

A Work Project, presented as part of the requirements for the Award of a Master's degree in  
Management from the Nova School of Business and Economics.

PIONEERING VIRTUAL CARE: AN ANALYSIS OF TELADOC'S BUSINESS  
STRATEGY

MERGING VIRTUAL CARE: A STRATEGIC ASSESSMENT OF THE  
TELADOC-LIVONGO MERGER

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Work project carried out under the supervision of:

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20/12/2023

**Abstract:** Pioneering Virtual Care: An Analysis of Teladoc's Business Strategy

This case study provides an informative overview of Teladoc's business strategy by contextualizing the evolution of the US telemedicine industry and looking at Teladoc's key milestones, competitors, business model, financial performance, and response to the COVID-19 pandemic. The case allows students to analyze the telemedicine market and grasp an in-depth understanding of Teladoc's business model. Special emphasis is raised on Teladoc's competitive advantages, how to sustain them, and the company's future strategic direction. Hence, the case study strengthens students' strategic analysis and decision-making skills, providing them with the right skill set to make informed strategic decisions in complex business environments.

Keywords: Telemedicine, Virtual Healthcare, Healthcare Technology, Trends in the Healthcare Industry, Business Model, Business Strategy, Strategic Positioning, Value Creation, Sustainable Competitive Advantage, Pandemic Response

**Abstract:** Merging Virtual Care: A Strategic Assessment of the Teladoc-Livongo Merger

This paper analyzes strategically the 2020 merger between Teladoc Health, Inc., a virtual healthcare company, and Livongo Health, Inc., a chronic condition management firm. Valued at \$18.5 billion, the merger aimed to create a global leader in whole-person care. Utilizing strategic frameworks like Porter's Five Forces and VRIO Analysis, the study examines the merger's market environment, synergies, financial implications, and integration risks. Despite significant revenue growth, the merger encountered integration difficulties, cultural mismatches, and financial strains. This analysis provides an overview of the merger's strategic

objectives, examining their attainability, and setting them within the broader landscape of the telemedicine industry.

**Keywords:** Corporate Strategy, Telemedicine, Sustainable Competitive Advantage, Strategic Healthcare Merger, Virtual Care Synergies, Merger Impact Assessment

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

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## **1. Introduction**

### **1.1 Setting**

Jason Gorevic, CEO since 2009 of Teladoc Health, Inc. (Teladoc), noted: “Healthcare is not a destination you go to a few times a year. In order to really affect someone's healthcare; you have to be there on their terms, in the palm of their hands, every minute of every day.” This statement reflected the company's direction and achievements up to 2022, a year in which Teladoc marked a significant milestone of 50 million virtual visits, thereby integrating healthcare into the daily lives of millions. However, the journey was not without its challenges. As the annual report on Gorevic’s desk said, “Teladoc Health delivered strong performance in 2022, despite a challenging operating environment with a series of macroeconomic headwinds” (Teladoc Health, Inc. 2023). As the digital healthcare landscape became ever more competitive, a doubt loomed on the horizon: Could Teladoc continue to lead and redefine what healthcare looked like in the modern age?

### **1.2 High-level Definition of Telemedicine**

The World Health Organization (WHO) defined telemedicine as “The delivery of health care services, where distance is a critical factor, by all health care professionals using information and communication technologies for the exchange of valid information for diagnosis, treatment, and prevention of disease and injuries, research and evaluation, and for the continuing education of health care providers, all in the interests of advancing the health of individuals and their communities” (PAHO & WHO 2016). As of 2022, the US telemedicine market was poised to grow substantially, a trend attributed mainly to technological advancements, the necessity for cost-effective care, and the pandemic's impact on virtual healthcare adoption. This led to a significant share of patient appreciation for telemedicine's ease of access and impact on care quality (Faizullabhoy and Wani 2022, Statista, Statista n.d.).

### **1.3 Teladoc Health, Inc.**

Teladoc, founded in 2002, is a telemedicine company that provided virtual healthcare services through telemedicine technology. The services included chronic condition management, dermatology, remote patient monitoring, medication prescriptions, wellness support services, on-demand medical special consultations, and mental health consultations (Appendix 1) (Teladoc Health, Inc. n.d.). The company emerged as the first and largest telemedicine company in the US, holding a market share of 13% in 2021 (Khaveen Investments 2021). Embracing the mission that “everyone should have access to the best healthcare, anywhere in the world on their terms”, Teladoc's operational model was centered around providing accessible healthcare through telemedicine services (Teladoc, About 2023).

Historically, the company's virtual care services were often used as a preliminary step in healthcare processes. Teladoc has expanded and refined its offering, moving from a stand-alone solution to a comprehensive whole-person care approach (Appendix 2). Since 2022, Teladoc operated two primary business segments. The first, Integrated Care, offered a spectrum of virtual medical services globally. This segment included general and expert medical services, specialized medical services, chronic condition management, mental health services, and enterprise telemedicine solutions for hospitals and health systems. The distribution of these services was mainly through business-to-business (B2B) channels. The second segment, BetterHelp, was a leading direct-to-consumer (D2C) mental health platform that offered online counseling and therapy services via the Internet, mobile apps, telephone and text-based interactions. BetterHelp leveraged a network of over 30,000 licensed clinicians and generated over \$1 billion in revenue in 2022 (Lovett 2023).

The company targeted a wide range of customers, including employers, health insurers, hospitals, and individual members, offering convenient, affordable, and high-quality healthcare

solutions. According to the company, these solutions aimed to generate significant savings and attractive returns on investment for its customers.

Teladoc's growth strategy focused on expanding its membership base by better market penetration with existing customers. Strategic acquisitions enabled cross-selling opportunities to be exploited through the overlapping customer base that could be used by all services. This also reduced direct customer acquisition costs and created cost and negotiation synergies through economies of scale. The company actively invested in and acquired new products, capabilities, clinical specialties, technologies, and businesses to improve the scope and quality of services. Significant acquisitions such as Advance Medical, Best Doctors, Livongo, BetterHelp, InTouch Health, HealthiestYou and MédecinDirect have expanded the company's distribution capabilities and market leadership (Teladoc Health, Inc. 2023).

Financially, Teladoc has raised significant funds to support its operations and growth. Prior to its IPO, the company raised \$254.8 million in seven rounds of funding and a further \$156.8 million at its IPO in 2015, for a total of \$411.6 million. Teladoc has a strong financial foundation with over \$900 million in cash and a positive cash flow. Despite the overall financial challenges, the company has not yet reached profitability (Owler 2023, Pai 2015).

By 2022, Teladoc reported having over 5,500 employees, 56 million paying members in the US, and approximately 12,000 corporate customers (Teladoc, About 2023). The company reached over 80 million people, resulting in 21 million visits in the US and generated revenue of \$2.4 billion, marking an 18% increase from the previous year. This growth was predominantly attributed to the performance of Teladoc's mental health division, BetterHelp, which contributed 42% of total revenues and grew by 41% growth from 2021 to 2022 (Appendix 3) (Burky 2023, Teladoc Health, Inc. 2023).

## **2. The Telemedicine Industry in the US**

### **2.1 Evolution of the American Telemedicine Market**

Modern telemedicine has its origin in the early 1900s, when Willem Einthoven, the inventor of the electrocardiography (ECG) technology, investigated the transmission of electrocardiography via telephone lines (Blackburn 1957). Since these early approaches of transmitting healthcare data, it took more than six decades until the National Aeronautics and Space Administration (NASA) published new developments in the field of telemedicine. In the 1970s, NASA and the Indian Health Services launched the project Space Technology Applied to Rural Papago Advanced Health Care (STARPAHC) with the goal of providing medical care to remote populations via telecommunication and developing technology that was able to transmit physiologic data from astronauts in space to doctors on earth, making health monitoring in real-life possible (Bashshur 1977). This set the path for telemedicine as we know it today. During the 1980s, telemedicine initiatives continued to develop, especially in rural areas and for underserved communities, but an effective use was still out of question due to the missing technological infrastructure.

The 1990s described a pivotal turning point for the advancement of telemedicine. With the groundbreaking invention of the internet, new and broader telemedicine applications and services were within reach. These applications and services materialized in the early 2000s when new companies like Teladoc, American Well (Amwell), and MDLive (now Cigna Evernorth) entered the market and played a crucial role in pioneering telemedicine services (PAHO & WHO 2016). During this period, telemedicine offerings included basic remote healthcare services, namely, remote consultations, diagnosis and treatment, and prescription refills. The growing technological advancements in internet connectivity as well as hardware products – in the form of smartphones – not only led to increased access to telemedicine services but also initiated changes in the regulatory environment. These changes included new

telemedicine parity laws, requiring insurance companies to cover telemedicine services equally to in-person visits (Yang 2016). With the increased technological possibilities, changing regulatory and reimbursement policies as well as growing competition within the telemedicine market, the service offerings significantly broadened throughout the early 2000s and 2010s. Previously only covering basic remote healthcare services, telemedicine companies transformed into whole-person care providers offering a wide range of medical services from dermatology, over remote patient monitoring and chronic disease management to mental health therapy (U.S. Department of Health and Human Services 2023). Throughout the years the quality of internet access and digital infrastructure across the US, as well as technologies to ensure the privacy and security of patient data during telemedicine consultations, positively influenced the reliability and quality of telemedicine (PAHO & WHO 2016). Paired with growing innovations in related technologies, e.g. mobile devices, or AI diagnostics, the telemedicine industry was well-positioned to provide digital healthcare solutions with the beginning of COVID-19 in 2020.

## **2.2 Market Overview**

The US telemedicine market, estimated at a size of \$35.45 billion in 2022, was expected to grow at a CAGR of 12.5% from 2023 to 2032 while the average growth rate between 2017 and 2022 was 35.2% (IBISWorld - industry market research n.d., Faizullahoy and Wani 2022). Overall, the telemedicine industry is carried by investors as profit margins have been negative and fluctuating over the past 5 years, indicating no clear trend toward positive profit margins (Appendix 4, Appendix 5). There has also been some market volatility attributable to the nascent nature of the industry and COVID-19 which could be seen through average yearly revenue changes in the past 5 years (Appendix 6). But the telemedicine market was fragmented as the market leader Teladoc captured 13% while main competitors Doctors on Demand (now

Included Health), Amwell, and Cigna Evernorth had 3.2%, 3.0%, and 1.5%, respectively (Appendix 7).

The expansion of the market was driven by technological advancements, the pressure for cost-effective healthcare, a higher prevalence of chronic disease due to the aging US population, and shifting consumer trends. The US population was increasingly health-conscious, convenient, and familiar with digital connectivity, social health trends which promoted telemedicine (PAHO & WHO 2016, McKinsey & Company 2022). However, the catalyst for the widespread adoption and growth of telemedicine in society was COVID-19 in 2020 (Shaver 2022). Physician adoption increased significantly as 65% indicated never having used telemedicine prior to pandemic while this fell to only 3% in 2022 (Optum 2022, 4). 91% of US hospitals have adopted telemedicine in 2022 and the remaining 9% plan to implement telemedicine services within the next three years. Moreover, 75% of physicians provided virtual primary care visits which presented the most provided telemedicine service in the US in 2021 (Panda Health 2022, UnitedHealth Group 2022). The adoption rate among US adults increased for all telemedicine channels while the telemedicine utilization rate was stable at a 38 times higher level than before the pandemic (Appendix 8). This was mainly enabled by three factors: an increased consumer willingness to use telemedicine, an increased provider willingness to use telemedicine, and regulatory changes that facilitated greater access to telemedicine and enabled its reimbursement (Appendix 9). For instance, many states mandated payment parity or several health plans waived consumer cost sharing (McKinsey & Company 2021, Esteban 2020, Ellimoottil 2021). Since telemedicine involved the sharing of personal and sensitive data, there had been strict US, state, and local regulations in place to protect consumers. These regulations had been subject to frequent change and since the outbreak of COVID, state and federal regulations were reduced (Teladoc Health, Inc. 2023). The benefits of telemedicine were widely recognized by patients, with 85.52% reporting ease in accessing care, 62.58% an alleviation of

concerns associated with in-person doctor visits, and 51.64% an increase in the frequency of seeing their doctors in 2021 (Stewart 2021).

Despite these growth drivers, the market faced challenges. Besides its volatile and nascent nature, the remaining complexities of regulatory compliance in the US, the technological adaptation of the elderly, presenting the largest consumer group of healthcare services but were not educated on proper use, or consumer security concerns, demonstrated barriers (Faizullabhoj and Wani 2022, Teladoc Health, Inc. 2023, Health Resources & Services Administration 2023).

### 2.3 The Telemedicine Ecosystem

The key stakeholders within the telemedicine ecosystem could be segmented into patients, payers, and providers with each stakeholder playing a role in the functioning and success of the industry.

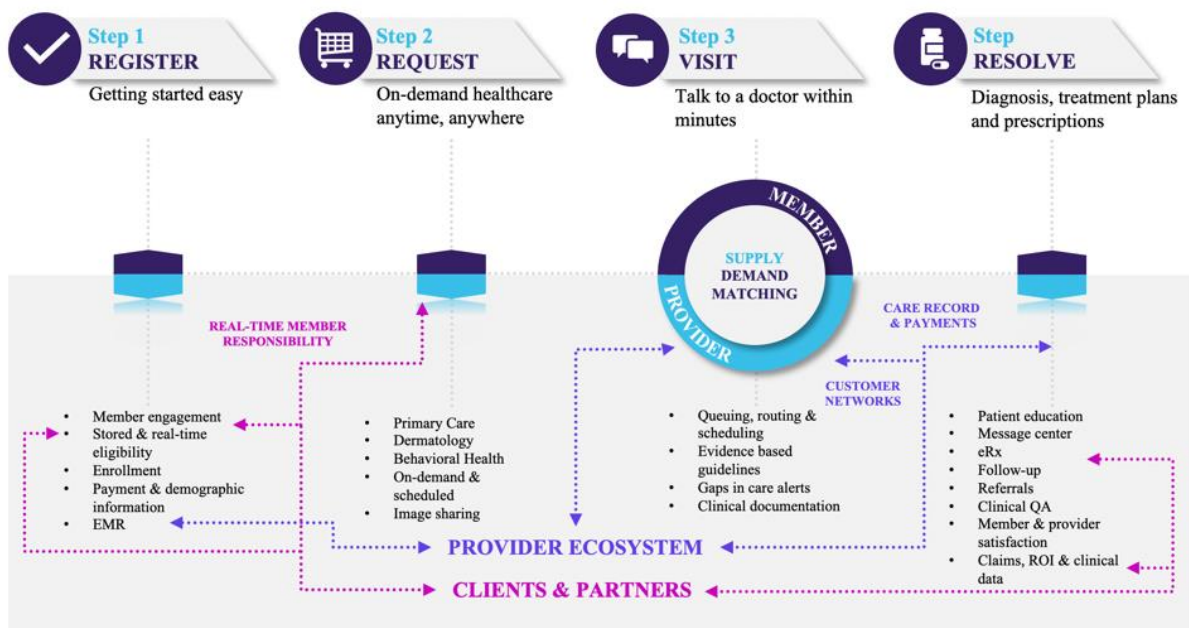


Figure 1 - Interdependencies between Players in the Telemedicine Market

Patients were the primary beneficiaries of telemedicine. They sought remote healthcare services with a high quality of care and timely medical consultations. As providers, telemedicine companies were responsible for facilitating the delivery of telemedicine services, this included providing the necessary software as well as the technological infrastructure to connect patients

with healthcare providers. Additionally, telemedicine providers were responsible for securing enough healthcare providers<sup>1</sup> to deliver treatment plans, conduct consultations, give medical advice, and establish diagnoses for patients. Key provider players included telemedicine firms like Teladoc, Amwell, and Included Health; blue chip companies like Walmart Health Virtual Care, or Amazon Clinic; niche-focused startups like Talkspace, or Cerebral; and industry players offering their own virtual care package such as the Health Care Service Corporation (Grand View Research 2022, Teladoc Health, Inc. 2023, HCSC 2022). In 2022, the largest US telemedicine companies based on revenue were Teladoc (\$2.4 billion), GoodRx (\$766.6 million), Included Health (approximate \$294 million)<sup>2</sup>, and Amwell (\$277 million) (Teladoc Health, Inc. 2023, GoodRx Holdings, Inc. 2023, American Well Corporation 2023). Payers included insurance companies, health plans, and employers that offered telemedicine solutions as part of their insurance packages and employee benefit packages. Hence, these companies paid telemedicine companies for the medical consultations used by their members and represent a crucial customer group. The prices paid by insurance companies, health plans, and employers were negotiated individually and differed in price and fraction paid of the total sum per visit (Schulman, Jain and Plessis 2021).

Besides the described key stakeholders above additional stakeholder included regulatory agencies, healthcare facilities, and hospitals as well as technology companies. The US regulatory agencies, on a federal as well as regional level, played an important role for all stakeholders because they shaped the regulatory landscape of the US telemedicine market. Healthcare facilities and hospitals were also seen as relevant stakeholders due to their ability to integrate their telemedicine services or partner with existing telemedicine companies. Last but

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<sup>1</sup> Healthcare providers are defined as physicians, physician assistants, advanced practice registered nurses, nurses, and mental health professionals who provide professional medical or mental health services to a patient via telemedicine and hold a valid license to practice medicine or provide mental health treatment in the state in which the patient is located.

<sup>2</sup> Privately held company without public revenue information

not least, technology companies like Amazon and Microsoft developed into additional stakeholders in the telemedicine market not only as competitors but also through collaborations with telemedicine companies. Examples were Amazon introducing Teladoc's healthcare services to Alexa and Microsoft partnering with Teladoc to introduce telemedicine solutions on Microsoft Teams.

### **3. Teladoc: The Pioneer**

#### **3.1 Teladoc's Early History**

Teladoc, co-founded in 2002 by G. Byron Brooks MD and Michael Gorton in Dallas, Texas, quickly established itself as a pioneer in the field of telemedicine in the US and expanded nationwide in 2005 (Goodman 2016). By the end of 2007, Teladoc had over 1 million members. Jason Gorevic became CEO in 2009 and focused on growth and innovation. He once said, "My first step was to grow the company, (...) and growth continues to drive me forward." (Teladoc Health, Inc. n.d.). Partnerships with major insurers, such as Aetna in 2011, and acquisitions, including Consult A Doctor in 2013 for \$16.6 million and AmeriDoc in 2014 for \$17.2 million, strengthened Teladoc's market presence under Gorevic (Goodman 2016, Dolan 2015, Wieczner 2014). The Patient Protection and Affordable Care Act (PPACA) further fueled growth in 2014 and led to collaborations with insurance giants like Blue Shield of California, emerging companies like Oscar, and corporate clients such as Home Depot and T-Mobile. Financially, Teladoc raised \$100 million over several funding rounds between 2009 and 2014 (Wieczner 2014). For a broad milestone overview, please refer to Appendix 10.

#### **3.2 Teladoc's Business Model**

Teladoc used different business models for different segments and generated revenues via three revenue models: Access fees, visitation fees, and sales of hardware products. Nevertheless, it was important to highlight that access fees were the primary revenue source, responsible for 87% of total revenue in 2022 (Teladoc Health, Inc. 2023). The three key brands operated under

Teladoc Health, Inc. were namely Teladoc, Livongo, and BetterHelp. Teladoc and Livongo were part of the Integrated Care segment, while BetterHelp operated as an independent brand with a different business model.

Teladoc combined two business models under its roof. On the one side, its B2B model with the Integrated Care segment which was responsible for 58% of revenue, and on the other side, its D2C model, led by BetterHelp, which accounted for 42% of revenue. Teladoc's Integrated Care segment addressed mainly business clients. This B2B model, targeted employers, health plans, hospitals, health systems, insurance and financial service companies, and pharma benefits managers that either paid Teladoc on behalf of their beneficiaries, e.g. employees or health plan members, or further sold Teladoc's services. Thus, Teladoc generated revenue on a contractually recurring access fee basis ranging from \$35 to \$45 (Schulman, Jain and Plessis 2021). The majority of access fees were paid per-member-per-month (PMPM), meaning that, for example, PepsiCo paid Teladoc for each PepsiCo employee who received access to a telemedicine service package. Besides PMPM, some clients also paid on a per-participant-per-month model, translating only into payments for every active enrolled member per month. Lastly, within the Integrated Care segment, Teladoc generated revenue by selling and leasing devices such as robots, charts, and tablets to health systems and providers.

Similar to Teladoc's B2B revenue model, most of the revenue at BetterHelp was generated by monthly subscription fee payments. However, within the D2C business model, the patients were mostly also the payers which differentiates the business model significantly from the B2B model. Next to the monthly subscription fees, patients could also pay visitation fees. In this case, patients were charged per consultation, and the price varied depending on the type and length of the consultation as well as the healthcare professional involved.

Teladoc's business model involved three parties: business clients, patients, and healthcare providers (Appendix 11). Within the telemedicine market, many players like Amwell or

Included Health hired their healthcare providers as full-time employees (Khaveen Investments 2021). Teladoc chose a different approach to build its provider network. Teladoc decided to commission a third party with the acquisition of doctors, physicians, nurses, therapists, and psychiatrists for its platform. Teladoc Health Medical Group, P.A. (THMG) was an independently owned company by licensed physicians who employed and contracted additional healthcare professionals to ensure Teladoc's members access to telemedicine services 24 hours per day, 365 days a year. This approach gave Teladoc significant leverage over the number of physicians who could actively consult with patients. Teladoc had a considerably larger network of providers, with 55,000 physicians across the US in 2021, compared to Amwell and Included Health with both 1,400 physicians (Khaveen Investments 2021). This gave Teladoc the crucial advantage of offering its telemedicine services to almost every patient across all 50 states because to consult a patient, healthcare professionals needed an active license for the state the patient is located. Furthermore, the large provider network gave Teladoc the advantage of managing changing utilization rates effectively because Teladoc only paid the contracted health providers on an hourly basis. According to Glassdoor, Teladoc paid physicians between \$87 to \$154 per hour depending on the service (Glassdoor 2023).

### **3.3 Important Milestones Shaping Teladoc Health's Journey**

#### **3.3.1 Teladoc's Leap to Public Markets (2015-2016): The IPO**

On July 1, 2015, Gorevic opened a decisive chapter in its corporate history: Teladoc went from being a private to a publicly traded company on the New York Stock Exchange (NYSE) and distinguished itself as the only telemedicine company to be traded on the NYSE. The IPO gave Teladoc a market capitalization of \$758 million and an enterprise value of \$620 million (NASDAQ 2015, Busineewire 2015). Teladoc shares experienced a rise of 50% on their first day of trading, signaling investor confidence in the potential of the telemedicine sector (NASDAQ, Health Care Sector Update for 07/01/2015: TDOC,TLOG,XENE 2015).

Nevertheless, the following three months after the IPO were fraught with challenges. In particular, when health insurer Highmark, which accounted for 1.5% of Teladoc's revenue in 2015, decided not to renew its contract, Teladoc's share price took a significant hit (Goodman 2016). Despite this setback, the company's share value quickly recovered to its previous level. Continuing its expansion strategy, Teladoc acquired BetterHelp in January 2015 for \$3.5 million in cash and a \$1.0 million promissory note (Seeking Alpha 2023).

In 2016, Gorevic continued Teladoc's expansion, acquiring additional companies and opening new healthcare segments specializing in dermatology, behavioral medicine and sexual health (Bowman 2016, Businesswire 2016). In July of the same year, the company acquired HealthiestYou for \$45 million, expanding its presence in the healthcare technology sector (Teladoc 2016). In November 2016, Teladoc had 15 million members and offered a comprehensive package of services in 48 states (Goodman 2016).

### **3.3.2 Teladoc's Global Outreach (2017-2019): Navigating Growth**

In the transformative years from 2017 to 2019, Gorevic charted with Teladoc a path of rapid growth and global leadership (Appendix 12). By 2017, the company reported a revenue of \$233.3 million, a YoY growth of 89%, reaching over 23.2 million members (Appendix 3) (Teladoc Health, Inc. 2018). In June, Teladoc bought medical consultation firm Best Doctors for \$440 million. This company provided advanced patient solutions connecting patients with complex medical issues to top experts (Japsen 2017, Baum 2017). The CEO justified this acquisition with being a great enhancement to Teladoc's capabilities, international presence, and with resources and data sharing of the two firms. Additionally, it was described as a crucial step in fulfilling the company's mission to evolve into a global provider of whole-person care (Japsen 2017). The acquisition expanded Teladoc's revenue streams, since 40% of Best Doctors' revenue originated from outside the US, providing high cross-selling opportunities due to the low overlap of the existing client base (Baum 2017).

In 2018, Teladoc's acquired Advance Medical for \$352 million as it “advances our strategy to continually expand our product portfolio, as well as our operational footprint in attractive global markets”, while the companies “have proven the transformative power of offering full-spectrum virtual care solutions”, according to Gorevic. Advance Medical was a leading virtual care provider outside the US (Teladoc Health, Inc. 2018).

In 2019, Amazon launched Teladoc competitor Amazon Care, a virtual primary care clinic that was piloted for the company’s employees in Seattle (Farr 2019). Teladoc continued its global expansion with the acquisition of MédecinDirect, a market leader in the French healthcare sector (Dietsche 2019). By 2019, the company was active in more than 130 countries (Teladoc Health, Inc. 2020).

### **3.3.3 Teladoc's Journey Through the Pandemic: Expansion and Restructuring (2020-2023)**

From 2020 to 2023, Gorevic experienced another period of rapid growth, but also significant challenges with Teladoc. The onset of COVID-19 in 2020 catalyzed Teladoc’s expansion, conducting more than 20,000 virtual medical visits daily in the US, a 100% increase since the beginning of March. The company responded to this surge by enhancing its provider onboarding process, improving its visit queue algorithms, and in some cases increasing physician compensation (Esteban 2020).

In 2020, over 60% of Teladoc visits were new members seeking treatment to avoid overcrowded healthcare facilities. In July, Teladoc acquired InTouch Health for \$150 million in cash and 4.6 million shares to expand its acute, ambulatory, and home care services ( Teladoc Health, Inc. 2020, Miliard 2020). Another major move was acquiring Livongo Health, a chronic care company, for \$18.5 billion in October 2020, marking it as one of the largest deals in the US in that year (Landi 2023). This acquisition aimed to create a unified app for primary and chronic care services as the CEO highlighted: “Together, our team will [...] leverage[ing] our combined

applied analytics, expert guidance and connected technology to deliver, enable, and empower better health outcomes” (Appendix 13) (Landi 2020). However, concerns were expressed about the deal's high cost and integration risks (Levy 2020, Teladoc Health, Inc. 2020).

In February 2021, attributable to the pandemic, the TDOC stock was trading at its all-time high around \$295 (Team 2023). But 2021 was also stamped by increased competition, for instance, Cigna acquired main competitor MDLive to enhance its market reach, leverage its resources, and increase its competitive stance (Minemyer 2021). Furthermore, Teladoc was now threatened by new specialized market entrants like Forward and One Medical who focused on direct primary care while niche players like Monogram Health and Hinge Health specialized in remote patient monitoring and virtual chronic disease management. The pressure on Teladoc was even further increased when digital health companies like Hims & Hers or Ro started to offer telemedicine visits (Landi 2021).

In February 2022, Gorevic pioneered in managing multiple chronic conditions with the launch of Chronic Care Complete. This innovative solution offered an all-encompassing experience for members, incorporating the use of health monitoring devices that are connected (Teladoc Health, Inc. 2022). At that time, however, the company warned investors of a significant impairment loss between \$800 million and \$4 billion due to the Livongo merger. In 2022, Teladoc’s valuation of \$11.3 billion was below the acquisition price for Livongo. The stock price had overall drastically decreased since the announcement of the acquisition. But Gorevic remained optimistic about the target set at the time of the merger of generating \$500 million in revenue synergies by 2025 (Pifer 2022). Amidst this, Teladoc became accessible through Alexa, stirring debates over privacy and Amazon’s influence in telemedicine (Ravindranath 2022). In the meantime, Amazon Care's service, broadened to 20 cities nationwide, had also sparked substantial policy debates, especially concerning privacy and antitrust issues. As Amazon was deeply rooted in data, fears emerged that the firm could exploit health data for targeted retail

marketing purposes (Birnbaum 2022). By the end of 2022, Amazon Care ceased operations, highlighting challenges of sustainable, long-term healthcare solutions in the telemedicine market as they were not able to provide a complete enough offering for their targeted enterprise customers (Landi 2022).

In January 2023, amid an economic downturn, Teladoc decided for a restructuring effort to prioritize profitability cutting 6% of its non-clinician workforce, among other measures. This 300 employees lay-off was justified by the elimination of redundant roles born out of M&A's to ensure balanced growth (Burky 2023).

By 2023, Teladoc served 80 million people across its virtual care products, an increase from the 56 million pre-pandemic in 2019. According to Team (2023), a contributor at Forbes, the company faced, despite its growth, a long road to reduce its customer acquisition costs and move to profitability. Teladoc's operating margins contracted significantly from -17% in 2019 to -271% in 2023 while the stock price was \$22.6 in July 2023. This was 30% below the level of June 2022 while the broader S&P 500 gained about 17% during this period (Team 2023).

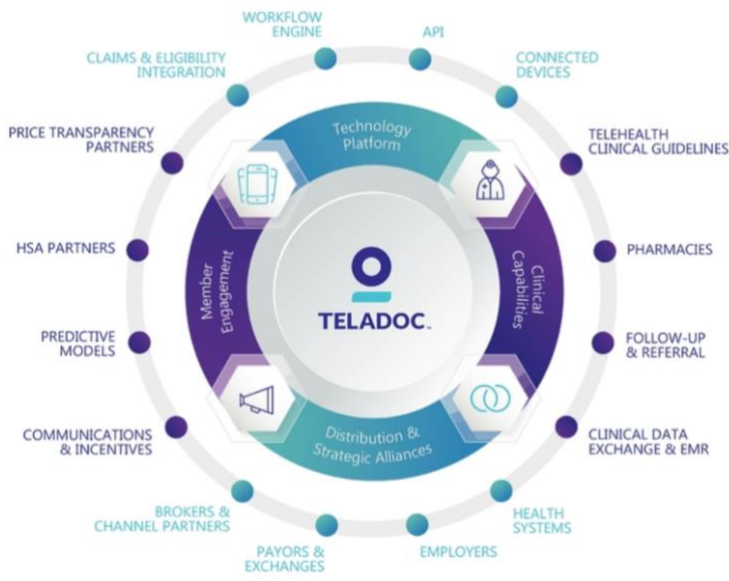
#### **4. Future Outlook: Telemedicine and Teladoc's Competitive Landscape**

As the telemedicine landscape continued to evolve at a breathtaking pace, the future promised a transformative shift, where the lines between traditional and virtual care increasingly blurred. Gorevic stood with pioneering, whole-person care provider Teladoc at a crucial juncture: "We're disappointed with the valuation of the stock today, which we don't believe adequately reflects the value we are driving today and will continue to drive in the future" (Landi 2023). With the market rapidly expanding and players competing for dominance, Teladoc's journey towards profitability continued and was an indicator for the viability of telemedicine itself. Chris Stenrud, SVP of Communications, encapsulated this vision: "Overall, we see 'virtual care' becoming just 'care' over the next decade, just as online banking has just become the way we bank." (Stenrud 2023). Yet, these optimistic views raised critical questions: Was telemedicine

here to stay? Did Teladoc lead the charge in transforming healthcare delivery, or did it falter under the weight of its own ambitions, paving the way for others to overtake it? Could Teladoc successfully navigate the complex external challenges and internal hurdles to become profitable? Did Teladoc effectively balance the positioning act of integrating virtual care at whole-person level without compromising the quality and personal touch essential in healthcare given by niche players?

# Case Appendix

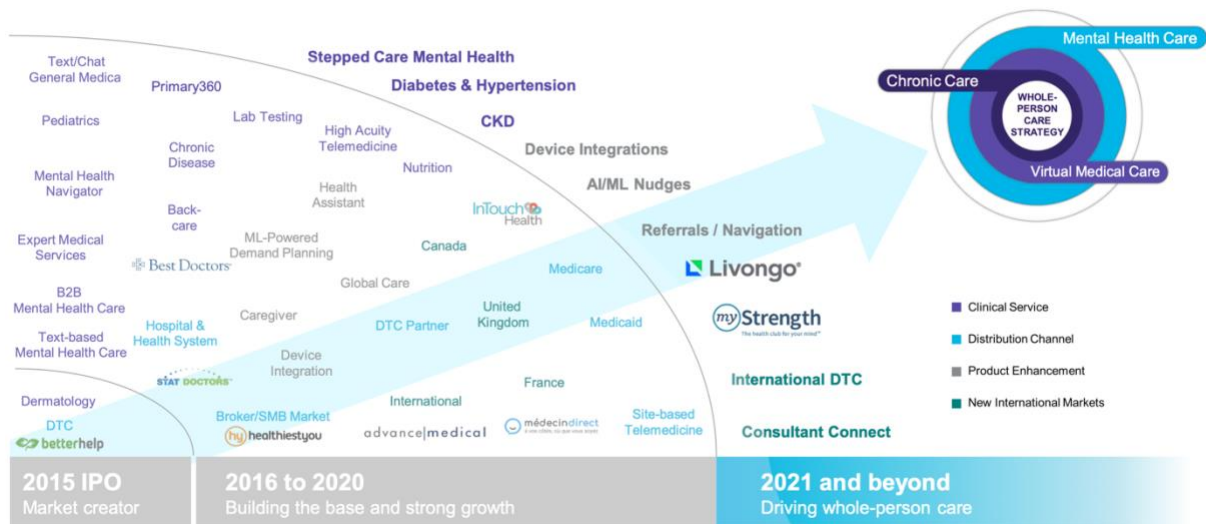
## Appendix 1. Teladoc Ecosystem



Source: Investor Presentation (Teladoc Health and Livongo 2020)

## Appendix 2. Journey to Become a Whole-Person Care Provider

### Foundation Built to Deliver What the Market Wants and Needs



Source: Investor Presentation (Teladoc Health, Inc. 2022)

## Appendix 3. Financial Data

Currency: USD

	2016	2017	2018	2019	2020	2021	2022	2023
<b>Highlights</b>								
Revenue (million)	123,16	233,28	417,91	553,31	1093,96	2032,71	2406,84	2633,08
YoY Revenue Growth (%)	59,15	89,42	79,14	32,40	97,71	85,81	18,41	9,37
<b>Segment Revenue (million)</b>								
Integrated Care						1300,88	1373,90	1468,58
BetterHelp						721,24	1019,65	1165,20
Therapy Services						720,27	1012,57	1107,72
Other Wellness Services						0,97	7,07	14,44
Other						10,59	13,29	0,00
<b>Segment Adj. EBITDA (million)</b>								
Integrated Care						144,02	135,15	161,18
BetterHelp						121,70	114,12	148,85
Other						2,114	-2,756	0
<b>Total Visits</b>	<b>952081</b>	<b>1463000</b>	<b>2640000</b>	<b>4138000</b>	<b>10591000</b>	<b>15399000</b>	<b>18500000</b>	<b>19682218</b>
Adjusted EBITDA (million)	-54,394	-12,506	13,408	31,832	126,841	267,837	246,513	310,0833333
Adj. EBITDA Margin (%)			3,2	5,8	11,6	12,9	-8	11,74632332
Integrated Care						144,021	135,153	161,1793588
BetterHelp						121,702	114,116	148,8531215
<b>Company Operating Metrics</b>								
<b>Membership</b>								
US Integrated Care						77500000	83300000	85793397,5
BetterHelp						307000	419000	483390,31
Chronic Care Program						878000	1019000	1111158,624
Total Visits	952081,00	1463000,00	2640000,00	4138000,00	10591000,00	15399000,00	18500000,00	19682218,25
United States	952081,00	667000,00	1189000,00	3104000,00	8083000,00	11482000,00		15064198,49
International		3000,00	432000,00	1034000,00	3096000,00	3917000,00		4850648,91
<b>Prior Company-Level Industry Statistics</b>								
Organic Revenue Growth (%)		43,00	36,00	24,00	74,00	32,00	18,00	10,26
U.S. Paid Membership	17500000,00	23200000,00	22800000,00	36700000,00	51800000,00	53600000,00	58400000,00	58927443,61
U.S. Visit Fee Only Access			9500000,00	19300000,00	21300000,00	24200000,00	24800000,00	25244833,33
Unique Chronic Care Members					600000,00	729000,00	805000,00	855620,03
Utilization (%)				9,34	16,00	20,10		23,91
<b>Regional Breakdown</b>								
<b>Revenue (million)</b>								
United States	123,157	214,478	342,673	445,33	967,389	1774,02	2101,015	2280,66356
International		18,801	75,234	107,982	126,573	258,683	305,825	354,8323761
<b>Product Breakdown</b>								
<b>Revenue (million)</b>								
Integrated Care						1300,878	1373,9	1468,577808
BetterHelp						721,238	1019,646	1165,202223
Therapy Services						720,27	1012,574	1107,722072
Other Wellness Services						0,968	7,072	14,43695429
Other						10,591	13,294	0

Income Statement (Adjusted in million)								
Total Revenue	123,16	233,28	417,91	553,31	1093,96	2032,71	2406,84	2633,08
Cost of Revenue	31,97	61,62	128,74	184,47	390,83	650,26	743,99	775,75
As % of Total Revenue	25,96	26,42	30,80	33,34	35,73	31,99	30,91	29,48
Gross Profit	91,19	171,66	289,17	368,84	703,13	1382,45	1662,85	1852,47
Gross Margin (%)	74,04	73,58	69,20	66,66	64,27	68,00	69,10	70,54
Total Operating Expenses	153,85	247,05	360,03	449,28	1209,55	1648,08	15316,07	2096,75
Sales				64,92	154,05	250,58	227,17	224,71
Advertising & Marketing				109,70	226,15	416,73	623,54	690,11
Tech & Development	21,82	34,46	54,37	64,64	164,94	311,88	333,63	353,56
General & Administrative	48,57	79,78	116,92	157,69	497,81	438,01	449,86	489,87
Adjusted Operating Income	-62,66	-75,39	-70,85	-80,44	-506,42	-238,99	-13653,21	-239,00
Adj. Operating Margin (%)	-50,88	-32,32	-16,95	-14,54	-46,29	-13,07	-567,27	-9,20
Depreciation & Amortization	8,27	19,10	35,60	38,95	69,50	204,24	256,03	303,28
Amortization	6,094	15,324	31,545	35,57	64,729	195,3	244,6	266,45256
Adjusted EBITDA	-54,394	-12,506	13,408	31,832	126,841	267,837	246,513	310,0833333
Adj. EBITDA Margin (%)			3,2	5,8	11,6	12,9	-8	11,74632332
Interest Expense, Net	2,588	17,491	26,112	29,013	60,495	80,365	9,27	-19,80877497
Pre-Tax Income	-73,706	-107,007	-96,966	-109,455	-575,993	-358,013	-13663,343	-220,6470588
As % of Total Revenue	-59,847187	-45,87082421	-23,20276999	-19,78196553	-52,65201168	-18,92333721	-567,6880474	-8,484002545
Income Tax Expense	0,51	-0,225	0,118	-10,591	-90,857	44,137	-3,812	4,687568015
Tax Rate (%)				9,7	15,8	-11,5	0	-0,529333856
Adjusted Net Income	-69,69265	-98,2046	-93,22011	-93,6342	-408,25873	-428,793	-13659,531	-221
Diluted Weighted Avg. Shares	42,330908	55,42746	65,844908	71,844535	90,509229	156,939349	161,457123	164,4748219
Diluted EPS	-1,39	-1,771768	-1,415753	-1,303289	-4,510686	-2,73	-84,6	-1,341666667

Source: Bloomberg

#### Appendix 4. Profit Margin & Revenue Change between 2018-2022

Profit Margin & Revenue Change 2018-2022						
	2018	2019	2020	2021	2022	
<b>Revenue (in thousands)</b>						
Teladoc	\$ 417.907	\$ 553.307	\$ 1.093.962	\$ 2.032.707	\$ 2.406.840	
Amwell	\$ 113.955	\$ 148.857	\$ 245.265	\$ 252.789	\$ 277.190	
GoodRx	\$ 249.522	\$ 388.224	\$ 550.700	\$ 745.424	\$ 766.554	
<b>Profit (in thousands)</b>						
Teladoc	\$ -97.084	\$ -98.864	\$ -485.136	\$ -428.793	\$ -13.659.531	
Amwell	\$ -52.312	\$ -88.366	\$ -228.626	\$ -176.782	\$ -272.072	
GoodRx	\$ 43.793	\$ 66.048	\$ -293.623	\$ -25.254	\$ -32.828	
<b>Profit Margin</b>						
Teladoc	-23%	-18%	-44%	-21%	-568%	
Amwell	-46%	-59%	-93%	-70%	-98%	
GoodRx	-39%	-25%	-88%	-3%	-4%	
<b>Change Revenue</b>						
Teladoc		32%	98%	86%	18%	
Amwell		31%	65%	3%	10%	
GoodRx		56%	42%	35%	3%	

Source: Own Illustration

Note: We used Teladoc, Amwell and GoodRX since all presented large public whole-person care telemedicine players. We did not include Included Health & Cigna Evernorth, which also

*presented important players, since both are not public and therefore there is no financial information available. GoodRx does not appear to be a whole-person care provider in the traditional sense of telemedicine. GoodRx is primarily known for its services in providing prescription drug price comparisons and discounts, as well as offering online medical visits for certain conditions. But the firm has developed in the past years towards a whole-person care provider and was therefore also taken into account to base the calculations on more data.*

#### **Appendix 5. Market Profit Margin Estimation between 2018-2022**

##### **Average Profit Margins 2018-2022**

<i>Teladoc</i>	-135%
<i>Amwell</i>	-73%
<i>GoodRx</i>	-32%
<hr/>	
Average	-80%

Source: Own Illustration

#### **Appendix 6. Market Volatility Estimation between 2018-2022**

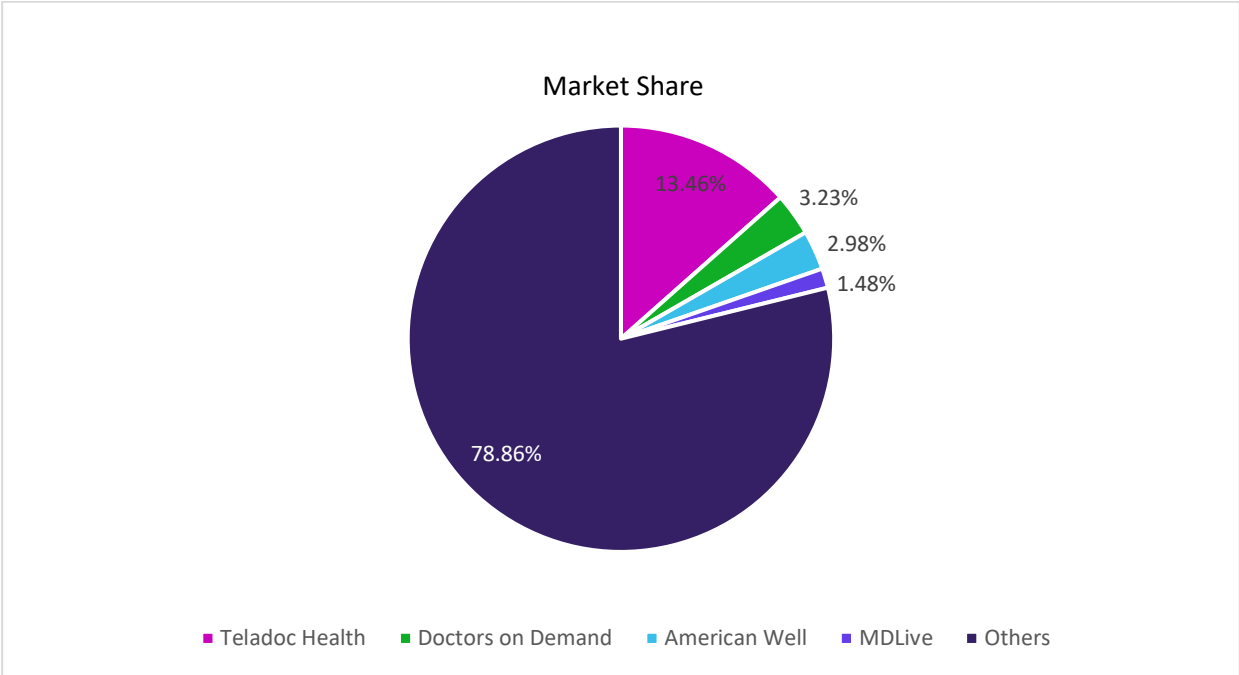
##### **Average Revenue Changes 2018-2022**

<i>Teladoc</i>	59%
<i>Amwell</i>	27%
<i>GoodRx</i>	34%
<hr/>	
Average	40%

Source: Own Illustration

*Note: Market volatility is typically measured using statistical methods (standard deviation) that gauge the extent of price fluctuations of a market over time. For simplicity, since this is a strategic and not a financial paper, we have looked at the approximate revenue trends of three major telemedicine players over the last 5 years.*

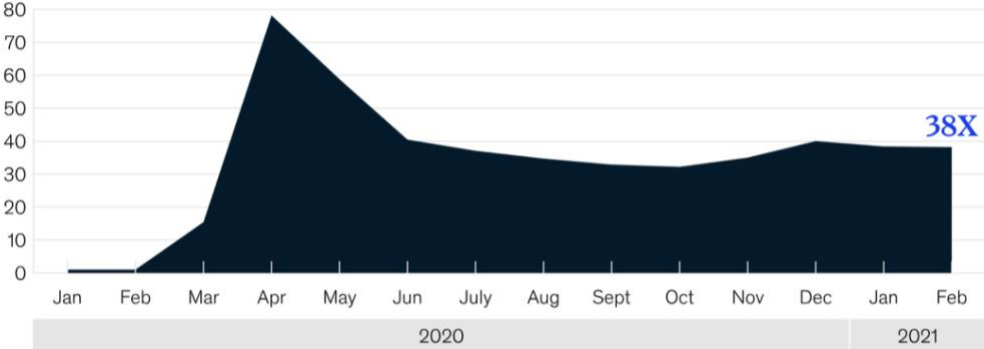
**Appendix 7. Market Shares US Telemedicine Market**



Source: Khaveen Investment (Seeking Alpha 2021)

**Appendix 8. Growth in Telemedicine**

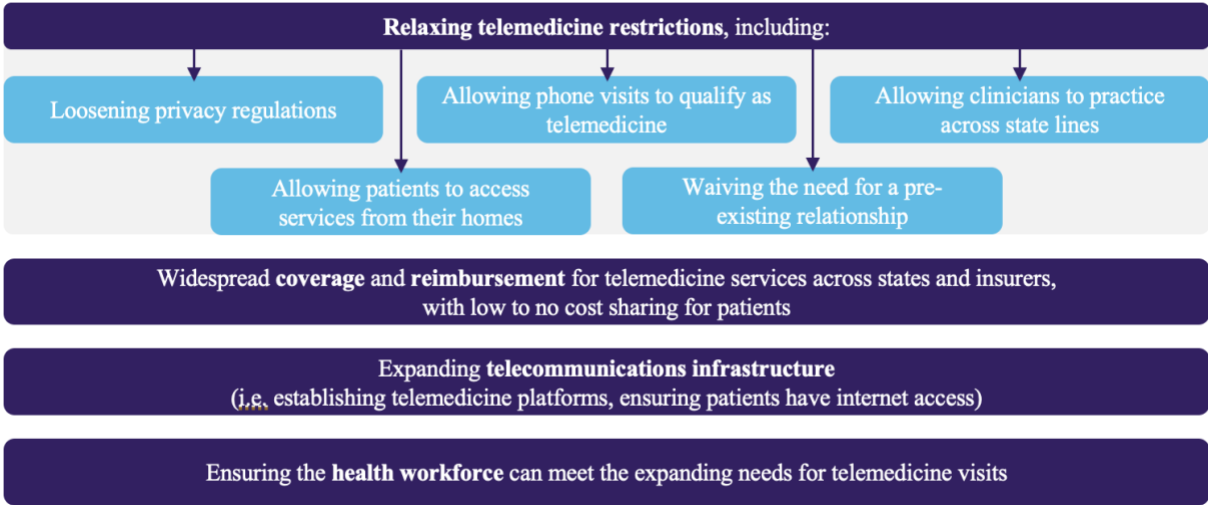
Telehealth claims volumes, compared to pre-Covid-19 levels (February 2020 = 1)<sup>1</sup>



<sup>1</sup> Includes cardiology, dental/oral, dermatology, endocrinology, ENT medicine, gastroenterology, general medicine, general surgery, gynecology, hematology, infectious diseases, neonatal, nephrology, neurological medicine, neurosurgery, oncology, ophthalmology, orthopedic surgery, poisoning/drug tox./comp. of TX, psychiatry, pulmonary medicine, rheumatology, substance use disorder treatment, urology. Also includes only evaluation and management visits; excludes emergency department, hospital inpatient, and physiatry inpatient claims; excludes certain low-volume specialties.  
Source: Compile database; McKinsey analysis

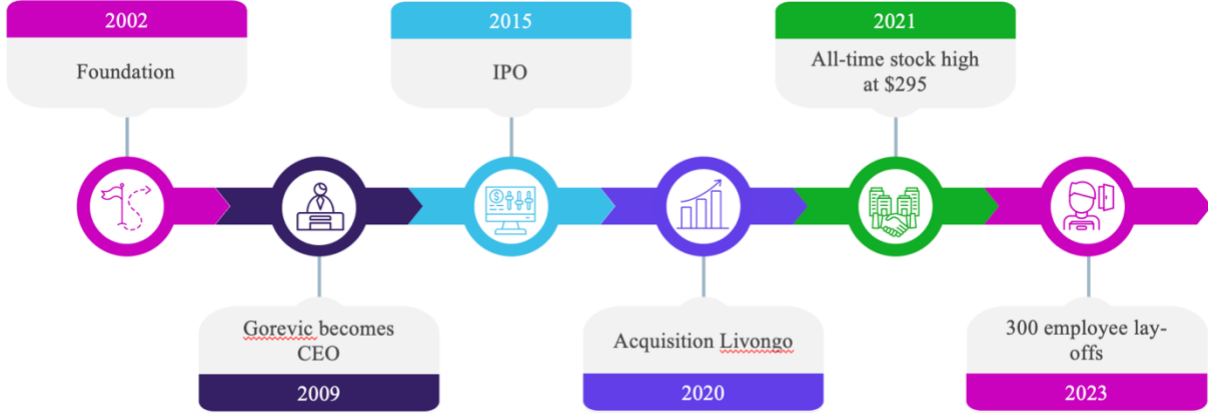
Source: Bestsenny, et al. (2021)

### Appendix 9. Actions to Expand Telemedicine Availability during COVID-19



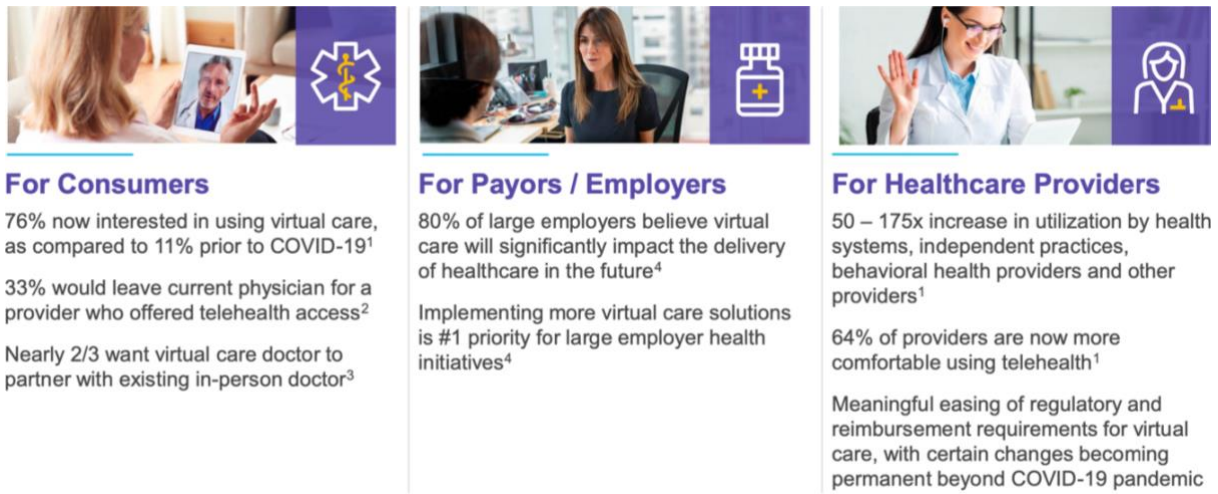
Source: Weigel, et al. (2020)

### Appendix 10. Timeline of Tealdoc’s Milestones



Source: Own Illustration

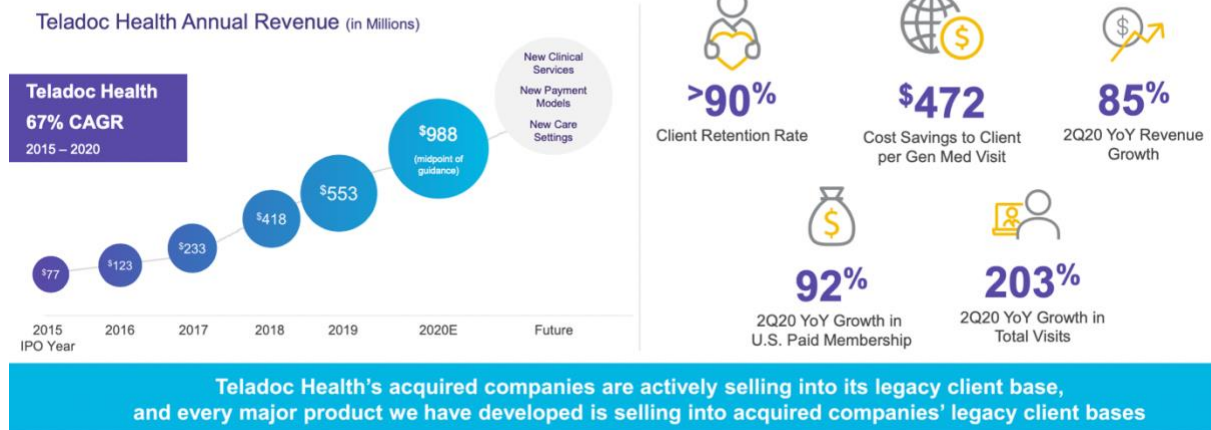
## Appendix 11. Key Stakeholders within the Telemedicine Ecosystem



Source: Investor Presentation (Teladoc Health and Livongo 2020)

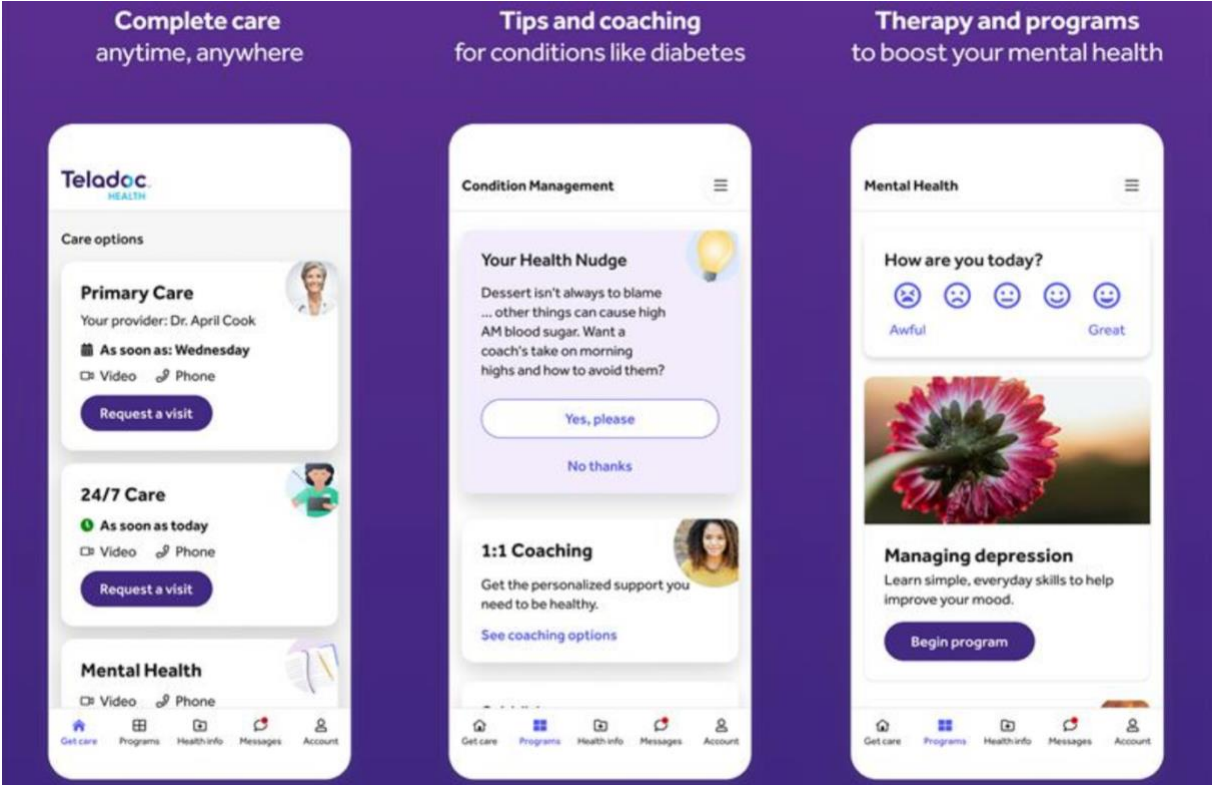
## Appendix 12. Teladoc’s Growth Journey until 2020

Since the 2015 IPO, Teladoc Health Has Invested \$2B Acquiring Companies and Launched Dozens of Products and Partnerships



Source: Investor Presentation (Teladoc Health and Livongo 2020)

Appendix 13. User Surface of Teladoc



Source: Landi (2023)

## **Teaching Notes**

### **1. Synopsis**

As the US telemedicine landscape rapidly evolved, Teladoc stood at a pivotal crossroad at the end of 2023. Teladoc, led by CEO Jason Gorevic since 2009, was a pioneer in telemedicine, serving more than 90 million people with more than 450 million health interactions annually in 2023. This achievement, set against the backdrop of an increasingly health-conscious US population and a post-COVID-19 shift towards virtual healthcare, underscored Teladoc's significant impact. But despite its success, Teladoc grappled externally with intense competition in an economically unstable time while internally with expansion and profitability. The acquisition of Livongo at \$ 18.5 billion, a high-stakes move, reflected Teladoc's expansion strategy to become a whole-person care provider. The company's operational model, a blend of Integrated Care and BetterHelp (its mental health segment), showcased its attempt to dominate multiple facets of digital healthcare. Yet, this sprawling ambition faced scrutiny: Is the positioning of a whole-person care player the correct strategic decision? Teladoc's story was not just about growth, but also about testing the viability of telemedicine. The company's trajectory posed a pressing question: Would Teladoc emerge as a transformative leader in telemedicine, or would it succumb to the pressures of a rapidly changing industry? This case provides students the opportunity to critically examine the nascent telemedicine market by assessing the main trends shaping the industry while investigating the forces coining the industry. The unfolding narrative of Teladoc gives students the opportunity to conduct a strategic analysis and abbreviate future decisions in an era where healthcare and technology converge.

### **2. Teaching Objectives and Approach**

#### **2.1 Target Audience and Teaching Objectives**

The case study is tailored to an audience participating in advanced learning programs, like master's degree programs, MBA programs, and executive workshops, focusing on corporate

strategy, healthcare innovation, and digital transformation. The content provides in-depth strategic analysis and understanding of the evolving telemedicine landscape.

The teaching objectives focus on analyzing the critical factors for a successful business strategy in a complex and emerging telemedicine market. These factors include an understanding of the telemedicine industry, an analysis of Teladoc's capabilities, competencies, and sustainable competitive advantages, as well as the future strategic positioning. Therefore, three main teaching objectives are defined, which will be supported by the Assignment Questions (Figure 1) throughout class discussions.

1. *Strategic External Analysis Skills*: The teaching objective aims to provide students with a tool kit to investigate and analyze a complex, volatile, and immature macro environment. This includes assessing external factors and forces impacting an organization's strategic direction, which lays the foundation for an effective business model analysis and strategic decision-making. The goal is to empower students with the analytical prowess to navigate the business landscapes of tomorrow.
2. *Strategic Internal Analysis Skills*: Strategic Internal Analysis pursues the objective that students develop an understanding of complex business models, their structure, and pinpoint significant drivers for enhancing the organization's overall success. This includes identifying specific resources and capabilities of the company that serve or could serve as long-term competitive advantage.
3. *Strategic Decision-Making*: This teaching objective aims to provide students with the right skill set to make informed, strategic decisions in a complex, uncertain external and internal environment. It is important to synthesize past findings and consider how the chosen option creates a long-term competitive advantage in the future in order to make valuable decisions about the strategic direction of an

organization. In our case, students need to weigh the strategic positions between a whole-person care provider and a niche player to select the optimal positioning choice for Teladoc.

**Figure 1. Assignment Questions**

Objective	Part	Questions
<b>Introduction</b>	Opening Questions	Would you personally use telemedicine or have you already used it? Do you think telemedicine will become a long-term common option?
<b>Strategic Analysis Skills</b>	External Analysis	Q 3.1.1 What are the main trends that explain the rise of the US telemedicine market in the past years?
		Q 3.1.2 What are the main competitive forces shaping the telemedicine market?
	Internal Analysis	Q 3.2.1 Explain the complex business model of Teladoc.
		Q 3.2.2 What are Teladoc's current competitive advantages? How sustainable are they in this complex market?
<b>Strategic-Decision-Making</b>	Current Position	Q 3.3.1 Teladoc is a leader in the US telemedicine market. Evaluate the main reasons how and why the company has reached its current strategic position.
	Future Positioning Options	Q 3.3.2 Should Teladoc position itself as a whole-person care provider or as a niche player in the future?
<b>End</b>	Closing Question	Where do you see Teladoc in the next 10 years?

## 2.2 Teaching Approach

The teaching approach for this case study (Figure 2) is designed to guide students through the complex landscape of the US telemedicine market. This plan includes a preparatory phase in which students engage in self-study, followed by a 90-minute in-class discussion designed to uncover the multifaceted aspects of telemedicine and its recent proliferation, while providing important information about Teladoc.

*Preparation phase:* Before the discussion, students should familiarize themselves with the external environment of the telemedicine market, the forces shaping the industry, Teladoc's business model, and its competitive advantages on the basis of the case study. The instructor can additionally provide students with optional important reading, such as recent research and news articles related to telemedicine, to give them a comprehensive background (Appendix 1).

Students should also be familiarized with theoretical frameworks relevant to the analysis of the telemedicine market. The frameworks include the Extended Porter's Five Forces, PESTEL, Business Model Canvas, VRIO, Dynamic Capabilities, and SAF (Appendix 2).

*In-class discussion:* The lecture begins with a structured discussion based on the self-study material. For an overview, the lesson begins with a (live) poll: Would you personally use telemedicine or have you already used it? Do you think telemedicine will be a common option in the long term? The discussion then begins with the external analysis of the telemedicine market, such as the competitive environment (Q 3.1.1 & Q 3.1.2). During the discussion, the internal factors of Teladoc will be evaluated and students should be encouraged to critically evaluate the information provided in the case and present their points of view (Q 3.2.1 & Q 3.2.2). This will be followed by questions to discuss the current strategic position and specific strategic decisions that Teladoc needs to make as part of its future positioning (Q 3.3.1 & Q 3.3.2). The instructor should moderate the discussion and ensure that students not only understand the current market, but also consider predictions about future trends and challenges. The final part of the discussion will summarize the insights gathered into a strategic outlook for telemedicine, looking specifically at how Teladoc can maintain its competitive advantage and adapt to future healthcare needs.

The reflection question, “Where do you see Teladoc in the next 10 years?”, is posed at the end, encouraging students to consider the long-term viability and ethical considerations of telemedicine to ensure they leave with a nuanced understanding of their role in healthcare.

**Figure 2. Teaching Plan**

Part	Subject	Timeline	
<b>Preparation</b>	The students should receive the case study with questions 3.1.1 and 3.1.2 one week prior to class discussion.	90 min	
	Students should read the case study and prepare questions 3.1.1 and 3.1.2.		
<b>Class Discussion</b>	Instructor gives a short class overview and asks opening question.	5 min	90 min
	Students discuss with instructor questions 3.1.1 & 3.1.2 regarding the external environment analysis.	10 + 10 min	
	Students discuss with instructor questions 3.2.1 & 3.2.2 regarding the internal analysis.	10 + 10 min	
	Provide students with questions 3.3.1-3.3.2 in class. They form groups to discuss and solve the questions.	8 + 8 min	
	Students discuss questions 3.3.1 & 3.3.2 altogether with instructor.	10 + 10 + 4 min buffer	
	Wrap-up up class with key learnings, open class questions, (and pose closing question – if time).	5 min	

### 3. Case Analysis

#### 3.1 External Analysis

##### 3.1.1 What are the main trends that explain the rise of the US telemedicine market in the past years?

In the rapidly evolving landscape of US healthcare, telemedicine rose to the forefront through a complex interplay of political, economic, social, technological, environmental, and legal factors. The changing regulatory environment, which impacted telemedicine favorably due to the COVID-19 pandemic, both challenged and enabled the growth of telemedicine. To analyze such a complex macro environment, students should identify the PESTEL framework as an appropriate tool (Appendix 3).

*Political Factors:* Rapid changes were observed in telemedicine laws in the US, especially during COVID-19, with significant advocacy for policy expansion in favor of telemedicine by major organizations and the introduction of the Health Data Use and Privacy Commission Act. This had exponentially accelerated the growth of telemedicine (Teladoc Health, Inc. 2023).

*Economic Trends:* Inflation and rising healthcare costs impacted the telemedicine market and drove demand for the cost-effective solution such as telemedicine, especially in economically difficult time (Rakshit, et al. 2023, LaborStatistics 2022)

*Social:* Increasing health awareness and familiarity with digital (inter)connectivity among the US population fueled the rise of telemedicine. The COVID-19 pandemic played a critical role in changing consumer behavior in healthcare and accelerated the adoption and implementation of digital health solutions (McKinsey & Company 2022).

*Technological:* Mobile health apps, wearable health monitors, and improved digital infrastructure boosted telemedicine (Statista, Digital Health - United States 2023). COVID-19 not only led to a significant increase in technology adoption but also improved the familiarity and adoption time of telemedicine technologies (Cobelli, Cassia and Burro 2021). Telemedicine faced challenges with limited infrastructure, reimbursement and complex billing processes with health insurance companies (McKinsey & Company 2021).

*Environmental:* Telemedicine reduced the carbon footprint, such as patient travel and facility energy consumption, but raised concerns about electronic waste and the energy consumption of digital technologies.

*Legal Framework:* Laws such as the Patient Protection and Affordable Care Act influenced healthcare delivery, promoted innovative care methods, and enabled reimbursement of healthcare services. In addition, the regulations on the storage and transmission of medical data and patient confidentiality have been loosened (PAHO & WHO, 2016).

### **3.1.2 What are the main competitive forces shaping the telemedicine market?**

The extended Porter's Five Forces framework is applied for students to gain a deeper understanding of the US telemedicine market, grasp the industry dynamics, and assess profit distribution (Porter 1980). Keeping the teaching objectives in mind, the given task challenges

students to apply a standard strategy framework to a real-life case to strengthen their strategic analysis skills (Appendix 4, Appendix 11).

*Threat of new entrants:* The threat of new entrants in the telemedicine market was defined as a moderate force. Even though the telemedicine sector was a highly attractive industry based on the total addressable market and future growth rates (McKinsey & Company 2021), four major barriers moderated the threat of new entrants. Firstly, relatively high capital requirements limited smaller players from entering the market. Secondly, new entrants had to strictly comply with various federal and state regulations, which increased administrative hurdles. Thirdly, an extensive network of healthcare providers was crucial for nationwide service coverage and the ability to profit from network effects, giving first-movers and early adopters an edge over new entrants. Lastly, brand recognition played an important role in an industry that was as personal and sensitive as the telemedicine sector. Nevertheless, the costs of technology were decreasing while the technological advancements were exponentially increasing, which led to an industry that still attracted new players into the market evident in the entry of Amazon Care, alongside many start-ups entering the market.

*Bargaining power of suppliers:* The power of suppliers was categorized as high. It is important to highlight that telemedicine suppliers were differentiated into two groups. On the one side, technology suppliers who provided the hardware components and software products to operate and sell medical devices, and on the other side, healthcare professionals who were required to perform the healthcare services. One factor that increased the bargaining power of suppliers was the uniqueness of supply inputs. Furthermore, telemedicine companies faced high-quality control standards and difficult supplier qualification procedures due to regulatory requirements from the US Food and Drug Administration (FDA), which led to high switching costs.

*Bargaining power of buyers:* The customers were an essential force with high bargaining power. Telemedicine companies targeted a broad customer base comprising employers, health plans,

hospitals, health systems, insurance companies, and private patients, in combination with a diverse service offering, which mitigated the power of buyers to a certain degree. At this point, it is important to highlight that large employers and insurance companies had higher bargaining power than private patients because of their size and scale. Nevertheless, each customer had very little switching costs due to (mostly) free cancellation policies and identical service offerings by competitors, which significantly increased the bargaining power of each customer group. Moreover, the telemedicine industry was very information-transparent, which increased the pressure on each player to offer high-quality services at competitive prices to win new customers and retain existing ones.

*Competitive rivalry:* Within Porter's Five Forces, the rivalry among existing competitors in the telemedicine industry was the strongest force. The high industry growth forecast of 12.5% CAGR for the US market until 2032 made the telemedicine industry a highly attractive industry (IBISWorld - industry market research n.d.). The diversity of competitors ranged from whole-person care providers, e.g. Teladoc, Amwell & Included Health, over specialized niche players in, e.g., the digital chronic disease management and mental health market, e.g. Omada Health, Inc., Talkspace, and Cerebral, to health plans and insurance companies who have developed or acquired their own telemedicine service, as well as technology and retail companies like Amazon and Walmart who also developed their own telemedicine solutions (Appendix 12) (Teladoc Health, Inc. 2023).

*Threat from substitute products or services:* The threat of substitute services was defined as high. Even though the telemedicine industry grew in the last few years, in-person consultations were still responsible for 84% of specialist visits in 2021. While there were many medical areas in which in-person consultations accounted for the majority of visits, the area of psychotherapy is dominated by telephone and telemedicine services (60%) (McKinsey & Company 2021). This symbolized the potential of telemedicine companies to compete successfully against

substitute services but also highlighted the strong position of in-person consultations. Due to low patient switching costs, telemedicine providers competed directly against in-person consultations.

*Power of complementors:* In the extended Porter's Five Forces framework, complementors were defined as the sixth force. Complementors describe companies that offer complementary products or services, with whom it makes sense to bundle products and services to reach more customers (Harvard Business Review 2014). Within the telemedicine industry, the power of complementors was defined as low, even though examples of complementors existed. For instance, Teladoc and Microsoft, who partnered to integrate Teladoc's healthcare services into Microsoft's Teams app. This strategic partnership of two complementary services increased the value of Microsoft Teams and Teladoc for health systems by streamlining technology and administrative processes.

## **3.2 Internal Analysis**

### **3.2.1 Explain the complex business model of Teladoc.**

To conduct an internal analysis of Teladoc, students should apply the business model canvas. The framework helps students understand Teladoc's business model along nine strategic dimensions (Appendix 5). Due to the missing importance, the analysis of Teladoc's channels and key partners can be found in the Appendix 6. Applying the model to the real-life case of Teladoc provides students with a practical understanding of how Teladoc operates.<sup>3</sup>

*Key activities:* On the customer side, Teladoc's activities consisted of telemedicine visits, digital medical consultations, chronic condition management, dermatology, remote patient monitoring, medication prescriptions, wellness support services, on-demand medical special consultations, and mental health consultations. Within the company, key activities included improving

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<sup>3</sup> If needed, the SWOT Analysis in Appendix 7, serves as an additional overview for students.

Teladoc's telemedicine platform, developing new service offerings, and recurring regulatory compliance checks.

*Customer segments:* Teladoc's customers were segmented into four groups: Individual patients, healthcare organizations, employers, and insurance companies. Individual patients sought convenient healthcare services and were able to book medical appointments via Teladoc's telemedicine platform. Healthcare organizations included hospitals, clinics, and health systems, which Teladoc served with its telemedicine solution to improve health organization members' access to healthcare. Employers were another customer segment because they included Teladoc's telemedicine services as part of the employee benefit packages. Insurance companies were also an important customer group because they offered Teladoc's telemedicine services in their health insurance plans.

*Value propositions:* Due to Teladoc's complex business model, the company needed to address individual patients, business clients<sup>4</sup>, and healthcare providers with different value propositions. The value proposition for individual patients consisted of on-demand care, offering patients healthcare services around the clock with the benefit of no traveling, decreased waiting time, and a closer doctor-patient relationship (Appendix 13, 14, 15). Additionally, Teladoc provided access to a high-quality healthcare network to ensure the highest medical standards. Addressing business clients, Teladoc shifted its value proposition towards the positive return on investment that companies could achieve if they provided telemedicine solutions for their employees. Not only did Teladoc reduce healthcare costs for employers, but the digital solution also decreased the time employees take off to see a doctor and, hence, increased productivity. Lastly, in the communication with healthcare providers, Teladoc highlighted the immediate access to a large patient pool without any administrative burdens, which could lead to a fast income for healthcare providers. Furthermore, Teladoc offered all healthcare professionals a high degree

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<sup>4</sup> Healthcare organizations, employers, and insurance companies.

of work flexibility, making the company an attractive income source for healthcare professionals.

*Key resources:* Since Teladoc's launch in 2002, the company had developed three key resources that gave it an edge over its competitors. Firstly, Teladoc had access to a large force of skilled healthcare professionals, which triggered network effects and gave Teladoc the advantage of managing utilization rates effectively. Secondly, Teladoc had an excellent technological infrastructure consisting of secure data storage, seamless integration with healthcare systems, and innovative AI solutions. Thirdly, Teladoc established a strong brand reputation within the telemedicine industry, which was crucial in the emotional and sensitive healthcare industry.

*Revenue streams:* Teladoc's diverse customer segments and various value propositions also led to different revenue streams depending on the targeted customer group. In general, Teladoc differentiated its revenue streams between B2B and D2C. Within the B2B model clients paid a monthly or annual fee either based on the number of members who gained access to Teladoc's services or the number of active participants who used the healthcare services. Furthermore, Teladoc earned revenue by selling and leasing medical equipment to hospitals, clinics, and healthcare institutions.

While the revenue streams in the B2B model were mainly based on subscriptions, Teladoc's D2C model also generated revenue through one-time consultations and visitation fees. In this case, the patient paid a consultation fee out of his own pocket, depending on the type of consultation and the healthcare professional conducting the medical examination. Nevertheless, Teladoc earned the majority of its revenue in the D2C segment through monthly subscription fees paid by individual patients. This enabled the patients to use all telemedicine services within their subscription package. All in all, Teladoc's two revenue streams contributed roughly equally to the year-end turnover, with B2B accounting for 58% of sales and D2C generating 42% of total revenue.

*Cost structure:* Besides all necessary fixed costs for rent, utilities, and loan repayments, Teladoc had three major cost blocks, including technology infrastructure and maintenance costs, provider network management costs, as well as marketing and sales expenses. Costs for technology infrastructure maintenance were associated with investments in Teladoc’s technology platform. The costs for Teladoc’s provider network referred to recruitment costs, onboarding costs, and compensation payments for healthcare professionals who consulted on Teladoc’s platform. Lastly, marketing and sales expenses were significant cost factors for Teladoc, which aimed to acquire new customers and retain market share.

*Customer relationships:* Teladoc applied a patient-centric approach by providing patients with personalized and empathetic care to foster trust. Furthermore, Teladoc assisted its patients 24/7, 365 days a year via the website, phone, and chat to resolve inquiries, answer questions, and solve technical issues. With its B2B clients, Teladoc tried to collaborate closely to improve and adopt the corresponding health packages of clients’ employees.

**3.2.2 What are Teladoc’s current competitive advantages? How sustainable are they in this complex market?**

V Value	R Rarity	I Imitability	O Organization	Impact on Competitive Advantage
No				= Competitive Disadvantage
Yes	No			= Competitive Parity
Yes	Yes	No		= Temporary Competitive Advantage
Yes	Yes	Yes	No	= Unused Competitive Advantage
Yes	Yes	Yes	Yes	= Sustained Competitive Advantage

Figure 3. Theoretical VRIO Framework

Jay Barney's VRIO framework (Barney 1991) is a critical tool for the students to evaluate an organization's resources and capabilities to determine their potential for providing a sustained competitive advantage. This framework focuses on four key aspects: value, rarity, imitability,

and organization. In the following, four resources and capabilities of Teladoc are identified for providing a sustained competitive advantage: scale of operations, single integrated offering, network, and brand reputation. Two more controversial cases, business model and financial resources, are also analyzed, and both not identified as a sustained competitive advantage but at competitive parity (Appendix 8).

**Scale of operations:**

*Value:* Teladoc's scale of operations was a key asset in its strategic arsenal, with its large-scale operations covering a vast range of services and maintaining a significant presence in the market. This scale was immensely valuable as it enabled Teladoc to serve a broad customer base, offered a diverse array of services, and achieved economies of scale, setting it apart from its competitors.

*Rarity:* Teladoc stood out as the largest player in the US telemedicine field, serving over 90 million people with more than 450 million health interactions annually (Appendix 11). This level of operation was unmatched, and while the healthcare sector experienced an influx of large-scale operations, Teladoc's scale remained rare.

*Imitability:* While replicating Teladoc's scale was challenging, it is not impossible, especially for entities like Walmart Health Virtual Care or large healthcare providers. However, the complexity and cost of establishing such operations, along with the need for long-term, differentiated healthcare services, made it difficult for new entrants (Appendix 11). This scale of operations dominated the market, leaving little room for newcomers to match their size and diminishing their motivation, even when having the know-how.

*Organization:* Teladoc effectively harnessed its scale of operations, demonstrating an impressive ability to manage and utilize these operations. The whole company was built for growth and thus, the firm was organized to capture this competitive advantage and translated the scale of operations into a *sustainable competitive advantage*.

**Single integrated offering:**

*Value:* Teladoc's value lied in its comprehensive, whole-person care services, catering to diverse healthcare needs and appealing to a wide customer base. Its integrated approach, especially important in areas like mental health, offered a holistic treatment model. This integration was attractive to commercial clients, who struggle with the costs and complexities of coordinating multiple services. Teladoc simplified this process and often provided a more cost-effective solution compared to independent services, enhancing its market value.

*Rarity:* While other telemedicine companies offered a range of services, the breadth and integration of Teladoc's offerings stood out as less common, especially with the emergence of multiple niche startups. This uniqueness added a layer of rarity to Teladoc's services.

*Imitability:* Developing a service range as extensive as Teladoc's required a substantial investment in technology, robust provider networks, and a deep understanding of different healthcare segments. This complexity presented a significant barrier to competitors, making it both challenging and costly to imitate.

*Organization:* Teladoc proved adept at integrating these services effectively. The company had made strategic acquisitions, such as BetterHelp, to enhance its service portfolio. Additionally, its investment in technology ensured seamless service delivery, further solidifying its position in the market. This effective organization and integration of services highlighted Teladoc's capability in not just developing but also maximally utilizing its comprehensive service range, leaving Teladoc with a *sustained competitive advantage*.

**Network:**

*Value:* Teladoc had built a valuable network fostering ongoing, long-term, and complex healthcare relationships with its diverse groups, including consumers, clinicians, providers, employers, health plans, and hospitals. This platform did not develop overnight, it was the result of strategic planning and execution (Appendix 11). This extensive network enabled Teladoc to

meet high service demands across various regions and specializations, offering quicker appointment availability and a broad range of expertise to its users making it invaluable.

*Rarity:* The scale of Teladoc's network was exceptional in the telemedicine industry. With more than 450 million health interactions annually or 55,000 providers by 2021, it stood out for its rarity, providing Teladoc with a large geographical reach and a robust service capability.

*Imitability:* Teladoc's large and diverse healthcare network was a unique asset in telemedicine, making it difficult and costly for new entrants or smaller competitors to replicate due to the needed time, resources, and industry reputation.

*Organization:* Teladoc effectively utilized this network by, for instance, cross-selling or leveraging technology for efficient patient-provider matching (THMG), and adeptly managing its diverse services. This organizational skill enhanced Teladoc's *sustainable competitive advantage* in telemedicine.

**Brand reputation:**

*Value:* Teladoc's role as a pioneering leader in US telemedicine market and its global presence made its brand highly valuable. Built over 20 years, the brand gained significant recognition and trust in healthcare. This trust, crucial in the personal and private healthcare sector, made customers, partners, and investors more loyal, aiding in attraction and retention.

*Rarity:* As pioneer, Teladoc had carved out a rare and unique position in the market over the past 20 years. And besides, not only being the first but also biggest player in the US telemedicine field, left the company with a rare brand reputation.

*Imitability:* The pioneer standing was impossible and the current boosted standing through the pandemic was challenging for newer companies to replicate. Building a brand that parallels Teladoc's stature, characterized by market leadership and earned trust, would have required a considerable investment of time and resources. Achieving a similar level of service excellence,

and patient satisfaction was a daunting task for any new entrant, making Teladoc's brand costly to imitate.

*Organization:* Organizationally, Teladoc had strategically leveraged its brand reputation. The company utilized its brand reputation in the market to expand its service offerings, enter new markets, and form strategic partnerships and acquisitions. This demonstrated Teladoc's ability to effectively capitalize on its brand for continued growth and market expansion, which put Teladoc at a *sustainable competitive advantage*.

### **3.3 Strategic Decision Making**

#### **3.3.1 Teladoc is a leader in the US telemedicine market. Evaluate the main reasons how and why the company has reached its current strategic position.**

The objective of this analysis is to apply the Dynamic Capabilities (DC) framework to evaluate Teladoc's strategic response to the changes in the US telemedicine market and its current positioning. Teladoc demonstrated DC by integrating, building, and reconfiguring capabilities to adapt to the evolving market. These capabilities were instrumental to the company's long-term profitability. For organizations to build and sustain a competitive advantage, they must simultaneously develop and maintain capabilities to *sense, seize* and *transform* (Teece 2007). This discussion provides students with the opportunity to apply the concept of the DC Framework to analyze Teladoc's strategy development and positioning.

*Sensing opportunities and threats:* Teladoc benefited from early market entry and a forward-looking assessment of telemedicine's potential. The company leveraged technological advances and favorable regulatory changes such as the Patient Protection and Affordable Care Act and telemedicine parity laws to expand its market reach through partnerships with insurance providers. Teladoc's strategic integration of services such as primary care, mental health, and chronic disease management into a single platform met consumer demand for comprehensive virtual care and results in operational synergies and cost efficiencies (Appendix 9, Appendix

13). With this approach, which included strategic acquisitions such as BetterHelp in 2015, Teladoc positioned itself as a holistic healthcare provider that aligned its services with emerging trends and consumer needs, such as the growing importance of mental health in the US. Students should address the importance of anticipating regulatory trends and consumer technologies that have allowed Teladoc to position itself advantageously. In addition, the synergies created by sharing resources and capabilities should be addressed, leading to efficiencies and competitive advantages - a move characteristic of a company that successfully applies the principles of the Dynamic Capabilities Framework.

*Seizing opportunities:* Teladoc's strategy for seizing opportunities in the telemedicine market was multi-faceted and included targeted acquisitions, strategic partnerships, and business model innovation. Through acquisitions such as Best Doctors, Advance Medical, Livongo, and InTouch Health, Teladoc expanded its range of services from primary care to chronic disease management. Teladoc's robust provider network, built over two decades, established the brand's reputation for reliability and innovation in telemedicine. The adoption of different business models, such as B2B and D2C approaches, demonstrated the company's adaptability to market needs, diversifying revenue streams and expanding its customer base to effectively reach different market segments. Teladoc's scale in terms of geographic coverage and diversity of services, improved operational efficiency and strengthened negotiation and collaboration with stakeholders, including healthcare providers, insurance companies, and regulatory agencies.

Students should analyze the impact of Teladoc's strategic decisions on its service offerings and market presence and examine how its approach to acquisitions and business model innovation has driven its success, using examples such as the Livongo merger for practical insights.

*Transforming its resource base:* Teladoc adapted not only to the changes in the healthcare industry but also played a transformative role in the delivery of healthcare services. The company integrated various healthcare services into one user-friendly platform, significantly

changing the consumer experience of telemedicine. The COVID-19 pandemic accelerated the adoption and acceptance of telemedicine, with Teladoc playing a leading role. The organizational transformation at Teladoc included reconfiguring the operating model to meet market demands, technological advancements, and the regulatory environment. This included expanding the portfolio to cover a full range of medical services and integrating artificial intelligence and data analytics for personalized healthcare, particularly following the acquisition of Livongo. Teladoc's influence also extended to shaping reimbursement policies and consumer preferences, influencing the regulatory and economic landscape, and further solidifying its role as a market transformer. Students should focus on Teladoc's role in transforming the US healthcare sector, emphasizing strategic growth, diversification, and innovation in telemedicine.

### **3.3.2 Should Teladoc position itself as a whole-person care provider or as a niche player in the future?**

To assess whether Teladoc positions itself as a whole-person care provider or a niche player in the future, we propose using the SAF Framework for strategic option analysis by Gerry Johnson and Kevan Scholes (1985) . Shortly introduce the SAF Framework to the class and hand out empty SAF tables to fill out (Appendix 10). SAF is based on three key criteria:

- *Suitability*: Assesses how well Teladoc's positioning strategy fits with the external environment and overall objectives of the organization.
- *Acceptability*: Evaluates the expected return, risk, and stakeholder reactions of Teladoc's positioning strategy.
- *Feasibility*: Examines whether Teladoc has or can obtain the resources and competencies necessary to position itself as either whole-person care or niche player.

Our analysis acknowledges that there is no single definitive answer to this strategic decision.

We aim to encourage a lively class discussion by offering perspectives and inspirations, not set

solutions. We suggest Teladoc maintains its whole-person care approach while positioning its multiple brands as niche players to consumers. This strategy blends contract efficiency for B2B clients with the trust of smaller brands for consumers, aligning with market demands with Teladoc's strengths.

## **1. Suitability**

*Whole-Person Care Provider:* Teladoc's strategy, offering comprehensive, and holistic healthcare services, positioned the company as a leader in the sector, catering to both individual and B2B clients' needs for cost-effective, integrated care. This diversified approach provided stability during economic changes, supported innovation, and maintained mainly its workforce, giving Teladoc a competitive advantage as smaller rivals struggled with investments. This established positioning was challenging for competitors to replicate (Appendix 11). Additionally, Teladoc benefited from internal cost and process efficiencies due to its scale and bargaining power, aligning with its mission to provide accessible healthcare globally on patient terms.

*Multiple Niche Players:* Specializing in niche healthcare segments would enable Teladoc to offer highly customized services and develop deep expertise, increasing its market share. This focus would help Teladoc adapt to market and regulatory changes, as demonstrated during the pandemic. It would allow for more efficient resource use and would reduce the risks of overextension. Emphasizing balanced growth and efficiency, as seen with BetterHelp contributing to a significant portion of revenue, would minimize expansion risks like those from acquisitions, e.g., Livongo, and lessens financial dependencies. Additionally, a clear internal direction would benefit management, employees, and partners.

## **2. Acceptability**

*Whole-Person Care Provider:* Teladoc's choice to remain a whole-person care provider offered high return potential but also came with notable financial and operational risks. The flourishing

telemedicine market, projected to grow significantly, highlighted Teladoc's potential, especially with its large user base. However, financial challenges arose from its loss-making status and expansion through costly acquisitions, requiring continuous funding. Operationally, managing diverse services added complexity, possibly affecting customer satisfaction. Despite these risks, Teladoc's comprehensive service range benefited customer retention and brand reputation. It appealed to cost-conscious consumers and B2B clients seeking integrated healthcare solutions. Investors were optimistic about membership expansion and cross-selling opportunities, but there were also concerns, such as those stemming from the lawsuit misleading investors and Teladoc's heavy reliance on BetterHelp, a major revenue contributor but also a risk factor (Diaz 2022)

*Multiple Niche Players:* Teladoc's shift to become a niche telemedicine player would present a balance of risks and returns. BetterHelp, contributing 42% to revenue, or the risen number of niche competitors highlighted the high potential in niche markets. A niche player focus might reduce capital intensity and risks, leading to more balanced returns. However, increased niche competition could affect market share and profitability, and narrow focus might lose synergies like economies of scale, or cross-selling opportunities. Stakeholder reactions would be mixed: consumers may appreciate specialized services, enhancing satisfaction and trust, while investors might favor balanced growth and profitability. Yet, potential price increases could deter consumers and B2B clients, affecting market share and loyalty. For investors, a niche strategy might mean slower growth, potentially disappointing those seeking rapid, high returns.

### **3. Feasibility**

*Whole-Person Care Provider:* Teladoc, serving 80 million people by 2023, demonstrated its capacity to handle a large customer base and integrate diverse operational systems, as evidenced by its history of acquisitions. With 55,000 providers by 2021, it showed a strong medical professional network. Financially, substantial funding for expansion was needed, and


profitability challenges were observed while Teladoc's stock price declined from February 2021 until October 2023, partly due to the impact of the Livongo acquisition. In response, Teladoc undertook restructuring efforts aiming to prioritize profitability and stabilize finances, marking a shift towards sustainable operations. This included a 6% dismissal of its non-clinician workforce.

*Multiple Niche Players:* Moving to a niche market in healthcare would necessitate technological, organizational, and operational adjustments for more effective specialized service. Specialization would require workforce restructuring, including training, hiring for niche expertise, or layoffs. This shift may need less capital than a broad market presence, which would be beneficial during economic instability and fundraising. Targeting a specific segment would allow for more efficient use of financial resources, potentially aiding profitability.

*Verdict:* This analysis suggested that Teladoc adopting a dual strategy—maintaining its whole-person care provider role while also positioning as a house of multiple niche brands—could be beneficial. This approach allowed Teladoc to enjoy the synergies and appeal of comprehensive care for B2B clients while capitalizing on niche market growth. While both options are *suitable*, staying a whole-person care provider exploited long, built-up synergies while addressing market demand on both B2B and end-consumer side. Both options were also *acceptable*, as staying a whole-person care provider incorporated less risk as it was the fundament of investors and B2B clients relationships. Furthermore, multiple sustainable competitive advantages, identified in 2.2, were based on being a whole-person care provider. It was more *feasible* to keep the existing positioning as a complete restructuring on multiple organizational levels and departments would had to take place. We believe this positioning mixture will create a long-term competitive advantage in the future.

## 5. Teladoc Update

The year 2023 continued to be one of the most difficult years in Teladoc's firm history. Despite Teladoc's important court win against an investors' class-action lawsuit in July 2023, alleging Teladoc of misleading shareholders about the role of competition impacting its virtual care business, the company continued to struggle with stabilizing its stock price and reaching profitability. In October 2023, at the time of writing, Teladoc's stock hit a 6-year all-time low at \$15.57 per share. This decrease equaled a shareholder value destruction of 93.5% within two years. However, Teladoc's CEO Jason Gorevic stated during the Q3 2023 earnings call the following: "[...] we don't believe [the valuation] adequately reflects the value we are driving today and will continue to drive in the future". He justified his statement by highlighting Teladoc's improved adjusted EBITDA which grew by 73% in Q3 (YOY) and could be interpreted as a first step towards profitability. However, critics highlighted that the adjusted EBITDA draws a biased picture. The future will tell if Teladoc's virtual healthcare business model will succeed and reach sustainable profitability.



**3 Key Takeaways from the Teladoc Case**

**Adaption to External Change:** Recognizing the complexities and implications of industry dynamics.

**Importance of Aligning with Core Capabilities:** The significance of aligning business strategies with an organization's core capabilities and market positioning.

**Strategic Positioning's Impact:** Understanding how strategic positioning affects a company's competitive advantages and operational feasibility.

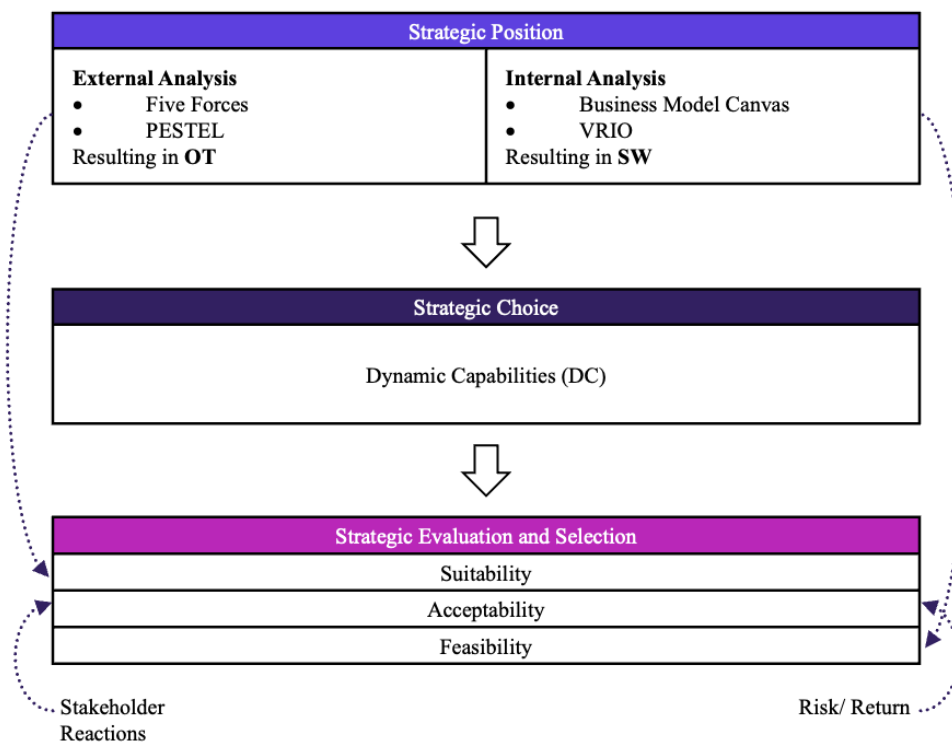
Figure 4. Key Take-Aways for Students (Source: Own Illustration)

## Teaching Note Appendix

### Appendix 1. Further Reading Recommendations

Authors	Title	Year	Description	Link
Michael X. Jin, Sun Young Kim, Lauren J. Miller, Gauri Behari, Ricardo Correa	Telemedicine: Current Impact on the Future	08//2020	The article summarizes the potential role of telemedicine in the future.	Article
Teladoc Health, Inc.	J.P. Morgan Healthcare Conference	01/2022	Key performance indicators of Teladoc	Presentation
Teladoc Health, Inc.	3Q-23 Quarterly Results	10/2023	Teladoc's Q3 results	Presentation
Amar Kendale	Contributed: Lessons from Livongo and Teladoc will help solve the next generation of healthcare challenges	04/2023	The article discusses how Teladoc has to combine technology and new care models	Article
David J. Teece	Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance	12/2007	An academic overview on the framework of dynamic capabilities	Article

### Appendix 2. Case Analysis Framework



Source: Wu (2010)

### Appendix 3. PESTEL Analysis for the US Telemedicine Industry

PESTEL Drivers	Description
<b>Political</b>	<ul style="list-style-type: none"> <li>• Relaxation of regulations during COVID-19 to expand and improve access to telemedicine services.</li> <li>• Founding of the “Telemedicine Access for America coalition”, which advocates for policy expansion.</li> <li>• Introduction of the Health Data Use and Privacy Commission Act to modernize health data laws.</li> <li>• Expansion of reimbursement policies for telemedicine services.</li> <li>• Possible changes in telemedicine policy through future administrations or legislative changes.</li> </ul>
<b>Economical</b>	<ul style="list-style-type: none"> <li>• Rising healthcare costs driving demand for telemedicine.</li> <li>• Inflation and economic challenges leading consumers to seek affordable healthcare options.</li> <li>• Increased adoption of digital health solutions due to the pandemic's impact on the economy.</li> <li>• Increased healthcare cost efficiency through telemedicine.</li> <li>• Telemedicine as a solution to healthcare provider shortages.</li> <li>• Market dynamics, e.g. competition between telemedicine providers and traditional healthcare services.</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>• Growing health consciousness supporting telemedicine adoption.</li> <li>• Pandemic-induced shift in consumer preferences towards remote healthcare options.</li> <li>• Increased familiarity with digital connectivity enhancing telemedicine's appeal.</li> <li>• Enhanced focus on mental health services via telemedicine.</li> <li>• Adoption of telemedicine in routine care management post-COVID-19.</li> <li>• Demographic trends, such as an ageing population, which could increase demand for telemedicine services.</li> </ul>
<b>Technological</b>	<ul style="list-style-type: none"> <li>• Advancements in mobile health technology and applications.</li> <li>• Enhanced digital infrastructure facilitating telemedicine services.</li> <li>• Rapid technological adoption in telemedicine accelerated by the pandemic.</li> <li>• Integration of AI and machine learning for diagnostic support.</li> <li>• Emerging technologies such as blockchain to securely manage patient data.</li> <li>• The potential impact of cybersecurity threats on telemedicine platforms.</li> </ul>
<b>Environmental (no focus)</b>	<ul style="list-style-type: none"> <li>• Reduction in carbon footprint, such as patient travel and facility energy consumption.</li> </ul>

	<ul style="list-style-type: none"> <li>• concerns about electronic waste and the energy consumption of digital technologies.</li> </ul>
<b>Legal</b>	<ul style="list-style-type: none"> <li>• The Patient and The Patient Protection and Affordable Care Act influencing healthcare delivery and reimbursement.</li> <li>• Changes in state licensure requirements for telemedicine.</li> <li>• Data privacy and security laws regulating medical data storage and patient confidentiality.</li> <li>• Ongoing updates to telemedicine regulations at federal and state levels.</li> <li>• International legal considerations for cross-border telemedicine services.</li> <li>• Intellectual property issues related to telemedicine technologies and software.</li> </ul>

#### Appendix 4. Porter’s Extended Five Forces for the US Telemedicine Industry

##### THREAT OF NEW ENTRY

- High capital requirements
  - Strict federal and state regulations
  - Brand recognition
- ➔ **Moderate**

##### SUPPLIER POWER

- Unique supply input
  - Difficult supplier qualification procedures
  - Limited supplier competition
  - High switching costs
- ➔ **High**



##### COMPETITIVE RIVALRY

- High diversity of competitors
  - High industry growth
  - High concentration of competitors
- ➔ **High**

##### BUYER POWER

- Low switching costs for buyers
  - High information transparency
  - Broad customer base
- ➔ **High**

##### THREAT OF SUBSTITUTION

- Strong position of in-person consultations
  - Low switching costs for patients
- ➔ **High**

##### COMPLEMENTOR POWER

- Limited complementary goods
- ➔ **Low**

## Appendix 5. Teladoc's Business Model Canvas

Key Partners	Customer Segments	Value Proposition	Customer Relations	Key Activities
<ul style="list-style-type: none"> <li>Healthcare provider networks</li> <li>Healthcare organizations</li> <li>Technology companies</li> <li>Technology providers</li> </ul>	<ol style="list-style-type: none"> <li>Individual patients</li> <li>Healthcare organizations</li> <li>Employers</li> <li>Insurance companies</li> </ol>	<ol style="list-style-type: none"> <li>Individual patients:               <ul style="list-style-type: none"> <li>On-demand care</li> <li>No travel time</li> <li>Decreased waiting time</li> </ul> </li> <li>Business clients:               <ul style="list-style-type: none"> <li>Positive ROI</li> <li>Reduced healthcare costs for employers</li> <li>Employees spend less time at the doctor</li> </ul> </li> <li>Healthcare providers:               <ul style="list-style-type: none"> <li>Large patient pool</li> <li>Low administrative burdens</li> <li>High work flexibility</li> </ul> </li> </ol>	<ul style="list-style-type: none"> <li>Patient-centric approach</li> <li>24/7, 365 days a year assistant</li> </ul>	<ul style="list-style-type: none"> <li>Customer-oriented: digital medical consultations, prescribing medication, wellness support services, on-demand medical special consultations, and mental health consultations</li> <li>Internal: Improvement of telemedicine platform, development of new service offerings, and recurring regulatory compliance checks</li> </ul>
	<p><b>Key Resources</b></p> <ul style="list-style-type: none"> <li>Large force of skilled healthcare professionals</li> <li>Excellent technological infrastructure</li> <li>Strong brand reputation</li> </ul>		<p><b>Channels</b></p> <ul style="list-style-type: none"> <li>Mobile app</li> <li>Website</li> <li>Telephone line</li> </ul>	
<p><b>Cost Structure</b></p> <ul style="list-style-type: none"> <li>Technology infrastructure and maintenance costs</li> <li>Provider network management</li> <li>Personnel costs</li> <li>Marketing and sales expenses</li> </ul>		<p><b>Revenue Streams</b></p> <ul style="list-style-type: none"> <li>Subscriptions fees</li> <li>Consultation and visitation fees</li> <li>Lending and selling medical equipment</li> </ul>		

## Appendix 6. Analysis of Teladoc's Key Partners and Channels (Business Model Canvas)

**Key partners:** Teladoc used strategic partnerships to expand its reach and offerings and provided innovative solutions for its consumers. Therefore, the company partnered with

healthcare provider networks to access more healthcare specialists. Additionally, Teladoc partnered with technology providers like Microsoft or Amazon to provide customers with innovative products and services for virtual healthcare.

**Channels:** Teladoc’s channels comprised a mobile app, a website, and a telephone line. Additionally, Teladoc integrated its healthcare services with health plan systems to give patients direct access to Teladoc’s solutions.

**Appendix 7. SWOT**

*Serves as an overview and identification for possible sustainable competitive advantages.*

<p><b>Strength</b></p> <ul style="list-style-type: none"><li>• Pioneering status in telemedicine with the largest market share.</li><li>• Comprehensive service offerings including primary care, mental health, chronic condition management, etc.</li><li>• Global presence, expanding in various international markets.</li><li>• Technological innovation and integration, enhancing virtual healthcare delivery.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>• Integration challenges with acquired companies.</li><li>• Legal and regulatory challenges in various markets.</li><li>• Reliance on technology which can have its own set of issues (e.g., data security, system outages).</li><li>• High acquisition costs leading to financial strain.</li></ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>• Growing demand for telehealth services, accelerated by the COVID-19 pandemic.</li><li>• Expansion into new markets and healthcare segments.</li><li>• Partnerships and collaborations with other healthcare entities.</li><li>• Technological advancements offering new ways to provide care.</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>• Increasing competition from both established healthcare providers and new entrants.</li><li>• Rapid changes in healthcare regulations and policies.</li><li>• Potential cybersecurity threats and data privacy concerns.</li><li>• Market volatility and changing consumer preferences.</li></ul>

## Appendix 8. VRIO Analysis

Resource	VALUE	RARITY	IMITABILITY	ORGANIZATION	Impact on Competitive Advantage
<b>Scale of Operations</b>	<ul style="list-style-type: none"> <li>Significant market presence</li> <li>Economies of scale</li> <li>Broad customer base</li> </ul>	<ul style="list-style-type: none"> <li>Largest US telemedicine players</li> </ul>	<ul style="list-style-type: none"> <li>Not impossible, but complex, costly, time-intensive</li> <li>Multiple, long-term relationships</li> </ul>	<ul style="list-style-type: none"> <li>Built for growth</li> <li>Ability to manage and utilize operations</li> </ul>	<b>= Sustainable competitive advantage</b>
<b>Single Integrated Offering</b>	<ul style="list-style-type: none"> <li>Vast range of services</li> <li>Broad customer base</li> <li>Integrated care</li> <li>Single, cost-efficient, easily manageable solution</li> </ul>	<ul style="list-style-type: none"> <li>Breadth and integration of services not common</li> </ul>	<ul style="list-style-type: none"> <li>Complexity presents significant barrier</li> <li>Imitation costly and challenging</li> </ul>	<ul style="list-style-type: none"> <li>Proven adept at integrating services</li> <li>Technological investment to ensure service delivery</li> </ul>	<b>= Sustainable competitive advantage</b>
<b>Network</b>	<ul style="list-style-type: none"> <li>Ongoing, long-term, complex relationships with diverse groups</li> <li>Meet high service demands, high availability</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 450 million health interactions annually</li> <li>Expansive geographical reach</li> </ul>	<ul style="list-style-type: none"> <li>Large in numbers, diverse in services</li> <li>Imitation costly and complex</li> </ul>	<ul style="list-style-type: none"> <li>Commission a third party with the acquisition of providers (THMG)</li> </ul>	<b>= Sustainable competitive advantage</b>
<b>Brand Reputation</b>	<ul style="list-style-type: none"> <li>Pioneer and market leader</li> <li>Global presence</li> <li>Recognition and trust</li> </ul>	<ul style="list-style-type: none"> <li>Pioneer and market leader</li> <li>Operating more than 20 years</li> </ul>	<ul style="list-style-type: none"> <li>Imitation of pioneer impossible</li> <li>Imitation of leader costly and complex</li> </ul>	<ul style="list-style-type: none"> <li>Built for growth, thus effectively leveraging brand reputation</li> </ul>	<b>= Sustainable competitive advantage</b>
<b>Business Model</b>	<ul style="list-style-type: none"> <li>Addresses patient needs effectively</li> <li>Diversified services, channels, revenue streams</li> </ul>	<ul style="list-style-type: none"> <li>Not rare</li> <li>Subscription services are more adopted</li> </ul>	-	-	<b>= Competitive Parity</b>
<b>Financial Resources</b>	<ul style="list-style-type: none"> <li>Robust and diverse revenue streams</li> <li>Funding</li> </ul>	<ul style="list-style-type: none"> <li>Substantial financial resources in telemedicine industry not rare</li> </ul>	-	-	<b>= Competitive Parity</b>

### Business Model:

Teladoc's business model encompasses unique approaches and strategies that enabled the company to create and capture value in the telemedicine market while differentiating itself to competitors. This is why applying the VRIO framework works. The integration of diverse telemedicine services not only offered comprehensive and accessible healthcare services, catering to a broad spectrum of customer needs, but also ensured stable and predictable revenue through diverse sources like subscription services, pay-per-visit models, and enterprise partnerships.

*Value:* The value of this model was evident as it addressed patient needs effectively while offering a diversified services, channels, and revenue streams. Teladoc's success in

aligning and satisfying multiple stakeholders, despite the inherent complexity, further underscored the model's value.

*Rarity:* Teladoc's leader status in the US market was being challenged as similar integrated telemedicine models, particularly those based on subscription services, were increasingly adopted by competitors like Amwell. This shift reduced the rarity of Teladoc's model, placing it at **competitive parity** in the market.

*Imitability:* Regarding the costliness to imitate, while Teladoc's model was complex and challenging to replicate at scale, it was not prohibitively expensive or difficult for well-resourced competitors to emulate. The telemedicine market's evolution, marked by an increasing number of players and technological advancements, made the model more imitable.

*Organization:* The business model was organized to capture value since it was integrated within Teladoc's structures and processes, the management has demonstrated a clear strategy to leverage it effectively, and it was supported by the culture through, e.g., its vision. The company's success in integrating acquisitions and expanding service offerings, along with navigating the healthcare and regulatory landscape, spoke to its organizational prowess.

In conclusion, while Teladoc's business model was valuable and well-organized, it did not fully satisfy the VRIO criteria of rarity and costliness to imitate. To ensure a sustainable competitive advantage, Teladoc must continually innovate, adding unique and hard-to-imitate elements to its business model, leveraging its existing strengths and organizational capabilities to stay ahead in the competitive telemedicine landscape.

#### **Financial resources:**

*Value:* Teladoc's financial strength, characterized by robust revenue streams, capital for investments, and funding for acquisitions and expansion, was an invaluable cornerstone of its business strategy. The company raised a total of \$411.6 million, including \$254.8 million through funding rounds and approximately \$156.8 million from its IPO. This financial capacity

had been particularly advantageous in times of economic uncertainty, setting Teladoc apart as competitors struggled to keep pace with innovation and operational costs. Teladoc's consistent growth in revenue and EBITDA, even as others in the sector faced challenges, underscored the effective management and strategic deployment of its financial resources, enabling significant investments in technology, marketing, and growth initiatives. Testament for this was its planned investment of over \$175 million in research and development in 2024. Furthermore, Teladoc's diverse revenue sources, including subscription services, pay-per-visit models, and enterprise partnerships, provided a buffer against market fluctuations and competitive pressures.

*Rarity:* However, in the competitive landscape of telemedicine and broader healthcare, substantial financial resources were not rare. Many companies, particularly large healthcare providers and blue-chip companies entering this space, possessed significant financial strength. This placed Teladoc at a position of **competitive parity** rather than distinct advantage in terms of financial resources.

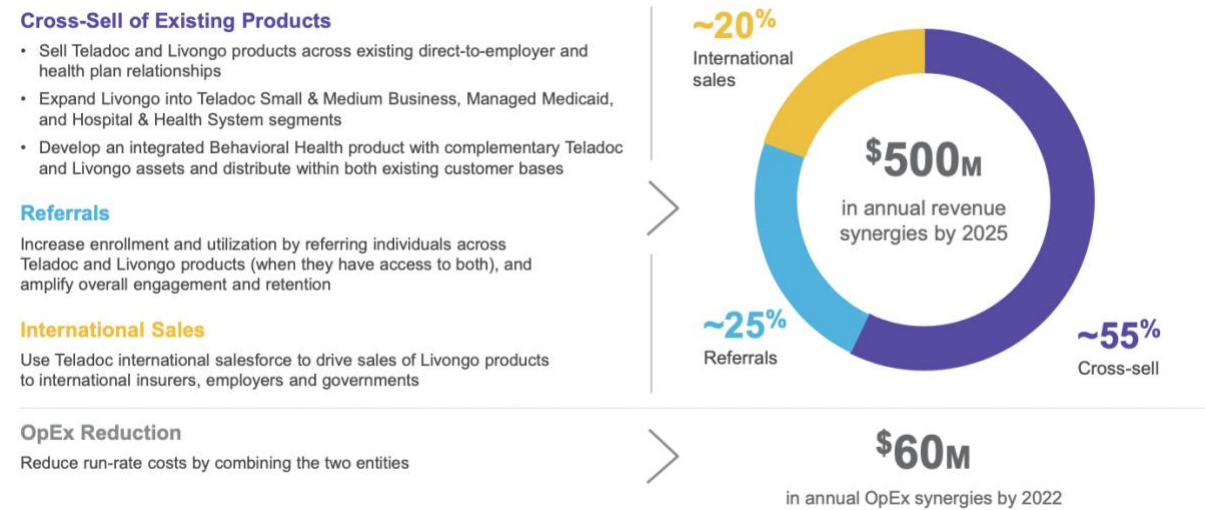
*Imitability:* Financial strength was crucial for competitive positioning and growth, but not inherently costly to imitate. It often resulted more from successful business operations, market positioning, and investor confidence than from being a unique, inimitable resource. Competitors with effective operations or access to capital markets could also amass strong financial resources.

*Organization:* Teladoc had shown the ability to utilize its financial resources effectively, evident in strategic acquisitions and investments in technology. However, the company had also faced challenges in expansion, particularly in integrating Livongo.

Overall, Teladoc's financial resources did not fully satisfy the VRIO framework's criteria. In industries like healthcare and technology, where the dynamics were capital-intensive, competitors, especially those with substantial resources or venture capital access, could secure similar financial strengths. For Teladoc, the key lied in leveraging its financial resources in

innovative ways, such as investing in groundbreaking technologies, developing new business models, or exploring untapped markets. Such strategies provided more distinct competitive advantages and aligned better with sustaining a competitive edge in the market.

**Appendix 9. Revenue and Cost Synergy Opportunities**



Source: Investor Presentation (Teladoc Health, Inc. 2020)

**Appendix 10. SAF Analysis for Teladoc’s Positioning Choice**

	Whole-person care	Niche player
<b>Suitability</b>		
<b>Exploit Opportunities</b>	<ul style="list-style-type: none"> <li>• End-consumer: Demand for interconnected care, demand on cost-efficient care</li> <li>• B2B: Demand for simple, integrated, cost-efficient care</li> <li>• Leveraging on synergies, such as cross- and up-selling or economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>• Quality and personal touch demanded by end-consumers in healthcare given by niche players through customized services</li> <li>• Specialized expertise</li> </ul>
<b>Avoid Threats</b>	<ul style="list-style-type: none"> <li>• Diversified position more stable in economic uncertain times</li> <li>• New entrants</li> </ul>	<ul style="list-style-type: none"> <li>• Adaption to market changes</li> <li>• Optimizing resource allocation</li> </ul>

<b>Amplify Objectives</b>	<ul style="list-style-type: none"> <li>• Achieving mission</li> <li>• Internal cost and process efficiencies</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on balanced growth and efficiency</li> <li>• Clear focus</li> </ul>
<b>Acceptability</b>		
<b>Risk and Return</b>	<ul style="list-style-type: none"> <li>• Strong return potential with a market size of \$35.45 billion in 2022 and CAGR of 12.5% from 2023 to 2032</li> <li>• Serving 80 million users indicates strong return potential</li> <li>• High financial risks due to costs associated with acquisitions and continued need of funding being a loss-making company</li> <li>• High operational risk due to complexity of managing services</li> </ul>	<ul style="list-style-type: none"> <li>• BetterHelp, being responsible for 42% of total revenue, indicates high return potential of niche players</li> <li>• Increasing numbers of niche competitors, shows return potential</li> <li>• Less capital intensive, smaller but more balanced returns</li> <li>• Market risk of increased niche competition</li> <li>• High risk due to loss of synergies, especially brand reputation, bargaining power, economies of scale and selling opportunities</li> </ul>
<b>Stakeholder Expectations</b>	<ul style="list-style-type: none"> <li>• Increased retention and brand reputation</li> <li>• Favorable consumer reaction due to cost-efficiency</li> <li>• Favorable B2B client reaction as one single solution is offered</li> <li>• Expansion of membership base and cross-selling increases potential for high returns, favorable for investors</li> <li>• Skeptical investor reactions regarding acquisitions after investor deception lawsuit</li> <li>• Huge dependence on one single business entity “BetterHelp” could lead to negative reactions</li> </ul>	<ul style="list-style-type: none"> <li>• Favorable consumer reactions due to more trust signaling with health being a private, sensitive topic</li> <li>• Favorable consumer reactions as higher specialization results in superior service quality</li> <li>• Favorable investor reaction as focus is on balanced growth and profitability</li> <li>• Negative consumer and B2B client reaction due to price increases</li> <li>• Negative investor reactions as slower growth means lower potential returns</li> </ul>
<b>Feasibility</b>		
<b>Operational Resources</b>	<ul style="list-style-type: none"> <li>• By 2023, Teladoc served 80 million people, indicating operational capacity</li> <li>• Extensive history of acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>• Requires changes in technological, organizational and operational infrastructure to cater to specific healthcare needs more effectively</li> </ul>

<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• Extensive network of 55,000 providers in 2021</li> <li>• Layoff of 6% of its non-clinician workforce in 2023 indicates a focus on optimizing human resources</li> </ul>	<ul style="list-style-type: none"> <li>• Restructuring the workforce</li> </ul>
<b>Financial Resources</b>	<ul style="list-style-type: none"> <li>• Substantial financial resources needed for expansion, but not profitable, need for funding</li> <li>• Drastic stock price decrease since February 2021 until October 2023, Livongo acquisition being one reason</li> <li>• Teladoc undertook restructuring efforts to prioritize profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Less capital intensive, easier to raise money in economically unstable times</li> <li>• More efficient use of financial resources</li> <li>• May be easier to become profitable</li> </ul>

**Appendix 11. Expert Interview with the SVP Communications Teladoc**

This expert interview was conducted with Chris Stenrud, the Senior Vice President, Communications of Teladoc Health. The overall goal of this interview is to obtain more insights about Teladoc’s positioning, competitiveness, and future outlook.

- Hello Mr. Stenrud, thank you again so much for taking the time! Your expert input is highly relevant and appreciated to gain insights into Teladoc’s positioning, competitiveness, and future outlook. Let’s start right off. Teladoc positions itself as a whole-person care telemedicine provider. What are the key (three) benefits of this positioning strategy – especially in regard to the positioning of specialized niche players?

**Chris Stenrud:** We see a couple of benefits to approaching the market this way.

First, health is holistic and interconnected. For instance, the rate of mental health challenges facing a person with Type 2 diabetes or hypertension is much higher than the patient without a chronic disease, so clearly these is a physiological connection. Our integrated approach gives us the ability to treat the person and not only the disease. Second, our commercial buyers are

frustrated with multiple point solutions for both their cost and the difficulty in coordinating them all for their members or employees. We provide a single integrated offering, typically at a discount from trying to pull all these individual services together independently.

- How do you differentiate yourself from direct competitors (like Amwell, MDLive, or Included Health)? What would you say are the unique competitive advantages of Teladoc?

**Chris Stenrud:** There are a few different ways we differentiate. First, our integrated offering that includes urgent care, primary care, chronic care, specialty care and in-patient care is far more comprehensive and integrated than any of the services you mention. Second, we are the only service providing virtual care at true scale. We serve more than 90 million people with more than 450 million health interactions annually. No one else is doing that or operating close to our scale. One of the companies you mentioned just announced \$60M in revenue for Q3. We did over \$600M in Q3. That scale allows us to do many things our competitors can't like focus extensively on clinical quality. As an example, we have the only certified Patient Safety Organization (PSO) among virtual providers in the United States.

- Entry of Amazon: Amazon Care entered the market in 2019 but shut it down at the end of 2022. Now Amazon has launched a new platform, Amazon Clinic. Does this second attempt by Amazon show that the telemedicine market is a difficult market to conquer and succeed in long term? What is Teladoc doing better than Amazon Care to ensure long term success?

**Chris Stenrud:** Yes, I think so. Healthcare is a highly regulated industry that is incredibly "high touch" from the perspective of the clinician and the patient. And the healthcare system is complicated and interdependent, not the transactional world of retail. We've been purpose-built to be part of the healthcare system for 20 years, so I do think it gives us an advantage.

- Does Teladoc see Amazon Clinic as a big threat in the telemedicine market?

**Chris Stenrud:** Amazon has massive resources, so you can never count them out. But we have created a platform for ongoing, long-term and complex health care relationships with consumers, clinicians, employers, health plans and hospitals, and I think it's difficult to build those relationships overnight.

- After the breath-taking rally of the stock, the downturn followed throughout 2021 with a steady decline until now. Of course, the external environment with increased interest rates, low economic growth, and a high degree of uncertainty contribute to the current stock performance. But still, it seems Teladoc did not manage to profit and capitalize on the trend towards digitalization and virtual care due to COVID in the long term. Is this a wrong perception or can you name strategic decisions that should have been taken differently in the past?

**Chris Stenrud:** I do think that's the wrong take. Teladoc Health did big deals during COVID to build our chronic care and hospital capabilities that are continuing to pay off for us post-pandemic. We leveraged our virtual urgent care service during the pandemic to accelerate our build of an integrated whole-person care platform. We continue to show revenue and EBITDA growth quarter after quarter while competitors are shrinking, so we feel good about how the business has run. Clearly our sector has fallen out of favor with investors and the macroeconomic forces you mention mean that investors are more interested in profit than revenue growth now. Hyper revenue growth was our focus for our first 20 years, so we are now shifting to more balanced growth as stock prices now trade on multiples of EBITDA rather than revenue in this market.

- And what does the economic uncertainty, also mentioned as threat in the annual report 2022, mean for Teladoc's performance in the US in the next years?

**Chris Stenrud:** The economic uncertainty has actually been a positive differentiator for us as our competitors struggle to invest in innovation and make payroll. Teladoc Health by contrast

has more than \$1B on our balance sheet and will invest more than \$175M in research and development in 2024.

- In the annual report 2022, a focus was on the path to profitability, which also justified, among other reasons, the cut-offs. Looking at the current economic and political situation, when do you think is it realistic to become profitable?

**Chris Stenrud:** We haven't shared a target date on profitability publicly, but we continue to make significant progress, including a substantial beat of market consensus on AEBITDA in our Q3 2023 results reported last month.

- Where do you see the telemedicine market in 10 years? Which strategic priorities does Teladoc focus on and why?

**Chris Stenrud:** Overall, we see “virtual care” becoming just “care” over the next decade, just as online banking has just become the way we bank. There will continue to be many elements of care that must happen in-person, but we see appropriate use cases for many, many more services to be offered virtually. This has the potential to close many longstanding access gaps in healthcare within communities and globally, which we see as very exciting. Teladoc Health will continue to expand the range and depth of healthcare services provided on our platform as we harness more data using AI to create a more hyper personalized healthcare experience for our more than 90 million members.

## **Appendix 12. Expert Interview Consultant Nicolas Brauch**

The following interview was conducted with Nicolas Brauch, Consultant at Simon-Kucher & Partners with a focus on the digital healthcare sector. The aim of this expert interview is to obtain an objective expert opinion about the future of the telemedicine market.

- Hi Mr. Brauch, thank you very much for carving out the time for this interview! As already discussed beforehand the following interview will primarily focus on your

opinion on the telemedicine market and the problems that your healthcare/telemedicine clients face. Based on your expertise and experience in the healthcare industry, what role does telemedicine play in the healthcare industry?

**Nicolas Brauch:** It is of growing importance within the entire Pharma & Life Science landscape as it can be used and easily implemented in both developed and developing countries. Especially for the latter, it enables scalability options, despite upfront costs, with lower maintenance costs, increasing healthcare chances for all societal levels.

- It is of growing importance within the entire Pharma & Life Science landscape as it can be used and easily implemented in both developed and developing countries. Especially for the latter, it enables scalability options, despite upfront costs, with lower maintenance costs, increasing healthcare chances for all societal levels.

**Nicolas Brauch:** Within EU-5 and the US (and probably most other developed countries), healthcare providers are trying to implement telemedicine as it creates a win/ win for both patients as well as HCPs<sup>5</sup>.

- Which opportunities do you see for healthcare companies to expand into the telemedicine market?

**Nicolas Brauch:** Of course, the field yields many opportunities for healthcare companies, but these would be my top three opportunities: Firstly, expand specialized services in various healthcare fields. Secondly, develop user-friendly telemedicine platforms, and thirdly, collaborate with partners for wider reach and coverage.

- As an expert in the healthcare field, which challenges are telemedicine companies, as well as companies who miss out on this growth market, facing?

**Nicolas Brauch:** Not exhaustive, but here are a few examples: regulatory issues, security, and user adoption of older people.

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<sup>5</sup> HCP defined as healthcare professional

- If applicable, can you highlight the changes and trends that developed throughout COVID-19 within the telemedicine industry?

**Nicolas Brauch:** Technology advancements lead to higher adoption rates across different patient groups. Additionally, higher access to digital platforms, especially in more rural locations, was enabled.

- In your opinion what are the current barriers to the adoption of telemedicine?

**Nicolas Brauch:** In addition to the above mentioned issues, standardization and interoperability across different healthcare systems. This should be easier and more accessible for all, however, e.g., in Germany many difficulties occur due to systems unable to work with one another.

- In which medical fields do you see telemedicine as most effective and useful?

**Nicolas Brauch:** Across all to be honest but if I were to pick one it would be primary as well as follow-up/ maintenance care. The rationale for this is that more serious health issues can then be treated by an HCP in person (leading to more time and especially more focus on issues) and less serious issues can be addressed via telemedicine.

- Did you recognize a technological disruption within the healthcare market due to the increased adoption of artificial intelligence?

**Nicolas Brauch:** AI has played a huge role within the healthcare market across the entire value chain. Disruption always has its pros and cons but it will lead to better, more convenient, and hopefully cheaper healthcare across the world

- Looking at the biggest players in the telemedicine market are there any dominant players that come to your mind? (Teladoc, Amwell, Included Health, Amazon Care/Clinic, etc. ?) And if so what characterizes them? (whole-person care provider vs. specialized niche players)

**Nicolas Brauch:** Teladoc emerged hugely when Covid first occurred in Q1/Q2 2020. Since then many whole-person and specialized players have emerged. For me most interesting was e.g., Amazon and Apple entering health, proving that non-health companies may use their resources wisely and disrupt an eco-system with historically high entry barriers.

- Where do you see the telemedicine market in the next 5 to 10 years? Is it a form of medical service that is here to stay?

**Nicolas Brauch:** Definitely. It will require regulatory adoption and acceptance but this form of medical service will grow of bigger and bigger importance as it enables so many opportunities across the entire population, regardless of rich or poor.

### **Appendix 13. Expert Interview with Doctor Felix Magner**

This expert interview was conducted with Dr. Felix Magner, a renowned Doctor of Ophthalmology. The overall goal of this interview is to obtain more insights into the future of the telemedicine market.

- Hello Felix, first of all, thank you for your time and contribution to our thesis. In recent years, telemedicine has experienced an incredible success story, boosted by the COVID-19 pandemic, and patient visits have skyrocketed. What role does telemedicine actually play? Do you have colleagues who already have experience with or use telemedicine providers?

**Dr. Magner:** Telemedicine is an important treatment tool in healthcare, especially for the future, because you can differentiate early on between real emergencies that need to be called into the practice and patients who can be helped by a diagnosis via the screen. Unfortunately, I can't think of any colleagues that I know of who have already practiced telemedicine.

- What possibilities or opportunities do you see for telemedicine (doctors, patients, hospitals/insurance companies)? To what extent do you think telemedicine is useful for mental health, chronic disease management, and primary care?

**Dr. Magner:** Opportunities for doctors include less personnel expenditure, process optimization or time savings, better patient selection, and cost savings. For patients, there are benefits like faster appointment allocation, faster diagnosis and therapy, and simplified prescription allocation, especially for chronic illnesses. This is particularly helpful for patients in rural areas who have no access to specialist doctors nearby. So it is less of an logistical and organizational effort. Hospitals can benefit from a lower risk of infection for both patients and staff, as well as cost and staff savings. Insurance companies may see cost savings, for example, through standardized initial admission questionnaires in emergency rooms and the resulting filtering of patients.

- What challenges do doctors, patients, and hospitals/insurance companies face when introducing and using telemedicine?

**Dr. Magner:** There are technical challenges for both users and providers, along with the need for protection of patient data and legal aspects to consider. A manual, clinical examination is only possible to a limited extent, which means that important information for further care is withheld, potentially being a source of error for decision-making.

- Where do you see the telemedicine market in the future, say in the next 10 years?

**Dr. Magner:** Due to the shortage of doctors and the increasingly difficult financing of hospitals, alternatives must be created for doctors and patients. Telemedicine offers a good, progressive approach to treating a higher volume of patients with lower costs and effort. It is likely to become increasingly important in patient care over the next ten years as patient demand increases.

- Thank you very much for your time and contribution to my thesis. Your insights are invaluable and will greatly enhance our understanding of the evolving telemedicine landscape.

#### **Appendix 14. Expert Interview with Moritz Schmidt, Medicine Student**

This expert interview was conducted with Moritz Schmidt, who has finished its general medicine studies and is currently pursuing its medical PhD in neuroscience – both at the University of Marburg in Germany. The overall goal of this interview was to gain insights of possible transformation dynamics and future developments from traditional medicine to telemedicine. As medical students present a vital stakeholder of the healthcare system of tomorrow, they will shape the future telemedicine market.

- Hello Mr. Schmidt, thank you for taking the time to join us today. We're eager to hear your experiences and insights of this rapidly evolving field, especially regarding multiple aspects of the telemedicine market and your future predictions. Firstly, we would love to know what role telemedicine de facto plays in doctors' practices/hospitals? Do you (have colleagues who) have experience with telemedicine providers?

**Moritz Schmidt:** In my view, telemedicine has not played a significant role in Germany. Specifically, I have not encountered any telemedicine usage in hospitals during my career. Conversely, it is more prevalent in private practices, particularly among younger physician teams, although it is mainly used to complement routine daily practice. T2med, a telemedicine provider, caught my attention in this setting.

- Ok, interesting. T2med is indeed uprising. So, what opportunities do you see then for telemedicine (doctors, patients, insurances)? To what extent is telemedicine, in your opinion, useful for mental health, chronic diseases, and primary care?

**Moritz Schmidt:** Telemedicine has significant potential for all members involved in the healthcare system. It enables the utilization of resources in a more precise, effective, and beneficial manner. Furthermore, it can be focused on mental health, primary care, and chronic diseases with the added benefit of maintaining a close doctor-patient relationship.

- In your opinion what are the current barriers to the adoption of telemedicine?

**Moritz Schmidt:** High data protection requirements are a critical factor. Additionally, the technical requirements for telemedicine services present an impassable obstacle, particularly for elderly patients.

- Makes sense. Regarding COVID-19: Were there any changes in the curriculum? Can you generally take courses in this field?

**Moritz Schmidt:** Telemedicine does not play a role in our university curricula, and regrettably, the pandemic has not prompted any modifications to this. Nevertheless, the pandemic has fostered increased possibilities for digital learning. Alas, the amount and caliber of these opportunities have considerably varied, mostly because of varying levels of dedication among individual instructors. One standout example of comprehensive teaching was demonstrated by the radiology clinic, which utilized its own platform.

- In your opinion, how has COVID-19 changed the attitude towards telemedicine of doctors and patients?

**Moritz Schmidt:** Social distancing and associated limitations have enabled healthcare providers and their patients to recognize the potential benefits of telemedicine. However, significant obstacles, such as data privacy concerns and lack of financial incentives, present a significant barrier to the integration of telemedicine into daily hospital and practice operations.

- Where do you see the telemedicine market in the next 5 to 10 years? Is it a form of medical service that is here to stay?

**Moritz Schmidt:** I hope that all stakeholders in the healthcare system recognize the potential of telemedicine services and products and that these become a regular part of everyday life as soon as possible. Educating patients on the benefits and advantages of these technologies will be crucial, however. Currently, electronic prescriptions and patient files, among other major projects, can only be considered failures. However, these digitization measures establish a foundation for future telemedicine applications. Once all stakeholders recognize the potential of these technologies, they will establish themselves in the long run, leading to greater progress and more efficient patient care and billing.

- Thank you so much for the interview!

#### **Appendix 15. Expert Interview with Antonia Henes, Medicine Student**

This expert interview was conducted with Antonia Henes, who studies medicine and is currently pursuing her medical PhD in neurology at the Heinrich-Heine University in Germany. The overall goal of this interview was to gain insights of possible transformation dynamics and future developments from traditional medicine to telemedicine since medical students will play an important role in the healthcare of tomorrow.

- Hi Ms. Henes, thank you very much for carving out the time for this interview! As already discussed beforehand the following interview will primarily focus on your experience during your medicine studies and possible touch points with the telemedicine industry. Firstly, I would like to know what role telemedicine plays for doctors and hospitals. Do you or your colleagues have experience with the use of telemedicine providers?

**Antonia Henes:** I am happy to be here! I didn't have much contact with telemedicine during my studies or previous hospital internships, or it wasn't part of our training. However, I have

seen that in many general practices in more rural areas, telemedicine is an important part of medical care, for example, in relation to work incapacity certificates.

- What opportunities do you see for telemedicine (doctors, patients, insurances)? To what extent is telemedicine, in your opinion, useful for mental health, chronic diseases, and primary care?

**Antonia Henes:** I think telemedicine can make it easier for people to see their doctor regularly, especially those with chronic conditions that require ongoing medical care. In particular, appointments to simply check important vital parameters such as blood sugar or heart rate can be saved and carried out more quickly via video. Patients with acute illnesses and infectious diseases, for example, can be registered as sick via video so as not to infect other patients in the waiting room. Additionally, telehome visits, where a healthcare professional comes to the patient's home and establishes contact with the doctor, if necessary, helps to triage the various patients. This ensures that there is enough capacity for seriously ill patients to be seen by a doctor.

- In your opinion, what are the current barriers to the adoption of telemedicine?

**Antonia Henes:** As is so often the case in hospitals, many revolutionary steps in everyday hospital life, or even in a practice, fail because of the digitalization involved. The technical expertise required for telemedicine appointments is often viewed critically, especially by the older generation. Moreover, the lack of data protection is often seen as a problem and is associated with additional bureaucracy for the therapist.

- Were there any changes in the curriculum due to COVID-19 or in the years before? Can you generally take courses in this field?

**Antonia Henes:** There were no subsequent changes to the curriculum for my year. One point that has been increasingly covered in seminars since then is the topic of triage in medicine. So far, there are no specific courses on this topic that I could attend.

- In your opinion, how has COVID-19 changed the attitude towards telemedicine of doctors and patients?

**Antonia Henes:** Covid has made it clear to us that video consultations can save an enormous amount of time, especially when it comes to medical consultations where only a certificate of incapacity is required, as is often the case with Covid or uncritical colds. Additionally, telemedicine also protects all the other patients and employees against possible infection in the medical practice. I think that was the first time when even the big critics of telemedicine started to understand its benefits.

- Where do you see the telemedicine market in the next 5 to 10 years? Is it a form of medical service that is here to stay?

**Antonia Henes:** I very much hope that telemedicine will become established in the long term in the next few years. My generation is familiar with the technology, it is just a matter of creating the institutional framework. I also see telemedicine as an opportunity to improve treatment adherence. Contact with patients in the home environment also facilitates family involvement and ensures a holistic patient understanding. For example, studies of diabetes education have shown that interventions delivered in the home environment are more successful in adhering to the design and implementation of agreed therapist strategies.

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A Work Project, presented as part of the requirements for the Award of a Master's degree in  
Management from the Nova School of Business and Economics.

MERGING VIRTUAL CARE: A STRATEGIC ASSESSMENT OF THE  
TELADOC-LIVONGO MERGER

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20/12/2023

## **Abstract**

This paper analyzes strategically the 2020 merger between Teladoc Health, Inc., a virtual healthcare company, and Livongo Health, Inc., a chronic condition management firm. Valued at \$18.5 billion, the merger aimed to create a global leader in whole-person care. Utilizing strategic frameworks like Porter's Five Forces and VRIO Analysis, the study examines the merger's market environment, synergies, financial implications, and integration risks. Despite significant revenue growth, the merger encountered integration difficulties, cultural mismatches, and financial strains. This analysis provides an overview of the merger's strategic objectives, examining their attainability, and setting them within the broader landscape of the telemedicine industry.

Keywords: Corporate Strategy, Telemedicine, Sustainable Competitive Advantage, Strategic Healthcare Merger, Virtual Care Synergies, Merger Impact Assessment

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

## **1. Introduction**

In the rapidly evolving landscape of digital healthcare, the merger between Teladoc Health, Inc. (Teladoc) and Livongo Health, Inc. (Livongo) in 2020 stood as a landmark event. Both Teladoc, established as a leader in telemedicine, and Livongo, a pioneer in chronic disease management, possessed unique strengths and market positions before their merger. This literature-grounded analysis of the merger is focussed on the strategic alignment, market implications, and comparison of the pre-merger's expectations and post-merger's results.

This paper begins by examining Teladoc and Livongo, detailing each company's background and business model before merging. Incorporating the frameworks Porter's Five Forces and VRIO Analysis, the study analyzes the strategic rationale for the merger, focusing on market forces, Livongo's attractiveness, financial implications, potential synergies, and merger risks. Afterwards, the paper evaluates post-merger outcomes in 2023, assessing whether the anticipated benefits were realized, and examines the combined entity's performance amidst changing market conditions. This paper seeks to contribute to the broader discourse on strategic mergers in the healthcare technology sector, providing insights into the factors that drive such decisions.

## **2. Company Backgrounds**

### **2.1 Livongo Health, Inc.**

Livongo, founded in 2014 by former Allscripts Healthcare Solutions CEO Glen Tullman, was a digital health platform to support people with chronic conditions through devices like glucose meters that provided real-time, personalized insights and guidance. Members received a connected device that provided 24/7 monitoring, meaning, for instance, if a diabetes member's glucose reading was off, a Livongo Diabetes Specialist promptly contacted them.

Livongo's mission was to empower people with chronic conditions to live better and healthier lives at a reduced cost. Livongo was a leading provider in its field, initially focusing on diabetes. It expanded to programs for hypertension, behavioral health, diabetes prevention, and weight management which proved better health outcomes to patients ([Appendix 1](#)) (Kleiner Perkins n.d.). Livongo went public in 2019 on NASDAQ and raised \$355 million at a \$2.5 billion valuation – the largest digital health IPO at the time (Ramsey 2019). Livongo's client base included self-insured employers, health plans, government entities, and labor unions. By September 2020, Livongo had more than 410,000 members across more than 1,300 clients while over 30% of Fortune 500 companies reported using Livongo (Teladoc Health, Inc. 2020, 12). The revenue model primarily relied on monthly subscriptions, which constituted 98% of their income in 2019 (Livongo Health, Inc. 2020, 68). The average fee per participant per month was around \$68, varying with the type of chronic disease managed (Comstock 2019).

## **2.2 Teladoc Health, Inc.**

Founded in 2002 by Michael Gorton, Teladoc provided a telemedicine platform offering virtual healthcare services which enabled patients to consult with healthcare professionals remotely, for example, through video calls for medical advice, diagnosis, and prescription services. Teladoc's mission was to empower all people everywhere to live their healthiest lives. The company was the first and largest telemedicine company in the United States (U.S.) in 2020, positioning itself as global whole-person care (WPC) provider ([Appendix 2](#)) (Teladoc Health, Inc. n.d.). Teladoc's customer base was diverse, including employers, health plans, hospitals, and health systems. In 2020, the organization served more than 50% of Fortune 500 employers, 50 health plans, and 600 hospitals and health systems (Teladoc Health, Inc. 2021, 2). The company's paid membership in the U.S. grew by Year-over-Year (YoY) 41%, reaching 51.8 million, and U.S. visit fee saw a 10% increase, amounting to 21.3 million in 2020 (Teladoc Health, Inc. 2021). The company's revenue primarily came from monthly subscription fees,

accounting for about 80% of its income, and per-visit fees, making up the remaining 20% (Teladoc Health, Inc. 2021, 57). Teladoc's revenue grew 32% compared to 2018, reaching \$553 million in 2019. Teladoc's net loss increased from \$97 million in 2018 to \$99 million in 2019, presenting a growth of only 2% (Teladoc Health, Inc. 2021, 54).

### **3. Overview of the Teladoc-Livongo Merger**

At the beginning of 2020, the two companies were worth a combined \$8.5 billion. Financial services organization Piper Sandler estimated in August 2020, that the merger gave the companies a joint enterprise value of \$37 billion. Both stocks initially fell after the deal was announced due to concerns about the high price of the deal and integration risks (Kent 2020). On October 30, 2020, Teladoc acquired Livongo in a deal valued at \$18.5 billion, paid in cash and stock, being at that time the third largest deal for a U.S. company in that year (Levy 2020).

The objectives of the merger centered around rapid revenue growth, high-quality, personalized care to customers, and a strategic positioning as WPC provider which was believed to be essential to meet current and future needs of clients and members (Kent 2020). The strategic alignment of two leaders in their respective domains, created a global leader in the WPC segment and positioned the merged entity as one of the fastest-growing companies in the health technology sector (Teladoc Health, Inc. 2020, Teladoc Health, Inc. 2021). The merger reflected a broader trend towards telemedicine as the pandemic spurred demand (Landi 2020).

### **4. Merger Analysis in 2020**

To analyze the merger in 2020, market attractiveness, Livongo's attractiveness, synergies, financial implications, and integration risks of the merger are examined in the following.

## 4.1 Market Attractiveness

To analyze the competitive environment of the U.S. complex and chronic condition management sector, Porter's Five Forces Analysis, developed by Michael E. Porter, is a suitable framework to apply (Porter 1980).<sup>1</sup>

*Threat of New Entrants:* The threat of new entrants in the market was moderate. The requirements for technological expertise, regulatory compliance, brand recognition, and an extensive network of healthcare providers were barriers for new entrants. However, these were decreasing, letting new entrants in, such as Lyra Health, Inc. (Livongo Health, Inc. 2020, 8).

*Bargaining power of buyers:* The customers' bargaining power was an essential force and categorized as high. Buyers included individual consumers, health plans, government entities, and employers (Livongo Health, Inc. 2020, 7). Even though the broad customer base mitigated the buyers' bargaining power to some extent, there were little switching costs due to the availability of alternatives and often free cancellation policies which put pressure on chronic disease companies to acquire new and retain existing customers.

*Competitive Rivalry:* The rivalry among existing competitors presented the strongest force. The U.S. complex and chronic disease market was attractive with a size of \$2,7 billion and a projected compound annual growth rate (CAGR) of 18% from 2021 to 2027 (Precedence Research 2021). The market potential for chronic diseases surpassed that of one-time doctor visits, as chronic diseases are responsible for 80% of total healthcare costs (Blum 2020). There was diverse and stiff competition from WPC providers, e.g., Teladoc, to niche players, like Omada Health, Inc., to health plans, such as Health Care Service Corporation, or technology companies, like Amazon. This competitive environment was also fueled by the emergence of new technologies, a trend expected to either maintain or even increase the intensity of competition even further (Livongo Health, Inc. 2020, 8).

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<sup>1</sup> In this section, just the three most relevant forces are analyzed. For a comprehensive view, see [Appendix 3](#).

Hence, the competitive landscape was dynamic, with significant threats from new entrants, existing competitors, and high bargaining power of buyers. The framework also guides business strategy to increase competitive advantage (Investopedia 2023). Whether Livongo had a strong position in 2020, due to essential capabilities and resources, is analyzed in the following section.

#### **4.2 Livongo's Attractiveness**

In the following, the VRIO Analysis by Jay Barney is employed to analyze whether Livongo's brand reputation and extensive data analytics capabilities ensured a sustained competitive edge in the market (Barney 1991).<sup>2</sup>

*Value:* Livongo had built a strong brand reputation in the chronic disease management sector. This reputation was valuable as it differentiated Livongo from competitors and increased trust among partners and users. This was proven by their 94% client retention rate, their 75% YoY growth in clients and in their high Net Promoter Score of +64 in 2020 (Teladoc Health, Inc. 2020, 8). Livongo's advanced data analytics, particularly its Applied Health Signals technology, added value by improving treatment outcomes and lowering costs. This capability enabled more effective management of chronic diseases like diabetes, leading to substantial reductions in medical spending and improvements in patient health (Gulati 2020).

*Rarity:* Livongo's brand reputation was considered rare, as the company pioneered in combining technology with personalized healthcare for chronic disease management (Littlejohns 2021). The specific nature of Livongo's data analytics, particularly tailored for chronic disease management, was also rare. The combination of technology and healthcare expertise in this domain was not commonly found among competitors, enabling Livongo to

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<sup>2</sup> For an applied overview of the VRIO framework, see [Appendix 4](#).

have 750 million digital interactions generating biometric and behavioral data (Gulati 2020, Teladoc Health, Inc. 2020, 12).

*Imitability:* Building a brand that replicated Livongo's standing, characterized by innovative leadership, and earned trust, required a considerable investment of time and resources. Achieving a similar level of service excellence, and patient satisfaction, depicted, e.g., in a 96% growth rate of enrolled diabetes members in 2019, was costly to imitate (Livongo Health, Inc. 2020). Livongo's advanced data analytics were difficult and costly to imitate due to the complex integration of technology, healthcare expertise, and patient data, such as their one billion data elements from its chronic care assets (Teladoc Health, Inc. 2021, V).

*Organization:* Organizationally, Livongo utilized its brand reputation to strategically expand its service offerings and build strong partnerships, showcasing its ability to capitalize on its brand for growth. The company was well-equipped to leverage its data analytics capabilities, demonstrated by the integration of its technologies into various healthcare systems. This put the firm for both brand reputation and data analytics at a *sustainable competitive advantage*.

Although a loss-making company, Livongo's brand reputation and extensive data analytics capabilities made the firm stand out relative to its competition while also showing high revenue growth figures, providing high synergy potentials for a merger with Teladoc.

### **4.3 Synergies**

The merger opened numerous opportunities for both revenue and cost synergies. \$500 million in annual revenue synergies by 2025 were identified in 2020, due to cross-selling, referrals, and international sales. Around 55% was attributed to cross-selling, since only 25% of their existing client bases overlapped, indicating substantial potential for expansion on both sides ([Appendix 5](#)) (Teladoc Health, Inc. 2021). The strategy included cross-selling existing products, such as offering both Teladoc and Livongo products across their established direct-to-employer and

health plan relationships. Referrals (~25%) aimed to increase enrollment and utilization by referring individuals across Teladoc's and Livongo's range of products. This strategy was anticipated to amplify overall engagement and retention among users. Leveraging Teladoc's international salesforce to promote Livongo's products to international clients, was predicted to be accountable for ~20% of the revenue synergies. Furthermore, the combination of the entities provided an opportunity for operational expenditure (OpEx) reduction, predicting \$60 million in annual OpEx synergies by 2022 through streamlining run-rate costs, such as customer acquisition costs ([Appendix 5](#)).

#### **4.4 Financial Implications**

Livongo's revenue amounted to \$170.2 million in 2019, up 149% from \$68.4 million in 2018, mainly driven by higher monthly subscription revenue. Despite this, Livongo recorded a loss of \$55.3 million in 2019, an increase of 65.57% from 2018 (Livongo Health, Inc. 2020, 57). Due to Livongo's long-term investments, the company's net loss was expected to increase in the short term (Livongo Health, Inc. 2020, 60).

The merged entity was projected to experience robust revenue growth, with pre-synergy YoY growth between 40% and 45% in 2021, and a CAGR of 30% to 40% from 2020 to 2023 (Teladoc Health, Inc. 2020, 13). According to Tomas et al. (2020), market sentiment considered Livongo's purchase price of \$18.5 billion as fundamentally expensive, with a 13% control premium over its \$16.4 billion market capitalization. Additionally, Stülcken classified the merger as high-risk (2023) since Livongo was unprofitable and had only cash reserves of \$1.3 billion. Moreover, Teladoc's elevated 32.5x EV-EBITDA multiple implied a 32-year payoff period based on current EBITDA, without considering potential growth (Hake 2020).

## **4.5 Merger Risks**

The merger between Teladoc and Livongo brought inherent risks related to the integration process and its impact on the companies' financial conditions and operations. The merger's success depended heavily on integrating the two companies' operations, strategies, technologies, personnel, and client bases. Challenges like delays could have hindered expected benefits while uncertainties might have led stakeholders to reconsider their decisions, negatively impacting revenues, cash flows, and the market price of Teladoc's shares (Teladoc Health, Inc. 2023, 53, Teladoc Health, Inc. 2021). Another risk involved the potential need for additional capital to support business growth as both companies were loss-making firms. Losses impacted operations as a significant part of the company's cash flows would have been allocated to servicing debt. Livongo also faced operational risks due to its reliance on a few third-party suppliers for device components. Any disruption from these suppliers would have been harmful (Teladoc Health, Inc. 2021, 48-49).

## **5. Post-Merger Impact Assessment in 2023**

### **5.1 Post-Merger Successes**

The merger had achieved some key expectations. Financially, the merger was successful in terms of adjusted EBITDA, with the combined company achieving \$127 million in 2020, exceeding the expectation of \$120 million ([Appendix 6](#)) (Seeking Alpha 2020). Furthermore, in 2021, the company experienced a pre-synergy 79% YoY revenue growth, which was significantly higher than the expectation of 40% to 45%. By 2022, the combined entity's revenue growth achieved a CAGR of 48% from 2020 to 2022, surpassing the expected 30% to 40% from 2020 to 2023 ([Appendix 7](#)).

Moreover, the merger aimed to drive better health outcomes and cost savings. The Livongo for Diabetes program demonstrated an average savings of \$1,908 per participant per

year, indicating cost benefits for clients (Livongo Health, Inc. 2020, 11). A peer-reviewed study in 2023 validated these results, showing that individuals engaged in multiple programs concurrently experienced greater health improvements than those managing a single condition (Teladoc Health, Inc. 2023).

Overall, the merger combined Teladoc's strengths in virtual healthcare with Livongo's expertise in chronic condition management, creating a global leader in consumer-centered virtual care. This strategic combination enabled the entity to enhance its overall data analytics capabilities, its global brand reputation, the range of services offerings and thus, Teladoc's mission to become a WPC provider (Hagland 2020).

## **5.2 Post-Merger Disappointments**

However, the merger also fell short in meeting several key expectations. Contrary to the expectation of a smooth integration process, because Livongo was, much like Teladoc, structured for scalability with a complementary culture and an experienced management team, the reality of integration proved challenging (Teladoc Health, Inc. 2020, 2). The two companies encountered differences in their cultures and operational models, complicating the process of a seamless integration. By November 2021, all but one member of Livongo's senior management team had left the new entity. Furthermore, employees faced challenges in meeting performance metrics, indicating integration issues within the merged entity (Pifer 2022). This resulted in increased employee turnover and caused delays in launching new products and services (Price 2023). In January 2023, Teladoc saw another disappointment: a dismissal of 6% of its non-clinician workforce, which was justified with restructuring to streamline operations and enhance financial performance in the wake of the merger's challenges (Burky 2023).

In terms of revenue, the merged company was projected to have a pro forma revenue of approximately \$1.3 billion in 2020 (Seeking Alpha 2020). However, this expectation was not met, with the actual revenue amounting to only \$1.1 billion ([Appendix 6](#)). The anticipated

annual revenue synergy was projected to reach \$100 million by the year 2022. The company reported, however, in 2022 negative revenue synergies of -\$224 million, meaning the projected single entities would have generated more revenue than the combined one ([Appendix 7](#)). Furthermore, the merger was expected to yield estimated annual revenue synergies of \$500 million by 2025. Data up to 2022 suggested that the revenue synergy goal may not be met. This was based on the observed revenue synergies from 2020 to 2022, which indicated each year a shortfall in achieving the targeted outcomes ([Appendix 5](#), [Appendix 7](#)).<sup>3</sup>

Regarding expenses, the expectation was to realize \$60 million in annual OpEx cost synergies by 2022. The merged entity experienced negative cost synergies amounting to -\$338 million in 2022, indicating that the actual OpEx of the combined company was higher than operating separately. This outcome showed that the expected OpEx synergies were not achieved ([Appendix 7](#)). In this calculation the impairment goodwill charge of \$13.4 billion in 2022 was excluded considering it as special, non-recurring effect. Teladoc's expected risk of increased interest expenses associated with the merger had occurred, amounting to a 34% increase in 2021 (Teladoc Health, Inc. 2022, 72). Moreover, the company recognized a noncash goodwill impairment expense amounting to \$13.4 billion in 2022, necessary to write down the value of Livongo. This also reflected the challenging overall operating environment and the deteriorated financial market conditions, including lower market multiples (Landi 2023).

The merger also led to legal complications. A lawsuit was filed, alleging violations of the Securities Act. This legal action stemmed from accusations of misleading statements in the registration statement related to the Livongo merger (Teladoc Health, Inc. 2023, F-39).

Another disappointment was the chronic care program enrollment growth after the merger. It was less robust compared to the pre-merger years, growing 47% in 2021 and 16% in 2022, against 111% in 2018 and 96% in 2019 ([Appendix 8](#)). Moreover, the merger aimed to

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<sup>3</sup> No data available after 2022 due to the paper's timeframe.

enhance customer satisfaction. Looking at the Net Promoter Score, this objective was not met, as evidenced by a decrease from 64 in September 2020 to 60 in January 2022 (Teladoc Health, Inc. 2020, 8, Teladoc Health, Inc. 2022).

## **6. Conclusion**

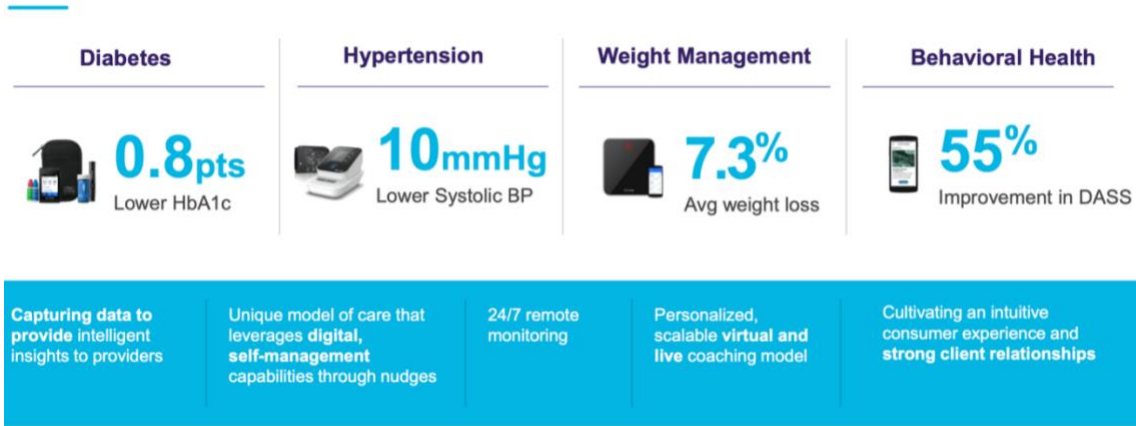
The merger between Teladoc and Livongo, driven by goals of extreme revenue growth, market leadership, and global presence as whole-person care provider, seemed strategically sound during the COVID-19 pandemic. However, even in 2020, the high deal value for Livongo, an unprofitable company with low market capitalization and low cash reserves compared to the acquisition price, raised concerns.

By 2023, in a post-COVID time with new economic challenges, investors' priorities had changed from large top-line growth towards balanced growth and profitability. Although the combined company showed strong revenue growth, the main anticipated synergy effects had not occurred while the integration process was more challenging than expected. Therefore, it was not evident whether or when profitability would be reached. Considering these aspects, Teladoc's main strategy of strengthening its market presence through the Livongo merger and thereby securing a long-term competitive edge, had not yet been realized. Furthermore, there were significant doubts about Teladoc's ability to achieve the merger's objectives in the foreseeable future.

Despite these challenges, the merger marked a significant step towards establishing the combined organization as a whole-person care provider. The potential in the growing telemedicine market offered hope for their future success. By leveraging their combined strengths, such as extensive market reach, or advanced technological capabilities, and by shifting their focus from rapid revenue growth to a more balanced approach, the combined entity had a chance to recover from the setbacks of the Teladoc-Livongo merger.

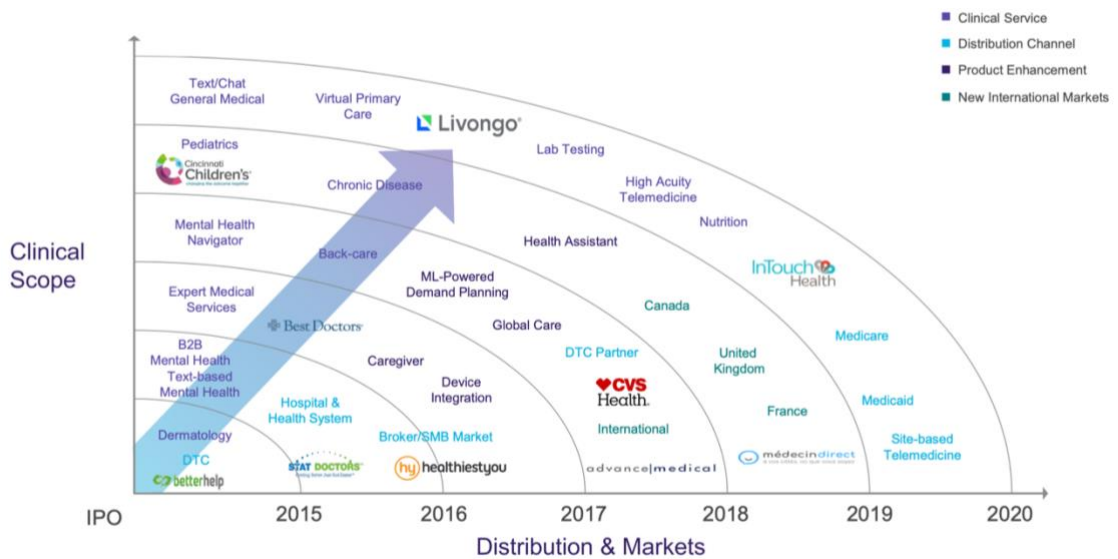
## Appendix

### Appendix 1. Livongo's Health Outcomes



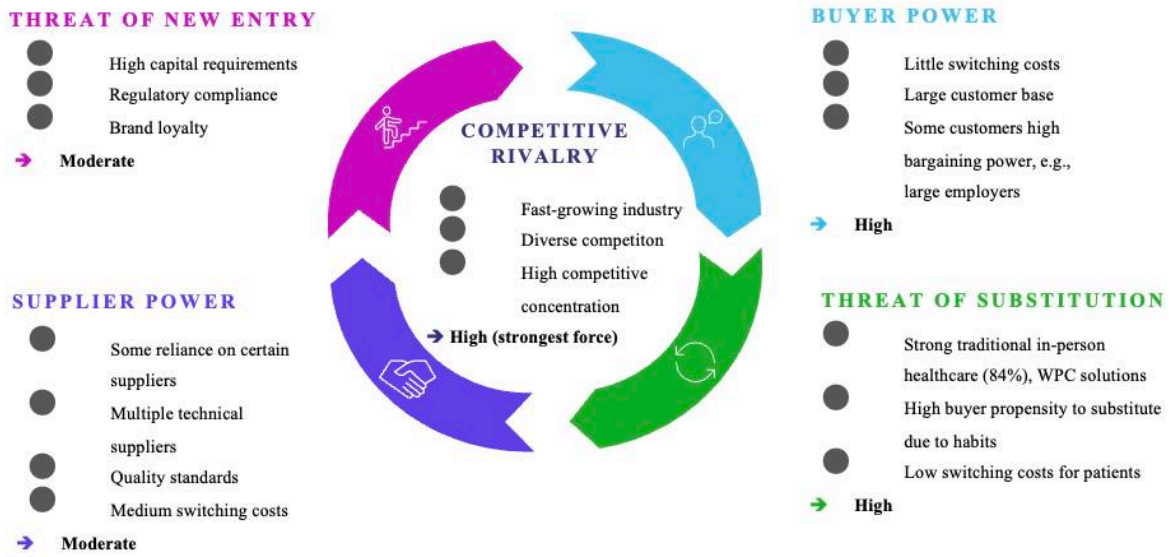
Source: Teladoc Health, Inc. (2020, 7)

### Appendix 2. Teladoc Health's Strategic Vision



Source: Teladoc Health, Inc. (2020, 4)

### Appendix 3. Porter's Five Forces Analysis



Source: Own illustration

### Appendix 4. VRIO Analysis

V Value	R Rarity	I Imitability	O Organization	Impact on Competitive Advantage
No				= Competitive Disadvantage
Yes	No			= Competitive Parity
Yes	Yes	No		= Temporary Competitive Advantage
Yes	Yes	Yes	No	= Unused Competitive Advantage
Yes	Yes	Yes	Yes	= Sustained Competitive Advantage

Source: Own illustration

Resource	VALUE	RARITY	IMITABILITY	ORGANIZATION	Impact on Competitive Advantage
Brand Reputation	<ul style="list-style-type: none"> <li>Differentiation to competitors</li> <li>Increased trust (partners &amp; users)</li> </ul>	<ul style="list-style-type: none"> <li>Pioneer in its field</li> </ul>	<ul style="list-style-type: none"> <li>Difficult due to standing stepped by innovative leadership and trust</li> </ul>	<ul style="list-style-type: none"> <li>Utilized to strategically expand its service offerings and build strong partnerships</li> </ul>	= Sustainable competitive advantage
Data Analytics Capabilities	<ul style="list-style-type: none"> <li>Improved treatment outcomes</li> <li>Lowered costs</li> </ul>	<ul style="list-style-type: none"> <li>Combination of technology and chronic care expertise</li> <li>750 million digital interactions</li> </ul>	<ul style="list-style-type: none"> <li>Difficult due to complex integration of technology, healthcare expertise, and patient data</li> </ul>	<ul style="list-style-type: none"> <li>Integration of its technologies into various healthcare systems</li> </ul>	= Sustainable competitive advantage

Source: Own illustration

## Appendix 5. Revenue and Cost Synergies

### Cross-Sell of Existing Products

- Sell Teladoc and Livongo products across existing direct-to-employer and health plan relationships
- Expand Livongo into Teladoc Small & Medium Business, Managed Medicaid, and Hospital & Health System segments
- Develop an integrated Behavioral Health product with complementary Teladoc and Livongo assets and distribute within both existing customer bases

### Referrals

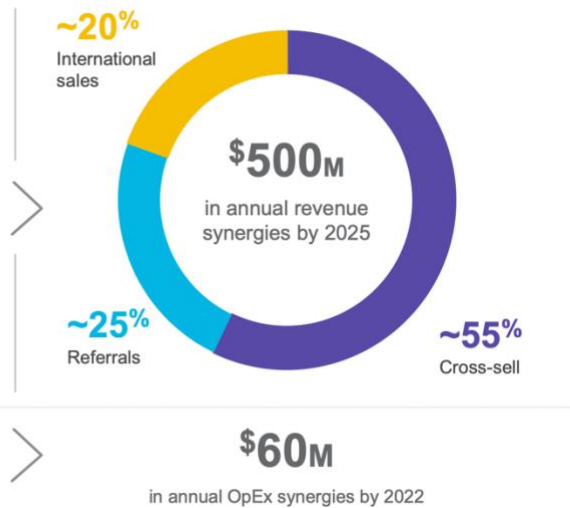
Increase enrollment and utilization by referring individuals across Teladoc and Livongo products (when they have access to both), and amplify overall engagement and retention

### International Sales

Use Teladoc international salesforce to drive sales of Livongo products to international insurers, employers and governments

### OpEx Reduction

Reduce run-rate costs by combining the two entities



Source: Teladoc Health, Inc. (2020, 20)

## Appendix 6. Key Numbers Teladoc & Livongo

(in thousands)	2017	2018	2019	2020	2021	2022
<b>Revenue</b>						
<b>Teladoc</b>	\$ 233.279	\$ 417.907	\$ 553.307	\$ 1,093.962	\$ 2,032.707	\$ 2,406.840
<i>Growth (YoY)</i>	n.a.	79%	32%	98%	86%	18%
<b>Livongo</b>	\$ 30.850	\$ 68.431	\$ 170.198	n.a.	n.a.	n.a.
<i>Growth (YoY)</i>	n.a.	122%	149%	n.a.	n.a.	n.a.
<b>Segment Revenue</b>						
<b>Integrated Care</b>	n.a.	n.a.	n.a.	n.a.	\$ 1,300.878	\$ 1,373.900
<i>Growth (YoY)</i>	n.a.	n.a.	n.a.	n.a.		6%
<b>BetterHelp</b>	n.a.	n.a.	n.a.	n.a.	\$ 720.270	\$ 1,012.574
<i>Growth (YoY)</i>	n.a.	n.a.	n.a.	n.a.		41%
<b>OpEx</b>						
<b>Teladoc</b>	\$ 247.050	\$ 360.026	\$ 449.284	\$ 1,209.554	\$ 1,648.080	\$ 15,316.067
<i>Growth (YoY)</i>	n.a.	46%	25%	169%	36%	829%
<b>Livongo</b>	\$ 39.580	\$ 83.157	\$ 184.421	n.a.	n.a.	n.a.
<i>Growth (YoY)</i>	n.a.	110%	122%	n.a.	n.a.	n.a.
<b>Adj. EBITDA</b>						
<b>Teladoc</b>	\$ -12.506	\$ 13.408	\$ 31.832	\$ 126.841	\$ 267.837	\$ 246.513
<i>Growth (YoY)</i>	n.a.	-207%	137%	298%	111%	-8%
<b>Livongo</b>	\$ -27.654	\$ -20.119	n.a.	n.a.	n.a.	n.a.
<i>Growth (YoY)</i>	n.a.	n.a.	-27%	n.a.	n.a.	n.a.
<b>Net Loss</b>						
<b>Teladoc</b>	\$ -106.782	\$ -97.084	\$ -98.864	\$ -485.136	\$ -428.793	\$ -13,659.531
<i>Growth (YoY)</i>	n.a.	-9%	2%	391%	-12%	3086%
<b>Livongo</b>	\$ -16.858	\$ -33.382	\$ -55.270	n.a.	n.a.	n.a.
<i>Growth (YoY)</i>	n.a.	98%	66%	n.a.	n.a.	n.a.
<b>Profit Margin</b>						
<b>Teladoc</b>	-46%	-23%	-18%	-44%	-21%	-568%
<i>Growth (YoY)</i>	n.a.	-49%	-23%	148%	-52%	2590%
<b>Livongo</b>	-55%	-49%	-32%	n.a.	n.a.	n.a.
<i>Growth (YoY)</i>	n.a.	-11%	-33%	n.a.	n.a.	n.a.

Source: Livongo Health, Inc. (2019, 86); Teladoc Health, Inc. (2020, 54); Teladoc Health, Inc. (2022, 69)

## Appendix 7. Post-Merger Assessment

### Revenue Synergies Calculations

(in thousands)	2020	2021	2022	2023
<b>Revenue Predictions Teladoc</b>	\$ 988.000	\$ 1.388.000	\$ 1.739.000	\$ 2.192.000
<i>Growth (YoY)</i>	79%	40%	25%	26%
<b>Revenue Predictions Livongo</b>	\$ 351.000	\$ 567.000	\$ 892.000	\$ 1.257.000
<i>Growth (YoY)</i>	106%	62%	57%	41%
<b>Combined Revenue Predictions</b>	\$ 1.339.000	\$ 1.955.000	\$ 2.631.000	\$ 3.449.000
<i>Growth (YoY)</i>	n.a.	46%	35%	31%
<b>Actual Revenue</b>	\$ 1.093.962	\$ 2.032.707	\$ 2.406.840	n.a.
<b>Revenue Synergies</b>	\$ -245.038	\$ 77.707	\$ -224.160	n.a.

Note: Predictions from Teladoc Health, Inc. (2020, 36).

Source: Livongo Health, Inc. (2019, 86); Teladoc Health, Inc. (2020, 54); Teladoc Health, Inc. (2022, 69); Teladoc Health, Inc. (Transforming Healthcare, Across the Continuum of Care 2020, 13, 36)

### OpEx Synergies Calculations

(in thousands)	2016	2017	2018	2019	2020	2021	2022
<b>Teladoc</b>	\$ 145.580	\$ 247.050	\$ 360.026	\$ 449.284	\$ 711.292	\$ 855.258	\$ 898.382
<i>Growth (YoY)</i>	n.a.	70%	46%	25%	58%	20%	5%
<i>Growth for Predictions</i>	20%						
<b>Livongo</b>	n.a.	\$ 39.580	\$ 83.157	\$ 184.421	\$ 344.683	\$ 490.169	\$ 676.379
<i>Growth (YoY)</i>	n.a.	n.a.	110%	122%	87%	42%	38%
<i>Growth for Predictions</i>	19%						
<b>Combined OpEx Predictions</b>					\$1.055.976	\$1.345.426	\$1.574.762
<b>Actual OpEx</b>					\$1.209.554	\$1.648.080	\$1.913.255
<b>OpEx Synergies</b>					\$ -153.578	\$ -302.654	\$ -338.493

Note: Predictions are marked blue. Growth for prediction was calculated by using the average growth difference per year between actual revenue growth and actual OpEx growth between 2016-2019 for Teladoc and 2017-2019 for Livongo. This average growth difference (20% for Teladoc, 19% for Livongo) was then subtracted of the predicted revenue growth (OpEx growth was also smaller than revenue growth) for both firms respectively, then the growth percentage

was added by 1, and then multiplied by the previous year's OpEx number to obtain a prediction for OpEx of the separate entities.

Source: Own illustration

## Appendix 8. Chronic Care Enrollment

(in millions)	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Chronic Care Enrollment</b>	0,054	0,114	0,223	0,6	0,88	1,02
<i>Growth (YoY)</i>		111%	96%	169%	47%	16%

Source: Stülcken (2023); Teladoc Health, Inc. (2023, 60); Teladoc Health, Inc. (2021)

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