Shaking Up the Blues

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A former WebMD insider looks back on the rise and near collapse of the healthcare IT giant, and contemplates what it will take to coax our industry into the technology age. **BY DENNIS J. STREVELER, Ph.D.**

**OFF THE HIGH WIRE**

IT'S NOT OFTEN that one gets to witness the birth of an entire new industry, and it's rarer still—and infinitely more exciting—when that industry promises to reform, indeed revolutionize, a system that impacts virtually every living human being.

But such is the case with the e-health industry. As a longtime healthcare technology consultant and a former senior strategist for the company that in many ways epitomizes e-health's promise and challenges—WebMD Corp.—I've had a front-row seat for the industry's early development. It has been an experience at once exhilarating and frustrating, hopeful and traumatic.

The e-health premise was simple enough: The Byzantine healthcare industry desperately needs a new way of communicating. It desperately needs new efficiency. E-health seemed a promising way to tackle both pressing issues.

As Americans, you see, we are blessed with the world's best medical care, while we are also plagued with one of its most fragmented, inefficient and inequitable healthcare delivery systems. Although we provide some of the best medical care in the world, we don't do such a good job of caring for those who are poor, sick or otherwise down on their luck.

It's frustrating to realize that so many of the healthcare dollars that could be used to provide care for every American are instead squandered on efforts to keep track of huge amounts of paper. We lose crucial information. We misfile it. We don't have it where and when we need it.

We take it for granted that industries like banking and airlines work seamlessly and efficiently (most of the time), thanks largely to computer technology and the Internet. My bank card can cause dinar—the currency of Bahrain—to spew from ATM machines on that Persian Gulf island. Singapore Airlines can cross-ticket me on Emirates Airlines for a stopover in Dubai, without a glitch.

But try to avoid that hideously anachronistic clipboard the next time you go to a doctor. Try to get that office to schedule you an appointment with a specialist electronically. Try to get Internet access to the results of your recent lab test. One quickly realizes that, in record and write prescriptions, all with a few mouse clicks or a few taps on their PDA. Similarly, hospitals could verify insurance eligibility, process claims, order and track supplies. Patients could make appointments online, check test results, communicate with their doctors by e-mail, and be preadmitted to the hospital without leaving home. The only question: Who was going to do all this, and how?

Among the earliest champions of the e-health revolution was a shy, slightly rumpled man named Jim Clark, a serial entrepreneur from Silicon Valley who had founded Silicon Graphics and Netscape Communications...and who readily admitted to knowing next to nothing about healthcare. Nonetheless, the Santa Clara, Calif., startup Clark founded in 1996—Healthon Corp.—set out to reform the healthcare system through software that would link physicians, consumers and other stakeholders via the nascent Internet. The idea was to allow them to do, quickly and efficiently, what they had been doing slowly and inefficiently on paper, by phone and fax.

Healthon's concept was so exciting to so many that it wasn't long before the proverbial dump trucks of money began...
arriving at our door. The early days of Healtheon saw a veritable Silicon Valley who's who parading in: venture capitalists, healthcare executives, high-tech CEOs. At Healtheon, I had the cubicle nearest the front door. It was a great vantage point. Everyone, it seemed, wanted a piece of us—through an investment, acquisition or partnership—and a certain number got it.

But, of course, Healtheon was not alone. It begot competition. Especially one little gnat down in Atlanta called WebMD, which also had the idea of creating Internet-based health portals. WebMD was founded by a boyish but inspired guy named Jeff Arnold, who had a very slick act indeed. Jeff wanted to build a company that would be everywhere. He wanted to plant his flag in every healthcare niche—among consumers and physicians, in the pharmaceutical space and the lab space. He had visions of international expansion as well. A common joke among the international group those days was, "So, is Yemen in or out today?"

As the healthcare technology market heated up in late 1998 and 1999, and as the startups on opposite coasts came into more intense competition with each other, combining the two companies began to seem like a good idea. Healtheon and WebMD were both strong, attractive companies. When Healtheon went public in February 1999, for example, its shares rose from an IPO price of $8 to $30 by day's end, and to $100 by May. And so, in November 1999, the technological prowess of Silicon Valley was mated with the marketing prowess of Atlanta's Buckhead suburbs, to form Healtheon/WebMD, which soon became known simply as WebMD.

The corporate cultures of the two firms could not have been more different. I gaped the first time I visited the posh WebMD headquarters, with its marble, rosewood and etched glass. It was almost a shock to return to the comfy and relaxed but decidedly sartan "technology center" in Santa Clara, where CEO Mike Long's office was an unglamorous cubicle just like the rest of us inhabited. Could these two firms really get along? Could they together create something great?

Healtheon/WebMD's first attempts at creating a physician portal linking doctors to the Internet were not very promising. John Danaher, M.D., an executive vice president who worked doggedly on the physician portal, was a harried man indeed. One would frequently see him with a cell phone plugged into each ear, while his desk phone rang off the hook. Everybody had their own ideas of what the portal should contain, how it should work, how it should be marketed, and when it would be ready for release.

When the physician portal was finally unveiled, several months later than anticipated, there was a small but ardent group of early-adopting physician subscribers who jumped on the bandwagon. Finally, these physicians had their own Internet portal, where they could check the latest medical newswhile transacting their business. The doctors loved it, and those of us in the trenches of the revolution were thrilled. Still, the number of doctors using our services was way too small to support the empire that had been built.

Moreover, the physician portal's creators failed to consider some key questions: Did the average physician's office have the wherewithal to host two computer systems—a practice-management system, which faithfully churned out bills and made appointments, and an Internet portal? Who exactly would use the portal: the physicians themselves or their office staff? And the biggest unanswered question: Who would be willing to pay to bring the magic of the Internet to these physicians?

To help them over the hump, Microsoft Corp. and DuPont Inc. agreed to underwrite the early cost to the physicians, committing a total of $300 million. They figured, I suppose, that once the infrastructure was in place and everyone was connected, each segment of the healthcare industry would bear its own share of the costs, given that they would ultimately recoup their investment many times over in efficiency savings.

The cable television industry had earlier faced a similar conundrum. Cable networks would buy space, but only if enough households had been wired. Households would pay subscription fees only if there was something to watch... And the wiring needed for the cable TV infrastructure required huge amounts of capital.

It was this realization, of the need to be big, that led to the voracious spending that was the hallmark of e-health's early days. Using our HLTH stock "currency," which continued to increase in value, a whopping 35 companies were rolled up into the present-day WebMD, including Medcast, OnHealth, a gaggle of transaction-processing companies (MedE America, Kinnetra, Evvy and more), and finally, in fall 2000, a practice-management software company called Medical Manager.

Meanwhile, it seemed like every able-bodied Internet guru between Hayward, Calif., and Hyderabad, India, was being recruited to join the team. WebMD's head count soared, peaking at somewhere around 7,000 employees, working out of more than 200 locations. The company meanwhile forged numerous
partnerships, with everyone from national laboratories and pharmacies to health insurers and hospital systems.

Even given our enormous wealth, money was usually spent reasonably frugally. But not always. Remember the 1999 Super Bowl commercial starring Mohammad Ali? (Just why marketing would employ him to speak to the benefits of technology in healthcare still baffles me.) One could argue that the entire marketing budget got out of hand, including saturation bombing of TV commercials on CNN. The campaign was aimed at making sure everyone, everywhere, recognized the name WebMD.

Still, all this can be explained by our exuberance. We truly believed that if someone really concentrated resources, and brains, on solving the obvious problem of healthcare—lack of connectivity—then the inefficient and technologically backward industry could be coaxed out of its cave.

But the more we built, and the more we spent, the more we realized there was more to build, and more to spend, to achieve the critical mass we needed. We needed “pipes,” lots of pipes, to hook up the disparate computer systems around the healthcare world. (Envoy was acquired with this in mind. More fundamentally, we knew we needed to have our portal integrated into the work flow of the physician’s office. Thus came the acquisition of Medical Manager.

After the whirlwind acquisition blitz came the sobering challenge of putting all the pieces together. It was, we soon saw, a formidable challenge. Many began questioning whether this once-upstart healthcare technology company, which was now a sprawling megacorporation, had bitten off more than it could chew. Inside the company, though, this thought never really crept into our consciousness, until mid-2000, when the rules of Internet business began to change. Investors began asking, reasonably enough, when they might expect a return on their investment—a quaint little concept called “profit.” WebMD had never turned a profit and didn’t expect to until 2002. (The company posted a net loss of $3 billion on revenues of $517.2 million in 2000.) This whole shift in sentiment happened so suddenly. It was like being in the process of building your house, and just about to lift the roof, when suddenly somebody shouts, “Are you sure you can afford this house? Who’s going to finance it?”

Truth be told, not all of the infrastructure we needed was yet in place. The programming work wasn’t finished. More integration was needed between the various portals. There was so much more to do. It seemed a cruel irony, then, that just when all the talent and the key elements had been amassed, the stock market took a big hit—and along with it the valuation of the e-health firms, including WebMD. Our stock plunged to $8—Healthcon’s initial offering price—by mid-October 2000.

The precipitous fall in valuation forced many changes. CEO Jeff Arnold, once a wunderkind, was out. New CEO Marty Wygod, who had already been tested in the healthcare wars, brought in a team of hard-nosed realists. The same day, Healthcon’s visionary but ever-elusive founder, Jim Clark, left the board. These developments further rattled the company’s standing in the market, and lent urgency to a restructuring plan announced in September, which entailed slashing expenses and eliminating more than 1,000 jobs.

We were all shocked by the new market reality. As people’s paper net worth shrunk, a pall hung over the office. I remember an earlier day when Michael Wykoff, a twenty-something software developer, had raced down the hallway shouting, “I’m a millionaire!” after calculating the value of his stock options. Well, there were no such parades in WebMD’s hallways now.

It was a sad time. Layoffs were a fact of life. Those of us remaining wondered, “Who is going to leave today?” One morning I stopped by to visit a friend of mine in marketing, but I found her cubicle empty. Turns out that a good part of her group had been disbanded abruptly the evening before. It was sad, too, to see
I believe the lack of mutual gain from increased efficiency is the key reason why information technology has yet to gain widespread adoption in healthcare.

Why am I so optimistic, in the face of the difficulties e-health has suffered through? Simple. Technology is the only way to put healthcare's fractured Humpty Dumpy back together again.

So don't count out e-health quite yet. After all, we've only just completed inning one of this fascinating ball game. The rest of the game promises to be even more exciting. Stay tuned.

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