



Stanford eCorner

Business Models are the Challenge

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Halle Tecco, CEO of Rock Health, explains the landscape of current challenges for digital health startups. While funding was an issue a few years ago, says Tecco, today the big challenge is finding the right business model that adds real value in the fragmented systems of US healthcare.



Transcript

There are a lot of challenges for entrepreneurs in healthcare and they're really changing, I would say. Three years ago when I started this, the problem was getting funding. So there weren't a lot of investors that were comfortable with both the technology aspect and the healthcare aspect. Traditional VC is divided between life science. That has traditionally been therapeutics and devices, and technology that's generally been consumer web or enterprise. And this kind of intersection, there were a few VCs three years ago that were focused on it. There were a couple of VCs that were well positioned because they had people in both areas, so VCs like Kleiner and NEA that have both a life science practice and tech practice were able to move really fast. So I'd say three years ago it was funding, but since I started this in 2011, funding - venture funding in this space has more than doubled. So we've seen this year I think it was almost \$2 billion that was invested in digital health, which is really exciting. And funding is no longer a problem, I don't think.

Our entrepreneurs have raised our \$100 million in follow on funding. So they're definitely getting funded, not all of them but a lot of them are getting funded. And I think the problems - the biggest problems now are really around how fragmented the system is. And if you're selling to a hospital, if you're selling to even an insurer, whoever your customer is, there are 1000s of them and you have to go out and build a sales team to really go sell those customers. So I think that would be probably the most challenging on the enterprise side. And then on the consumer side, I mentioned in my talk that we only pay for 12% of our healthcare. We don't like paying for things. We are cheap when it comes to healthcare. We want someone else to pay. And so coming up with business models that rely on having the consumers pay for things is really challenging.

So you have to figure out where the value is being added. So maybe the consumer doesn't pay, but you're adding - you're keeping the consumer healthy so that the insurance company doesn't have to pay for something down the road. So maybe you can convince the insurance company to pay for it. Probably not, but maybe. Or employers, maybe an employer would pay for it since it's more wellness oriented. So I think the business model part of it is a big challenge for entrepreneurs, but it's not insurmountable.