



Keio Business School

Pairs

“I met someone special through Pairs.”

These words were emblazoned on an advertising poster put up in a busy thoroughfare; large numbers of people stopped to look. Fourteen happy-looking couples who had actually met on Pairs also featured on the poster.

Pairs is an online dating service that launched in October 2012. As of February 2018, it boasts a total of seven million members, has been responsible for more than 56 million matches, and has become Japan’s largest online dating service. Eureka Inc. (hereinafter “Eureka”), which operates the service, was established by co-founders Yu Akasaka and Jun Nishikawa on November 20, 2008, and manages two online services: Pairs; and Couples, a communication app for couples.

Eureka attracted global attention in May 2015, when Match Group—a member of the U.S.-based IAC Group—acquired all outstanding shares in Eureka, making it a wholly owned subsidiary of the IAC Group. The InterActiveCorp (“IAC”) Group is a media and internet company comprising media brands worldwide; in the year ending December 2015, it recorded revenues of approximately 3.2 billion dollars. It is extremely rare for a U.S. company to purchase a Japanese start-up company and, for this reason, the acquisition of Pairs was the most frequently talked about M&A in Japan in 2015.

This case illustrates the birth and the rise of Pairs.

This case study was authored by Hikaru Yamamoto, Associate Professor of the Keio Business School’s Graduate School of Business Administration, and Masatoshi Ono (M39), Master of Arts of the Keio Business School’s Graduate School of Business Administration, to be used as data for class discussions. It is not intended to illustrate appropriate, correct or incorrect methods of dealing with situations from a managerial perspective.

In writing this case study, the co-authors were fortunate enough to receive valuable assistance from Yu Akasaka and Jun Nishikawa, the co-founders of Eureka Company, and current Director, CPO and CMO Hirokazu Nakamura. The co-authors would like to place on record their sincere gratitude for this help.

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The Launch of Pairs

The Co-Founders Meet

5 Yu Akasaka and Jun Nishikawa first met in 2006 while they were both working at IMAGEnet, a fashion catalog mail-order company in Japan. As the penetration rate of the internet increased from the mid 1990's in Japan, mail-order sales channels shifted from paper catalogs and television to the internet. As a consequence, IMAGEnet decided to switch its catalog mail-order service to the web and opened an online boutique. Half of the company's employees were engineers, making IMAGEnet
10 essentially a technology company.

Nishikawa started her career as a news reporter and gained business experience through companies such as AllAbout and CyberAgent. Nishikawa joined IMAGEnet in 2006 because she "wanted to gain sales experience in e-commerce." At IMAGEnet, her responsibility was to operate the online boutique
15 and to plan sales promotion for the site. When Nishikawa was appointed as manager of the Advertising Business Department, she met Akasaka, who had just joined IMAGEnet in 2006 as a new graduate. The department's clients included cosmetics manufacturers and diet food manufacturers, who had a close affinity with IMAGEnet's target audience. At that time, the Advertising Business Department was divided into two teams—a paper-based flyer team, and a web banner advertising team. The sales
20 of the web banner advertising team were being driven almost entirely by Akasaka alone.

Akasaka joined IMAGEnet with the intention of starting his own business after spending three years at the company. In his third year at the company, Akasaka proposed to the IMAGEnet management team that they separate the online advertising business from the rest of the company and outsource the
25 work to the new company that Akasaka was about to establish, so that the cost of the online advertising business would be a variable cost for IMAGEnet. The management team agreed to his proposal, and Akasaka officially took charge of the online advertising business (which had annual revenues of 100 million yen) and established his own company Eureka Inc.^[1] with Nishikawa.

30 Regarding her experience at IMAGEnet, Nishikawa said: "The customer acquisition approach in e-commerce is exactly the same as customer acquisition in online dating services. Things like lowering the customer acquisition cost, recruiting good customers, and using appropriate creative execution are essentially the same in both types of services."

35 ^[1] The company was called Alot Company when it was first established. It changed its corporate name to Eureka Inc. in November 2009. The name "Eureka" stems from the ancient Greek mathematician Archimedes, who was reported to have cried out "Eureka" when he discovered a new truth.
Source: Interview with President online in March 2016, <http://president.jp/articles/-/19477>.

In an online interview^[2], Akasaka talked about his experiences at IMAGEnet: “The business model must be one of increasing returns. It must be a platform.

Otherwise we won’t have time to spare no matter how hard we work; and, unless we have some time to spare, we won’t be able to generate new ideas. What is vital is that we make easy gain. This is what my experience with apparel, which has a high cost rate, taught me.”

Eureka as an Advertising Agency

Due to the circumstances under which it was established, Eureka started off as an advertising agency. At first, Eureka simply undertook advertising work outsourced by IMAGEnet, however, as the company acquired projects from other fashion e-commerce websites, sales began to increase. Nevertheless, the amount of advertising work available in the e-commerce sector is not limitless, and thus, it naturally imposed a ceiling on the company’s revenue. For this reason, Eureka started a new business, which was an influencer marketing business.

At the time, it was popular for companies to promote their products by paying celebrities to feature the products on their blogs. Talent agencies would sell space on the blogs of the celebrities they managed, and advertisers would buy the blog spaces. Eureka had already done business with some of these talent agencies, and proposed that they slash their prices to allow companies who had wanted to promote their products on celebrity blogs—but had been unable to afford the price—to start influencer marketing, thereby enabling Eureka to gain new customers via its new business.

Eureka also used its experience in apparel e-commerce to experiment which types of articles and photographs were most effective at promoting different products, and succeeded in reducing its cost per acquisition (CPA). The company gained a sizable market share, and this put Eureka in a position to negotiate prices with talent agencies.

However, the concept of “word of mouth” was not yet widespread, and there were no clear guidelines or legislation on influencer marketing. Subsequently, some companies adopted malicious influencer marketing methods, and this marketing technique gradually lost popularity. Another reason behind the decline in popularity of celebrity blog advertising was the “Issues and Considerations Regarding the Act Against Unjustifiable Premiums and Misleading Representations Related to Internet Consumer Transaction Advertising Displays^[3]. The act was published in October 2011 by the Consumer Affairs Agency, which operates under the jurisdiction of the Cabinet Office. The act suggested that, in some cases, those engaged in influencer marketing may have legal responsibilities. This hastened the

^[2] Source: Interview with ReLife on November 17, 2011, <http://bb-relife.jp/interview/it-web/1840/2>

^[3] Source: Consumer Affairs Agency news release, <http://blog.btrax.com/jp/2016/12/30/fail2016/>. Some sections were revised in May 2012.

withdrawal of both advertisers and talent agencies from such forms of advertising. Eureka too was at risk of depending its influencer marketing business on a single line of work.

Yet according to Nishikawa, this experience would prove to be of great benefit when establishing Pairs: “Let us say, for example, that a certain cosmetics company commissions us to acquire new customers with a CPA of 3,000 yen, using a trial set that costs 1,000 yen. We would establish which bloggers to use, how much it would cost to procure them, and how much to sell the trial sets for, in order to achieve the company’s CPA. The experience of thinking logically about how much advertising to place, and how many new customers to acquire, was invaluable. In addition, we ascertained the product conversion rate—the proportion of customers purchasing trial sets who went on to purchase the actual product. We also ascertained the retention rate and even the proportion of customers who switched to a recommended subscription-service, and when they did so. This way of thinking is absolutely identical to online dating.”

Eureka as an Advertising Subcontractor

The risks of depending solely on its advertising agency business led Eureka to start accepting commissions for developing Facebook apps in September 2011. Facebook apps refer to social apps that are run on Facebook pages. Facebook provides a public software development kit (SDK) to make it possible for individuals and companies to develop third-party apps. Famous vendors in this field include Zynga and Playfish. Facebook pages aim to enable groups, companies, and individuals to promote themselves and interact with other parties, while Facebook apps were typically provided as tools to advance such promotions and interactions.

Eureka was first drawn to this field by an advertising competition that entailed creating a Facebook app. As a result of this competition, Eureka received and successfully completed a Facebook app commission. Eureka went on to expand its business horizontally among client companies it had acquired through its advertising agency business, and steadily increased revenues. Revenues were approximately 700 million yen, and the company employed 25 people^[4].

Eureka Launches Its Own Services

Thanks to the strong growth of its outsourcing business, Eureka was starting to accumulate cash for investments. Akasaka and Nishikawa then started planning Eureka’s own business-to-consumer services. Eureka had a policy of refusing venture capital funding since Akasaka and Nishikawa felt that

^[4] Source: Interview posted on First Penguin website, <https://thefirstpenguin.jp/>

it was necessary for the company to earn its own money through its advertising agency and outsourcing businesses. The co-founders had harbored a desire to begin their own business-to-consumer services ever since Eureka was established, and had come up with a number of different ideas, before settling on just two: media to boost app downloads, and an online dating service.

In fact, Eureka tried and failed with a variety of different services. One example is the Peepapp service, launched by the company in October 2011, as part of KDDI's KDDI∞LABO incubation program that started that summer^[5]. The service enabled users who logged in using their Twitter or Facebook accounts to share information regarding which iPhone apps they had installed with other users.

Peepapp was intended to be a social platform service based around app searches and introductions. When users wished to find interesting or useful apps, the service enabled them to search for apps that were frequently used by people they knew, or had recently been installed by friends whom they relied on for the latest information.

It was Akasaka who had come up with the idea for Peepapp, and when the company started developing the service, no other similar services existed. It was highly original. Then, in September 2012, Eureka launched Pickie, a service which inherited and upgraded the functionality of Peepapp. It used trending words or random, intriguing keywords to group together different apps and recommend them to users. Users could then scroll through the main screens of each app via a highly visual user interface. The service provided users with the chance encounter with good apps that had remained largely undiscovered.

Pickie was intended to make money through affiliates and advertising when the apps it suggested were downloaded. However, one of the obstacles facing this service was user acquisition. If Person A's friends did not use Pickie, then there was no way for Person A to know what apps his or her popular friends were using. In addition, potential early adopters were savvy about information, and there was little incentive for them to download and introduce the app to others in the first place. In the end, neither Pickie nor Peepapp were successful.

In October 2012, on the back of these failures, Eureka launched Pairs. There was immense pressure on Akasaka at the company. The company employed 35 people, and the structure was such that the 30 members who worked on the advertising outsourcing business made the money. This money was then spent by the five members entrusted with launching Eureka's own services. If Pairs had also failed, the atmosphere at the company would have fallen flat, and its employees surely would have considered

^[5] Source: Interview posted on First Penguin website; <https://thefirstpenguin.jp/>

leaving. A vision alone was not enough to propel the company forward. Eureka needed results.

Nishikawa explained why Eureka decided to launch an online dating service, given the circumstances: “For both major corporations and start-ups, the barriers to entry into the online dating market are high. For major corporations, the commonly held negative associations of “dating sites” are difficult to overcome. For start-ups, the capital required to acquire new users is problematic. At that time, the online dating market was still new, and was expected to have a long future. In addition, it was possible to make reliable revenue forecasts, and this was also attractive for us.”

10

The Online Dating Market

Overview of the Online Dating Market

15 Online dating services enable users to search online for marriage and romantic partners. Match.com and Yahoo! Personals launched in the U.S. in 1995 and 1997 respectively. By around 2000, online dating services had begun to expand significantly, primarily in Europe and North America. According to research by Chicago University^[6], 15.7 percent of couples who married between 2005 and 2012 met on online dating services. Online dating services were therefore the number one method of meeting
20 future marriage partners, ahead of workplace meetings (14.1 percent) and introductions by friends (2.4 percent).

25 Social networking and online dating services had a combined success rate of 35 percent, as in more than one in three of all meetings that led to marriage happened online. In Japan, too, dating sites had begun to appear in the first half of the 2000s. Many people in Japan, however, unlike people in Europe and North America, were hesitant about physically meeting people they had connected with online, or were reluctant to make their personal profiles publicly visible. For this reason, such dating sites did not become widely popular.

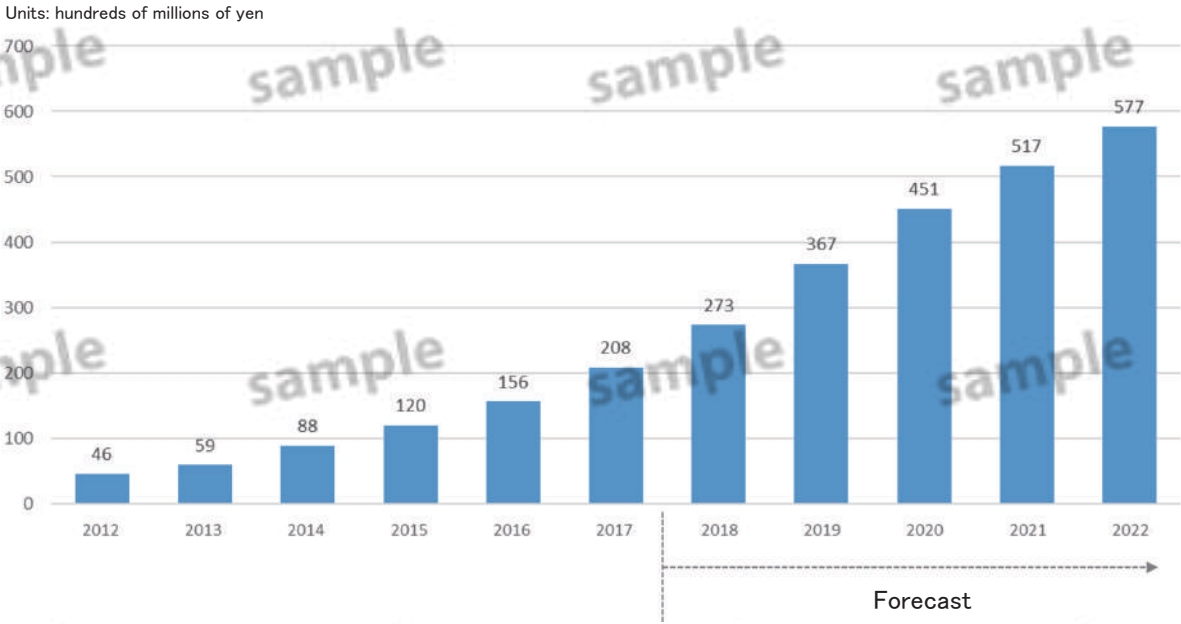
30 In addition, since an overwhelming proportion of users were male, nefarious businesses emerged, setting up fake accounts with the goal of communicating with users, and luring them into handing over money. It was therefore difficult on many dating sites for users to actually meet the people that they had matched. Moreover, dating sites came to be negatively associated with illegal activities, such as “compensated dating,” which also inhibited the growth of the service in the Japanese market.
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^[6] Source: Chicago University PNAS, “Marital satisfaction and break-ups differ across on-line and off-line meeting venues,” December 24, 2012; <http://www.pnas.org/content/110/25/10135>

By 2012, the Japanese online dating market had firmly established itself. with the popularization of social networking services leading to widespread acceptance of social media usage. Furthermore, the rise of Facebook resulted in a steady increase of people using their real names on social networking services and created an online environment in which it was more difficult to lie. Another significant factor in the growth of the online dating market was the fact that dating services in the form of Facebook apps utilized Facebook IDs, which enabled matched users to meet each other in safety.

The growth of communications networks and the popularization of smartphones also provided individual users with rich opportunities for communication, which in turn drove the use of dating services. In 2012, the global online dating market was said to have been worth approximately 400 billion yen. In Japan, however, the market had just begun to establish itself (see Exhibit 1).

Exhibit 1 Growth of the Japanese Online Dating Market



Sources: “Scale of the Online Dating Service Market,” Seed Planning Inc., August 2014; <https://www.seedplanning.co.jp/press/2014/2014080601.html> “Investigation into the Domestic Online Dating Service Market,” MatchingAgent Inc., May 2017; <https://www.cyberagent.co.jp/news/detail/id=13691>

Overview of Online Dating Services

In general, an online dating service will provide a registered user “A” with the profile of user “B.” If user “A” is interested in user “B”’s profile, he or she will click on the “Like!” button. User “B” is then notified that user “A” has liked his or her profile. If user “B” is interested in user “A,” he or she will also click the “Like!” button and then the two users are matched. When users are matched, they are free to send each other messages, arrange dates, and physically meet.

Online dating services can be divided into two types: Pay to Chat, and Free to Chat. “Chat” refers to the ability to send messages, and the difference between the two types of service is whether or not users have to pay to send messages.

In the case of Pay to Chat, non-paying members can be matched to other users, but they must pay if they want to send messages. Such pricing models also fall into two categories: points systems, and subscription systems. Older dating sites typically used points systems, and users were charged for each profile they viewed or each message they sent using points. This profit model meant that revenues increased when more messages were sent and more points were used—and this meant that also indicated that the operators of such dating sites had a substantial incentive to hire nefarious businesses to establish fake profiles. Subscription systems, on the other hand, charge a flat rate no matter how many messages are sent. Therefore, there is no incentive to create fake profiles, and such services are more likely to be wholesome.

Free to Chat services acquire users by enabling messages to be sent free of charge. However, users wishing to utilize higher-level functions must sign up for premium plans. In this way, the services generate profit by encouraging non-paying members to become paying members, in what is known as a “freemium” model.

Pairs

Pairs was launched in October 2012. The service is based on a Pay to Chat business model, but only male users are required to pay. The fundamental business model of the service has not changed to this day. In order to provide wholesome matches, prospective members must have a Facebook account. Moreover, the service engenders trust by ensuring that a member’s use of Pairs is not disclosed on the member’s Facebook page.

Pairs’ service flow is outlined below. Exhibit 2 shows images of the service. Exhibit 3 shows the fee structure. Exhibit 4 shows how the service uses Facebook account information to filter members.

Exhibit 2 Overview and Operational Flow of the Pairs Service



1 First, look for your ideal partner.

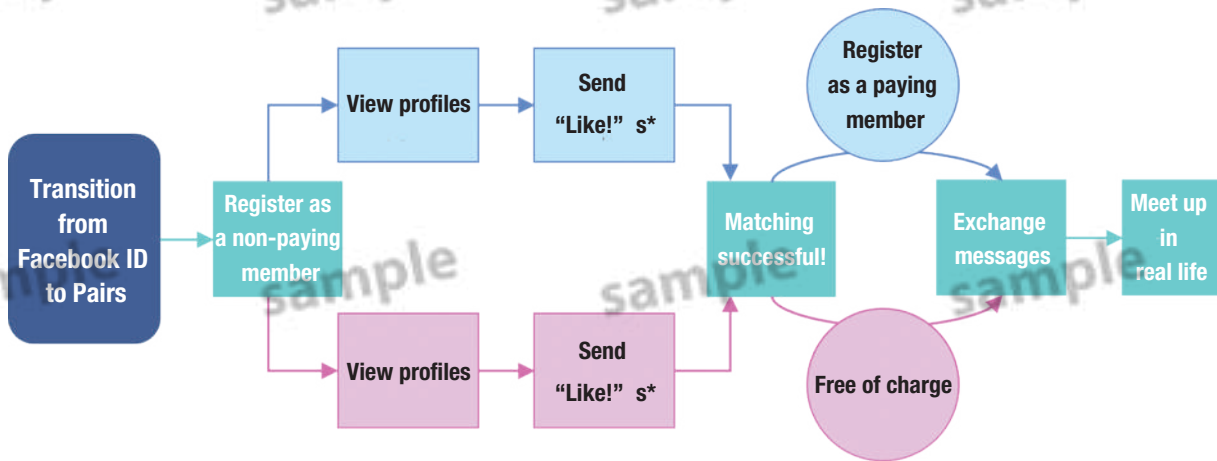
Use the search functions and community functions to find your ideal partner. You can filter members by age, location, height, hobbies, and a variety of other criteria.

2 “Like!” people that interest you.

When you find a member that interests you, show your interest by pressing the “Like!” button.

3 After you are matched, send a message.

If the other party responds to your “Like!” with a “Thank you for your like!” , then you are matched! You are now free to exchange messages.



→ Flow for male users → Flow for female users

*Both male and female users are able to send 30 “Like!” s per month

Source: The overview exhibit was created by the authors, based on information from the Pairs website; <https://www.pairs.lv/>

Exhibit 3 Pairs Fee Structure

Basic Fees

Paid membership (male members only)	from 3,480 yen per month
Premium option (male members only)	from 2,980 yen per month*
Ladies' option (female members only)	from 2,900 yen per month
Private mode	from 2,480 yen per month

Paid Membership Plans (multiple months)

On average, Pairs users find a partner in four months.
 First-time users are encouraged to sign up to the six-month or twelve-month plans.

*Four months is the average length of time reported in questionnaires filled out by male users leaving the site who had found partner on Pairs.

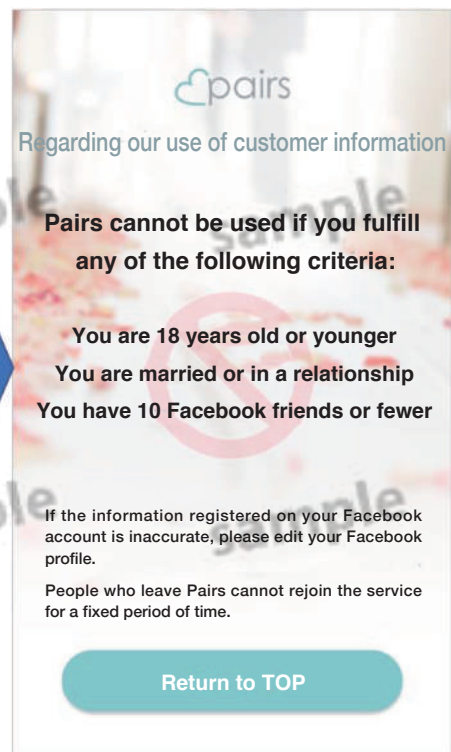
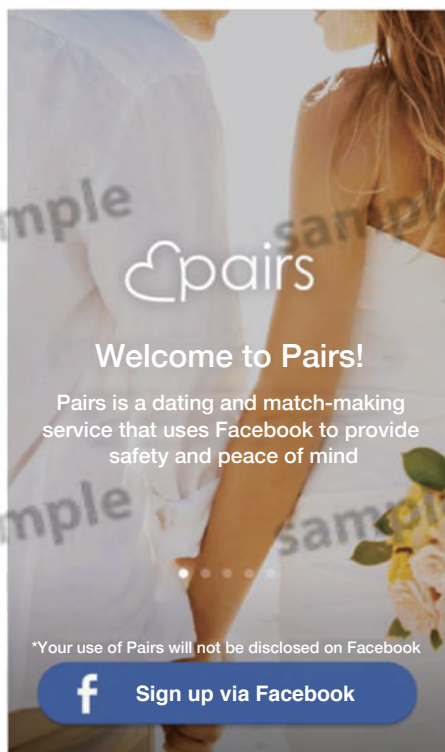
<p>12-Month Plan</p> <p>1,280 yen per month <small>(including tax)</small> <small>(Lump-sum payment of 15,360 yen)</small></p> <p>Register</p> <p><small>Send as many messages as you like Find out how popular other profiles are See partner recommendations Receive 30 "Like!" s immediately after registering</small></p>	<p>6-Month Plan</p> <p>1,780 yen per month <small>(including tax)</small> <small>(Lump-sum payment of 10,680 yen)</small></p> <p>Register</p> <p><small>Send as many messages as you like Find out how popular other profiles are See partner recommendations Receive 30 "Like!" s immediately after registering</small></p>	<p>3-Month Plan</p> <p>2,280 yen per month <small>(including tax)</small> <small>(Lump-sum payment of 6,840 yen)</small></p> <p>Register</p> <p><small>Send as many messages as you like Find out how popular other profiles are See partner recommendations Receive 30 "Like!" s immediately after registering</small></p>
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Matching Success Rate No. 1

<p>1-Month Plan</p> <p><small>Send as many messages as you like Find out how popular other profiles are See partner recommendations Receive 30 "Like!" s immediately after registering</small></p>	<p>3,480 yen per month <small>(including tax)</small></p>	<p>Register</p>
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*Paid members can add these options to access further functions.

Exhibit 4 Filtering via Facebook Accounts



Competition in the Japanese Online Dating Market

While the Japanese online dating market was not particularly vibrant when Pairs was launched, another online dating service called Omiai was released in February 2012 by Net Marketing Co., Ltd. Omiai also required only male users to pay^[7]. Net Marketing had generated cash through affiliate businesses in different industries, and used its cash to invest in Facebook advertising for Omiai. Omiai grew steadily. In September 2012—one month before Pairs was launched—Omiai boasted approximately 70,000 members and had been responsible for 100,000 matches.

Pairs' Strategies

Customer Acquisition Strategy

Pairs used its Facebook fan page to attract customers. Taking advantage of the know-how it had accumulated via its advertising outsourcing business, Eureka launched a large number of personality test apps, quiz apps, and other fun apps on Facebook. It created a user base by making the Pairs Facebook page exciting. Exhibit 5 shows one of the Facebook apps created by Eureka at that time. Fortune telling apps or personality test apps were displayed at the top of users' News Feed on Facebook, and users wishing to use these apps were required to "Like!" the Pairs fan page on which the apps were hosted^[8].

Exhibit 5 An example of a Facebook app created by eureka



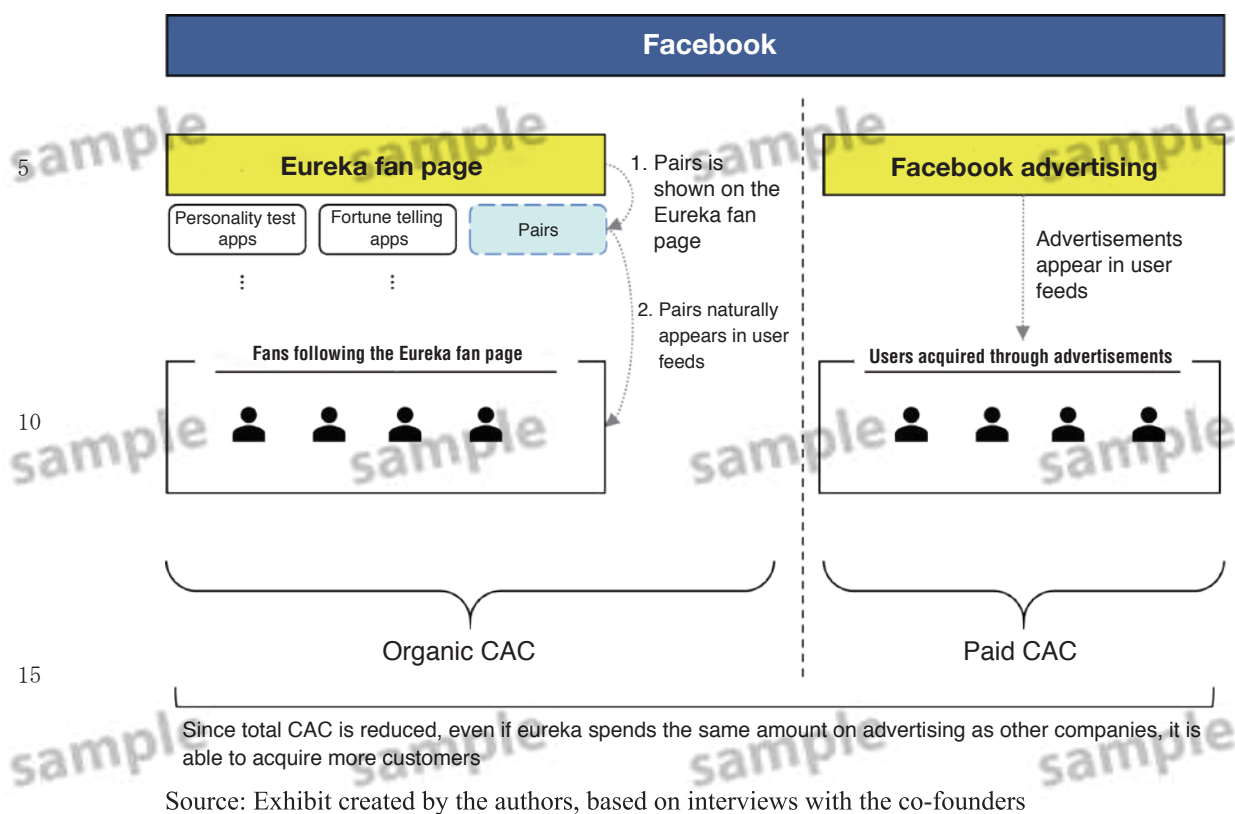
Source: Eureka blog; <https://eure.jp/2014/07/24/most create fbapp/>

This enabled Eureka to increase the number of users it had access to. In fact, Eureka not only increased its reach by using advertisements, it also did so organically. This enabled Eureka to decrease its Customer Acquisition Costs (CAC). Eureka's approach to Pairs' CAC is shown in Exhibit 6.

^[7] When Omiai was first released, male users paid 1,980 yen per month. This fee was increased to 2,980 yen per month in August 2012, and again to 3,980 yen per month in April 2014. When the fee structure was revised in April 2014, female users aged 30 and over were also required to pay.

^[8] Facebook amended its rules and regulations in August 2014. It is no longer permissible for campaign apps to require users to "Like!" a page as a condition of entry.

Exhibit 6 Pairs' Approach to Customer Acquisition Costs



20 The users who enjoyed the personality test apps and fortune telling apps on the Pairs' Facebook fan page naturally signed up for the Pairs Facebook app. There was a high affinity between users of the personality test and fortune telling apps and users wishing to use Pairs and other online dating apps to find romance and marriage partners. In addition, it was possible for users to transfer seamlessly to the new service because Pairs was a web app^[9]. The user experience was designed to make it difficult for users to leave the service which also contributed to a natural increase in users.

In regard to customer acquisition via advertising, Eureka invested a startling amount of money in advertising since the first month of its launch. It spent approximately three million yen on advertising in the first month, five million yen in the second, then seven, ten, and twelve million yen in the following months. With its experience in e-commerce and advertising, Eureka understood how much advertising was required to achieve a certain level of customer inflow, and this gave the company the confidence to invest heavily in advertising. Even after the first few months, Eureka continued to invest the required amount of advertising in the required places. Its aggressive advertising campaign also formed part of a larger strategy to encourage users to tell each other, "That's the service you often see on Facebook" and in doing so, generate positive results by word-of-mouth.

^[9] A web app refers to an application that runs within a web browser; this is in contrast to native apps, which are directly installed on a device.

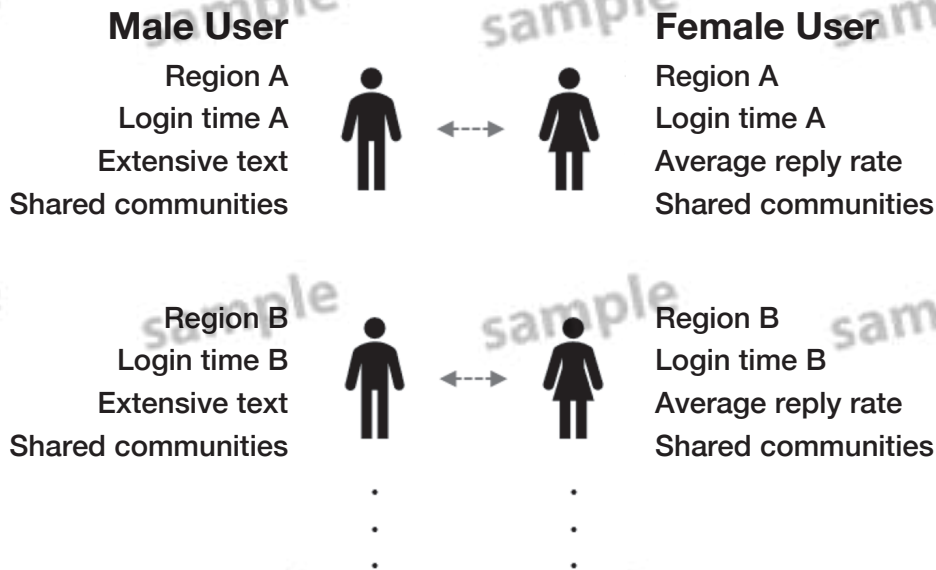
Pairs released an iOS app in February 2013, and an Android app in March 2013.

Increasing Matching Rates

The first thing newly registered Pairs members do is search for members of the opposite sex. Instead of setting detailed search parameters, the majority of members simply scroll through the displayed profiles of the opposite sex. When they find someone they are interested in, they then send one of their limited number of “Like!”s. However, which profiles members see, and the order they see them in, are determined by service-side decisions.

Pairs could have been designed so that the most attractive users were displayed first. However, Pairs wanted to match as many users as possible. For this reason, it was necessary to distribute “Like!”s among as many users as possible, rather than just the most attractive few. The service therefore worked on developing a matching algorithm—similar to that shown in Exhibit 7—which refined the order in which profiles were displayed.

Exhibit 7 Matching algorithm to increase matching success rates



By displaying profiles that members are more likely to be interested in first, Pairs provides as many members as possible the opportunity to meet people they want to meet.

Source: Exhibit created by the authors based on interviews with the co-founders

The algorithm is notable because it leverages community functions. Members can sign up to communities that match their interests. These communities are not intended to be spaces where members interact; rather, they act in a similar way to “tags,” which help reveal information about the members who join them. There are a diverse range of communities, spanning interests, lifestyles, and values sought in potential partners. The simple fact of joining communities that match their personalities serves as a way for members to introduce and promote themselves, enabling them to display nuances about themselves that may be difficult to convey through text alone. The communities also have the advantage of facilitating conversation between users. Pairs used community information to identify users who have multiple points in common, fed this back into the display algorithm, and increased matching success rates.

Communities were one of the variables that helped solve the question: “Which profiles should we display, and in what order, if we want to optimize matching rates and message exchange rates?” Pairs subsequently carried out repeated AB tests and fine-tuned its matching algorithms.

Exhibit 8 Community Functions

What is Community?
Join communities and connect to members who share your interests and preferences!

If you join a community...

- The community will be displayed on your profile!
- It increases the likelihood that you will receive a “Like!” from members who share your interests and preferences!

If you create a new community...

- You can become the administrator of a community you like!
You can better communicate your interests!
- Administrators are shown at the top of community pages!

Source: Pairs website; <https://pairs.lv/#/community>

Prioritizing Female User Perspectives

Online dating services provide spaces for male, paying members and female, basically non-paying members to match. However, two of the most important issues facing such “matching” platforms are to decide: which user to attract, and, how to attract them. Platform businesses benefit from network effects. In other words, female users will join the platform because there are a lot of male users, and vice versa. It is akin to the chicken-and-egg^[10] question: which users should the platform prioritize to generate positive network effects?

In its design, Pairs prioritizes female user perspectives. Soon after its release, Pairs opted for a greenish-blue theme color, even though the majority of dating services at that time used pinks and reds. The greenish-blue color is associated with purity which evokes in women images of ideal marriages. Pairs opted for this theme color as a way of eradicating the negative associations surrounding dating sites as far as possible. Since its launch, Pairs has also sought to maintain a male-to-female ratio of six-to-four, and adjusts the volume of advertising targeted at men and women accordingly. By designing the service in this way—and by ensuring that fees are not the only distinguishing factor between male and female users—Pairs created an environment that attracted female users. Since these female users continued to use the service with peace of mind, the service attracted male users. It is worth noting that male users were not deterred by the fact that only they have to pay a fee to use the service. This is due largely to the custom in Japan for men to pay for women when dating.

Monetization

Even if large numbers of users joined Pairs and large numbers of users were matched, the business model would not work if these users and matches did not lead to payments. Pairs has established the point at which messages are sent as the point where payments begin. Non-paying male members are unable to read messages sent from the female members they have been matched with (see Exhibit 9). Male users can exchange messages with female members only when they become paying members.

Pairs also promoted their pricing system as reasonable when compared to match-making parties. Male users were happy that the monthly membership fee was cheaper and the service was more efficient than going to a match-making party once a month.

^[10] In the manner of the proverbial question—which came first, the egg or the chicken?—platforms that provide opportunities for different users to interact with each other must ask themselves which type of user to gather first.

Exhibit 9 Flow of Fee-Paying Membership Registrations

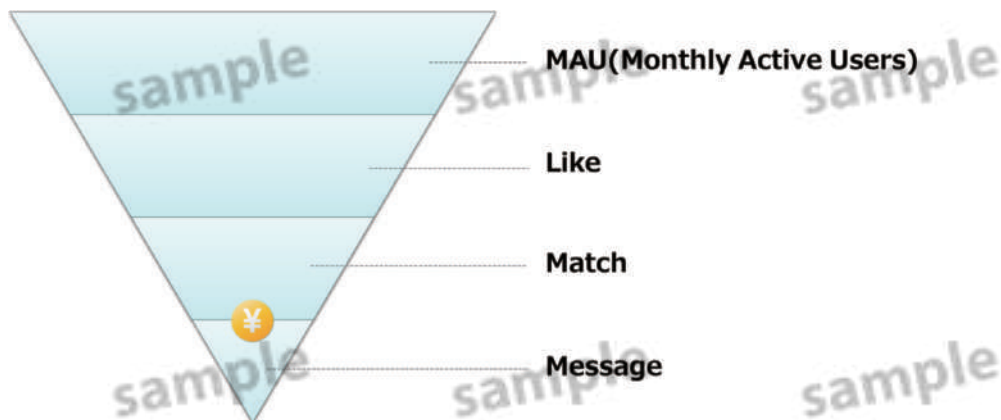


Source: Pairs service page; <https://pairs.lv>, partially edited by the authors

Managing Customers through Customer Portfolio Management Analysis

Having carried out their strategy from customer acquisition to monetization, Pairs implemented two approaches to key performance indicators (KPIs). First, the service would focus on speed, and forgo analysis of minor details. As shown in Exhibit 10, there are just four main KPIs, and they are extremely simple.

Exhibit 10 Pairs KPIs

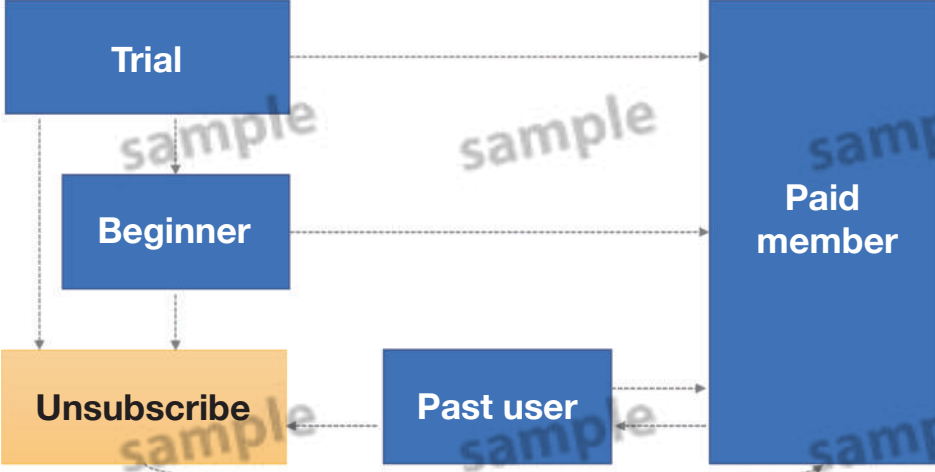


Source: Created by the authors, based on interviews with the co-founders

The second approach was to implement customer portfolio management (see Exhibit 11). For example, during the “Trial→Beginner” phase, Pairs focuses on how many times users match in the 24 hours after they register. Providing users with a taste of success through matches—and therefore persuading them that they may find love on Pairs—has a significant impact on whether or not users go on to become paying members, and also on what they say about Pairs on other websites.

This taste of success through matches is also intended to provide users with a “wow” experience. If users were presented with the option to send limitless “Like!”s, they may think that they are bound to match someone, and that being matched is nothing special. However, if a user with limited “Like!”s is matched with someone they find attractive, then this becomes a “wow” experience precisely because the chances of matching appear to be much lower.

Exhibit 11 Customer Portfolio Management



Source: Created by the authors, based on an interview with Nakamura by logmi; <http://logmi.jp/144421>

Insourcing Customer Services

Pairs is a Customer-to-Customer platform, meaning that it is a place where users interact with each other. In order to generate further trust, the service established an in-house Customer Care Department in December 2016, insourcing customer support. The role of the Customer Care Department was threefold. First, to respond to inquiries; second, to provide 24-hour, 365-day monitoring of posts; and third, to respond to reports of regulation violations. The newly established Customer Care Department, which comprised a team of approximately 30 people, began by carrying out the first and third of these roles. The Customer Care Department responded to a variety of inquiries, including those concerning functions and payment methods. In June 2017, Pairs started offering chat support. Since February 2018, the service has ensured that operators are permanently available in-house, 24 hours a day, 365 days a year.

Insourcing these customer services significantly helped in improving the product. Pairs incorporated user feedback gathered in-house into product development with speed and confidence. This was made possible because the Customer Care Department was in the same location as the company itself. Locating the department far away from the rest of the company may have resulted in lower facility and human resources costs, but the physical distance between the two bases may also have prevented user feedback from being swiftly incorporated into product development. Pairs set a clear vision of Customer Friendship Management, aiming to establish friend-like relationships with its customers. Through such initiatives, the service succeeded in eradicating the long-held negative image of online dating as being unsafe.

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Eureka's Organizational Strength

An examination of Pairs' history thus far reveals three important characteristics about Eureka's organizational strength. One is Akasaka's leadership skill. From the perspective of Nishikawa and other employees, Akasaka was "insane." Eureka has a corporate policy of "Ensuring that you always achieve the targets you have set yourself." Akasaka drew up the budget documents for the company as a whole, and included the sentence: "We must achieve this without fail." His dedication to ensuring that targets were achieved underpinned Pairs' growth and expansion. Akasaka also thoroughly investigated Eureka's competitors in the online dating market, and used them as motivation for Eureka. The existence of competitors led to the exhortation that "We will assuredly win, and we will win overwhelmingly," and made Akasaka's insane leadership known to the rest of the organization.

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The second is Eureka's capacity to make swift decisions. Pairs launched a Taiwanese version of the service in October 2013. The decision to enter the Taiwanese market was made after a 15-minute standing meeting between Akasaka and Nishikawa. 90 percent of Taiwanese nationals in their 20s and 30s are Facebook users, and this exceedingly large demographic was a promising base for Pairs, not to mention the fact that Japanese services were well received there.

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The third is that Eureka was developed as a team of craftspeople whose members had been nurtured through internships. When the company was first established, it tried hiring mid-career executives. However, these mid-career executives were unable to work or establish themselves successfully as they did not believe Akasaka when he said: "Nothing is impossible!" For this reason, Eureka invited university students to become interns and offered to nurture them. These interns, who possessed a great appetite for growth, warmed to the passionate ideas of the co-founders, and developed into company assets.

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Nevertheless, interns were required to study and improve their skills by themselves. When developing Facebook apps for clients, for example, the employees at Eureka did not have the skill to actually make an app to begin with. Employees learnt and acquired necessary skills in the process of meeting client orders. At that time, it was extremely rare for start-up companies to have in-house engineers, and most relied on outsourcing when they wanted to create products for new businesses.

While rival companies had workforces of just several people, Eureka already had 35 employees—including engineers and designers—when Pairs was launched^[11]. Eureka’s employees were an extremely important management resource.

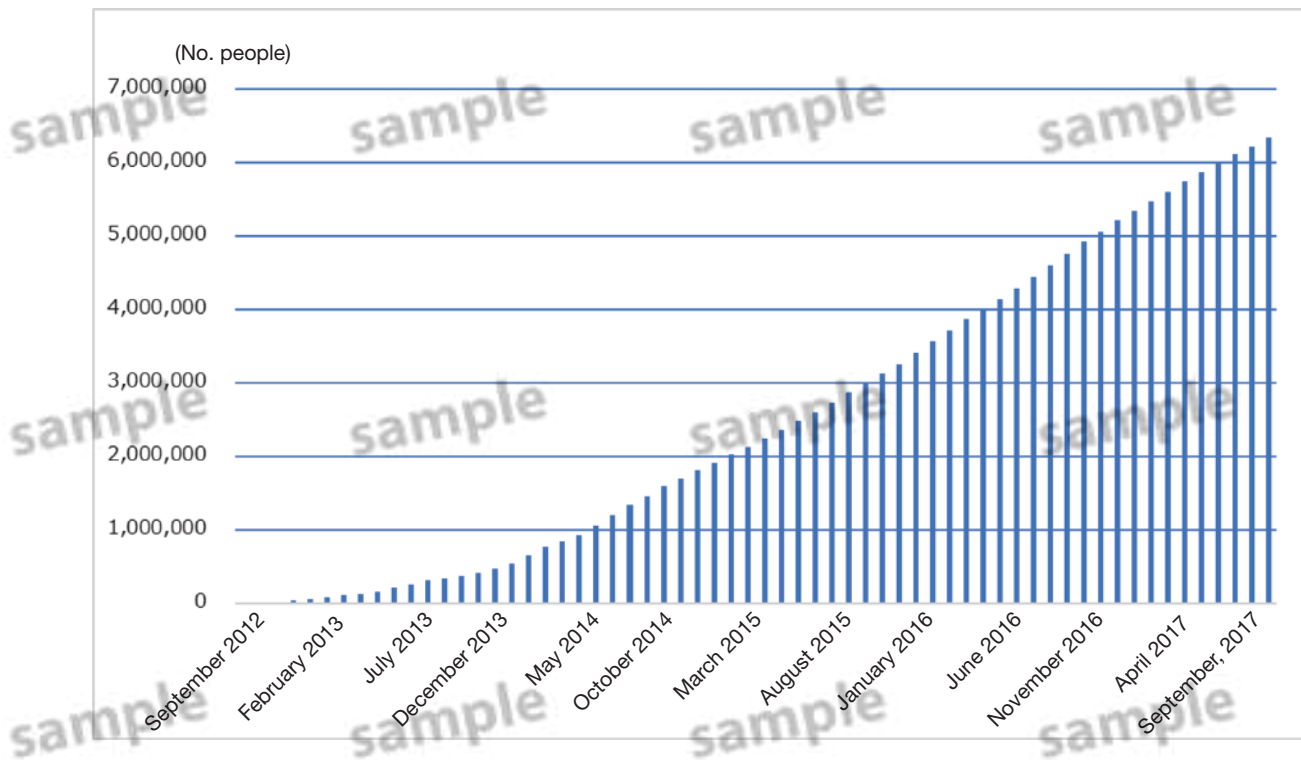
Future Growth

Pairs was released in October 2012. It overtook existing services and became the market leader in around half a year, and has maintained its number one position in the online dating market ever since. Indeed, a succession of large-scale businesses have entered the online dating market since 2014, but Pairs remains the most used service as of February 2018^[12]. Akasaka and Nishikawa both resigned in October 2017 and entrusted Eureka to their successors. In September 2017, Pairs released a South Korean version of its service and intends to consider expanding to other countries in the Asian region. Going forward, Pairs will undoubtedly continue to provide miraculous encounters to its members around the world, while maintaining its path of growth.

^[11] The creation of the Pairs app was initially outsourced, as Eureka had to deal with a wave of orders for its outsourcing business. Improvements were then made to the app in-house.

^[12] Source: Eureka press release; <https://eure.jp/press/20180201/>

Additional Materials 1: Total number of Pairs members



Source: Created by the authors, based on data provided by eureka

Additional Materials 2: Chronology of Important Events

Event Number	Date	Pairs/ Market/ Competitors	Event
1	Second half of 1990s	Market	Windows 95 is released; the internet begins to penetrate Birth of bulletin boards and chat boards
2	1999	Market	i-mode is released; a mobile phone version of the dating services are launched
3	2000	Market	Mobile phones increase in popularity, with ownership growing to one mobile phone per person; there is a boom in online dating services—however, many companies use fake accounts to stimulate the interactions on the platforms
4	2001	Market	Dating services start to be used for compensated dating, spam emails, and other illegal activities; public perception of dating services shifts from “a place where you can easily make online friends” to “a hotbed of crime”
5	November 2002	Competitors	match.com launches its Japanese website
6	2003	Market	Legislation regulating dating services comes into force
7	November 2008	Pairs	Eureka Inc. is established
8	July 2009	Pairs	Akasaka and Nishikawa leave IMAGEnet; Eureka officially starts operations as an advertising agency
9	August 2010	Pairs	Eureka begins blog marketing as part of its advertising business
10	September 2011	Pairs	Eureka begins an smartphone and Facebook app development for their clients
11	October 2011	Pairs	Eureka releases the Peepapp app sharing service
12	February 2012	Competitors	Net Marketing Co., Ltd. releases Omiai
13	March 2012	Pairs	KDDI∞Labo accepts Peepapp in their incubation program
14	April 2012	Pairs	Eureka decides to make their own product, and begins to develop Pairs
15	July 2012	Pairs	The Pickie app-finding service is awarded the KDDI∞Labo Best Engineering Prize
16	September 2012	Pairs	Eureka releases iOS and Android versions of the Pickie; the company sells the Million Designs crowdsourcing design website to Lancers, Inc.
17	October 2012	Pairs	Pairs is launched
18	February 2013	Pairs	The Pairs iOS app is released
19	March 2013	Pairs	The Pairs Android app is released Pairs’ cumulative membership exceeds 100,000 in Japan
20	April 2013	Pairs	Pairs overtakes the existing services to become the market leader
21	October 2013	Pairs	Eureka launches Pairs in Taiwan
22	January 2014	Pairs	Pairs’ cumulative membership exceeds 500,000
23	April 2014	Pairs	Pairs’ pricing system is revised
24	May 2014	Pairs	Eureka launches the iOS Couples, a communication app for couples
25	May 2014	Competitors	Matching Agent, Inc., a fully owned subsidiary of CyberAgent, Inc., releases Tapple
26	June 2014	Pairs	Pairs’ cumulative membership exceeds one million and the number of matches reaches 3.3 million
27	August 2014	Market	Facebook changes its rules and regulations; it is no longer permissible for advertising promotion apps to require users to “Like!” a page as a condition of the entry
28	November 2014	Pairs	Pairs’ cumulative membership exceeds one million in Japan
29	December 2014	Competitors	Recruit Co., Ltd. releases Zexy Koimusubi and Zexy Enmusubi
30	February 2015	Pairs	Pairs’ cumulative membership exceeds two million and the number of matches reaches 8.3 million
31	April 2015	Competitors	The InterActiveCorp (IAC) Group launches a Japanese version of Tinder
32	May 2015	Pairs	Eureka joins the NASDAQ-listed IAC Group in a cross-border M&A
33	October 2015	Pairs	Pairs’ cumulative membership exceeds three million and the number of matches reaches 15.1 million
34	December 2016	Pairs	Eureka establishes an in-house Customer Care Department for Pairs
35	December 2016	Pairs	Pairs’ cumulative membership exceeds five million and the number of matches reaches 32 million
36	June 2017	Pairs	Eureka starts offering chat support for Pairs
37	August 2017	Pairs	Pairs’ total membership exceeds six million people and the number of matches reaches 43 million
38	September 2017	Pairs	Eureka launches a Pairs in South Korea
39	February 2018	Pairs	Pairs’ cumulative membership exceeds seven million and the number of matches reaches 56 million; Eureka fully insources its Customer Care Department, setting up a 24-hour, 365-day resident operator system

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