

The Next Big Opportunity

Is healthcare the next big opportunity in the online business in India?

By: Kapil Khandelwal

At the time of first dot.com bust, internet penetration was just 21 million active internet users in 2004. Having seen through that phase in my career, this time 'it's different'. This has grown over 10 times in a 10-year period to over 350 million active internet users in 2014. Moreover, there are over 500 million mobile internet users in India. From the size and scale point of view, India is world's second-largest growing online population in the world after Brazil. With 7 out of 10 expected to shop online and in spite of the promise of a very large market opportunity for online and an expectation that this would touch even USD 90 billion by 2020, there is skepticism amongst the investors that this party may not last long and that this bubble is going to burst out. On the other hand, there is speculation that healthcare could be the next big growth opportunity. Is this true?

The economics of online business in India

Let's look at basics of what is fueling and driving the internet/online business in India.

Users

There is expectation that the number of active internet users will reach over 400 million by 2015. There will



be over 500 million users who will be accessing internet through their smart phone. Both these populations are not mutually exclusive.

Mobile communication technology

3G services are now going to be on over 100 million users of smartphones. The speeds are sufficient to transact using smart mobile phones. We are still waiting for 4G to go national. However, my experience in Bangalore has been fantastic. This will further revolutionise the solutions and applications for the internet businesses (see chart).

Demographics

While over 825 million population will be in the age

group of less than 35 years old by 2015, this is a huge opportunity for the online internet business. However, this population has very little acuity from the healthcare point of view and will potentially be consuming wellness solutions if packaged and presented online!

Market potential

The Indian online business is less than 0.5 per cent of the USD 1 trillion Indian retail sector. The wellness sector which is worth Rs. 40,000 crores has only 0.01 per cent of the business being transacted online.

Product design and development talent

Indian manpower and product development talent

2004-2007:

eBay acquired Baazee.com and entered the fledgling India market
Flipkart and Myntra were started around the same time

2010:

Flipkart pioneered the Cash on Delivery (CoD) model, increasing e-commerce reach dramatically

Myntra expanded its catalogue to retail fashion and lifestyle products

Flipkart acquired WeRead (a social book discovery tool)

SnapDeal acquired Grabbon.com (a group buying site)

2011:

Flipkart acquired Mime360 (a digital platform company)

Flipkart acquired Chakpak.com (a Bollywood news site that offered updates, news, photos and videos)

2012:

Flipkart acquired Letsbuy.com (that specialized in electronics) for an estimated \$25 million cash & stock transaction, rumoured to be facilitated by the common investors Tiger Global and Accel Partners

Flipkart launched Flyte Digital Music Store, which was later shut down in 2013 due to lack of expected traction

Fashionandyou acquired Urban Touch for an estimated \$30 million cash & stock transaction in a bid to consolidate

Indian Postal Service undertook a major IT project to modernize its operations and be a preferred partner for e-commerce players to reach the widest number of PIN codes across India

Rocket Internet backed Jabong started operations in 2012

Myntra acquired the Sher Singh private label created by Exclusively.in.

SherSingh specialized in sports inspired lifestyle apparel while

Exclusively.in specialized in ethnic wear

Junglee was launched by Amazon.in as a price aggregator and comparison tool. This marked Amazon's low cost baby steps in the Indian market, especially at a time when the FDI regulations were in a state of flux

2013:

Myntra acquired San Francisco based Fitiqette (virtual fitting room) in an undisclosed cash & stock deal, to solve the online fit/size problem of fashion retailing

Myntra piloted a one hour delivery system in Delhi & Bangalore for delivery addresses located within a 5 kilometer radius of their warehouse by process innovation and reducing lag time

Amazon, which does not provide Cash on Delivery facility in another country across the world, started providing Cash on Delivery option in India to keep up with the market norm

Flipkart launched its own payment gateway to third party customers under the brand name PayZippy

Jabong launched its third party logistics firm JaVAS and later sold it off to Gurgaon based QuickDel Logistics

2014:

Flipkart acquired Myntra for an undisclosed sum and shortly thereafter revealed that they raised an additional \$210 million led by DST Global. This was followed by Flipkart raising another \$1 billion at an enormous valuation of \$7 billion

Flipkart's logistics arm eKart was thrown open to third party retailers

Flipkart given a notice by the Enforcement Directorate for potential violation of the FEMA norms while accepting FDI. Potential penalty is INR 1400 crore

Myntra launched their private label Roadster with mega budget campaigns that were hitherto run only for branded goods

SnapDeal acquired Doozon, a product discovery platform that enabled personalized way of listing and recommending merchandise

Amazon tied up with BPCL in Mumbai and Delhi & local grocery stores allowing customers to pick up their packages from the retail chain In&Out run by BPCL at select filling stations, and quietly expands to all categories that major retailers are present, and stocks 15 million products, 5 million more than Flipkart

Amazon tied up with Narayana Murthy through his private investment firm Catamaran Ventures, aiming to bring offline small sellers and SMBs online and take advantage of the fast growing online customer base in India
Amazon announces plans to invest \$2 billion in building out the Indian operations

Snapdeal and Flipkart expand their categories to include adult toys, sexual wellness etc.

is now rated as one of the finest in product design and competes with some of the best product design and development talent in the world.

Indian internet/online business - the bubble in the making?

Given the recent spate of funding deals in the space, investor and analysts alike are viewing the valuations as unrealistic to sustain. While the growth in the internet business is for real, then why is there an eerie feeling amongst the investors and the analysts of a bubble like situation?

Is the business model proven yet?

While a lot of money has chased a lot many business models in the Indian market, the jury is yet out there as to which one is going to be the leader and which ones are going to fall out. A lot of speculation around the successes and failures of these business models is creating doubts.

Me-toos crowding the market

With the investor frenzy not to be left behind in the e-commerce and online business bandwagon, many me-toos have sprung up with not much differentiation. These me-toos have created unhealthy competition and affected the margins for other players.

Where is the exit?

While a lot of money have been invested into the ventures in this space, there is yet any significant exit to be witnessed

in this space for the investors. On the other hand, the ventures require additional rounds of funding to sustain themselves.

It is a lot easier than the last time to establish online business

Unlike the last dot.com bubble, the environment has been much easier for establishing the business in this space. As a result, the quantum of investment required to set up various solutions and go live has been minimised (payment platforms like CCAvenue, Citrus can be set up in no time).

Over zealous differentiation or niche in online business

Over the last year or so, there have been niche verticals like stationery, gifts, etc. that have sprung up. These are essentially address the same target segment and not really differentiating their products or their service

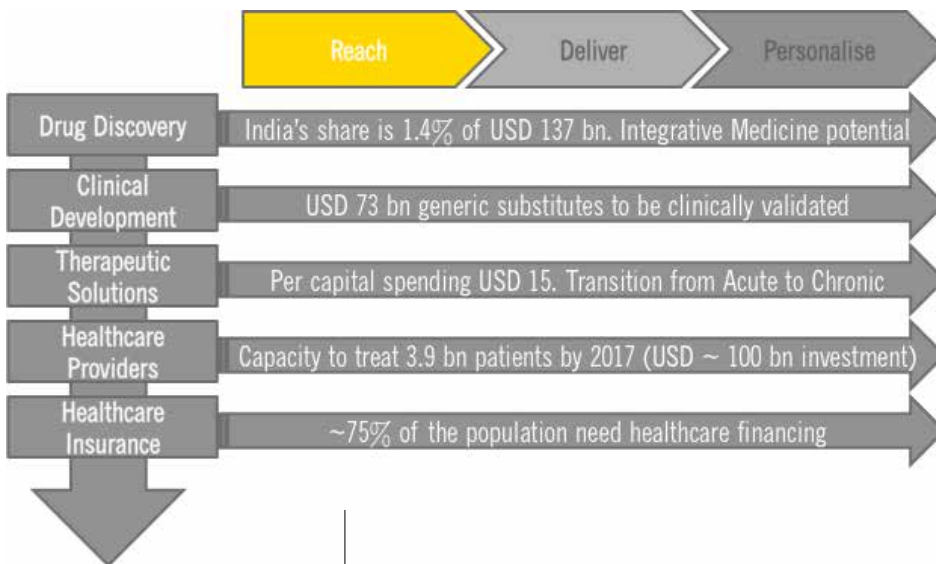
Operations bottleneck to connect the last mile

To be successful in this business, the companies need to invest into their logistics and operations to be able to efficiently deliver to their customers. A large part of the money raised by the ventures in this space has been invested into creating this infrastructure. This will now lead to scaling the business which is now assumed into the future valuations of the business.

Why healthcare?

As the online/internet business matures in India, there is an increasing drive towards

Defining the opportunity (2011-2015)



verticalisation. Healthcare is one of them. The reasons are pretty obvious (see box). Healthcare provides opportunity to fulfill the demand and supply gaps that exists across all the sub-sectors and the increasing need to deliver and personalise the services for a large majority of the

consumers. Moreover, the amount of research and the big-data (see the earlier column - Is Big Data Big Business in Healthcare in India?) generated everyday, healthcare is expected to generate 25 per cent of the data by 2015. Hence, it is virtually impossible for human clinicians to track these

developments and be abreast of the developments. Many machine learning technologies being developed and tested in healthcare settings that will enable problem solving and assisting the clinicians deliver personalised care to the consumer online. Some of the key drivers for online business are as under:

Transparency and knowledge

Newer machine learning technologies and the internet make it as easy to deliver this information in impactful ways to consumers as it is to deliver any other form of content.

Time and costs

Like the retail and other verticals that have gone online, the time and money to access healthcare in large cities is increasingly an issue. Online business enables this in the privacy of their homes at their own time and convenience without having to travel long distances for a consult.

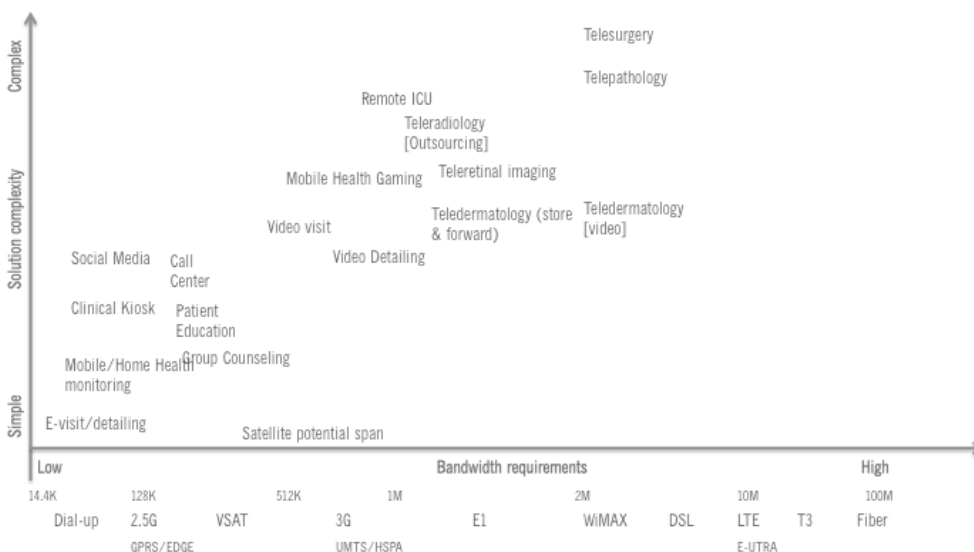
Consumer demand

A massive shift in popular thinking about healthcare is underway that will generate the bottoms up consumer-driven demand for healthcare. Outpatient consults are growing @18-22 per cent pa in large corporate hospitals and centers of excellence. Consumers in India will start demanding services that can cater to them in a personalised manner.

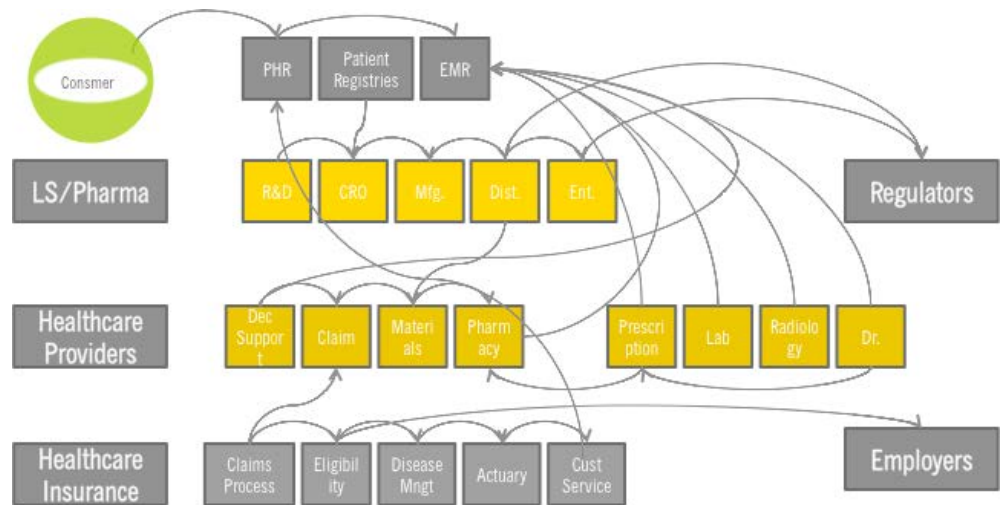
Technology

Technology innovation, which is a top down process by the smartest among us, is creating the tools that will

What to use to increase reach



Information maize



deliver what consumers want. It is offering ways to measure outcomes, improve quality, make diagnosis less expensive and personalise therapeutic approaches to increase the likelihood of success. The diagram here shows the possibility of various online healthcare service delivery as bandwidth speeds increase

and improve the quality of customer interaction. With 4G services roll out, these services can be delivered using smart phones (see earlier column - iDiagnostics: The Power of Diagnostics in Your iPhone).

Key opportunities in online healthcare business – the 4Es

The information and transaction flows in healthcare are not only B2C, but B2B2C and B2B (see box). A large focus of many of the current ventures in this space in India is trying to address the larger issue of collaboration in healthcare. The value proposition and key differentiators that new ventures can address can be classified into four key areas:

Enhance

These are services that enhance and push content into the consumers, clinicians and various stakeholders. These also include tools that enable the social media networking.

Engage

These are platforms that are used by healthcare providers, payers and employers to communicate and create a dynamic interaction with their community of patients, members and professional affiliates and deliver healthcare opinion, consults, diagnosis, etc.



Educate

There are several platforms where user generated content and shared learning supports improved healthcare. There are also B2B services where continuing medical education, courseware and online training and content can be delivered on demand to the clinicians and professionals.

Enable

Enabling consumers to take a lead role in finding, sorting and acting on health information for the benefit of the key stakeholders consuming and delivering healthcare services.

Key legal and ethical issues

There is still cloud over the information, privacy of the consumer and who owns the information. Unlike retail and other verticals such as travel and financial services, there is risk of lives in online healthcare delivery of goods and services, which makes it difficult to implement the services in a vanilla manner without understanding the risks and other ethical issues around marketing, selling and delivering services online. Hence, regulations in India are yet to mature and protect the consumer. Some of the key

areas to be addressed here are:

Accuracy and accessibility of information

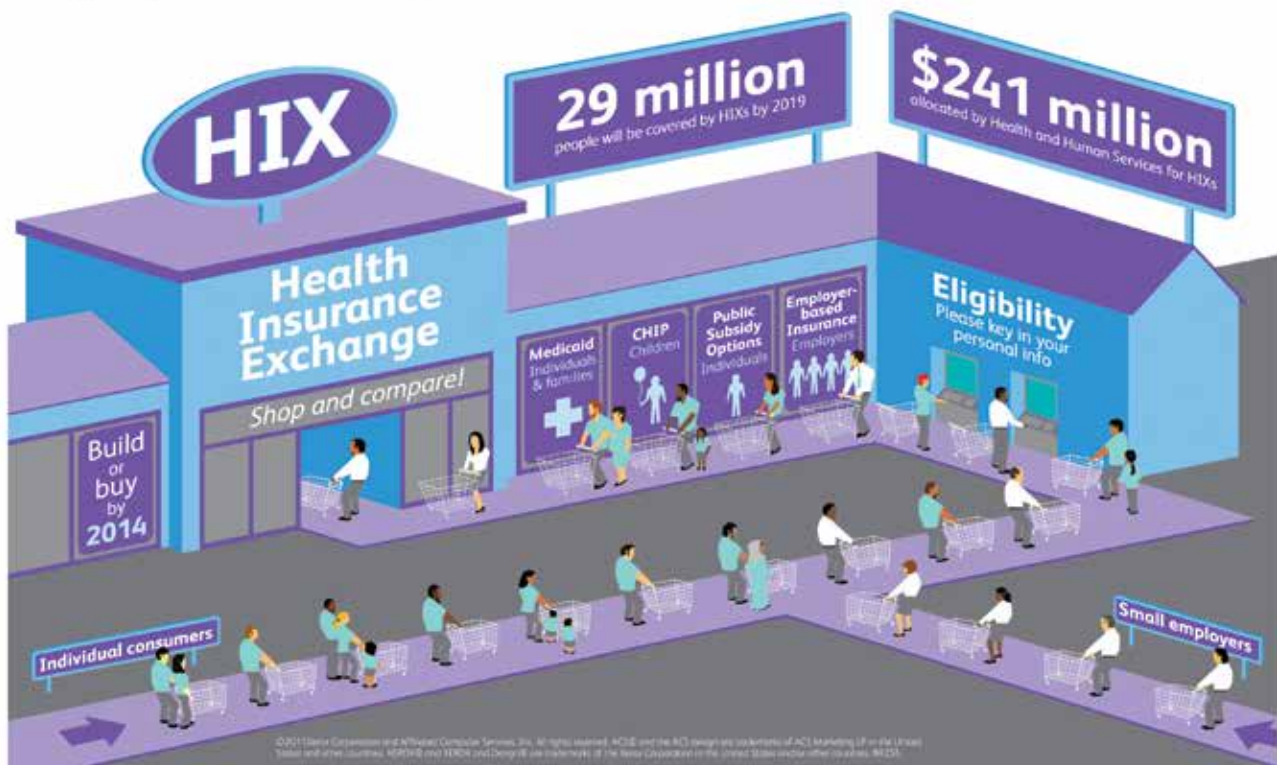
As healthcare services are attached with risk of lives, all information relating to diagnosis, should be clear, accurate, and easily accessible online and available for follow up and any legal action due to negligence or malpractice. Currently, there are no insurance or protection available both for consumer protection and the service delivery professionals and hence information trails for every service delivery transaction is required for

America's One-Stop Shop for Healthcare



When Health Insurance Exchanges (HIXs) go into operation on Jan. 1, 2014, participants will:

- Enter personal information into a Web portal
- Learn their eligibility status for programs like Medicaid, CHIP, public subsidy options or employer-based insurance
- Shop, compare and choose a benefits plan that is best for them





About the author

Kapil Khandelwal has earned recognition as an angel investor, venture capitalist and expert in health sciences, education, and information communications and technology (ICT). In his 25 years of his career, he has carried out over 30 transactions including cross-border and buyouts. He runs an early stage investment fund and his own investment banking and advisory services company EquNev Capital Private Limited. Contact at: kapil@kapilkhandelwal.com



legal recourse and protection.

Marketing practices

There have been enough spams from various merchants in your e-mail junk about erectile dysfunction, beauty and cosmetic and various other miracle cure making various representation or material omission or engage in any practice that is deceptive, misleading or fraudulent. These marketing practices are very dangerous and affect the overall sector of healthcare service delivery online. There are no such checks and

balances in place in India to ensure good or service or the healthcare service provider to be relied on by consumers engaging in transactions, where the healthcare service provider have taken reasonable steps to ensure that such information is current, accurate, and not deceptive or misleading to consumers and that the truthfulness of objective claims are substantiated.

Representations and warranties

There are issues around the

scope, duration, and means of exercising rights made available and applicable warranties or limited warranties that the healthcare service provider is offering regarding the products or services sold or made available to consumers.

Privacy and confidentiality

The industry is yet to define privacy policies that are consistent with existing industry standards and existing legal requirements. At a minimum, such policies would provide for notice to a consumer as to what type of information is to be collected and how it will be disseminated.

Healthcare service providers should provide consumers with reasonable access to the records of the individual consumer's diagnosis with the service provider upon request.

Summing up

While there is tremendous opportunity in India in scaling healthcare service delivery online from the current retail product delivery such as nutraceuticals, spectacles and lenses, online consultations and appointments, to engage the consumer in various aspects of their healthcare and well being requirements online, there are many legal and technological solutions that need to be ramped up for ensuring that the consumer does not get harmed in the process.

The jury is out there whether there is a real bubble in the making for the online business in India or just larger investments fueling growth of the online business in India! **HBI**

