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HAODF: THE PIONEER OF ONLINE HEALTH CARE IN CHINA

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On March 19, 2017, the online health care company HaoDF Online (HaoDF) announced that its patients in Yinchuan, China, could receive reimbursement from the country’s social medical insurance after receiving treatment. The health care services were offered mainly online, by what was referred to as HaoDF’s “Internet hospital.” This move represented a major step in the development of HaoDF’s online medical ecosystem.

Since it was launched on December 10, 2016, HaoDF’s Yinchuan Smart Internet Hospital had served more than 31 million users and conducted online diagnosis and treatment for almost 1 million patients during its first three months.[[1]](#endnote-1) HaoDF’s online health care services could collaborate with physicians to remotely monitor patient conditions and guide paramedical staff in the decision-making process. However, beyond diagnosis, consultation, and prescriptions, patients needed a physical hospital or clinic for the actual treatment. An online health care platform could not achieve its full business value without either establishing its own facilities or collaborating with existing traditional health care organizations. HaoDF chose an asset-light strategy, so it sought the collaboration of existing traditional hospitals or clinics, rather than establishing its own facilities. However, traditional hospitals were reluctant to embrace the online health care system as a medium for interaction with patients. This factor became a major challenge for HaoDF in its efforts to attract traditional medical organizations for collaboration.

Another notable challenge for HaoDF was how to become profitable. Since its inception in 2006, the company had been relying on venture capital investment and subsidies to attract new users, but it had yet to generate a profit from its own operations. Online health care delivery was a promising new industry in China that attracted large investments, from which HaoDF had benefited. However, dozens of newcomers were also entering the market, enticed by the readily available venture investment and funding. Therefore, a second challenge for HaoDF was to develop a business strategy to sustain its competitiveness.

FOUNDing of HaoDF

During the previous several decades, the Internet had evolved rapidly in China. By 2015, the country had the largest number of Internet users in the world.[[2]](#endnote-2) More than half a billion people in China were active mobile Internet users, of approximately 1.3 billion mobile subscriptions that had been registered.[[3]](#endnote-3) The market value of publicly traded Internet companies reached more than ¥3.95 trillion.[[4]](#endnote-4) Internet giants and e-commerce companies such as Alibaba Group Holding Limited (Alibaba); Tencent Holdings Limited; Baidu, Inc.; and JD.com, Inc. had been listed among the top 10 Internet companies globally.[[5]](#endnote-5)

Established in 2006, HaoDF (literally translated as “good doctor”) was one of the most popular online health care platforms in China. The company was based in Beijing and had approximately 600 employees. Access to doctors was difficult for many people in China. With resources and medical information not readily available, many patients travelled long distances from remote locations to major city hospitals for medical services, where they expected to find a higher level of care.[[6]](#endnote-6) At the end of 2005, a state-owned media organization conducted a survey to identify the top concerns of Chinese citizens, and found that access to reliable medical care was one of the most significant problems in Chinese society.[[7]](#endnote-7)

By 2006, Alibaba had already become a vastly popular e-commerce platform in China, but advances in online technology had not brought major improvements to the traditional medical industry. Major hospitals featured websites that were rarely updated and lacked essential information. Patients had no choice but to visit each hospital for details about its specific medical resources.[[8]](#endnote-8) Other hospitals, without the resources to even host a functional website, were simply unable to take advantage of Internet technology to improve patients’ experience.[[9]](#endnote-9)

Hang Wang, the founder and chief executive officer of HaoDF, had a wealth of experience in both the medical industry and Internet technology before establishing HaoDF. Together with partners Shaoyu Hu and Dan Luo, Wang invested ¥500,000 to establish HaoDF, with the goal of helping patients find the right doctor for their ailments. The company’s name (“good doctor”) was intended to reflect this basic purpose. HaoDF posted each doctor’s areas of specialty and available appointment times on the website so that patients could easily schedule their visits.

HaoDF went live soon after the company’s founding. However, most hospitals were reluctant to collaborate with the new online service,[[10]](#endnote-10) so Wang paid hospital workers to keep HaoDF informed each day on doctors’ available appointments slots for the next day. HaoDF’s employees also imitated computer “spiders” in seeking and recording all available announcements from hospitals on online notice boards, which they then sorted and posted on HaoDF.

Gradually, as the information on the website about doctors’ availability and services became more thorough and reliable, traffic to the website increased steadily. Wang soon discovered that the website’s visitors enjoyed sharing their experiences with other patients, so he decided to make efficient use of that information. In early 2007, HaoDF introduced a new feature where patients could rate doctors and provide general information to improve the knowledge base among physicians and patients.

From that point on, HaoDF obtained five rounds of investment, which amounted to approximately US$300 million in total. In mid-2007, ¥3 million was invested in HaoDF by Chinese venture capitalist Lei Jun and new venture capital firm Lianchuangceyuan. In 2008, HaoDF received an investment of approximately $3 million,[[11]](#endnote-11) which was followed by $15 million in funding in November 2011. Several years later, in June 2015, $60 million was invested by Trust Bridge and China Renaissance Capital Investment. The latest round of funding HaoDF received was $200 million (in series D funding) from a venture capital group led by Tencent Holdings Limited. With this financial support, Wang launched various new services on the platform to meet the increasingly diverse needs of HaoDF’s users.

MAJOR BUSINESS Lines

In its early stages, HaoDF provided basic information for patients and their relatives about hospitals and doctors. Details included hospital addresses, hospital ratings by patients, doctor appointment schedules, and doctor ratings by patients.[[12]](#endnote-12) The primary objective of HaoDF’s business model was to reduce misinformation about physicians and to provide more reliable details for patients about the health care industry. Initially, HaoDF could provide only the most basic services. Doctors could conduct some consultations over the telephone or online, but any diagnosis or treatment advice was not available through the platform. Nevertheless, HaoDF’s online appointment and referral services helped it gain a competitive advantage.

Appointment Schedules and Access to Knowledge Base

The platform displayed each physician’s detailed areas of expertise and appointment schedules. Information from major hospitals was updated each evening, so patients would have doctor availability details for the next day. HaoDF was therefore considered a highly informative and timely appointment information portal by its users. However, misleading or inaccurate medical and health care information was prevalent throughout China, which could have a negative impact on patients and doctors.[[13]](#endnote-13)

It was generally accepted that prevention was a much better approach than treatment after the fact.[[14]](#endnote-14) However, little information was available to Chinese patients about disease prevention or treatment, which was mainly due to lacking government resources for public health education.[[15]](#endnote-15) HaoDF worked to remedy this gap by providing patients with disease prevention and treatment resources in written, audio, and video formats. The materials were created by medical experts and provided patients with comprehensive and reliable information about a variety of ailments and methods for their prevention.

Recommendations and Reviews of Doctors

HaoDF was the first outlet in China to provide information from patients about their experiences with doctors in the form of reviews, ratings, and recommendations. After being treated by a doctor in HaoDF’s online health care system, patients could submit a detailed description of the service they received from the doctor, a review of their experience, and a letter of recommendation for the benefit of other patients.[[16]](#endnote-16) Patients were urged to consider the expertise and reputation of the doctors and their affiliated hospitals when preparing their recommendation of doctors, for the benefit of other patients and their relatives. Users could then read the patients’ remarks and letters of recommendation to make more accurate and informed decisions before scheduling appointments with doctors.

Online and Telephone Consultation

In 2009, HaoDF launched an online and telephone consultation service for patients from registered doctors. Patients and their relatives could consult a certified doctor to receive online consultation regarding medical services and needs. Each patient could use this service free of charge three times, after which they would be charged a fee for each subsequent online consultation. The revenue from patients’ fees was received by HaoDF and shared with the appropriate doctor.

The telephone consultation service enabled patients to communicate with doctors via telephone. The cost for this service varied depending on the doctor’s expertise, but prices ranged from approximately ¥50–¥500 per call. Each consultation call could range 5–15 minutes in duration and the generated revenue was shared between HaoDF and the appropriate doctor.

Online Referral and Appointments

Traditional hospitals normally assigned patients to doctors according to waiting time, on a first-come first-served basis. This meant that patients suffering from relatively common ailments could be placed ahead of others suffering from more serious afflictions. This system could be ineffective and wasteful for some specialist health care providers in treating patients with minor issues, while not allowing enough time to treat other patients with complicated problems.[[17]](#endnote-17)

In response, HaoDF established a new online referral system intended to provide health care services from medical experts to patients according to the severity of their illness. The system also allowed appointments with doctors to be scheduled and confirmed using a smart phone, which was among the first of such services in China.[[18]](#endnote-18) Health care experts interested in treating patients suffering from complicated ailments could use this function on the HaoDF platform to contact patients.

Basically, patients in need of a specialist’s care would submit all information and materials related to their condition to seek a referral or an appointment with the appropriate specialist. A team of medical professionals would assess the patient’s information and submitted materials. The HaoDF team would then submit a request for service to the appropriate specialist, who would make a final decision on whether to accept the referral request and schedule an appointment with the patient. The service provided first priority to the most serious cases.

The medical experts who took part in this service did so outside of their responsibilities at their hospitals or clinics, so regular appointment schedules were not disturbed. Neither physicians nor patients exchanged payment for this service.

Remote Diagnosis and Surgery

After the launch of the HaoDF Internet-based hospital, physicians who were registered on the HaoDF platform could apply for certification to provide online diagnosis and treatment advice. HaoDF collaborated with traditional clinics and community hospitals to provide diagnosis by medical experts over the Internet. The service took the form of a video call, with the aid of local physicians. Highly skilled medical experts who worked in Shanghai or Beijing were able to diagnose and write prescriptions for patients in distant locations after an online consultation and assessment of medical reports provided by the patient. Local doctors would then assist the patients in obtaining medical treatment and prescribed medicine. In addition, HaoDF provided expert technical staff to help doctors become familiar with the technology.

Patients whose conditions were serious and required surgery could schedule an appointment with the appropriate surgeon online. The platform could also arrange for the surgeon to travel to the patient’s location for the surgery, if the patient could not be transported to the surgeon’s location.

COMPETITORS

According to one study, China’s mobile health (M-Health) care market was valued at ¥2.21 billion in 2013, representing an increase of 18.8 per cent over the previous year (see Exhibit 1). It was projected to exceed growth of ¥10 billion over the next several years, to reach ¥19.05 billion by the end of 2018.[[19]](#endnote-19) Consequently, China’s M-Health applications market was becoming crowded with start-ups and investors.[[20]](#endnote-20) Various health care mobile applications (apps) were being developed to provide services to address the needs of patients.[[21]](#endnote-21) In recent years, major companies, small developers, and hospitals had all developed a variety of mobile apps to make health care services more accessible and to help reduce the costs of medical treatment.[[22]](#endnote-22)

Among the thousands of mobile apps to reach the market, We Doctor, Chunyu Yisheng, and Dingxiang Doctor were most popular in China.These mobile apps covered booking appointments with doctors, health care consultation, disease management, self-diagnosis, and medical knowledge sharing.[[23]](#endnote-23) The services mobile apps provided were largely similar, so competition was becoming fierce.[[24]](#endnote-24)

However, providing solely consultation did not allow M-Health companies to achieve profitability because patients needed to visit a traditional health care organization to be diagnosed and receive treatment. Given the drawbacks of operating health care platforms that operated only online, more and more organizations moved to integrate physical health care organizations with Internet technology.[[25]](#endnote-25) The first Internet-based hospital launched in China was the Guangdong Province Internet Hospital, established in 2014. By integrating Guangdong Second Provincial General Hospital with offline clinics and pharmacies, the hospital enabled patients to receive medical services from well-known medical experts via remote video.[[26]](#endnote-26) By the end of 2016, China had more than 35 Internet-based hospitals.[[27]](#endnote-27)

Some large companies tried to improve the patient’s experience when visiting a doctor by collaborating with the government. China Information Technology, Inc. was a leading provider of integrated cloud-based platform, exchange, and big data solutions in China. On May 12, 2015, it announced a five-year strategic agreement with Sznews.com Co., Ltd, a subsidiary of Shenzhen Press Group Limited, to collaborate on the Internet + Smart City project. This project involved industries such as health care, education, and transportation.[[28]](#endnote-28) One month later, on June 24, 2015, China Information Technology, Inc. (CNIT) signed a strategic agreement with the Linyi municipal government of Shandong Province to implement the CNIT Internet + Smart Linyi project. Smart health care was an important part of that project, intended to resolve the problem of long wait times for patients. It would also provide full-service online health care services by connecting with hospital digital systems.[[29]](#endnote-29)

HOW TO GENERATE a PROFIT

Becoming profitable was a constant challenge for M-Health companies.[[30]](#endnote-30) Online diagnosis and treatment was seen as the top revenue-generating business. The next main source of revenue was e-commerce for pharmacies and pharmaceuticals.[[31]](#endnote-31) HaoDF relied on venture investment and subsidies to acquire new users, but its profit model was not entirely clear. Although reluctant to disclose detailed financial information, Wang, HaoDF’s founder, confirmed that the company’s online and telephone consultation services were its major revenue sources.

WeDoctor was founded by Tencent and earned ¥1.2 billion in revenue in 2016 from advertising and referring patients to doctors.[[32]](#endnote-32) However, Wang emphasized that HaoDF would not earn a profit by offering advertising services because it would compromise the neutrality of the platform and jeopardize the trust of its users. Wang also revealed that HaoDF’s appointment and referral services did not generate a profit because these services were free. Online medical information was also provided free to users. Therefore, HaoDF’s profits were mainly generated by sharing revenues from fees with doctors, who were paid for consultation services in cash or by digital “gifts” from patients that ranged from ¥5–¥200. HaoDF retained around 10 per cent of all fees charged to users. The rest was paid to doctors affiliated with the platform.

HaoDF Online also posted links to other websites on its official website. It attracted user flow by offering free trials for services, then directed some of this traffic to benefit its partners. For example, based on strategic co-operation between HaoDF and the Chinese Internet company Sohu, Inc. (Sohu), HaoDF featured a link to the health section of the Sohu website (health.sohu.com) in the footer of its website pages.

The development and popularization of online inquiries led to a new development stage for M-Health services, but online consultation had its limitations. Clear and efficient communication between doctors and patients was sometimes difficult to achieve, and some diagnosis and treatment could not be performed online alone. Relying on online consultations to generate profits was not a reliable business model for the M-Health industry.[[33]](#endnote-33) According to Wang, “In the future, HaoDF Online will explore offline business. Only by closely co-operating with offline medical organizations, or getting involved in the whole process of health care, could you create a higher value.”[[34]](#endnote-34)

INTERNET HOSPITAL

On April 6, 2016, HaoDF partnered with Yinchuan’s municipal government and formally signed a contract to jointly build the Yinchuan Smart Internet Hospital later that year, in December. Yinchuan hospitals, community health centres, and pharmacies worked with HaoDF to launch the new hospital. Yinchuan had a shortage of high-quality medical resources, being located in a remote area, so its collaboration with HaoDF enabled residents to access remote diagnosis and treatment.[[35]](#endnote-35) Conveniently, patients suffering from common ailments could be seen remotely, and follow-up consultations could be conducted over the Internet.

This was a big step for HaoDF, as it expanded its M-Health consultation service to both online diagnosis and traditional treatment. The uneven distribution of medical resources in China had led to patients crowding into well-known hospitals in big cities. Although the government had been trying to establish a hierarchical system for diagnosis and treatment among hospitals at different levels, collaboration among the various hospitals was difficult to achieve, mainly due to conflicting benefits. However, Internet-based hospitals were an ideal solution for hierarchical diagnosis and treatment, and patients from all locations could receive treatment from medical experts, based on the patient’s need.

THE FUTURE OF HAODF

The landscape of the Chinese and global online health care market was rapidly changing. HaoDF already occupied a large market share, but it still needed to address some complex issues. How would HaoDF convince more traditional medical organizations to collaborate with an Internet-based hospital? What was a sustainable profit model for an Internet-based health care company? What strategies would HaoDF need to develop to sustain its competitiveness?

EXHIBIT 1: market value of the Mobile HEALTH care MARKET IN CHINA (2011–2017)

|  |  |  |
| --- | --- | --- |
| **Year** | **Market Value (in ¥100 Million)** | **Market Growth Rate** |
| 2011 | 15.8 | 17.7 % |
| 2012 | 18.6 | 18.8 % |
| 2013 | 22.1 | 28.5 % |
| 2014 | 28.4 | 48.9 % |
| 2015 | 42.3 | 69.7 % |
| 2016 | 71.8 | 74.5 % |
| 2017 | 125.3 | 74.5 % |

Note: growth rate = (current year value − previous year value) ÷ previous year value × 100; ¥ = RMB = Chinese yuan renminbi; ¥1 = US$0.14 on March 19, 2017.

Source: “China’s M-Health Market Value from 2011 to 2017 (in 100 Million RMB),” Statista, accessed July 23, 2018, www.statista.com/statistics/328927/mobile-health-market-scale-in-china.

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