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# The Rise of Start Up Healthcare Entities and Their Transformation of the Market

Consumer demand has long been an important driver of change in the health care industry. For example, through the 1900's, the average American spent $5 a year (roughly $110 today) on remedies that were futile attempts at healing the sick.[1] However, with the establishment of clean medical facilities, antibiotics, and educated physicians, consumers were no longer only seeking care in extreme circumstances, but instead began seeking medical care to treat common illnesses.[2] This change in demand resulted in a need for new tools, such as health insurance, to help cover the costs of care.[3] Similarly, the Affordable Care Act has changed the market by further engaging consumers in the participation of their care while also developing new and more efficient ways to help provide high quality care. The result is a window of opportunity for innovative and new market entrants who wish to develop cutting edge technologies and a rapidly growing industry of healthcare startup companies with the ability to change the face and functions of the healthcare market.

One new innovator is Oscar Health, a company that has received significant publicity in the healthcare startup industry for achieving company valuations in excess of $1.5 billion dollars.[4] The company designed a mobile application that allows a person to search by symptoms, have a variety of suggested treatment options, and map out on a google-maps type interface where these items or services can be located and what their costs will be. Its straightforward and transparent nature has had a very positive response, and earned the company approximately $180 million in revenue from 40,000 customers in one state.[5]

As a direct result of innovative startup companies like Oscar Health, the healthcare market has seen a significant and rapid influx of capital, growing valuations, and increased investments. In the first quarter of 2015, healthcare startups raised $3.9 billion in venture capital from interested investors in biotechnology, digital health, and healthcare service fields.[6] Since the first quarter of 2014, investment capital has increased by 72% in the biotechnology field, 56% in the digital health field, and 515% in the healthcare services field.[7] These startups provide the potential for not only earnings that will come from the demand for their innovation, but also for the various market price controls and lucrative intellectual property protections that may come with developing state of the art technology.

The opportunity with startups has not only gained the attention of individual investors and investment firms, but major companies have begun to cash in on potential opportunities. Some companies are offering cash buyouts for the acquisition of these promising startups as an investment venture to keep their company innovative and competitive in the future healthcare markets. For example, Johnson and Johnson recently acquired Alios BioPharma Inc., which has developed novel antiviral therapies for respiratory disease treatment, for $1.75 billion in cash. [8] Other companies are aligning with startups to develop meaningful product partnerships in an effort to enhance their products relevance and utility in the changing face of the healthcare market. Just recently, IBM acquired two technology startup companies to help design its HIPAA-enabled Watson Health Cloud.[9] It then announced a partnership with Apple, Johnson and Johnson, and Medtronic to use its developing data analytics cloud software to help enhance these organizations' products while also establishing its importance in the rapidly developing data analytics market.[10]

While these trends clearly demonstrate that a growing number of investors are seeing these startups as a promising investment opportunity, many business analysts believe there is more uncertainty in the market when it comes to seeing a return on investment. Regardless of the position taken as to whether or not the investment is money well spent, most analysts recommend reviewing the product not only for its utility and design, but also to see if it is a sustainable business model and if the market is ready to accept the new product.[11]

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2 *Ibid.*
3 *Ibid.*
4 "Obamacare Startup Oscar Health Hits a $1.5 Billion Valuation" By Steven Bertoni, Forbes, April 20, 2015, http://onforb.es/1Dt44cf (Accessed 4/30/15).
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6 "Health-Care Startups Raise Record $3.9 Billion in Venture Capital in First Quarter" By Brian Gormley, The Wall Street Journal, April 21, 2015, http://www.wsj.com/articles/healthcarestartupsraiserecord389billioninventurecapitalinfirstquarter1429633713 (Accessed 4/30/15).

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10 "IBM Announces Deals With Apple, Johnson and Johnson, and Medtronic in Bid to Transform Healthcare" By Matthew Herper, Forbes, April 13, 2015, http://www.forbes.com/sites/matthewherper/2015/04/13/ibm-announces-deals-with-apple-johnson-johnson-and-medtronic-in-bid-to-transform-health-care/ (Accessed 5/1/2015).

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