Healthcare’s Digital Lifeline
Corporate Venture Capital
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Digital is all-pervasive. It offers unprecedented opportunities—along with ubiquitous and transformational disruption. The new normal is change. The new pace is fast. Today’s business environment is characterized by maturing technologies, massive amounts of data, an upsurge in collaboration, evolving expectations of service applications, and a new generation of “born digital” consumers. Traditional and non-traditional organizations, alike, are scrambling to reimagine services and solutions that will defend, differentiate and even disrupt.

Many companies are finding, however, that they simply aren’t equipped to keep pace with the speed of innovation and the magnitude of change digital ushers in. For them, corporate venture capital (CVC) is an increasingly attractive solution that dilutes or mitigates the potential impact of disruption.

One of the fastest-growing CVC targets is the healthcare sector. In 2015, organizations made $3 billion in healthcare-related CVC investments. But traditional equity investments, alone, won’t put organizations on the fast track to long-term, innovation-fueled success. What’s needed is a highly pragmatic strategy that uses CVC to not only repel disruption from the outside, but also initiate disruption from within.
Healthcare in the crosshairs

Stories abound of disruptors redefining rules of competition and launching new business models that leave traditional players grasping for life.

Now, more than ever, regulatory, economic, demographic and technological forces are converging to make healthcare an irresistible target. Accenture Strategy found that 85 percent of technology companies and 77 percent of venture capital (VC) firms consider the disruption of healthcare to be one of their top priorities.¹

Industry opportunities are clearly ripe for the taking. There’s an urgent need for innovative solutions that won’t just improve care of an aging, chronically ill population, but also help to rein in the $750 billion in US healthcare spending that is wasted each year.² For their part, healthcare incumbents obviously want to play a commanding role in shaping healthcare’s future. Yet, many just aren’t set up to keep pace with the changes that customers expect—and the innovations that startups deliver. They’re typically risk-averse and saddled with outmoded, cumbersome processes that don’t encourage or support a “fail fast” mentality. Introducing new products and ideas to the market can take years.³ Agile start-ups, by contrast, swoop in with breathtaking speed, leaving incumbents sidelined, exasperated and, in many cases, defenseless.

“Corporate Venture Capital” defined

Corporate venture capital is a subset of venture capital through which companies invest directly in external target companies, usually startups. Such investments allow companies to not only generate financial returns, but also develop ecosystems, gain access to new technologies, and optimize R&D efforts. Increasingly, CVC organizations are also forming and/or incubating new businesses.
Nothing ventured, nothing gained

Some traditional healthcare organizations, however, refuse to be marginalized. They know that inaction is tantamount to self-destruction and is, therefore, no longer a viable option.

Instead, they are standing up to the threat in one of the only ways they can: by intentionally disrupting themselves. They are bringing this new competitive strategy to life with a new mindset focused on innovation, capital, and the know-how needed to accelerate and scale businesses. Following the playbook of other industry groups, forward-thinking healthcare organizations are embracing corporate venture capital (CVC) as the rudder to guide the organization to new shores.

According to recent Accenture Strategy analysis, 60 CVC organizations across five industry segments (High-tech, Provider, MedTech, Pharma and Payer) have made $10 billion in healthcare-related investments from 2009 to 2015. As illustrated in Figure 1, the number of investments these companies are making through CVC has more than doubled in the past four years. The total amount invested has nearly tripled, growing from $743 million in 2009 to $3 billion in 2015, a compound annual growth rate (CAGR) of 26 percent.

FIGURE 1 | Increasing funding of digital health companies by healthcare corporate VCs

CAGR 2009–2015 | 26%

- Annualized amount invested ($US in millions)
- Number of investments

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Analysis of the source of healthcare-related investments suggests that providers and med tech companies have more fully deployed their digital lifeline (see Figure 2). Those organizations are now responsible for more than half (56 percent) of all healthcare-related investments. In 2009, they contributed just a third (35 percent). Conversely, as a percentage of total investments made in healthcare-related enterprises, pharmaceutical and high tech companies are losing ground. They made up nearly two-thirds (64 percent) of investments in 2009, but just more than a third (36 percent) in 2015. And then there are payers. While these organizations were responsible for just 7.5 percent of total healthcare-related investments in 2015, the dollar value of those investments has increased 20-fold since 2009. Their annual investments doubled in the last year alone.

Further, Accenture Strategy analysis identified 21 specific target areas of investment. Companies in the field of personalized medicine, outside of traditional biotech, received the most CVC support—nearly double the next three target areas (see Figure 3). Some 20 emerging companies across all business categories have attracted more than $100 million in CVC funding since 2009. Biocartis (molecular diagnostics), Health Catalyst (data warehousing and analytics) and 23andMe (genetic testing) were among the largest beneficiaries.4

Given relatively strong balance sheets, favorable borrowing environments, and a growing recognition that healthcare incumbents need to invest in “the new” amid the reimagining of industry lines, there is every indication that CVC investments will continue to grow, in number and in value. In fact, Accenture Strategy predicts that healthcare-focused CVC investments will reach $7.5 billion annually by 2020.5
GE Ventures

General Electric is in the midst of a transformation to become the world's premiere digital industrial company. The reinvention of this 124-year old company, by their own regard, calls for a contemporary mindset centered on simplification, speed and customer outcomes. It calls for the enterprise to look outside its four walls to systematically drive disruption and guide the culture toward building partnerships, open innovation and ecosystem collaboration.

In 2013, the company created GE Ventures (GEV), an organization formulated with a simple objective: access the external entrepreneurial ecosystem, technology and business models to help provide optionality in driving GE's growth.

Today, GE Ventures has done that and more. It has led the way in redefining and reimagining the meaning of corporate venture capital. Different than many CVC's, GEV looks beyond growth equity investment, focusing on both strategic and financial value. The organization is also a new business creator and incubator, a commercialization hub for GE's IP portfolio, home of healthy-imagination which includes global social entrepreneurship efforts, and a launching point for the enterprise's approach to uncovering and developing new-era thinking with scientist entrepreneurs.

GEV CEO Sue Siegel sees these activities as enabling GE's leadership in the digital era, commenting "we are not only providing optionality through equity investments, we are also discovering, designing and delivering growth options for GE. We are guiding disruption and serving as a bridge to the entrepreneurial ecosystem, and we are doing this through a multi-modal innovation platform that yields financial and strategic returns for investors."

GEV is helping its parent company to usher in the digital industrial era. If GE makes big things spin, GEV finds and develops solutions that could make big things spin faster, ensuring that GE will be moving, curing, powering, building and connecting for years and years to come.

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SUE SIEGEL
CEO OF GE VENTURES
AND HEALTHYMAGINATION
The CVC lifeline

Healthcare organizations are establishing and growing their CVC initiatives to access new products, new technologies, new markets/segments, new ecosystems and, ultimately, to preserve or realize new revenue streams. In effect, CVC represents a lifeline to the innovations organizations need to survive but can't develop efficiently and effectively on their own. Understandably, organizations fighting from different positions of power cast their CVC lifelines to different target areas.

CVC is an effective way for healthcare organizations to source innovation. But the opportunity extends beyond transformed R&D processes. CVC also serves as a strategic tool that can help enterprises re-imagine the foundation on which they compete. Many organizations are increasingly appreciating the value potential of CVC as a pipeline to new methods and mindsets that will drive long-term value. They are using CVC as a way to ensure business longevity by targeting companies they believe can introduce them to new ways of thinking, new modes of collaboration, a new pace of change, and a spirit of entrepreneurship that is lacking in their own organizations.

Through such investments, these incumbents are not only protecting their core (and adjacent) business segments, but also positioning themselves to take advantage of new markets and new business models. In this way, their CVC initiatives represent a lifeline to the future.

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The investor's guide to self-disruption

The most successful CVC programs take a holistic, contemporary approach. They target companies with the potential to not only improve healthcare delivery and outcomes, but also cultivate services that reposition incumbent brands to compete in a new era with new expectations. To bring this balanced, pragmatic strategy to life, organizations need to make sure their CVC programs accomplish four things:

Modernize the innovation mindset. Many organizations long ago stepped away from experimentation or let new-era models of R&D and innovation pass them by. However for many companies, CVC makes it possible by creating constructs that allow for continuous sharing of new, external ideas, customer-centric ways of working, and the adoption of contemporary metrics across the parent organization.

Reimagine the portfolio. Organizations should invest in innovations that either bolster the current core offerings or enable the company to pursue new offerings that fuel the evolving business of the future. This means they should test new business models and create new ecosystems. This approach is not new. What’s different is that leading CVCs are working more effectively with business leaders across their organization to infuse external thought capital, while identifying opportunities that address market realities and business challenges.

Make the intangible tangible. Inventive CVC programs are already actively scanning their organizations, accumulating and aggregating concealed business opportunities, such as differentiated datasets, global networks, patents, algorithms, and even their own processes, human capital and brand equity. Going forward, those that can successfully tie scalable, value-add services to the aforementioned intangibles will be better positioned to ensure the survival of their organization in an era where these assets will drive a majority of value.

Unencumber growth. At no other time in the tenure of today’s c-suite has the need to supercharge growth been so critical. Leaders need to take an objective view of the current business portfolio to prioritize growth opportunities that would capture value quicker if transitioned to a different environment. Already, some CVCs are building the infrastructure to manage carve-outs, incubate and scale businesses and/or formulate new businesses.
Self-disrupt or self-destruct

It was just a matter of time before disruption took aim at healthcare. Now, traditional healthcare players have no choice but to respond with a bit of disruption of their own. The orchestrator of that self-disruption is corporate venture capital. Investing in the innovations of others grants incumbents access to the new products and services that will shape opportunities in the years ahead. Importantly, CVC programs are not just making equity investments, but also accelerating the pivot to the new, scaling intangibles and formulating new businesses aligned to the digital era. More and more, CVC programs will serve as integral partners to the enterprise, since they will dictate how (and if) traditional companies become the disruptors or the disrupted.
About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 373,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

About Accenture Strategy

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise-wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership helps drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy.

About the Research

Based on information derived from public sources including news releases, company websites and third parties, Accenture analyzed approximately 60 corporate VC companies and a sample of nearly 400 digital health startup companies in which they invested during the 2009–2015 period. Accenture categorized the corporate VC companies based on sub-industry (i.e., pharmaceutical, payer, provider, med tech and high tech) and categorized each of the startups based on Accenture Healthcare 20/20 proprietary tagging system. Pure-play medical devices, bio-tech, consulting/advisory firms and publicly traded companies were excluded from the research. Accenture did not evaluate the business soundness of individual companies.

Notes

4 Accenture CVC Research.
5 Ibid.
8 Crunchbase: https://www.crunchbase.com/organization/ge-ventures#/entity
9 Evidation Health website: http://www.evidation.com/about/
11 Apertiva website: https://apervita.com/