The New World of Healthcare Partnerships: Technology Companies

THE CHARTIS GROUP

Over the last decade, healthcare partnerships have accelerated, with an ever-increasing number of transactions each year as health systems seek to gain scale, expand their reach and acquire new capabilities to enhance their position to better serve their communities. To date, the vast majority of these partnerships have followed the traditional path of health-system-to-physician or health-system-to-health-system transactions. However, as the industry continues to evolve into digital delivery models, health systems have started to develop innovative partnerships with an entirely new class of partners: technology companies. These emerging partnerships enable providers to secure the capabilities that will be necessary to ensure their sustained growth and viability in this era of healthcare digital industrialization.

The capital markets are supporting technology-driven changes in healthcare. In the first half of 2018 alone, healthcare startups raised over $15 billion of capital,[i] and this figure does not include the enormous bets being placed by some of the most established players in the technology sector, such as Apple, Google and Amazon.[ii] In addition, among Fortune 50 companies, 84 percent play in healthcare, up from 76 percent in 2013.[iii] Such companies are seeking to gain a share of the growing healthcare sector by creating innovative solutions to improve healthcare operations, engage consumers, and create linkages across patients, payors and providers. In this evolving technology-driven healthcare landscape, healthcare providers can be disrupted by these technology-oriented companies and solutions or become a partner and disrupt their own business models.

Example of Apple Partnership: Apple launched its Electronic Health Record (EHR) app that gives access to health records on the iPhone. In order to test and develop the app, Apple initially reached an agreement with 12 health systems. There are now approximately 100 health systems participating in Apple EHR. Patients with an iPhone and the latest iOS who have patient records at a participating system are able to download a patient-facing app that has information such as labs, medications, allergies and immunizations. The partnership gives Apple a testing ground for improving their product and gives participating health systems a positive impact to patient engagement.

The Case for New Partnerships

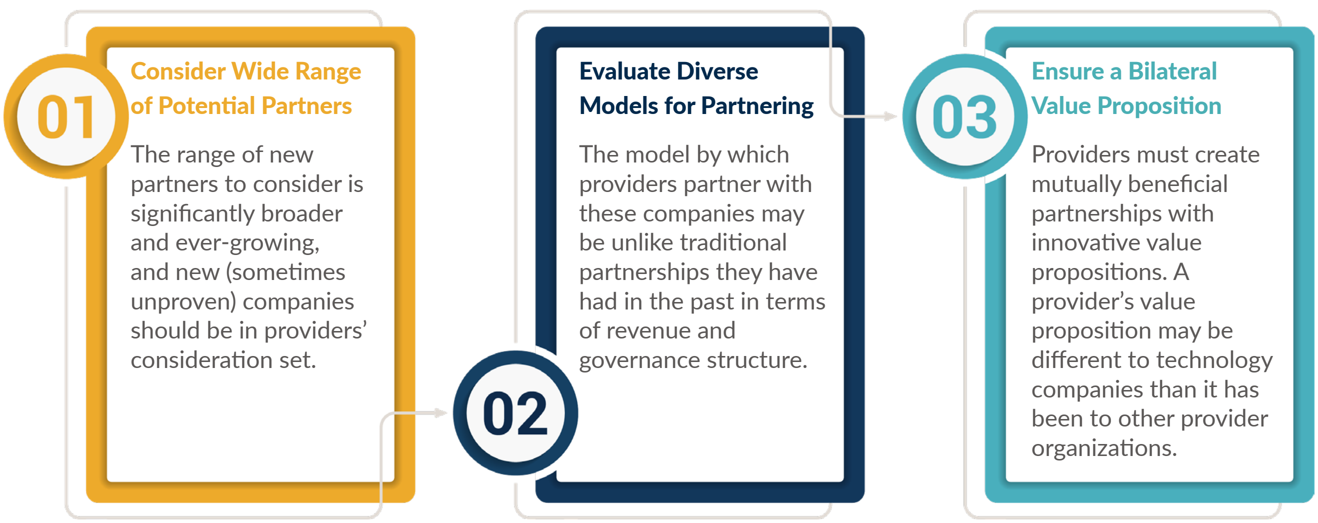
Providers (health systems and physicians) are unquestionably the leaders in the realm of patient care delivery today. Yet, as we consider the transformation to the digital delivery system of the future, new modes of delivery are emerging such as technology-driven diagnostics in radiology and virtual visits. Technology has the potential to enable connectivity with individual consumers in a way that could upend the traditional healthcare delivery model. Many provider organizations have identified these capabilities as future needs, though few are truly leading with digital, where these competencies are fully integrated into their business models. A provider's network of physicians and geographic distribution of assets (i.e., hospitals, outpatient sites) have historically offered a strategic barrier to entry. In the digital domain, these constraints are dramatically reduced and, in some cases, completely eliminated.

Novel Partnership Examples:

Ascension and Providence Health & Services have innovation arms and venture funds partnering with startup technology companies. Advocate-Aurora is finding potential technology partners through their relationship with incubator Matter. Duke, Stanford and UCSF have developed partnerships with Alphabet's Verily.

The capital and capabilities required to develop these technology-enabled solutions will be difficult for most health systems to overcome. Health systems should consider developing creative partnerships with both established and startup technology companies. Unlike traditional partnerships that providers may pursue, the landscape of potential partners in the digital healthcare landscape is much broader. As such, we recommend the following three-step process for formulating these technology-related partnerships.

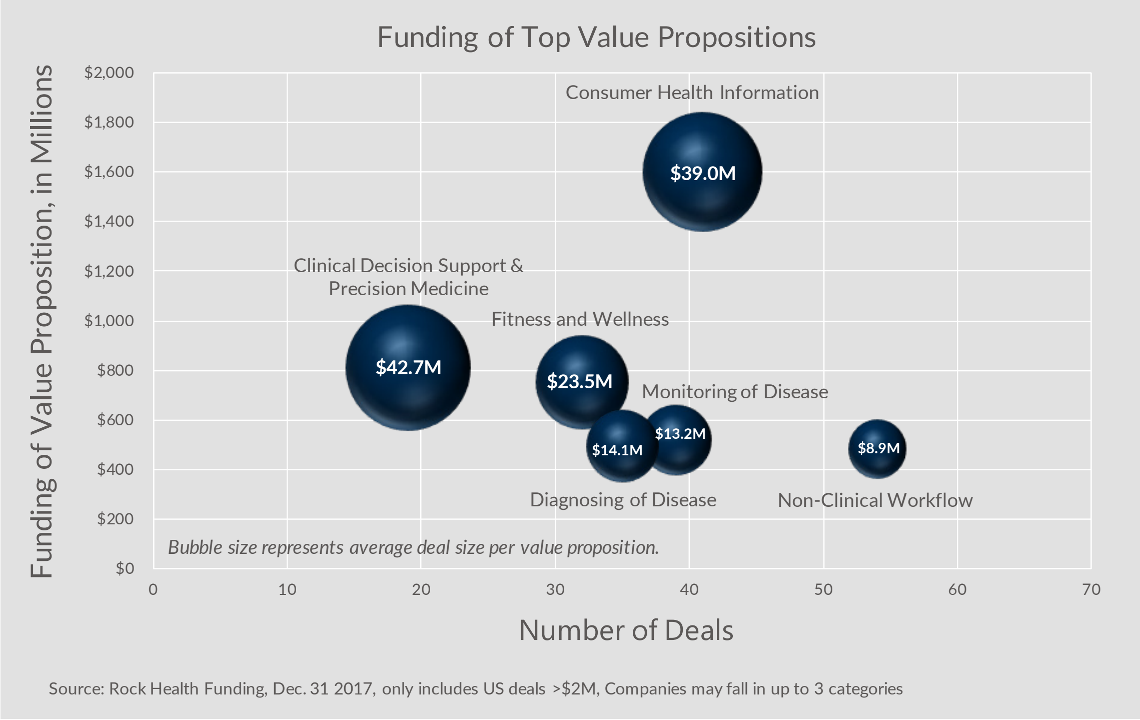
Figure 1: Steps for Technology Partnership Success



01 Consider Wide Range of Potential Partners

The healthcare technology sector is a very nascent space. In 2017 alone, there were more than 350 digital health venture transactions valued at more than $2 million each, for a total of $5.6 billion in funding — and the pace of funding/transactions in the healthcare technology sector does not seem to be slowing.[iv] While this remains a very speculative sector, with many companies folding as quickly as they begin, the space seems to be organizing into several broad categories: consumer health information, clinical decision support, precision medicine, fitness and wellness, and diagnosing and monitoring of disease (see Figure 2). The companies serving each of these categories, the definition of the services offered within each of the categories and even the categories themselves are continuing to evolve.

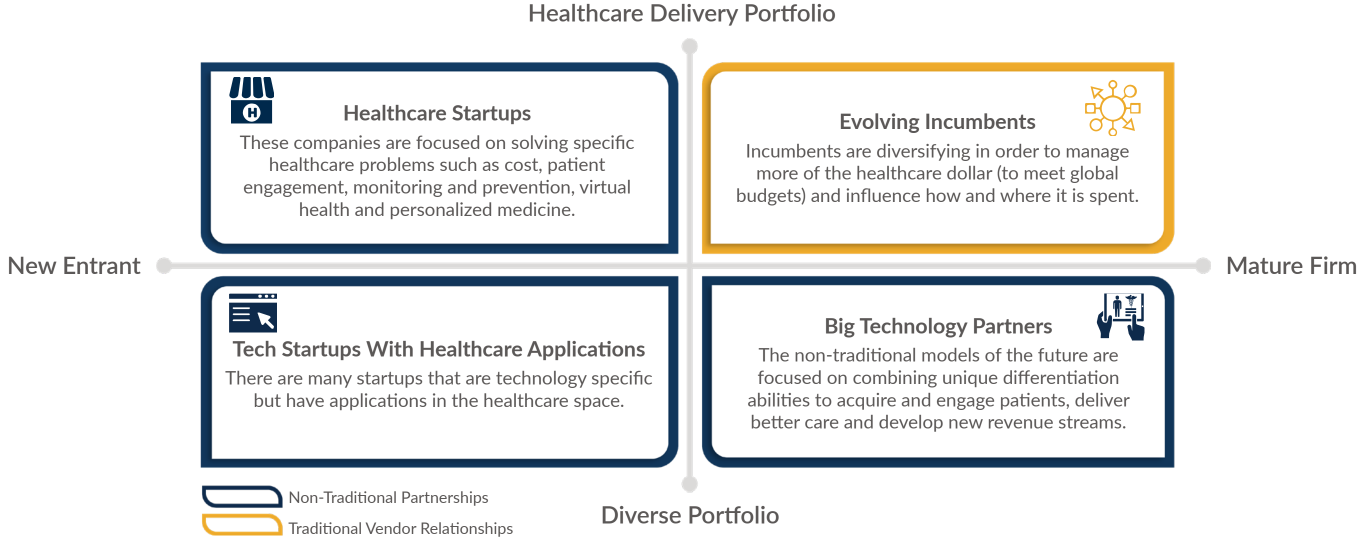
Figure 2: Top Value Propositions Being Funded



It is essential that providers cast a broad net and understand the full range of options (see Figure 3) when considering a technology partnership. Once the range of technology companies that provide the desired service is understood, providers can then articulate a perspective around the tradeoffs they face in choosing the right partner(s). Two particular areas of consideration include whether to select a startup or a more established player, and whether to select a technology firm that has the potential to meet multiple needs or a more narrow, focused partner.

There is no one right answer. Depending on the significance of the need and the culture of the provider organization, the answer will likely vary. For example, a startup may require a bigger leap of faith, yet will also likely avail more competitive pricing, risk-sharing partnership models and openness to exclusivity than would a more established technology company. In contrast, an established technology firm may offer a more proven or comprehensive solution but is likely to assert a less flexible position in how the partnership is formulated.

Figure 3: Matrix of Potential Partners



02 Evaluate Diverse Models for Partnering

Providers will need to determine what revenue, business and governance models are best for these new partnerships in a way that enables both the health system and the technology firm to evolve their individual and collective roles and transform the industry. A framework such as the one illustrated in Figure 4 below can help health systems determine the type of partnership it desires.

Figure 4: Non-Traditional Partnership Models

Vendor Relationship	Preferred/ Exclusive Partner	Tester/ Developer	Joint Venture/ Licensing
Contract for distinct services through service agreements or vendor agreements. These may be non-exclusive, and generally would not involve financial control or management.	*Arrangement that may include exclusive or preferred service arrangements and longer contract periods but still do not include financial or managerial control.*	*Agreement for higher level of integration. This may include a financial or managerial relationship or an exclusive testing and development relationship.*	*Aligned financial partnership, in which partners share investments, growth, risks and potentially day-to-day operations through formation of a joint operating company.*

EXAMPLES

Livongo with several providers such as Jefferson, Mount Sinai, BJC Healthcare	Apple and 100 Initial Health Systems and Clinics	Comcast and Independence Health	GeneSight and Mayo Clinic
Livongo, a chronic care management and digital coaching technology, is being used at a number of leading hospitals through vendor relationships.	Apple has launched its Electronic Health Record app that gives access to health records on the iPhone to approximately 100 test health systems and clinics.	Comcast provides consumer technology, and Independence Health's scale allows it to be distributed on a national level.	Developed by Mayo Clinic, and licensed to Assurex, GeneSight is a genetic test that helps healthcare professionals select the right medication and dose for patients with neuropsychiatric conditions.

To inform which partnership option to choose, providers should consider the following questions:

How quickly are the capabilities or partnership needed?
If capabilities are needed immediately, a vendor relationship may be the best option.

Do the provider and partner desire an exclusive relationship?
If an exclusive relationship is desired due to benefit or defensive strategy, providers should seek a more integrated partnership like a preferred/exclusive model.

What are the provider and partner seeking related to financial control and management?
If a provider is willing to invest financial or operational resources, then a tester/developer, joint venture or licensing arrangement may be the best partnership option.

If providers are seeking to leave options open as new solutions continue to develop, while allowing for capital avoidance, then the best model may be a vendor relationship. If, however, the answers show a desire for an exclusive relationship that delivers ongoing market differentiation and requires commitment of capital or resources, then "stickier" partnership models, such as licensing arrangements or the creation of a joint venture, may be the appropriate route.

It is likely that health systems will develop a portfolio of partnerships that array across the types noted above to align with the scope and nature of the desired service offerings. Additionally, providers may engage multiple partners to find the right solution and mix of risk and return in their defined view of the future digital delivery environment.

03 Ensure a Bilateral Value Proposition

Similar to more traditional partnerships, providers should seek to create win-win relationships with these technology-oriented companies, regardless of the partnership model selected. To do so, providers should understand the business model and needs of the potential partners, the competitive landscape and the value the provider specifically brings to the relationship (relative to their competitors), along with their own organizational needs.

In many cases, the core of these potential relationships centers around the desire of all parties to create and deepen connectivity and access to healthcare consumers, who themselves are assuming a more active role in how they access and consume healthcare and health/wellness-related services.

Providers currently have the advantage of being the incumbent, trusted channel for healthcare services; the value proposition that healthcare providers often bring is the transference of this trust to the unknown technology company that is seeking to make care more convenient, efficient and/or accessible to consumers. Providers should seek to capitalize on this position now, before this distinctive role as "trusted provider" becomes less pivotal as consumers become more comfortable with technology-driven solutions, and their expectations regarding convenience, coordination and timeliness rise. Given many provider organizations have not yet solidified meaningful, longitudinal consumer engagement outside the point of care delivery, partnering with a technology company to create a more lasting relationship may allow both parties to meet their objectives. The technology company typically needs scale in the number of lives served to pay for the investments already made, and the provider organization could benefit from a consumer-oriented solution that helps create "stickiness" with consumers.

Figure 5: Potential Offerings by Partner

WHAT PROVIDERS MAY OFFER

- Employed physician models and/or highly aligned physician organizations, with more consistency and influence or control over protocols and workflows
- Broad ambulatory footprints with growth opportunities
- Organizations with unnecessary cost and utilization that offer an opportunity to demonstrate and capture meaningful value

WHAT EITHER PARTY MAY OFFER

- Nimble organization with rapid decision making for testing and operationalization of products
- Management team with track record of success
- Brand name for new product marketing and adoption purposes
- Access to capital and innovation resources
- Access to specific demographics to prove value of a product/solution
- Availability of reliable data — even if those organizations have not yet harnessed that data themselves

WHAT TECHNOLOGY COMPANIES MAY OFFER

- Capabilities that are difficult or expensive for providers to develop on their own
- Technology that is easily integrated into current workflows
- Technology that drives consumer choice of one provider over another

Many of these technology companies carry significant debt and are looking to grow very quickly — motivating them to partner with competitor health systems or medical groups, payors, or in some cases, going direct to the consumer. Providers should consider their own readiness to adopt these new technologies and how the regional marketplace is evolving in their adoption of these technologies. Health systems must not only have a strategically differentiated position, but also be ready to meaningfully integrate these new technology capabilities into their existing offerings. Without true integration into existing capabilities, new technology provides limited sustainable differentiation and can be easily imitated by other providers.

Virtual Care Example:

Virtual care models are being developed with a range of experience and connectivity to more traditional providers — from those entirely outside of and distinctive from the healthcare delivery system, to those that are embedded. Yet in many cases, even when connected to provider organizations, these new virtual modalities are not meaningfully integrated into the traditional healthcare delivery system and core care model. This represents a missed opportunity by these providers to differentiate their virtual modalities from those of standalone virtual care options.

Positioning as a Nimble and Effective Partner

As an extremely complex and local industry, healthcare has historically been slow to change. In contrast, the pace at which technology is developing and leaders from other industries are attempting to disrupt the healthcare space has never been greater. With so much activity, provider organizations will need to develop new partnership models and be prepared to stay nimble and flexible. Providers should consider partnerships for developing new high-priority capabilities and at the same time constantly re-evaluate the partnership landscape for new technologies that obviate the old. Success for providers and technology companies alike will hinge on the ability to act quickly and decisively while making informed decisions about whether to double down on or exit new technology initiatives.

A thoughtful and measured mix of technology relationships will be a lynchpin to adapting to new requirements and keeping pace with innovation across the healthcare value chain. Incumbents, new entrants, tech-focused and consumer-centric companies are all vying for space; partnering with the right organizations in the right way will enable providers to adapt while differentiating themselves. Similarly, as technology companies expand their healthcare position, their needs from individual providers will also evolve, and the power of their growing scale will begin to shift their perspective on the types of relationships they are willing and able to pursue. Acute care will undoubtedly remain an essential pillar of healthcare delivery overall; however, providers' ability to work effectively with technology organizations will determine whether they are at the table as the new delivery context is defined, or whether it will be defined for them.

Sources

i Analysis by Pitchbook for Forbes, January 1 - June 30, 2018

ii CBInsights Annual Tech Participation in Healthcare, May 18, 2018

iii PwC Health Research Institute Analysis of Fortune 50 Companies, April 2018

iv Rock Health Funding Database

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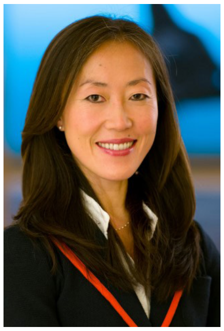

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About The Chartis Group

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