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DIGITAL HEALTH COMES OF AGE: SELF DISRUPT or SELF DESTRUCT

DIGITAL HEALTH COMES OF AGE: **SELF-DISRUPT OR SELF-DESTRUCT?**

As the market quickly matures the importance of innovation in seizing the digital health opportunity is ever more important.

For nearly a decade, healthcare organizations have been investing in innovative digital health companies to unlock value and spur growth. And Accenture analysis shows funding is even higher now than forecasted two years ago. But investors today are more discriminating: they are strategic about the scale and timing of investments and keen to prioritize affordability. While failure is often more common than success with corporate venture investments, there are reasons to believe that payers and providers that linger on the sidelines of innovation do so at their peril.

A market-differentiating strategy that first-mover organizations have explored is investing in digital health as a pipeline of innovation to self-disrupt their own businesses[1]. Investor funding in digital health has gained momentum. With accelerated investments that eclipse earlier estimates of digital startup funding[2], the average investment has increased overall by 28 percent—representing new opportunities for healthcare organizations to pivot to the future. Payers and providers that do not make investing in innovation a key part of their business strategies could find themselves not only up against stiff competition in their current markets but also facing devaluation in the future.

[1] "Healthcare's Digital Lifeline," Accenture 2016
[2] "Fueled by Healthcare IT Start-Up Funding, Digital Disruption is Knocking," Accenture 2014

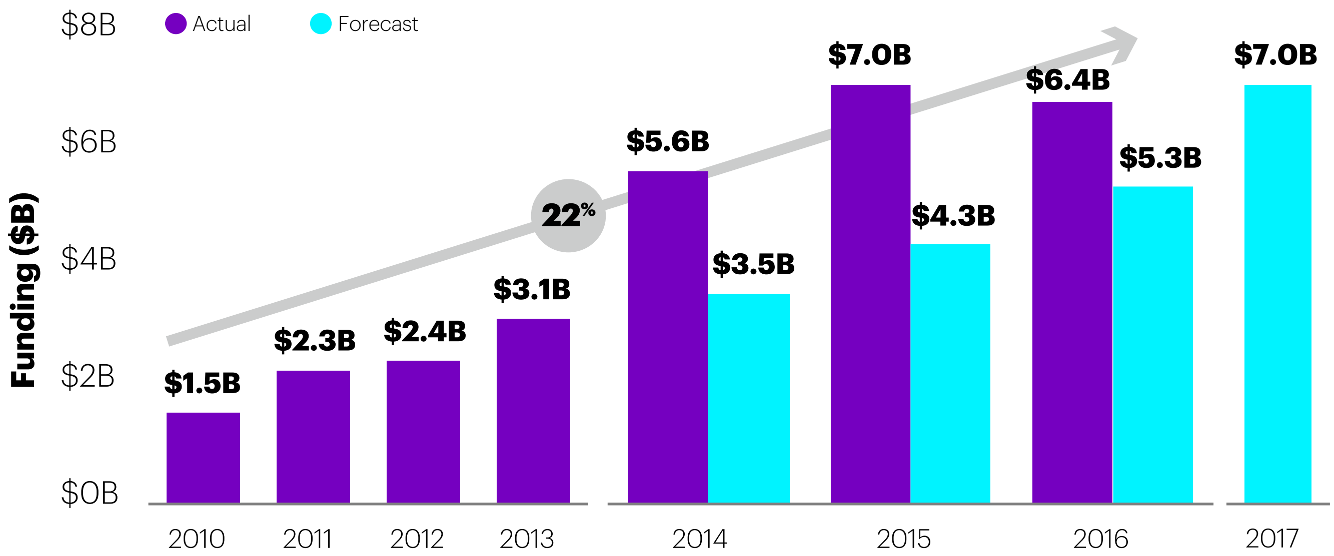
Accenture analysis shows that **FOUR TRENDS** have emerged that illustrate the shifting nature of healthcare and highlight the current digital health investment opportunity:

1. INVESTMENT IN DIGITAL HEALTH COMPANIES HAS ACCELERATED—AND MORE QUICKLY THAN EXPECTED

- Annual investments in digital health companies eclipsed the 2015 forecast[3] and continue to grow at a steady rate.
- After investments spiked a year earlier than originally forecast (US$7 billion annually in 2015 versus the US$4.3 billion forecast), the market moderated to US$6.4 billion invested in 2016. (See Figure 1.)
- Funding is still rapidly increasing, growing around 22 percent in the last few years.
- Accenture anticipates that the market is well on target to hit the original estimate of US$7.0 billion in annual start-up funding by the end of 2017.
- The market has been spurred by international growth. International digital health funding grew 5 times since 2013 (mainly China, India and Israel).

Figure 1. **Digital health funding is still rapidly increasing**

The market is on target to hit the annual investment forecast by the end of 2017.



Source: Accenture analysis

[3] Ibid

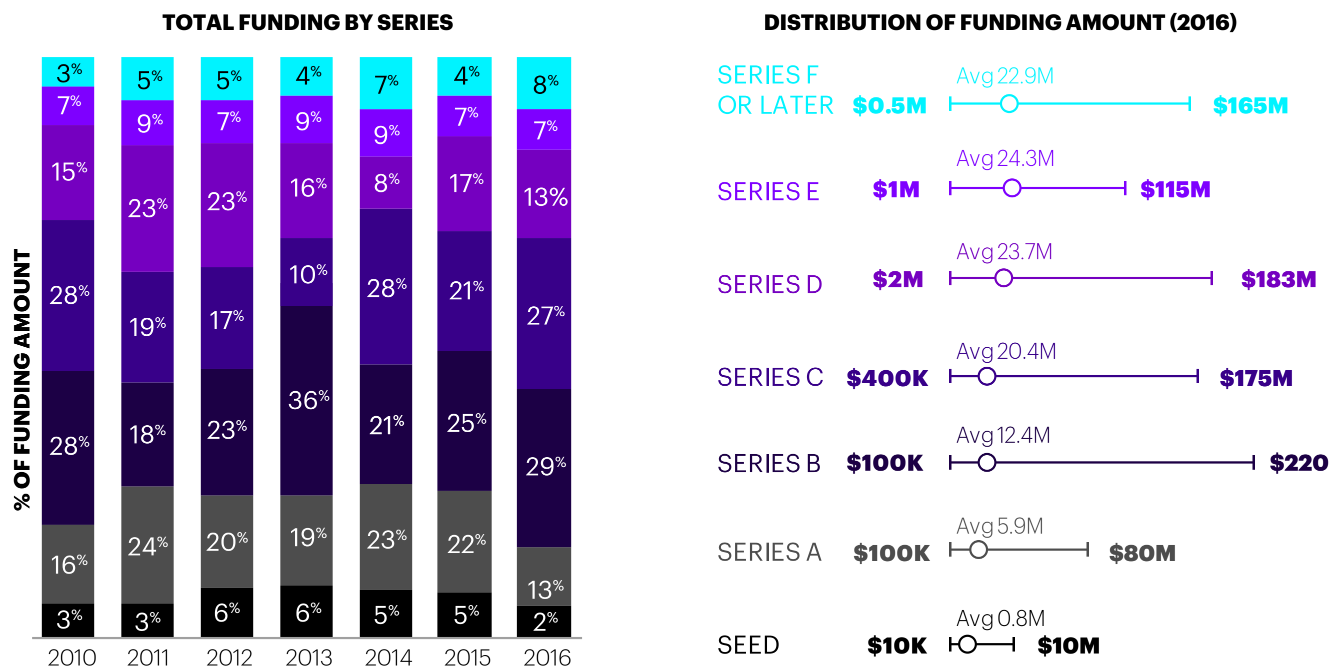
2. EARLY EXPLORATION IS COMING TO A CLOSE.
INVESTMENTS ARE BEING MADE AT SCALE TO UNLOCK VALUE

Funding has come of age, with companies choosing to invest in digital health later in start-ups' life cycles—and then continuing to invest more. Companies have experimented with and tested their digital health investments. Now they are creating minimally viable products, looking at market responses and then making their move. Previously, Accenture analysis showed that companies were choosing to invest in new services, solutions or offerings at earlier stages of the start-up's journey. Now, having "got their feet wet", companies are investing to scale where they have seen success or where the market has signalled it is a solution that can create and unlock unique value.

This uptick in investments in the later stages of companies' growth is evident from the 12 percent increase in series b, c and d funding from 2014 while seed and series a investments dropped by 13 percent in the same timeframe. (See Figure 2.) While the average dollar amount invested per deal increased 28 percent since 2014, the actual number of deals invested in decreased by 25 percent in the same timeframe. It is likely that this is at least in part due to the natural evolution of a new market, which begins rife with start-ups seeking early-stage funding and grows to a market with more mature companies seeking later-stage funding.

Figure 2. **Early to mid-stage investments continue to make up the majority of digital health funding**

The range of investments varies widely within each series.

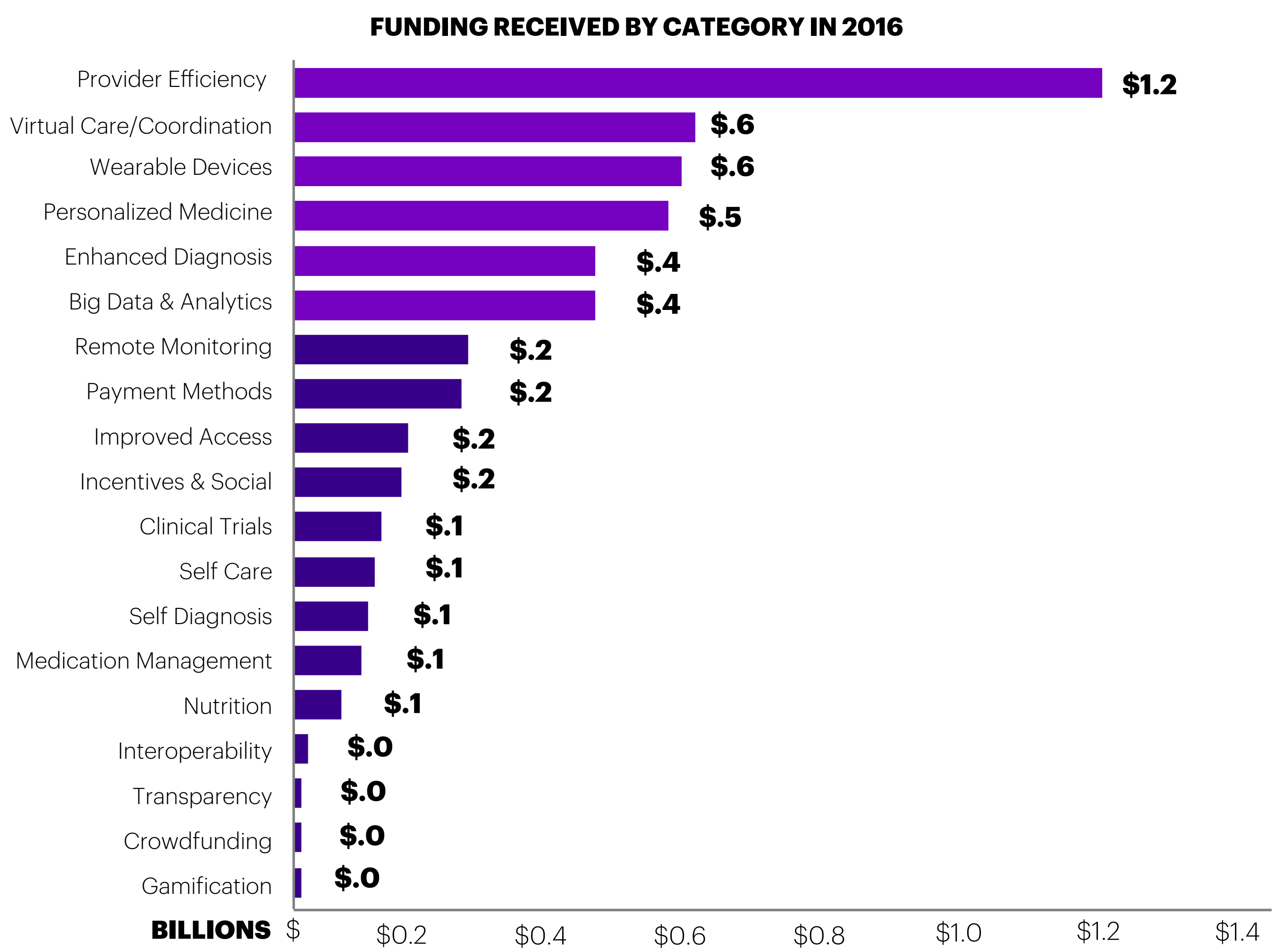


Source: Accenture analysis

3. AFFORDABILITY, ACCESS AND QUALITY ARE THE PRIORITIES—AND TWICE AS IMPORTANT AS OTHER FUNDING CATEGORIES

Accenture analysis showed that six areas related to affordability, access and quality in healthcare received 73 percent of investor funding in 2016: provider efficiency, virtual care/coordination, wearable devices, personalized medicine, enhanced diagnostics, and big data and analytics. (See Figure 3.)

Figure 3. **Six areas related to healthcare affordability, access and quality received the significant majority of funding in 2016.**



Source: Accenture analysis

4. **INVESTMENTS IN 10 COMPANIES** MADE UP ONE-THIRD OF OVERALL INVESTMENTS

Digital health innovation winners are emerging; a core group of 10 companies received 38 percent of the investment funding in 2016, many of which have been top funding winners in previous years. (See Figure 4.) The startups receiving the largest amount of funding since 2010 include JawBone ($737M), Theranos ($353M), Schumacher Group ($338M), Flatiron Group ($313M), Health Catalyst ($259M), Welltok ($239M), 23andMe ($235M) and ZocDoc ($223M). Others have IPO'ed and been acquired including Castlight, Teladoc, Fitbit, Veeva and Jiff.

Figure 4. **Top 10 funding deals in 2016**

Investments in 10 companies made up 38 percent of funding in 2016.

OVERALL INVESTMENTS

10 COMPANIES

$500M	Onduo
$500M	PING AN
$220M	Human Longevity
$200M	Guardant Health
$199M	iCarbonX
$183M	Chunyu Yisheng
$175M	Flatiron
$165M	Jawbone
$160M	Clover
$140M	Health Catalyst

Source: Accenture analysis

INNOVATE TO WIN

Opportunity awaits those who develop services that enhance healthcare efficiencies but innovation must come first, otherwise payers and providers will be left in the dust. Of course, the biggest winners from digital health will be the patients who receive better care and enjoy an enhanced healthcare experience, which enables them to stay healthier in the long run.

Three steps payers and providers should take now to act innovatively to turn digital disruption to their advantage include:

1. REIMAGINE YOUR INVESTMENT STRATEGY

The healthcare organization of yesterday is not what it is today. Providers, payers, and pharma and medtech companies need to find new ways to approach their investments and spearhead innovation to expand their strategies and product lines.

2. LEAD IN THE NEW

The time for "old school" thinking is over. Expand your idea of what it means to be a payer or provider, partner with an ecosystem of start-ups; step beyond your four walls to help you grow product lines and be more competitive.

3. FOCUS ON THE FUTURE

The most successful organizations are immersing themselves in digital, adapting their culture and developing new offerings in a case of "if you can't beat them, join them."

SEE THE INFOGRAPHIC.

FOR MORE INFORMATION

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METHODOLOGY

Based on information derived from public sources including news releases, company websites and third parties, Accenture analyzed more than 4,000 start-up companies. Accenture included in its global analysis companies that employ in their solutions one or more technologies and capabilities across Social, Mobile, Analytics, Cloud, Sensors and Marketing. Pure-play medical devices, bio-tech, consulting/advisory firms and public companies are excluded from the analysis. Accenture did not evaluate the business soundness of individual companies. Funding analysis is based on a representative sample of start-ups that received funding between 2010 and 2017.

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