

# 2006

The Year of Consolidation

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**Choosing the Right  
Inpatient Mobile Solution**

## 2006: The Year of Consolidation

The last 5 years have been an exciting time for those in the mobile health space. A new market has emerged virtually from nowhere, promising to revolutionize healthcare informatics as we know it. Most exciting of all, the traditional entrenched players, including Cerner, McKesson, and Siemens, have remained confined to the sidelines-- initially because of apathy, but more recently because of lack of execution.

Mobile health start-up companies-- many of them-- erupted in the late 1990s and early 2000s hoping to be the next WebMD. Many of those companies subsequently folded; however, many others have miraculously survived. Despite the sizzle and promise of mobile solutions, the spending has been slow to follow. Today, after at least five years of market education, optimistic sales forecasts, and ever-evolving and improving technology, the market remains relatively pristine-- with a meager 8-10% market penetration by true enterprise-wide mobile solutions.

This should come as no surprise given healthcare's historic under-investment in information technology. Nevertheless, with all of mobility's promise-- particularly in light of recent increased healthcare IT spending-- the slow uptake of enterprise mobility is at least a moderate disappointment. For the individuals who have poured their heart and soul (and personal finances) into the next great thing that has yet to fully materialize, "disappointment" hardly seems adequate.

Truth be told, not everyone is disappointed by the slow pace of this healthcare informatics "revolution." In fact, as is the case whenever a potentially disruptive technology is introduced into a market, the entrenched companies celebrate slow adoption rates. More than celebrate it, they bank on it. While small companies can emerge from nowhere with new technology that rapidly spreads through an industry, reshaping the competitive landscape - they seldom do.

As a result, the reward of new technology, particularly a complementary one, like mobile technology, nearly always ends up in the hands of the existing players. In other words, for the large companies, being opportunistic pays much better than being innovative.

The greatest ally for the major HIS vendors is time. They will eventually figure out how to deliver a competitive solution, and if they do not, they will acquire it. Much

of the surprise element is gone. While the HIS vendors initially brushed off mobility as a fad, they are increasingly learning the importance of the technology.

Mobile solutions are not middleware as many in healthcare IT like to label them. In fact, the solutions that are in the greatest risk of being relegated to that position are the traditional “heavy iron” systems.

As physicians and clinicians, the true customers in the healthcare IT equation, have become more empowered and involved in the decision-making process, they have also become more aware of the solutions with which they interact directly. And this is why the major HIS vendors must take mobility seriously, because more and more the customers’ touch point for technology in the inpatient environment is the mobile solution.

Survey clinicians in hospitals that have implemented mobile solutions and ask who knows which vendor is providing the back-end system. The number who can correctly identify their HIS vendor will pale in comparison to the number who know their mobile solution provider.

To be clear, mobile solutions will not replace the back-end systems that feed them, but they do stand to weaken the grip that the major HIS vendors hold over their customers. To maintain that position, the majors MUST connect directly with the clinicians they serve.

As a result of this critical need, and a softening healthcare IT market (hospitals are increasingly willing to invest - particularly in mobility), the major HIS vendors should be taking aggressive steps in the near-term to shore up their mobility strategy. For some of the major HIS vendors, McKesson in particular, acquisition is a likely path.

The two most obvious acquisition targets, PatientKeeper and MercuryMD, come with heavy baggage that make them difficult deals. PatientKeeper, which has raised more than \$60 million in venture capital would seem an impossible company to acquire simply based on investor expectations. In reality, following their last venture round, which was no doubt a substantial down-round, it would not require a \$500 million transaction to satisfy adjusted hurdle rates. For their part, MercuryMD has raised far less capital and should be able to satisfy investors with a reasonable valuation.

Having said that, agreeing upon a valuation remains the problem. PatientKeeper and MercuryMD have developed solutions that address 98%+ of the hospital market. Doing some very basic math, if we assume that there are 2,500 hospital systems, and the average deal size (initial implementation and year one maintenance and support costs only) is a conservative \$400k, this is a \$1 billion dollar market. Throw in the ongoing support, maintenance, and add-on modules and you are easily talking \$3-5 billion, without getting into the strategic significance of owning the clinician and the value of following that clinician into the ambulatory environment.

Both PatientKeeper and MercuryMD, and presumably their boards, like those numbers quite a bit given both companies’ market-leading position. If you look at the value from the perspective of a McKesson, who would really only be looking to deploy the solution into their installed base, the potential value falls precipitously. They would likely not be willing to spend more than \$50-60 million for either a PatientKeeper or MercuryMD.

Rumors have it that McKesson approached MercuryMD (who has been wreaking havoc on McKesson’s customer base) this last year flirting with the idea of an acquisition, but their numbers were so far apart that real conversation never developed.

PatientKeeper and MercuryMD, no matter how much they can rationalize the situation—they know that the market is not going to remain wide-open

forever—also have difficulty appreciating the precariousness of their situation.

To help put this market into perspective, consider TiVO. TiVO has revolutionized the way millions of people experience television. Interestingly, TiVO, like enterprise mobile solutions, is a very thin application layer that sits on top of traditional infrastructure- cable, satellite, and even terrestrial television. In other words, TiVO does not give you channels (or information) you do not already have. Instead, it takes that information and makes it more usable and accessible to better accommodate your lifestyle and personal demands.

Sound familiar? It should. Inpatient mobile solutions operate on a strikingly similar model. The problem is not the information. The problem is that the information is not accessible, nor usable, nor does it support clinical workflow.

Another important similarity between TiVO and inpatient mobile solutions- neither is terribly complex. The technology is very reproducible, and not very defensible from an intellectual property standpoint. When this is the case, speed to market and execution is absolutely paramount.

TiVO offers both PatientKeeper and MercuryMD an important lesson. Despite a fiercely loyal customer base, TiVO's inability to rapidly penetrate the consumer market has limited their upside. While they continue to reinvent themselves, and look for new opportunities, their certain onetime vision of putting a TiVO box in every household in America has long since vanished.

Why? It's very simple. They spent millions of dollars educating the market and proving the value of their solution, but they could not tip the market quickly enough. The traditional vendors with the installed customer bases, such as Time Warner Cable, realized the threat posed by TiVO and decided the market was adequately primed to invest in replicating TiVO's solution.

Too much has transpired in the enterprise mobile health marketplace over the last five years, and particularly within the last 12 months, to think this is going to be another quiet year in which PatientKeeper and MercuryMD steadily nip away at the major HIS vendors' customer bases uncontested. Expect a shake up.

If McKesson cannot come to terms with either PatientKeeper or MercuryMD, there are more affordable options. Take IQMax. This is a very viable deal. The company is lean, and has great technology. Their synchronization technology and multi-environment support fits real-world clinical use-cases better than any other solution in the space. A number of elements that have held them back in the past from the perspective of a customer, actually enhance their attractiveness as an acquisition target.

For instance, we have commented in the past about the depth of IQMax's inpatient domain knowledge. Within the last year, the Company has substantially enhanced their clinical offering with the release of IQRounds, which is showing early promise. Even so, while they deepen their domain expertise, they have few enough installs in place that a potential acquirer will not be paying a premium for customers that could be more problematic than anything else (for example, would McKesson really be excited about inheriting a customer base comprised of multiple competing HIS installs, including 50% MEDITECH?). Furthermore, the strength of their solution is largely the flexibility of their technology. The fact that they have not hard-coded their solution gives a great deal of opportunity for a potential acquirer to integrate the IQMax platform into their larger offering in a way that is more consistent with existing product lines and branding.

Beyond IQMax, Cogon Systems is another company that has done enough to prove their technology in the marketplace and not so much to have set unrealistically high expectations among shareholders regarding valuation. There are a number of alternatives for the HIS vendors looking to cover a lot of ground quickly, and not all of them are expensive.

The major HIS vendors would love to reduce mobility to a mere functionality of their larger systems. Given enough time, they will make it so. PatientKeeper and MercuryMD, today's high-flyers, would love to continue on their current trajectory. Both - while saying otherwise - want to grow into public companies. However, if they do not come to terms with the ferocity of the market (the major HIS vendors will give away mobility altogether to protect their customer bases if necessary) and the unrelenting ticking clock in the background, they will both be relegated to niche companies with few, but loyal customers.

While almost inconceivable, there is an obvious solution that could help both PatientKeeper and MercuryMD accomplish their objectives - they should merge.

After all, for all of their differences, they are remarkably similar. Compare their technologies. Compare their sizes, corporate structure. Look at their partners. They are nearly identical, and where they are different they have the potential to create synergy. Each company possesses a few unique and strategically valuable relationships.

While each company no doubt prides itself on its technical solution, they are not that different. Furthermore, they are not that special. The lion share of both company's spending has gone towards sales and marketing, not R&D and product development. There are at least a half dozen other companies coming down the pike that are replicating their architecture, some of whom will do it better.

Again, where there are differences, there are strengths. PatientKeeper's solution is more flexible and customizable, and more readily adaptable to enterprises that do not want yet another proprietary database. Furthermore, PatientKeeper has much greater experience and strength in the large ambulatory market. MercuryMD, for their part, is the anointed master of inpatient mobility. They literally have the implementation process down to a science, and they are improving at it all the time. Their solution is simple, yet works very well for their intended user base.

While both companies have grown up viewing the other as their main competitor, they must embrace the fact that they share a common cause that is far more important to both company's future - they must work to tip the market before the majors lock them out.

The combined entity would force the market much faster than the major HIS vendors could respond to. The end result, a long term market position for a publicly traded company that possesses deep technical capability spanning both inpatient and outpatient environments.

While a PatientKeeper-MercuryMD deal is not likely in the cards, expect at least a couple of acquisitions during the year involving key vendors in this sector. Additionally, look for some of the pure-play mobile vendors to acquire lesser known niche companies to supplement functionality and to pick up pockets of customers.