

4sight Health Roundup Podcast

Jan 25, 2024

What's the Payoff From General Catalyst's Big Gamble?

David Burda:

Welcome to the 4sight Health Roundup podcast, 4sight Health's podcast series for healthcare revolutionaries, outcomes matter customers count and value rules. Hello again, everyone. This is Dave Burda, news editor at 4sight Health. It is Thursday, January 25th. According to my calendar, there's a full moon tonight that could explain all the howling about General Catalyst proposed acquisition of Summa Health. General Catalyst is a venture capital firm. It's set up and owns a company called Health Assurance Transformation Corporation or HATCo to buy a health system. Summa Health is a health system. It's a not-for-profit health system based in Akron, Ohio. General Catalyst said last week that it's buying Summa Health for an undisclosed amount and intends to make Summa a wholly owned for-profit subsidiary of HATCo. They anticipate finalizing a definitive agreement in several months. To tell us if the stars are aligned on this deal are Dave Johnson, founder and CEO 4sight Health, and Julie Murchinson, partner at Transformation Capital. Hi Dave. Hi, Julie. How are you guys doing this morning, Dave?

David W. Johnson:

Well, I'm up to my eyeballs writing the new book. So what else is new.

Burda:

<Laugh>? What chapter are we on? How many words?

Johnson:

<Laugh> Well, we're over 60,000 words at this point, so it's a book.

Burda:

Good, good, good for you.

Johnson:

Two chapters to go.

Burda:

Good for you. Thanks, Dave. Julie, how are you?

Julie Murchinson:

I am doing well. I've been out of the country and finding myself in some challenging situations, trying to explain to non-Americans what is happening with our political situations. So it's been entertaining.

Burda:

It's inexplicable to many of us here. Thanks. It is Julie <laugh>. Now before we talk about the deal we're gonna talk about, let's talk astronomy. Dave, do you follow the lunar cycles or have any interest in astronomy?

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Johnson:

You know, I never paid that much attention to the moon growing up, but then I was a Peace Corps volunteer in West Africa there were no streetlights. So at night whether the moon was full or it was a new moon made a big difference in my navigate. So I, I really started paying attention to the lunar cycles there. And it's amazing how much you can see during a full moon, it's actually pretty remarkable.

Burda:

Yeah. Without light pollution. That's great. Julie, how about you? Are, are you always gazing at the stars?

Murchinson:

Honestly, I can't pick out a constellation to save my life except maybe the Big Dipper. But I do love the stars, and any shooting star really does get me. I mean, it's kind of amazing. But my son Henry loves astronomy, so, you know, there are star lovers.

Burda:

Really. That's very cool. Yeah, I watched a meteor shower once on a camping trip with my youngest son when he was in Boy Scouts, and it was truly amazing. It went on for over an hour and, and it made me feel just how truly small we are in the universe. So let's let's talk about how small or big this general Catalyst Summa Health deal is in the healthcare universe that we live in. Dave, gimme two or three critical success factors you're looking for and tell me how you would measure the success of this deal a year out, or maybe five years out.

Johnson:

First and foremost, I love that this is a for-profit acquisition. That means they're gonna start paying taxes, and there'll be a nice foundation that the community can use for its true betterment. So right off the top, you gotta like the deal for those reasons. But before I dive too much into what I think's gonna happen or what the metrics are gonna be, I, first was just trying to understand the deal. I like and respect Mark Harrison a great deal. And so I went back to the October announcement when they created HATCo and just kind of read some of the language in there. And they talked about a much needed blueprint for a healthcare operating system, the need for an amazon-like ecosystem. And then there's just constant emphasis on value-based care, and, you know, I'm gonna like that. So they set up as the three goals of HATCo to develop and execute the transformational journey for their network of health systems now over 20 catalyze the health assurance ecosystem. And they've got dozens of companies that they've invested in there. And then the third goal, which is the one that got everybody's attention, was to acquire a health system. And the goal was to get true alignment between all the stakeholders to have very patient capital, because you can't transform healthcare overnight to focus on platform innovation. Not just tech, not just cutting costs, radical collaboration. And then, you know, again, that decisive shift to value-based care. You know, and when you kind of

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think about it, hospitals and clinics or, or health systems are really just hospitals and clinics. And as we're talking about value-based care and the push to consumerism, they need to figure out how to expand their service offerings to include health and wellbeing. They need to go all in on consumerism. And all of that aligns with my new favorite acronym, which I introduced you both to last week, the CB two, E two; cheaper, better, more balanced, easier and empowering. And my guess is HATCo is gonna try and do all of these things with Summa. Now, as part of the book, which I'm up to my eyeballs, and I interviewed Pete McKenna earlier today on a chapter called The Aggregators Advantage. And so Pete and I were talking about the bespoke app that Baylor Scott and White has developed to really put themselves in direct connection with consumers. And I, I think there's a lot of alignment with what BSS W's trying to do, and, and maybe ultimately what HATCo is trying to do with Summa. So when Pete became CEO 2 years ago this month, he had written a mission statement and came out with a new mantra for the organization, which was empowering you to live well. And the way he described that was as a hard shift to transitioning responsibility and capability for care to consumers. So everything they're doing is about empowering you to live well, empowering consumers within their network to live well. And their app is, they built a bespoke app. It's called my BSW Health. I enrolled in it. It's pretty impressive. And one thing I hadn't focused on and Pete said is a big part of what goes on behind the scenes, and I think this has applicability to HATCo, is in order for your customers that you have this direct relationship with, to hit the easy button, to schedule an appointment make a payment, learn about a condition, so on and so forth, you have to completely overhaul the workflow underlying the health system. I think that's the long term work that HATCo signing up for with Sumo, which is hard push to value-based care. I'd be really surprised if they don't become a member of transference network in, in the not too distant future since transference one of HATCo portfolio companies my guess is they'll have a, a really slick app that will engage consumers and they'll be really doing the behind the scenes work so that that app can deliver on the CB two E two, you know, make it cheaper, better, more balanced, easier and empowering for customers. So a year out, what do I think, what am I gonna be looking for? Have they done those things? Is there a, is there a new app? is it made from scratch? not a variation off of my chart. Are they then part of the transparent network? Are they beginning to think more aggressively about direct contracting and then five years out, it's okay, <laugh> as the transformation happened and you're, we're looking at everything there from engagement metrics to broader health metrics, outcomes, metrics, cost metrics number of new customers and so on. And, you know, there's a lot of talk about, is this too small? Is it too is it big enough to to, to really make a difference? And if you think of this as more of the you know, laboratory through which HATCo is gonna try and build a, a true customer engagement platform dedicated to value-based care, then I think it's probably big enough. So I'm choosing to be positive and looking forward to seeing what they do there understanding that you know, it's not gonna be easy.

Burda:

Truly consumer facing that, that would be great. Thanks Dave. Julie, any questions for Dave?

Murchinson:

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So great comments, Dave. You know, I've read that some others across the industry are curious what the reaction will be from commercial payers and what other uncharted regulatory and licensure questions pop up along the way. Do you have thoughts on either of these or did any other reactions catch your eye?

Johnson:

A good healthcare administrator was somebody that had great relationships with doctors, particularly the high volume inventors. And the word no wasn't even part of their vocabulary when they interacted with these people. And when you look at the type of shift that HATCo is trying to make at Summa, they're shifting away from this sort of physician as customer and director of, of patient volume into one where consumers ultimately, or consumers through employer sponsored plans become the determinants of where and how they get their health and wellness services. And that opens up entirely new competitive channels. And so from the commercial payers perspective, you know, they want the customer relationship too. I do think the health systems, at least right now, are better positioned than the health insurance companies. So it wouldn't surprise me if the insurance companies are worried. With regard to regulation. You know, so much of the stupid regulation in healthcare originates with really medical protectionism on the behalf of medical societies inside states that have restricted the supply of physicians have restricted the ability for people to practice a top of license, to do things that really do deliver better, cheaper, faster service provision. So I, I think on the regulatory side, we're gonna continue to see this battle being waged between the dark forces of old medicine and the light forces of new medicine that are really gonna be pushing toward this much more consumer focused operating environment, new medicine where you actually have to solve consumers' jobs to be done in, in health and healthcare. So I think both of those are, are places to watch.

Burda:

Saying no to doctors and organized medicine, scary proposition. Thanks Dave. Julie, what are the two or three things you are watching as this deal unfolds, and how would you measure its success a year out and maybe five years out?

Murchinson:

Honestly I'm looking for where Mark Harrison replicates what worked at Intermountain, both in care delivery and in the value-based care health plan model that Dave mentioned. So Dave and I see the world very similarly. Maybe I'm a little less enthusiastic about the pace of change. I don't know, we'll see. But I do think there are a ton of low hanging human driven fixes that can really tweak the health of the system in ways that they're gonna have to do along the way before they even start looking at technology. You know, I've talked about this many times, but when servers bought Caritas Christie and converted it to Steward you know, they, they did very minor, made very minor changes to start to deliver you know, higher margin care and what, you know, what would call the value. So, and without really adopting any fancy systems, but you can only get so far, and obviously GC and Summa are saying all the right words about the long-term hold, and you can't change healthcare overnight. So I like that and I believe it, and I think

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Mark understands how to do that. And in year one, you know, there's two things I was thinking a lot about. One is, what's the reaction of the other hospitals that GC has as their partners? They claim to have 20 healthcare system partners. And I literally read this observation from health System c-Suite that really surprised me. Actually, General Catalyst already has a network of more than 20 health systems across 43 states and four countries that trials and provides feedback on technology deals developed by its portfolio companies. However, that network didn't give it enough control to try new things. Right. I thought that was quite a statement, <laugh>, I was. Right. You know, you can read a lot into that. So that reaction's gonna be interesting. And another thing that I, I don't see a lot of people talking about is I'm really interested to see in the first year what kind of talent they recruit to leadership from the for-profit sector. You know, will they go long on this? And in what positions? Where do they see the nuance needs for, for-profit experience in a not-for-profit model? Is that just in finance? Is that in clinical operations? Like, what does that really look like to do what they're, you know, claiming to try to do here? So that's a, a few of the initial things five years out, you know, I'm gonna look at things like patient mix changes. So many health systems are trying to really go broader on their commercial population to share the balance of their current government payers. And this is ripe for digital innovation. So I'm interested in that. You know, shifts in staffing ratios, other caregivers that provide more leverage to physicians in ways we've discussed here. And this isn't just a signal of both, you know, business model and clinical operations sophistication, but that, you know, when you look at not only that diversification, but the technology enablement that GC could do with companies I know in their portfolio you know, there's a lot of leverage they could get and shift the ratio. So I look, I'll look for that. And obviously the business model shifts that Dave talked about, there's already a footprint in post-acute home care, will they do more? Will they really look at this as a big part of how they manage a continuum? So, you know, we'll see if they can apply enough innovation on a manageable timeline. And I'm hoping that we'll see things like NPS improvement and really, you know, true brand differentiation in the market in the ways that Dave talked about with an app among, you know, other things. So it's interesting.

Burda:

Yeah. You know, the people will make it work, and I think your point about what talent they attract is, is really a good one. Thanks Julie. Dave, any questions for Julie?

Johnson:

So I'm curious to get your early read on how aggressively HATCo will work to incorporate its portfolio companies into Summa Care Delivery Network as part of this cohesive customer-centric platform that I'm sure they're gonna try and build. How do you think we're gonna see that manifest itself?

Murchinson:

The concept of there being able to develop an immediate Petri dish for GC companies, I think is bold. I'm not really sure that you can do any of that immediately. There's only so much change that Summa as an organization, the clinician base anyone is gonna be able to handle it any one

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time. And I think the change in management around so much of this stuff is, it's significant. So I, you know, I'm glad that they talk about the long hold because I think they're gonna have to hold it for a long time. But I think there are several in their portfolio and there's some of those Dave that you know, perhaps are less well known than Transcarent and Oscar and Kamir and whoever you talked about. I, but that actually can, you know, drive a lot of value. So I guess I, I expect that they're gonna be able to more than jam a lot of technology through very quickly, really help the technologies in their portfolio prove out the ROI and the value in ways that maybe they don't have the opportunity to do at clients who are, you know, buying in more conservative chunks,

Burda:

Everyone loves change when it's not them, right? So it will be interesting. Right. Thanks Julie. My only prediction is everyone will be watching every move of this deal, and any misstep will be magnified. So I, I hope they're ready for the public scrutiny. Now let's talk about other big news that happened this week. Julia, what else happened that we should know about? And you're the one who mentioned this deal at the end of last week's show, so you've got a nose for news.

Murchinson:

Oh, I win the prize. That's so exciting.

Burda:

Win the prize,

Murchinson:

<Laugh>. Well, you know, one stat I heard, and I will say this came from Twitter, so, and I can't verify the source, but that was looking at AI and apparently there's some stat that 11% of all prompts for open AI have confidential company information in them.

Johnson:

Oh, geez.

Murchinson:

So yeah, 11%. So I don't know if that's true. But again, right on Twitter, it must be, and you know, I think healthcare is just like the rest of the world is starting to really dig into, they're seeing the issues in AI in ways that we're only sort of talking about and maybe hysterical about in some cases. But healthcare is actually so excited about AI and you're seeing so many companies that are starting to really kind of breakthrough, like the abridge epic deal. And there's, there's a lot of excitement. So I think we're gonna start to see more talk about AI and healthcare in big ways where the, the, to your point Dave last week about Professor Galloway, like others are starting to kind of pull back and say the incumbents habit.

Burda:

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that could be a daily topic that, that's, that's great. For sure. Good statue. Thank you. Dave, what other news caught your eye?

Johnson:

I continue to marvel that it's almost as easy now to edit genetic code as is his computer code. And another example of that, this week there was this 11-year-old boy from Morocco with congenital deafness. He actually never went to school and invented his own sign language. Somehow he ended up at CHOP in Philadelphia, and they had a, they manipulated the, the one gene, which is called Ferlin which caused the congenital deafness. And he can now hear and there's no sound that he doesn't like. So the ability for us, I love that. Yeah. And play with play with the genetic code in ways that improve people's lives is pretty remarkable. Notwithstanding all the other issues surrounding it.

Burda:

But wow. Yeah. Hand in hand with ai it'll be interesting the next 10 years. That's great. Thanks Dave. And thanks, Julie. That is all the time we have for today. If you'd like to learn more about the topics we discussed on today's show, please visit our website at 4sighthealth.com. And don't forget to tell a friend about the 4sight Health Roundup podcast. Subscribe now and don't miss another segment of the best 20 minutes in healthcare. Thanks for listening. I'm Dave Burda for 4sight Health.