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Perspectives from the Field

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PERSPECTIVES FROM THE FIELD

Two investors and an entrepreneur take on the challenges facing innovators.

Innovation Is Only Half the Answer

BY LISA SUENNEN

With health care costs at an all-time high and quality of care under siege, more of the same isn't going to cut it. The United States needs innovation, not incremental change, to cure its ailing health care system.

Fortunately, public and private organizations have made it their mission to catalyze innovations that solve the thorny challenge of providing better health care services to more people with less money. Nearly every major US health care corporation and foundation seems to have a newly minted center for innovation. The nonprofit X PRIZE Foundation will award $10 million to those who "accelerate the real-world impact of science, technology, and information." The Center for Medicare and Medicaid Innovation, the Agency for Healthcare Research and Quality, and the Office of the National Coordinator for Health Information Technology have all launched high-profile innovation initiatives.

Although this quest is laudable, the arrow may well fall short of the bull's-eye. Most of the innovation efforts are designed to reward the creation of great ideas but not to deliver real systemic change. That's because they fail to take into account a last critical step: turning ideas into reality.

Too often, these programs disregard how innovations will be funded, commercialized, adopted, and spread into common use. The public sector in particular has demonstrated a worrisome reluctance to analyze leadership and operational capabilities as an intrinsic part of determining the quality of an innovation. Few require the winning ideas to be married with driven, strategic-thinking entrepreneurs who know how to turn lightbulb moments into broad-based reality.

The guiding principle of many innovation competitions has been "if you build it, they will come." Those who build businesses for a living know this is almost never the case. Social investors gloss over these issues at their peril.

The pursuit of "innovation" just isn't specific enough. The field needs a combination of innovation and entrepreneurship to move the needle.

Experience shows that an idea is only as good as the leader who figures out how to implement it. Too often innovators, focused on the needs of the underserved, shy away from traditional business ideas like marketing plans and capital formation. Because many solutions for the underserved will emanate from public-private partnerships, public innovation seekers must apply the same rigor that venture capitalists require when they vet new ideas. Any analysis of the quality of an innovation must be balanced with an analysis of the leadership behind it, the plans for scaling it, its ability to demonstrate measurable results, and its financial viability. Although these analytical criteria are often considered the purview of the business community rather than the public health sector, they are essential to transforming innovations into solutions.

In addition to prizes and public accolades, health care innovation initiatives would fare better if they actively partnered thoughtful innovators with entrepreneurs seeking to launch commercial enterprises and if they helped them attract the capital to bring ideas to market. Innovation itself is abundant, but innovation guided by a great leader with a strategic implementation plan is not.

A good idea with a great leader beats a great idea with a good leader any day of the week. When great ideas and great leadership come together, real innovation can happen. ◆

LISA SUENNEN *is a co-founder and managing member of Psilos Group, a health care-focused investment firm. She blogs about health care and investing at venturevalkyrie.com.*

Collaboratively Investing for the Future

BY WILLIAM ROSENZWEIG

Venture capitalists generally look for opportunities that can achieve rapid consumer adoption once they prove their worth to a test market. We look for early adopters who enthusiastically share a product with others and sometimes even pay a premium for it. Regretfully, underserved populations rarely have the means or access to be early adopters in these conventional terms.

Several years ago we funded a company with an innovative product that could prevent serious asthma attacks. The company's nutrition bar was particularly well suited to the unmet needs of at-risk children in polluted urban centers. The product had the potential to bring down the use of steroid drugs and costly inhalers. Most important, this nutritional product could reduce the number of costly emergency room visits that plague inner-city hospitals on the bad-air days that make asthma worse.

Although this market was vital from a public health perspective, it lacked the commercial characteristics that would have made it attractive to early-stage venture investors. The company instead chose to pursue an adult market in which it had to compete with established pharmaceutical companies, which proved difficult.

Had this company partnered with an impact investor who had expertise with underserved populations, it could have built a credible business case to pursue a niche market in the inner city. (Such an investor wasn't available at the time, unfortunately.) An innovative financing and partnership structure could have made use of the existing research and product development investments in a capital-efficient way that demonstrated broad application for the product. The company could also have enlisted a corporate partner with the deep expertise needed for commercial success.

But such innovative arrangements are far from easy when organizations with different definitions of success and vastly different cultures try to collaborate.

It doesn't have to be that way, however. Odd-bedfellows partnerships can actually succeed when the partners have a shared sense of vision, mission, and values.

Successful partners need to be clear about what success looks like to all the parties—including expectations around markets, business models, returns on investment, time frames, capital requirements, scale, and exit options. These expectations must be shared, specified, and agreed upon at the outset. If this initial process yields promising results, innovative limited partnership models can assign different parts of the risks and the rewards to appropriate stakeholders, who can build a venture with the potential for strong financial rewards and meaningful impact. Organizations then can create a governance structure that helps them navigate the stages of growth, stay on mission, and achieve the kind of performance that will satisfy expectations.

Partners collaboratively build a bridge from where an organization is today to a clearly defined vision for the future. Organizations *plan* to be successful. From the beginning, they gather and align all the resources they need to get to the desired outcome.

Unfortunately, many ventures are built phase to phase, without a coherent set of partners around the table at the outset. Because of this, many efforts go uncompleted or are unable to maintain the momentum or attract additional resources along the way.

Regardless of outward appearances, organizations would be wise to look for unlikely partners with whom they are aligned on vision and with whom they can plan for the long term. The United States faces daunting health care problems. Despite the challenges, the field can collaborate with potential investors who have the financial and social missions that can make a difference. ◆

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Lessons from an Innovator

BY CHAIM INDIG

Now is a great time to be in health care. The industry is changing and innovation is improving people's lives.

In 2005, we started Phreesia, which automates patient intake at doctors' offices. Our product replaces the traditional paper clipboard with a wireless, touch screen tablet, allowing patients to enter their demographic, insurance, and clinical information electronically, as well as to pay their co-payments and balances. Phreesia streamlines the check-in process for office staff and patients and facilitates better patient-doctor communication. It provides a foundation for lower-cost, higher-quality care as well.

Our technology is now in thousands of physician offices across the country. We are also providing a platform for a range of health improvements, from more effective management of asthma to early detection of autism to expedited treatment for acute care patients.

I have learned some important lessons in developing Phreesia, bringing the company to market, and overcoming a number of barriers to adoption. First, the biggest challenge to innovation in health care is fear of change. Providers and administrators are afraid of the repercussions that new technology will cause to their institutions and day-to-day workflows. These systems often require changes to behavior, staffing, and expectations that can be overwhelming.

Moreover, the bureaucracy at many health care institutions makes large-scale change difficult to implement. In the early stages of the business, one of the biggest hurdles we faced was finding customers who were open to modifying the ways they worked—even when they understood the benefits of engaging patients, maximizing efficiency, and increasing collections.

To get around these roadblocks, we made our product as high impact as possible, with minimal up-front costs for customers, and we built our business model around performance. Phreesia does not interrupt the normal ways that physician offices work, which helps ease the transition for staff. We are not trying to change an office's workflow; we are simply adding value and efficiency to their existing processes, and fitting in with the existing reimbursement model.

Another major obstacle to innovation has to do with the way the industry reimburses providers. In other industries, companies develop their product or service knowing exactly who will buy it. But in health care, the reimbursement model is much less straightforward: The people who use the new technology are different from those who benefit from it, and they are also different from those who pay for it. Because of this disconnect, health care innovators need to demonstrate value for each of their stakeholders, and they need to make their case in a compelling way.

Further adding to the challenge, the current reimbursement model does not directly benefit those who need innovation the most, so there is often little motivation for safety net organizations or health care systems to take on changes that could improve health and lower cost.

And finally, the most important lesson: Success in health care does not come from the idea, but from executing that idea within a sustainable business model. When we first started Phreesia, we did not raise any outside funds. In our opinion, the most important thing was not to raise money, but rather to assess the market and find a replicable solution to a common problem. Once we found customers who wanted our product, we began to commercialize it. We have always looked for, and have been lucky to find, partners who not only invested in our business, but also offered strategic guidance to help us grow and achieve ongoing levels of excellence.

Ultimately, our story shows that with a smart and motivated team of people who are always searching for new ways to improve the delivery of health care, innovators can make a real impact for both patients and providers. ◆

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