Episode 18 – Health care transformation in a pandemic

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LYNNE CHOU O'KEEFE: I often say name a retailer without a consumer point of view. And that's health care. And I really believe that's going to change in the future.

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SPEAKER 1: Welcome to the Cure for the Common Company, a podcast series looking at innovations in the world of employee health and well-being. Steve Blumenfield and other experts from Willis Towers Watson's Health & Benefits practice are talking to entrepreneurs and industry leaders who break ground to meet the needs of today's workforce, and deliver benefits solutions that can separate employers from the pack.

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SPEAKER 2: This special episode of the Cure for the Common Co podcast was taken from the Willis Towers Watson Hit Reset on Health and Group Benefits virtual conference. Listen in as Steve Kraus of Bessemer Venture Partners and Lynne Chou O'Keefe of Define Ventures share their perspectives on healthcare innovation and investing in the pandemic and post-pandemic world.

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STEVE BLUMENFIELD: Hi, everybody. This is Steve Blumenfield, head of strategy and innovation for Willis Towers Watson Health & Benefits in North America. Thanks for being here today. And thanks especially to our fantastic guests, Lynne Chou O'Keefe, founding partner of Define Ventures, and Steve Kraus, healthcare partner at Bessemer Venture Partners and co-host of the famous-- one of my favorites-- podcast, A Healthy Dose. Well, great to have you both here.

Let's just start out by talking about the craziness of the VC investment startup market that we have seen this year. And it really has been crazy, but actually, a little bit less crazy on the funding side than I expected. So I'm thinking now about the Rock Health data that was released a bit ago that talked about the first half of this year receiving $5.4 billion in investment towards health startups in digital health space, which surprised me because that is just the highest level that we have seen since they recorded it.

And aside from just the tiniest blip at about the time of COVID, it just continued going up. I expected there might be a stumble or a stutter, and then a reconfiguration of that investment. That hasn't happened. So Lynne, what's going on? What do you think?

LYNNE CHOU O'KEEFE: Well, we are in the tailwind of the transformation of healthcare. And if you step back, Steve, healthcare is 17% of our GDP. But on a venture dollars perspective, it's only 7% of venture dollars. So I think we're still going to keep going up and to the right. And what you're seeing, because of the

tailwind in this space, how regulation has changed, I think, the creativity of entrepreneurs and seeing how the healthcare system has to be redefined and rebuilt.

STEVE BLUMENFIELD: Steve, you work with a lot of startups. And I've seen you counsel on boards a lot of these companies. How has COVID-19 affected the startups you work with?

STEVE KRAUS: Healthcare has been pretty labor inefficient. It's the most efficient industry in the country. And so I think there's always been this desire to have folks on-premise, and to do big implementations, and for them to take a long time. And what we've realized, all of us, I think, in all of our different daily and work lives, that you can do a lot remotely. And so while I think it's challenging from a culture perspective, it's obviously challenging from a hiring perspective.

I actually think, in some of the customer relations, it's allowed some of these companies where an industry which had to be in-person, impressive flash, and implementations took a long time, I think, are speeding up. And then of course, COVID has been a real tailwind for digital health. And I think that's gotten all of the stakeholders, whether they be providers, or payers, or self-insured employers, or insurance companies to realize maybe there is a new way to provide care, and that doesn't always have to be in the four walls of a provider's office or a health system. It actually could be done from the comfort of your home-- chronic care, prevention, primary care, urgent care, mental health, musculoskeletal care, rehab. The list goes on and on.

I mean, healthcare is 1,000 'billion dollar industries', Jonathan Bush once said. And it's true. It's massive. And I think each of those verticals, you can do a lot digitally and remotely to get ahead of all of the downstream acute episodes that happen.

And I think not only is that better for the consumer, but honestly, it's probably better for our system, because it'll take a lot of stuff that happens in acute one-off episodic basis when a patient actually crashes at the hospital. And frankly, realize that we can move a lot of the care upstream to prevent those patients from crashing. And so I think it's going to be just a totally transformative moment for healthcare. Shall I say it will define healthcare in the future.

LYNNE CHOU O'KEEFE: I like that word. I use it often.

STEVE BLUMENFIELD: Yeah, I actually never thought of it the way you did at the outset, that what happened with COVID-19 and the requirement to change the way that we work minimizes the strength of some of the big established competitors in terms of their ability to be professional, one-on-one, pressing the flesh. Anything to add about that?

LYNNE CHOU O'KEEFE: Typically, I like to say that almost 70% of the US population is Gen X or younger. These are generations that are so used to having technology redefine transportation, housing, logistics. Healthcare is no different in their mind. But what COVID did afterward is really-- I believe even like baby boomers and the silent generation have all probably now consumed healthcare in some way via telemedicine out of basis of necessity.

But the other cultural shift is on the provider side. So I would say early adopters probably were on telemedicine platforms already, but it really now has taken the majority-- and if not, the laggards have now been forced to go on that. So I often say that to-- I would say multiple years, if not five years, of typical evolution has now come into two quarters of revolution.

STEVE KRAUS: I might posit that COVID actually might change what is a very cyclical buying cycle, open enrollment, to now employers realizing, wow, we just bought a lot of stuff in March and April because we had this COVID crisis, and we needed to provide digital solutions to our employees. Maybe we should think about buying-- not in rushing all of us, the industry, to sell in July, and August, and September, and buy in October, and implement and January 1.

Maybe we should think about spreading this out over 12 months. Maybe some healthcare IT vendors would give breaks if we bought in March instead of jamming everything into the October-- September, October,

November time. So I hope the industry thinks about that and pushes it forward, that we don't have to have one buying cycle.

LYNNE CHOU O'KEEFE: And I think that's right when you think about that, Steve. Because the other thing, we think about this, if you will, late Q1, Q2 as the buying cycle for employers. But what fundamentally happened this year is we always talk about the future of work. The future of work has changed, and we're still adjusting to, what does that look like? So the things that we might have bought previously could be very different than what we have today. And we also know that things like mental behavioral health, I believe substance abuse, could also go up in this again remote work environment. And it just might reorder priorities that you might want to buy, again, off-cycle to what you might have thought traditionally.

STEVE BLUMENFIELD: These are great insights. Absolutely. In fact, our survey results echo that. That is arguably the most important thing that our employers are talking about when we survey them about what's happening. The crisis, even before COVID, was about mental health. Certainly, COVID, and isolation, and working from home, and having to change our lives around overnight, and fear drove that right to the top of the list in enormous proportions. So absolutely plays out in the data. But let's just talk about the types of solutions you're focusing on now. And, Lynne, where are you looking right now?

LYNNE CHOU O'KEEFE: Yeah. I mean, I think we're obviously thinking a lot about tech-enabled services and what that means. I think, because of telemedicine, it's now rearchitected the operational model. Of course, bricks and mortar, but what does that mean with virtual layers? And quite frankly, what does that mean for market expansion, I think, is even more interesting.

And that's really important to employers. Because, obviously, when you have the one medicals of the world in the past, you needed One Medical to be national. You needed One Medical to potentially be international at that time. And so how can we now leverage the virtualization to allow for that national or international penetration that employers would want to see? I think it also has forced us to also look at some of the conditions that might be-- quote, unquote-- "lost" or, quite frankly, the traditional health system hasn't had time for.

And so we were just talking about some of these. Of course, mental behavioral health is on everyone's mind. I mentioned substance abuse. We've been looking at some of these other areas, like GI as an example, of just areas that I think either the health system, again, doesn't have the time and that flexibility. Again, virtual solutions, I think, can rearchitect that, change that, but then also what we think will be on the minds of employers and employees in this new era.

STEVE BLUMENFIELD: Imagine we're in the future now. At some point, life turns back to something that is at least the routine that we have from here forward. I don't know what the heck that's going to be, or when it's going to be. But what do you think is the next big thing once COVID kind of stabilizes for our lives and our economy?

LYNNE CHOU O'KEEFE: We think very deeply on the intersections of consumer technology and healthcare at Define. And so one of those asks, Steve, is always how I think about it as personalization. And we kind of say that access is table stakes. So we're talking about telemedicine. We're talking about the ability to book appointments to see doctors virtually. We just think that almost a pipe, if you will. It's a platform. It's not truly an end use case, and we believe that the next kind of level of competitive ground and where startups are going is in this personalization layer.

And we've obviously seen the advent of, if you will, direct to consumer models. I actually like to call them consumer healthcare models, like the Hims and the Romans. A great example of this is we're both co-investors in a company called Folx Health, which really is the front door for LGBTQ health.

And I think it answers all the areas that we have in healthcare. It's lack of access, but lack of personalization, and quite frankly, honestly, the discrimination that this group can experience in healthcare and really trying to address that. I often say name a retailer without a consumer point of view. And that's healthcare. And I really believe that's going to change in the future.

STEVE KRAUS: Yeah. That's a good one. I like that. I agree with Lynne. I mean, I've always come from it at the highest level. And fundamentally, this industry is broken until we solve the cost curve issue. Because 50% of payments are government, and our states and our federal government are bankrupt and will become more so because of healthcare. It's the most unfunded liability out there.

And so what are the two things that will drive down costs? Because we tried everything else as an industry. We've been in this long enough, guys, to know we've tried everything. I think it's the consumer, which drives down costs in every other industry. And when given relative, comparable quality, we'll always choose cost. And I think it's value-based. It's changing the incentives in the ecosystem from one that rewards-- as we started off at the beginning of this conversation, going to the doctor's four walls, or going to the health system's four walls-- to, actually, let's think about other ways to deliver care at, again, relatively equal quality.

I think, on the consumer, one of the biggest trends is this ICHRA movement, and so the idea that you could actually move, just like you did with the 401K, from defined benefit to defined contribution, to give dollars to your employees, to let them go buy on the exchange. I think that's actually a big deal. We'll see whether or not that has legs, but I think these employers should be thinking about the consumer because it's-- the employers are the other half of the ecosystem in terms of payments, and they have a responsibility to try and drive down cost. Because if we don't, we have a massive problem on our hands.

So that's sort of the consumer. And I would have that lands as an employer. And I think ICHRA is really interesting, albeit early. And on value-based, I mean, clearly, we're still in inning 1, or 2, or 3 of the value-based movement. I actually think that the self-insured employers are behind the game. Self-insured employers, for the most part, still want broad networks, and you can see everybody. And by the way, that doesn't always work with value-based.

And so I think commercial players, and the payers, too, and the self-insured employers have a role to play in the value-based game. Those are the two ones that are going to drive down costs for our industry, which is the biggest thing that we need to try to achieve. And I think innovative companies help do that. I think that would be my challenge to this group.

STEVE BLUMENFIELD: All right. Steve, we refer to them as individual coverage HRAs, or ICHRA. And, Lynne, Steve just gave some guidance to employers there. And also a little bit before talking about going off-cycle, anything else that you would guide employers as they are thinking about life after COVID-19?

LYNNE CHOU O'KEEFE: Yeah. I mean, I would actually really say that this group has such power in the healthcare industry. And I really believe that a lot of the early models in digital health has come to this group. But I think that there is another level that this group can continue to drive this innovation forward and be even more structural and fundamental in how they buy healthcare services, how they network, how they contract. And using that power overall, I think, has always been, if you will, an access point, but I think it could be even stronger going forward, too.

STEVE BLUMENFIELD: Lynne, Steve, always an absolute pleasure. I know the audience will really, really enjoy this. I just love talking to you guys all the time. Don't forget to check out Steve's podcast, A Healthy Dose. And don't forget to listen to our podcast, Cure for the Common Co, where we interview startups in the employer sponsored health space. Thanks, everybody. Be safe. Have a great day.

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SPEAKER 1: Thank you for joining us for this Willis Towers Watson podcast featuring the latest thinking on the intersection of people, capital, and risk. For more information, visit the Insights section of willistowerswatson.com.

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