

# E-Health Dot-Coms' Critical Success Factors

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## BACKGROUND OF THE BUSINESSES

The increasing use of the Internet by consumers gave rise to an information boom to health-care consumers. Not only could the Internet be used as a communication tool to provide information that would allow patients to make informed decisions, but it could also be used to generate revenue for investors. The dot-com boom of the late 1990s exploited this opportunity, targeting the health-care system, a \$1.7 trillion market in the United States alone. Overall, the health-care system is wasteful and costly (Itagaki, Berlin, & Schatz, 2002), and as a result, health-care IT was touted as the magic pill for cutting costs. The Internet boom of the late 1990s saw the emergence of e-health: the delivery of health services and health information through the Internet and Internet-related technologies (Eysenbach, 2001). Leading the many entrepreneurs and venture capitalists who stepped in to seize a piece of the health-care industry cake were WebMD Corp., an online provider of medical information for doctors and consumers in Elmwood Park, New Jersey, and DrKoop.com, an Austin, Texas-born company that later moved to Santa Monica, California, and began doing business as Dr. Koop LifeCare Corp.

Dr. C. Everett Koop, the former U.S. surgeon general, had spent over 6 decades in the medical profession. He envisioned the Internet as an opportunity to change the health-care delivery system in order to empower individuals to take charge of their own health care (Musselwhite, 2002). With this vision and his reputation as an advocate for health-care reform, along with the help of two budding entrepreneurs, Don Hackett and John Zaccaro, the trio opened a business-to-consumer Internet portal: DrKoop.com. The portal was designed to provide health information to consumers in areas such as chronic illness, food and nutrition, fitness, and medical breakthroughs. At the beginning, the Web site was an overwhelming success, receiving a million hits per month after 2 years of operation, and about 4 million unique visitors per month at its peak. The portal included a personal medical-records system that facilitated the cross-referencing of medications for interactions, as well as the storage of medical

reports that could then be accessed by both patients and physicians.

DrKoop.com's public woes began in February 2000 when its auditor, PricewaterhouseCoopers, issued a "going concern qualification," an ominous warning that highlighted the precarious financial situation the Internet-based health service was in Cleary (2000). By the end of 2000, DrKoop.com was still struggling, and in the first 9 months of 2001 alone, the company's losses were nearly 3 times its revenue. According to the Securities and Exchange Commission (SEC) filings, from January 1999 until the service's liquidation in September 2001, DrKoop.com's losses stood at \$193.6 million, dwarfing the \$41 million revenue generated during the period. At the site's peak in July 1999, DrKoop.com's stock rose to \$45.75 per share on the NASDAQ, but was worth \$0.12 at the time of bankruptcy filing. In July 2002, Vitacost.com, a privately held online seller of nutritional supplements, paid a paltry \$186,000 in cash for DrKoop.com's assets, which included the brand name, trademarks, domain names, the Web site, and the e-mail addresses of its registered users.

WebMD, originally called Healtheon/WebMD, was founded by Jim Clark, who also founded Silicon Graphics and Netscape. Clark's vision was to connect insurance companies, doctors, and patients over the Internet in order to lower costs and reduce paper trails. Rather than building its own products and services, Healtheon used its highly valued stock to finance acquisitions of leading companies in the industries it targeted. In 1999, it acquired WebMD.com and OnHealth, both leading health portals, giving it access to the consumer health market (Salkever, 2000). Though WebMD lost \$6.5 billion on revenue of \$530.2 million in the first 9 months of 2001, it still continued to expand long after DrKoop.com had dropped off the radar screen. For the fiscal year ending in December 2003, WebMD reported revenues of \$964 million, an increase of 10.6% on the previous year's revenues, which totaled \$871.7 million. Of the 11 health-care mergers and acquisition deals in the first 7 months of 2004, valued at \$900 million, WebMD was the leading acquirer (Abrams, 2004). Two of WebMD's high-profile acquisitions in 2004 were the \$160 million cash purchase of ViPS, a privately held

provider in Baltimore, Maryland, of information technology to the government, Blue Cross-Blue Shield, and other health-care insurers; and the \$40 million acquisition of Dakota Imaging Inc., a private company in Columbia, Maryland, that offered automated health-care claims processing technology.

As industry leaders, WebMD and DrKoop.com faced competition from both health-care information portals (such as HealthGrades.com, MDConsult, ZoeMed.com) and online pharmacies that provided consumers with one-stop shopping for medications and medical information (Walgreens.com, drugstore.com, Webvan.com). The threat from the health-care information portals, nevertheless, was minimal due to their limited brand recognition and information coverage. In the online pharmacy sector, however, Walgreens.com gained a substantial market share by combining the best of both worlds: complementing its physical stores located throughout the country by offering online customer service, convenience, and real-time access to a health library that provided comprehensive information on prescription drugs, insurance, and health issues.

## **DESCRIPTION OF THE BUSINESSES**

### **Products and Services**

DrKoop.com's vision for its online venture was a Web-based health-care information portal on which individuals and their doctors could have one-stop access to personal medical records, prescription history, medical exam results, and general health-care information (Itagaki et al., 2002; Musselwhite, 2002). According to Musselwhite, the venture's marketing strategy was to differentiate itself as "the premier healthcare information website," and would accomplish this via the four Cs: content (which would be the driver), community (bringing people together to discuss issues pertaining to health), cool tools (such as Drug Checker), and commerce (enabling people to purchase drugs online from strategic e-commerce partners such as Drug Emporium) (p. 6). In order to generate revenue, DrKoop.com sold advertising rights to health-care-related companies that would pitch sales and promote their products to the portal's users and communities. Unfortunately, DrKoop.com failed to implement checks and controls on advertising, and some of the companies began making promotional claims that were not always substantiated.

WebMD's products and services, on the other hand, were more diversified with the overall objective of facilitating information exchange, communication, and transactions between consumers, physicians, and health-care institutions. Through a series of mergers and acquisitions,

WebMD was able to offer a wide variety of health-related products and services, including health-care information to consumers and physicians, billing and transaction processing for physician practices and hospitals, and handheld services (Itagaki et al., 2002).

### **Management and Business Models**

DrKoop.com was plagued with management problems from the start. None of the founders had business experience, but with less than \$1 million of lifetime revenue, DrKoop.com still raised \$84.4 million in its initial public offering (IPO). The company swelled from a handful of employees to 200 after the IPO, and an 80,000-square-foot office was acquired in a long-term lease. At a time when competition was fierce, advertising revenue alone could not support operational expenses, but the corporation continued its free-spending practices. Employees' in-house massages cost \$9,000 per month, and free, catered Friday lunches cost \$15,000 each week, contributing to a monthly burn rate of \$7 million (Hawkins, 2001). The company signed a 3-year, \$58 million agreement with Disney's Go Network to be the exclusive provider of health-care information on that network (Musselwhite, 2002). This was later followed by a 4-year agreement with AOL for a whopping \$89 million to be featured on the AOL Web site, a sum that surpassed the IPO capitalization. Such evidence of capital mismanagement sent the wrong signals to investors, who began to question the viability of DrKoop.com. The business model envisioned by the company—a health-care information portal whose content would attract users, and in which advertisers would be attracted to the users—soon began to crack. By April of 2000, DrKoop.com was trailing its two major rivals in visitors per month and was spiraling into the dot-com abyss. In July, two class-action lawsuits were filed against management alleging the withholding of financial information for the purpose of inflating its stock price. The lawsuit was bolstered by other questionable actions by executives, including the selling of shares before the end of a 6-month holding period, which gave the impression of insider profiteering. Subsequently, two top executives, the chief operations officer and the chief financial officer, were forced to resign. In August, the stock fell below \$1 a share and the downward trend never reversed. Public trust and investor goodwill on DrKoop.com were dealt a final blow with more reports of unethical practices. The company had received revenue from a pharmaceutical firm for referring patients for clinical trials, undisclosed commissions were received on health products and services sold through the Web site, and companies had paid money to be listed exclusively in some sections of the Web site, thus misleading customers (Noble, 1999).

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