

The rise in the cost of media is due to two main factors. The first is due to pixel technology and optimization software. Only a few years ago, publishers had no idea how their traffic converted and what their media was worth.

Today due to optimization software, pixel placements on join pages, and improved tracking tools, publishers understands exactly how a site converts, and exactly how much they can charge for their inventory.

This has led publishers to raise the cost of media as high as possible as they know exactly what that industry can afford.

The second reason that media has skyrocketed is based on the auction based model of buying media popularized by companies like Overture and Google. The company willing to spend the most money will be able to buy the most traffic. And it does not matter if the company buying the traffic is earning a profit. The cost of traffic rises for everyone.

This chart will give you an idea how much money Google is making per click from the Dating Industry.

As you can tell from the chart the CPC's can run as high as \$1.63 each. And there are some companies spending quite a lot of money for this traffic.

Those companies that are willing to lose the most money, or those companies with the highest conversion ratio and member value, are paying the most and buying the most traffic.

This brings me to the second greatest issue facing our industry, increased competition.

2. Increased Competition

I think that its crazy what has been happening in the industry. An accurate analogy of what has been happening is almost like a war.

Barry Diller and Match.com came along first. He brought a gun, in a figurative sense, and then proceeded to lock up as much media as possible, securing exclusive deal after deal.

Matchnet saw the opportunity to go public and with their own ambitions plans went out and bought bigger guns. They brought machine guns, and started buying profiles at over \$5 each, even though it was unprofitable at these levels.

And everyone in the business rushed out to follow, and spend as much money as possible.

Then, True.com came along intending to become a player overnight and rolled up in a tank.

True started buying profiles at \$18 each! While their price per profile dropped over the next few weeks they still continued to outspend every other company who had been fine-tuning their conversions for years.

And finally, eHarmony recently came along with an F-16. They just raised \$110 million. It will be interesting to see how they start spending it.

This analogy may sound like a joke but it is not far from the reality of what is happening. The industry has gotten to the point where everyone is trying to outspend each other often regardless of profitability.

Current Industry Trends

I'm now going to discuss what I see as some of the trends that appear to be taking place in the industry. Over 60 companies are tracked by Comscore as the top tier of the online dating industry. There are hundreds of smaller companies that are not tracked.

1. Niche Markets

Creative entrepreneurs that don't want to enter a head to head war need something to compete with. Two years ago the big buzz was all around Friendster. Friendster didn't outspend everyone. They out smarted everyone. They created something unique. And while everyone rushed out to implement their own version of friendster's Tell-a-friend functionality, no other dating site has made it work.

Last year people shifted their focus to another site. Run by an older doctor, and his scientific way of finding true, long lasting love. I'm referring to eHarmony who Jupiter reported is now earning the most money in the industry even though they do not have the most unique visitors. When Match and Yahoo saw this, they rushed out to implement their own personality tests. Everyone is trying to copy eHarmony, but no one can truly copy their exact formula.

So aside from Friendster and eHarmony, how are some of the companies in the industry trying to stake their claim in the dating industry and compete?

Niche	Site	Owner
Seniors	Silver Singles	Matchneet
	Senior Friendfinder	Friendfinder
Christian	Big Church	Friendfinder
	Love and Seek	Zencon
	Christian Mingle	Mingle Match
	Soulmatch	Beliefnet
Gay	Gay.com	Gay.com
	Glimpse	Matchnet
	Gaydar	
African-America	Black Planet	Community Connect
	Black Singles Connection	Mingle Match
Jewish	JDate	Matchnet

It is often easier to dominate an overlooked niche than it is to compete with the major players who are focused on the mainstream. These niche markets often have higher conversions, higher member values, and present a growing and often untapped market.

This year, seniors become the hot niche. Match aggressively launched a PR campaign to attract seniors. Matchnet and Friendfinder have their own sites targeting this niche.

The Christian niche is filled with companies among them Big Church, another Friendfinder property, Love and Seek owned by a company called Zencon, Christian Mingle by Mingle Match, and Soulmatch which targets all religions and is owned by Beliefnet.

The Gay market is dominated by Gay.com, but there are many other players in this space. The African-American niche has its share of sites, among them Black Planet, Black Singles Connection, and Black People Meet. And finally, how could a discussion on niche markets take place without mentioning the Jewish niche. Matchnet keeps its doors open thanks to Jdate, a site that has become a household name in the Jewish market.

Breaking into these niche markets presents its own problems. While there are few niche markets where there is no competition, it is usually easier to maintain a site in a niche market. You don't need the database power or the massive hardware as these niche markets usually have smaller audiences.

2. International Expansion

A second industry trend is international expansion. Those companies that have gained significant market share in the US are now looking overseas for growth. In addition to the prospect of growth, with the US dollar being so weak, the Euro, and especially the British pound look very attractive. If customers in Europe generate even half as much money as American customers, it is worth the same amount of money.

MeetIC, one of the leading Online Dating players in Europe recently announced that it was going public. Immediately upon hearing this news, Match.com started announcing how Match was "The Leading Online Dating Company in Europe". There is big money beyond our borders. Some of the following companies are ones you have heard of, and perhaps, a few that you have not. These companies are some of the larger players in international markets

Country	Site	Traffic ¹
Canada	Lavalife	1,517,000
	True.com	967,000
	Reseaucontact	659,000
Australia	Match.com	571,000
	RSVP.com.au	453,000
U.K.	Match.com	940,000
	True.com	649,000
	Dating Direct	619,000
Europe	Match.com	3,391,000
	MeetIC (1/3 France, 1/3 Germany)	2,921,000
	True.com	2,559,000
	MSN	2,136,000
	Supereva.it (Italy)	1,181,000
	Relatieplanet.nl (Dutch)	1,326,000
	ILove.de (Germany)	2,121,000
	Rencontre.com (France)	419,000
Latin America	Amigos.com	1,206,000

¹ Source: ComScore Media Metrix

3. Becoming an ASP

With mounting media costs, many companies are going into the ASP business. They figure, why risk all the money on media when someone else can? These companies provide the technology, and they figure that the money will come pouring in.

When doing a search on the words “Dating Software”, the following came up.

- Relationship Exchange (Vintacom)
- Dating Software Systems
- Internet Dating Software
- DateApp
- e-classifieds.net
- Pilot Group
- Aewebworks
- DatingRev
- Net Love Match
- EverCurrent
- MojoScripts
- NetLoveMatch

Vintacom is clearly the leader in this space but even the ASP space is becoming crowded. And this is not the full list of companies. Aside for this list, I know of several who have told me they intend to compete in this market.

I came across a web page that I thought was really funny and I thought I'd share it. “Your Dating Site, Similar to Match.com.” Normally \$199 - Now on sale for \$100. I'm sure Barry Diller must feel really foolish now that he invested all of that money in Match.com.

The screenshot shows a web browser window displaying the Pilot Group website. The main headline reads: "Your Dating Site similar to Match.com for 10 minutes Minimum costs - Maximum profit." Below this, there is an "Overview" section with a sub-headline "Dating Pro solution is a personal script, which is of a great interest not only to the people wanting to get online with their own dating service..." and a "Dating Pro solution lets you start a fully automated dating web site with many of the existing personal web site's advanced features..." section. A "Special Offers" section highlights "Request a free trial version Request open source codes" and "Hosted Edition" for "Dating Pro - Hosted edition" at "ON SALE \$100". The page also features a sidebar with navigation links, a search bar, and a "Have Questions? Contact a Sale Assistant." section with a toll-free number "1-888-22-88-44-0 (TOLL FREE)".

4. Services and Applications

Another avenue that people are going down in their quest to stake out a slice of the dating pie is in the services and applications area. As companies are faced with the need to implement new features, at a quicker and quicker pace, it is often easier to outsource than build.

Many of the companies that you may come across while at iDate are contained on these next slides. If I have not included your company, perhaps I am not aware so please introduce yourself.

Some of the more popular applications providers are offering tools such as:

Feature	Provider
IM	Userplane Lemon Tonic
Chat	Userplane
Personality Test	WeAttract Relate Networks Thomas International
SMS	Trilibis
Identity Verification	Trufina SafeDate
Search	Transparency

By the way, Dave the Profile Dr. has a great Blog that addresses what is going on in the industry and it's a great source of information. You should check it out.

My Experience With Date.com

I'd like to take a moment to share my experience with Date.com and how that may reflect on how you consider growing your business.

But before I get to any of that, I'd like to provide you with a little background on my company, Date.com. In 1997, we launched as a free service and operated this way until Valentines Day 2001 when we re-launched as a subscription service.

When we launched our subscription-based product in 2001 we hit the market at a great time. The business model worked and the product converted like gangbusters compared to other Internet offerings of the time. We introduced a somewhat revolutionary model within the dating industry, paying a flat CPA to affiliates rather than a rev share. And the market was acceptable to sending traffic to us for a modest \$25 CPA.

During this period we were able to rapidly grow, earn profits, and gain critical mass. But like many upstarts, we built the product like MacGyver would, with rubber bands and paper clips. We soon realized that if we wanted to be a global player, we would need to carefully think about our infrastructure and our foundation. So we took a step back, and we re-built our entire company from the ground up. We started with our network, our hardware, our software, our CRM system, our look and feel, site navigation, and our entire base of code.

Today we are able to rapidly affect change. We release features and a new build every week, a process that used to take six months to do.

This is an exciting time in our industry. There is tremendous change taking place and the industry is expanding and changing rapidly. I'm very bullish about our prospects for the future and about where the industry is going.

I thought about organizing a conference like this for many years. It's great that we now have a place to get together, share information, leverage each other's strengths, improve our products, and improve the industry as a whole.

I'd like to thank you Mark for inviting me to speak and for putting on a great show.

I hope that this speech helped you understand the State of the Industry and if anyone has any questions, I'd be happy to answer them.

