

# Thinking of starting a Health IT company? Here are the top three industry challenges

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With total annual spending on healthcare projected to hit 20 percent of US GDP by 2021, there's a lot of potential for health IT startups. In addition, the industry is ripe for technological innovation. It's no wonder that health IT has been attracting both investors and entrepreneurs.

However, there are many aspects of healthcare that make it a unique industry compared to other markets, which poses challenges to traditional strategies for startup success. If you're planning to start a health IT company, make sure you first consider how you plan to navigate the following obstacles.

## **1. Your customer's incentives are not straightforward.**

Entrepreneurs are always looking for ways to improve systems, and it's easy to go into a doctor's office and realize that you could create a product that would make it run much more efficiently. Now it's time to go out and create it, right? Wrong.

First, you need to understand where the money to pay for your product will come from. In healthcare, there tends to be complicated relationships between the ultimate consumer, the care provider, the insurance carrier, and the one who pays. For example, it may be that doctors aren't interested in your product unless the costs will be covered by their patients' insurance providers. Simply recognizing a pain-point at one spot in the healthcare system doesn't mean that you can solve it without considering the system as a whole.

There may be other reasons that your target customers are not interested in fixing the problem you've solved. As counterintuitive as it sounds, some improvements may actually hurt the bottom-line of a target customer. For example, inside a hospital, operating rooms (OR) are often profit centers, and emergency departments (ED) are often cost centers. The hospital may be receiving subsidies to maintain its EDs based on its ratio of OR profits to ED losses, in which case a product that ultimately makes ORs more profitable may not be worthwhile to the hospital.

Advice: Find people who know the system. It's extremely important to build a group of advisors who know the ins and outs of the segment you're targeting, and particularly who controls the money and the subtleties of how the interactions work. This will save you time and the needless frustration of trying to divine your customer's true incentives.

## **2. Good enough is not good enough.**

The conventional wisdom in startups is to launch quickly then iterate, but this becomes more difficult when people's lives are at stake. The launch and iterate methodology applies very differently to health IT than to a social gaming app or even a business management tool. You must restrict the minimum viable product (MVP) to functionality that you know you can deliver

very well tested: You must provide enough value to make sales and get through vendor qualification, but not too many bells and whistles that you can't ensure a high level of reliability.

You should also expect that your customers will want you to prove the quality of your products in ways that usually aren't required of startups in other industries. These may range from contractual service level agreements (SLAs) that state you're able to maintain a certain uptime, to rigorous vendor qualification requirements at large hospitals or companies, to validation and audit requirements.

Depending on the specific market, you'll also have to deal with regulatory requirements such as HIPAA or Title 21 CFR Part 11. Where these regulations are applicable, it's important to follow them correctly and not cut corners. Your customers are already worried that your mistakes in this area will become their liabilities, and you cannot risk a reputation hit.

Advice: Expect to devote substantial resources to testing and validation. Determine if your product will be subject to regulatory requirements. If it is, consider using outside experts to help expedite the process. Also, find a law firm that has experts in the relevant regulations — they may be more expensive than a general startup lawyer, but they can often get you a more correct answer faster.

### **3. Your sales cycle will be long.**

There's a reason that health IT is ripe for innovation — healthcare organizations and pharmaceutical companies don't like change because it's risky, so they're left with outdated systems. You will have a tough time convincing these organizations to take a chance on your infant startup when they can go with an incumbent that's been around for decades and has name recognition. And even where your target customer is willing to take a chance on you, they will probably be a slow-moving organization, where it can take months to get through all the approvals necessary to close a deal. Many have already planned budgets for the next year or longer.

This means you'll need to raise more money than a typical social/local/mobile startup in order to prove out your business model. You should expect that most customers will want to run a pilot before agreeing to a larger deal, so you'll need enough runway to last through this process. Like the markets, large companies can remain irrational longer than you can remain solvent.

The good news is that once you get in, you're not going to be pushed out easily. And also, once you knock down a few large customers, publish a couple case studies, and get recognition within the industry, you'll be able to expand quickly.

Advice: Start building your reputation and name recognition early. Conferences and trade shows can be a useful way to increase visibility among relevant groups. Don't assume you'll be able to make sales as soon as you have a viable product. You can shorten your sales cycle by removing adoption friction, for example by offering Software-as-a-Service as opposed to an onsite deployment.

### **So, why create a health IT startup?**

Technology will revolutionize all aspects of medicine and patient care in the next few decades, and health IT startups will be the driving force. Don't let the challenges dissuade you from going into health IT. The most influential startups will be the ones that understand the landscape,

execute extremely well, are smart with fundraising, and most importantly deliver true value. The industry is huge and changing, and future multi-billion dollar health IT companies are now being born. Such startups will not only succeed financially, but will also improve the lives of the millions of people whose health care will be advanced by these innovations.