

Chapter 7.20

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 infor-

mation 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.

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