

# The Zocdoc Business Model – How Does Zocdoc Make Money?

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## **Executive Summary:**

*Zocdoc is an online marketplace that allows patients to book medical appointments via its website and mobile apps.*

*Zocdoc makes money by collecting a listing fee as well as a booking fee. The company has a marketplace business model with doctors building up its supply and patients its demand side.*

*Founded in 2007, Zocdoc has risen to become the market leader in the appointment booking category. It has raised over \$375 million over the course of its existence.*

## **What Is Zocdoc?**

ZocDoc is an online platform that connects patients seeking health advice and allows them to book appointments with certified doctors and medical specialists.

Patients can browse the platform to find doctors in proximity. Zocdoc works together with dentists, dermatologists, psychiatrists, eye doctors, and many other medical professionals.

Furthermore, patients can check whether their insurance covers the treatment. Eligible insurance carriers include Ambetter, Humana, Metlife, and dozens more. Zocdoc uses an in-house technology called [Patient-Powered Health](#) to surface the most relevant and unbiased search results. User reviews on the platform then add a layer of security.

A variety of factors are taken into account, including the patient's insurance network, location, the reason for visit, and appointment availabilities.

A dedicated Zocdoc account management team then ensures that all the data is kept up to date. More than six million people visit Zocdoc every month.

The platform can be accessed via the company's website as well as by downloading its mobile phone app (available on Android and iOS).

## Zocdoc Company History

Zocdoc, headquartered in New York City, was founded in 2007 by Cyrus Massoumi, Oliver Kharraz, and Nick Ganju.

Massoumi had his first taste of entrepreneurship at the turn of the century when he founded *One Size Too Small*, a company that sold [software](#) to e-commerce stores. Unfortunately, due to the collapse of the dot-com bubble, almost all of his customers went bankrupt – and with that his business as well. Massoumi decided to head back to school and get his MBA from Columbia.

Afterward, he ended up consulting for McKinsey as an engagement manager where he wound up meeting Kharraz.

Kharraz, a German native, completed his medical degree at the Ludwig-Maximilians University in Munich. After working as a doctor for two years, he decided to try something new. He wound up consulting for McKinsey where he rose to become an associate principal.

Massoumi and Kharraz met after the latter relocated from Germany to New York. One faithful day, after flying back from Seattle to New York, Massoumi ended up rupturing his eardrum.

In a 2011 [interview](#) with Observer, Massoumi talked about his experience in trying to find a suitable doctor. *“Being a type-A person, I figured I’m just going to start calling doctors, and I’m sure I can talk somebody in to seeing me same day,”* he remembered.

What he instantly discovered was that some of those numbers were out of date while others told him to wait for weeks to get an appointment. *“It was amazing. I’m like, I’m in pain! I want to go see a doctor! I can’t hear! And no one would see me.”*

A few weeks later, which allowed him to recover, Massoumi met up Kharraz for lunch. In the conversation, Massoumi would openly wonder why people can book restaurant tables or flights over the internet, yet getting to see a doctor was still stuck in the previous century.

After doing some more research, they found out they were not the only ones acknowledging that problem. A [survey](#) by Merritt Hawkins found out that it takes an average of 19 days to get an appointment in New York. In Boston, that number was as high as 49 days.

Both Massoumi and Kharraz resigned from McKinsey soon after. They recruited Ganju, who Massoumi met in the late 1990s when he was working in sales at Trilogy Software, to become their CTO.

Over the following days and weeks, the team went to almost every medical practice it could and tried to convince doctors to become paying customers. In some cases, they even had to be escorted by security because they refused to leave until they made a deal. Other times they simply camped out in the waiting rooms until the doctor had time to accommodate them.

Initially, Zocdoc wanted to launch as Doctors.com, but the domain owner demanded \$4 million, so they opted for Zocdoc instead. The product was ultimately unveiled at TechCrunch 40 – I invite you to check out the video below, it's an absolute gem of a retro pitch!

In the beginning, Zocdoc only allowed users to book dental appointments around the Manhattan area. The founding team took a very deliberate approach in growing its supply side, mainly because it had to build custom software to connect to the dozens of scheduling tools that doctors used.

Therefore, money was particularly short in the early days. Luckily, in 2008, the team won \$100,000 from a startup competition which allowed them to continue on. A few months later, in August 2008, they finally were able to attract their first-ever outside funding, raising \$3 million from Khosla Ventures as well as Marc Benioff and Jeff Bezos.

Nevertheless, Zocdoc remained to be a lean and scrappy startup despite the cash infusion. They would often do things that didn't scale, such as bringing flowers to a patient whose appointment had been canceled minutes prior.

Furthermore, Zocdoc's team remained focused on just appointments and did not succumb to any suggestions of expanding into other verticals. Lastly, the sales team quickly figured out that it made more sense to target small practices as opposed to bigger hospitals since the latter oftentimes had much longer lead times to close.

The quality and rigorous focus on service allowed Zocdoc to grow simply by word of mouth. The company barely spent money on any sort of advertising, allowing it to commit more to customer support.

A year after launch, Zocdoc finally expanded into its second city (Washington). From there, the team continued to scale the platform across the nation while adding more and more capital to its balance sheet.

As a marketplace, it always made sure to launch with a sufficient amount of available supply. Therefore, it often took Zocdoc months as well as a dedicated local sales team to be able to launch in a new city. For instance, when it launched in LA in 2011, it already offered over 100,000 appointments. At that time, [over 700,000 patients were accessing the service every month](#).

Over the coming years, the team simply continued to double down on its winning formula. It deployed local sales teams, signed up practices, and launched new cities. Rinse and repeat.

In 2014, the company finally hit unicorn status after raising a \$152 million round at a \$1.6 billion valuation.

Unfortunately, not everything was going according to plan. That same year, an anonymous former female employee accused the company of promoting a frat-like culture characterized by sexual harassment against women.

Then, a year later (in November 2015), Massoumi was let go as CEO of the company and ultimately replaced by Kharraz. Ultimately, the board of directors voted to terminate Massoumi from his position because sales had been stagnant for months upon months. Furthermore, Zocdoc was consistently losing money in an effort to grow its bottom line.

Kharraz's task was simple: get the ship back on track. The company remained out of the public eye for pretty much the next three years until, in 2018, it announced that it would change its pricing model (more on that later).

The change sparked a furious debate amongst medical practitioners – many of whom stated that they wouldn't be able to accommodate Zocdoc patients because it would simply be uneconomical. Nevertheless, Zocdoc went ahead with those pricing changes and in July 2019 rolled them out nationwide.

To make matters more complicated, its bottom line was heavily affected due to the outbreak of the novel coronavirus. Many practices had to shut down temporarily due to lockdown orders, thereby not being able to accept bookings.

As a response, Zocdoc introduced a telehealth service called *Zocdoc Video Service*, allowing patients to speak to medical professionals through a video chat. Within a matter of weeks, the service was able to attract over 350,000 virtual visits.

Later that year, in October 2020, Massoumi filed a lawsuit against Zocdoc's senior leadership, stating that they had orchestrated "*an elaborate, multi-step scheme*" to get him removed as CEO. Massoumi furthermore stated that he was not aware of these plans and otherwise would have bought more shares to increase his voting power.

Unfortunately for Massoumi, a New York Supreme Court Judge denied his case, stating that it should be litigated in Delaware rather than New York (where the company is incorporated).

In recent times, Zocdoc has again raised another round of funding worth \$150 million. The company even began investing in television commercials, a rather extreme pivot from its scrappy early days.

Today, close to 1,000 people are employed by Zocdoc which operates offices in New York, Phoenix, and Pune (India).

## How Does Zocdoc Make Money?

Zocdoc makes money by collecting a listing fee as well as a booking fee. The company has a [marketplace business model](#) with doctors building up its supply and patients on its demand side.

In the early days, the company had put a particular emphasis on slowly building up its supply side. For instance, before it launched in a new city, the company would often hire a local sales team and onboard as many doctors as possible.

Patients would then flock to the platform simply via word of mouth. Sometimes, doctors went as far as recommending the service to their existing patients. Furthermore, Zocdoc invested a substantial amount of money into customer service. Its leadership often cited companies like [Chewy](#) or Zappos as inspirations. Back then, Zocdoc used to charge practices \$250 per month (later increased to \$300 a month) to access its booking platform. Then, in 2018, it announced that it would change its pricing model from a monthly [subscription model](#) to a fee-based scheme.

The change caused a lot of uproars. Many doctors stated that the fee-based model would significantly cut into their profit margins. Zocdoc cited that many practices in remote areas, who usually don't get enough visitors to warrant a \$300 monthly subscription, were the ones the change was aimed at.

Today, the company charges a \$300 yearly listing fee to be able to appear on Zocdoc. Furthermore, practices pay a \$35 booking fee for every appointment facilitated through Zocdoc – even if the patient does not show up.

Patients can continue using the service at no cost. In the future, Zocdoc may decide to cross-sell into its patient network by offering ancillary services. Other HealthTech companies like [GoodRx](#) have adopted a similar strategy.

# Zocdoc Funding, Revenue & Valuation

According to [Crunchbase](#), Zocdoc has raised a total of \$375.9 million across 10 rounds of venture capital funding.

Notable investors include Founders Fund, Manhattan Venture Partners, Atomico, Vast Ventures, Francisco Partners, and many more.

Zocdoc's valuation was last time disclosed in August 2015 when it landed a \$130 million round of funding (Series D). Back then, its business was valued at \$1.8 billion.

As a private company, Zocdoc is not obligated to disclose revenue figures to the public. Should the company ever decide to go public, its revenue figures would be revealed when it files its S-1.

## Who Owns Zocdoc?

As a private company, Zocdoc is not obligated to disclose its ownership structure to the public. Its shareholders would be revealed should the company ever decide to go public.

Nevertheless, it can be assumed that the three founders still own the majority of shares. Even Massoumi, who was ousted in 2015, should have all his shares vested after eight years at the firm. He may have sold some of that stock, though.

From an institutional perspective, Khosla Ventures would probably own a substantial number of shares. The company led Zocdoc's Series A round and was also a participant in the Series B.

Back when Khosla invested (2008 and 2010), startups were often desperate for cash due to the rippling effects of the financial crisis. Khosla could therefore have received some favorable terms. Add to this that Massoumi himself stated that the company was strapped for cash before its first funding round in 2008.