

Online Dating: A Need for Regulation Regardless of Business Model

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INTRODUCTION

With the growth in the use of online dating, the purpose of this article is to explore online dating sites, their current business models and their potential for use in internet scams and other criminal activities. The article will also discuss the most common types of crimes and offences associated with online dating sites and examine any legal action taken against site providers by users and regulators. It will explore self-regulation by the industry and the need, if any, for greater external regulation. It will conclude with recommendations about whether there is the need for further regulation of dating sites to protect users.

BACKGROUND

Market research has reported that the dating service industry has grown annually by 4.8 percent from 2010 to 2014 and revenue earned in the United States (US) is approximately two billion dollars and approximately 113 million dollars in Australia (IBIS World, 2014a; IBIS World, 2014b).

A 2013 study on online dating and relationships by the PEW research centre (2013b) found that 11 percent or one in every 10 of US adults have used an online dating site such as eHarmony or a mobile dating application via their mobile phone. However, another 2013 study by the PEW research centre (2013a) found that six percent of internet users in the US had lost money from being a victim of an online internet scam. In the United Kingdom (UK), the National Crime Agency has reported that there may be over 200,000 victims of dating scams and the cost may be 100 million pounds per year (National Crime Agency, 2014). Similarly, in Australia, the Australian Competition & Consumer Commission (ACCC) estimated that in 2014 Australians lost \$27.9 million in online dating scams (Donnelly, 2015).

TECHNOLOGY BASED BUSINESS MODELS

Based on the economic and social value of the dating service industry, there are two forms of digital dating - online dating and a match making system offered by a provider (Schmitz, 2014). Examples of online dating sites are RSVP.com.au and Match.com and examples of match making systems are eHarmony.com and PerfectMatch.com.

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Online dating consists of an individual searching for a potential partner by registering on an online dating site, which is free to use or is subscription based (Schmitz, 2014). As part of this registration, an individual provides detailed personal information, including their location, job, interests and hobbies and salary range as well as the desired characteristics of a potential partner. This profile is then posted online for other users of the site to view (Schmitz, 2014). Online dating allows individuals to browse other profiles and contact other users of the site via a chat service or a short message service. If contact is successful, the individuals exchange messages and may move on to communicating through emails, telephones or face to face meetings (Schmitz, 2014).

Under the match making system, while the registration is similar to the process used by online dating sites, the information provided by the individual is more comprehensive and includes information on the individual's career, education, lifestyle, personality and religion beliefs (Schmitz, 2014). Then, through an algorithm, this information is used by the provider to find a compatible match based on similar traits (Schmitz, 2014; Blake, 2007).

As noted by Blake (2007) and Walters (2014), internet entrepreneurs that launch online dating services do not require a revolutionary business model. Rather online dating services require a sound business plan that includes elements such as operational budget, advertising, target market, legal issues, investment capital and the design and development of the site or mobile application (Walters, 2014). Similar to traditional business to consumer relationships, profitability of online dating services results from operational effectiveness and strategic positioning including customer relationship management and market segmentation (Smith, 2005).

Two of the most common financial models used by both forms of digital dating sites are the advertising model and the subscription based model. Under the advertising model, the site is free to use as revenue is earned from online advertising and the sale of users' personal data. Under the subscription based model, sites generally charge a monthly fee, although users can join the site for free. Other services such as background checking may also be offered (Magrina, 2014).

As the profit margins for free online dating sites are much smaller than subscription based sites, free sites rely on word of mouth advertising and, rather than focusing on conversion rates, they rely on customer satisfaction. As noted by Slater (2013), users of free online dating sites pay with their time, information and browsing history. Free online dating sites collect, catalogue, and analyse their users' data and browsing history and sell it to third party marketing companies.

Under the subscription based model, a site using this model will potential spend about \$120 in advertising to acquire one paid subscriber (Slater 2013). So for the subscription based site to recoup their original investment, it requires the subscriber to spend between two and seven months as a member and spending between \$20 to \$60 per month (Slater, 2013). To ensure profitability, a paid site needs to recoup their advertising spend in the shortest period of time so that it can advertise more and gain more paid subscribers (Slater, 2013).

A 2013 study by the Massachusetts State Office of Consumer Affairs and Business Regulations into the fees, cancellation policies and the terms and conditions of 10 online dating sites found that the price for a one month subscription ranged from \$23.99 to \$49.99, a three month subscription ranged from \$56.97 to \$80.97 and the subscription cost for a 6 month period ranged from \$71.94 to \$129.99 (Consumer Affairs and Business Regulation, 2014).

Some dating sites also use a combination of free and paid services, which has been referred to as the freemium model (Kaufman & Isaac, 2014). Under this model, sites are generally free to join, but individuals can pay for additional or premium services. For example, Match.com changed from a pay to initiate model to a pay to respond model (Slater, 2013). Under the pay to respond model, free users need

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