MEMORANDUM – MIDTERM

To: Prof. Dell
From: Lorraine Graw
Re: Investment opportunity with WhiteGlove House Call Health

Issue

Whether or not to invest in start up that delivers routine health care to clients' doors.

Answer

Absolutely not. While it appears to be capital efficient, the home run potential isn't there. The company failed to address two substantial hurdles, dismal economy and one of its main competitors: self diagnosis with WebMD and over the counter drugs. WhiteGlove is selling the luxury of convenience. If the company had been at this stage of development three years ago in a strong economy, perhaps worth the risk. However, in this economy, it is a luxury good: a convenience people are unable to afford when there are less expensive alternatives.

Analysis

The initial questions:
-Do you want to 'be' in this business? No! Health care is one of the most regulation and liability laden industries out there.
-What is exciting about this opportunity? Shaking up a stale industry, doing something (anything) in an industry where there is desperate need for reform. But WhiteGlove is not the panacea. It's not even a band aid.

Market strategy:

According to a 2009 Forbes article, 46 million people in the United States are uninsured.[1] And that number is only going down.[2] This information reveals that consumers are less willing to spend money on health care and more inclined to roll the dice, hope they don't get sick, and pay only when it is absolutely imperative. In fact, the majority of ailments listed under WhiteGlove's "scope of get-well care" are items most of us (insured or not) don't even go to a doctor for, much less an ER for – we just go to Walgreens and get the over the counter option for cold, cough, allergies, sunburn, athlete's foot, etc.

Reaching customers and informing them about this service is not the challenge for this company, rather, the challenge is actually realizing a sale from them.

Team:

While the main distinctive competency of management is their ability to seamlessly integrate technology into all aspects of their business model, however at the end of the day this product is a health care service provided by human beings, technology is secondary. He has no experience in the health care industry, an industry laden with regulations and liabilities, and that weighs heavily against him. Having some doctors on the board is not enough, hospitals have substantial support staff to protect against liabilities and ensure compliance with regulations. In this economy, there is no shortage of talented people in all sectors (sales, engineering, etc.) available for hire, which is a positive.

Sales/Marketing:

In a society that demands instant gratification, waiting 2 hours to have someone drive to my house to treat my allergies is unacceptable; dive to Walgreens and have Claritin in 5 minutes. The market characteristics are not favorable for this type of service. Shifting the marketing strategy from a convenience based service to a cost saving service is smart, but not enough. Also, it requires a year long contract; people are hesitant to be locked into that type of financial commitment in these economic times.

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[1] "One in Five Working Adults Said to Lack Health Insurance." Forbes.com, March 26, 2009, available at: http://www.forbes.com/feeds/hscout/2009/03/27/hscout625446.html

[2] Press release, March 24, 2009, for report done by the State Health Access Data Assistance Center, available at: http://www.shadac.org/files/shadac/publications/CTUW2009_PressRelease.doc

Regarding their pitch: "Routine medical care is costly, inconvenient, and declining in quality; negatively impacting the consumer….How do we make healthcare affordable?" The first sentence is true. Sort of. The second is a non sequitur. The routine medical care this company provides encompasses many items that don't warrant a visit to a doctor, so there is no issue of cost or inconvenience. The question of making healthcare affordable is the question that is raised when discussing the serious ailments outside the scope of this company: major car accident, cancer, etc. This pitch just does not resonate and would fail to appeal to consumers.

Value proposition:

It is not that this service is undesirable, and the customer reviews are quite favorable, it simply that the value is not there. WhiteGlove costs hundreds of dollars a year if you used them each time you got one of the ailments they treat. Granted, trips to the hospital for the same care might cost thousands, BUT it costs far less than both the hospital or WhiteGlove to just go to Walgreens. Also, while I might have misheard, for business consumers, he said 35-77% of employee base utilized the service, those aren't good percentages.

Competition:

The company is competing against over the counter drugs more than it is competing against a UCC or an ER. If there is another company that provides to your doorstep routine medical care, a quick google search did not reveal it. But again, I don't think the competition that threatens WhiteGlove is an apple to apples question. Instead, there is an orange that is superior in both cost and convenience (the two pillars of WhiteGlove's business model) – WebMD and over the counter drugs.

Economics:

The business model, if there were enough costumers to buy the product, is strong. But I do not believe there is a market for this service right now. Assuming there were, the subscription fee profits/loss on visits model is a strong model. The economics of the business, cost to enter new market, etc. are well designed. The drawback is there simply aren't enough customers that will buy this. He also failed to resolve the liability issue. When asked about this specific issue, he failed to offer a definitive explanation of WHY liability was a non-issue. Simply answering "liability isn't an issue" is not good enough.

Technology:

The way they have integrated technology into their practice is a major strength in their model. However, while he is confident that the technology he has developed is too tough to crack, and protected by trade secrets, I am skeptical. There are hospitals that use technology similar to what he described, and simply using that technology in tandem with house call visits is neither novel nor innovative enough for me to feel comfortable risking the cost of litigation to pursue. Similarly, the technology used for recognizing symptoms/diagnosis and available treatments already exists on self diagnosis web sites with similar algorithms.

Financing requirements & exit

The cost to finance to cash flow positive is not onerous, but that assumes a market that can and will buy this product. The management's financing plan is well thought out, but it was thought out in a different economic time, where there was a market of people willing to pay a premium for convenience. That market does not exist anymore, thus the plan is weakened. As for an exit strategy, who are the potential buyers? An insurance company? Doubtful, insurance companies aren't in the business of treating people. They might be a consumer of the service, but that is all. I don't believe there is a potential buyer.

Conclusion

The competitive advantage and its sustainability this company needs do not exist in the market today. The public markets will not place high value on this business. In assessing their strategy, their use of technology is a strength, the relatively low costs of entering a new market place is solid; but their weakness is understanding their market place and the economies of the market: the landscape is not good for their product. Also, finding a potential buyer, and thus exit strategy, does not look promising.