

# 3 hot health IT investment opportunities

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*This is a guest post by Bob Kocher, a physician and partner at Venrock*

Health IT is hot, and it's about time. Investors and entrepreneurs alike are flocking to the sector that once seemed insurmountable, yet is desperately in need of imagination, creation, and disruption.

Digital health funding is up 12 percent in the first half of the year and the momentum continues. With so many opportunities for entrepreneurs to disrupt the status quo this growth is warranted, but it is not an easy space to navigate. Investors are working hard to

understand the dynamics, drivers, parties and roadblocks so they can make informed investment decisions. My firm Venrock has been investing in the space for over a decade, but understanding the combined dynamics of healthcare and technology is very new to most.

The massive influx of entrepreneurs to the space means there is a wealth of companies for venture capitalists to invest in, but not all of these companies are poised for success. My partners and I have identified three areas that we find particularly exciting, from an investor perspective:

- Improving market efficiency
- Improving labor productivity
- Substantially improving clinical outcomes or patient experience

We think there's a real opportunity for new entrants to build great businesses tackling these challenges. Common across each is the ability for startups to rapidly demonstrate return on investment for customers and, in many cases, the ability to create a positive network effect. In addition, each capitalizes on the three factors driving change: policy changes, demand growth, and cost pressures.

## Translating opportunities into business

### *Improving market efficiency*

Healthcare markets are highly inefficient, and a fundamental problem is the lack of useful data transparency. Without knowing what care will cost and what outcomes and experiences are delivered, it is impossible for patients to act as rational consumers no matter how much cost sharing they are asked to manage. Consumers have been left in the dark.

Today, the Health Data Initiative, launched in 2010 by the Department of Health and Human Services, and health IT startup pioneers have been breaking down the barriers to provide price transparency. This is crucial since:

- Commercial prices vary for every service in every market by more than 300 percent
- Price and quality and experience are rarely correlated to prices

Therefore, for almost everything, it is possible to both get higher quality and pay lower prices. Not surprisingly, when patients are empowered with this knowledge, they move their care to higher value providers. As more and more commercial patients gain access to this data, we expect prices to fall and value to be correlated to price as it is in other, more competitive markets.

Data and data transparency are rocket fuel for a promising ecosystem of start-ups and high growth companies, including Castlight Health, iTriage, Kyruus, as well as New York City's flagship healthcare start-up ZocDoc.

#### *Improving labor productivity*

Shockingly, unlike the rest of the US economy, healthcare labor productivity has declined by 60 basis points each year over the last 20 years while other sectors have large gains. This is illustrated by the fact that non-clinical labor has grown by 50 percent over this same period. Today, for every doctor there are 16 other healthcare workers, and more than half of these are non-clinical workers. This equates to about \$850,000 of labor cost per doctor. Even more surprising is that the majority of these workers are administrators. This is exactly the opposite of what you would hope for and expect. In other industries, the proportion of administrative labor to productive labor compresses over time with productivity gains. This is how and why prices fall and products improve in other sectors.

We think how we use labor can be reimaged everywhere in healthcare. Companies like Vocera, Awarepoint, AirStrip, and Sotera Wireless are making hospitals more efficient, and others, like athenahealth are making doctor offices more productive by taking the pain out of the reimbursement process.

#### *Substantially improving clinical outcomes and patient experience*

The current care system is not designed to achieve consistently successful clinical outcomes for the patients when the outcomes are averting complications, preventing diseases, and keeping people working, playing, and exercising as well as they were when they were young.

This is illustrated starkly by how we manage high blood pressure:

- We diagnose only 50 percent of patients
- Of those diagnosed, only 50 percent of them fill their prescriptions for medication
- Of those patients, only 50 percent of them achieve blood pressure control
- Of the other 50 percent who take their medications, more than 90 percent could be controlled if doctors adjusted the dosing and medications, but this rarely occurs
- Overall, we control only about 15 percent of all high blood pressure patients. And this is for a disease where we have low cost drugs that work well

Opportunities to improve clinical outcomes exist for every other chronic condition too. Over the next decade, more lives will be saved if we focus as much effort on redesigning care delivery and patient engagement, as we do investing in new treatments. Start-ups like Proteus and RxAnte offer interesting new approaches to improve adherence and deliver better outcomes and cost savings. We think that new care delivery models to fully deliver on the clinical results possible with existing treatments, through better processes, shared financial risk, and product designs that warranty and guarantee outcomes.

Fortunately, new primary care models like One Medical and ChenMed / JenCare are growing fast and delivering better care, far better patient experiences, and lower costs. The recent acquisitions of CareMore and Healthcare Partners offer promising signs that these two models will gain greater scale to help more patients get much better care.

### **Bottom line**

We think healthcare is getting better, sooner in America. We see cost growth slowing, an influx of talented entrepreneurs, large incumbents demonstrating receptivity to partnering with growth companies and large employers beginning to flex their market power. The intersection of healthcare and technology presents a tremendous opportunity for entrepreneurs and investors alike.

But... this sector is not for the faint of heart. It is complex, evolving and increasingly crowded. Fortunately for us, entrepreneurs love a challenge.