A HOME CARE UBER GOES OFF THE ROAD:

LESSONS LEARNED ABOUT THE INTERSECTION OF TECHNOLOGY AND HEALTH CARE

Against a backdrop of Silicon Valley, Teslas, and free-trade kale, a coterie of card-carrying members of the high-tech glitterati have not-so-quietly amassed more than $125M, funding three start-ups with a simple goal in mind: to disrupt home care. Although "traditional" providers may have publicly scoffed at such audacity, we imagine that privately, it's a different story – especially after summoning an Uber vs. flagging down a taxi.

So, the recent announcement that one of these upstarts – HomeHero – would cease operations is particularly noteworthy for the lessons that can be gleaned about the role of technology in creating competitive advantage in home care.

To frame this discussion, we draw on an extraordinarily thoughtful and candid article appearing in Medium entitled, "There's No Magic in Venture-Backed Homecare," penned by one of HomeHero's founders, Kyle Hill. In it, he explains why his company fell short of its ambitious goals.

On The Balance Between Technology and Humans

If you're trying to be the Uber of homecare, technology is crucial – and a critical market differentiator. From all indications, HomeHero executed the technology side of the equation quite well. According to Hill,

> *"We created a more user-friendly client intake flow, equipped with beautiful online profiles…with photos and video interviews, a robust algorithm to control matching and dispatching, lengthy reviews from past clients, and a rating system to ensure quality. We were bringing transparency to a market that was notorious for lack thereof."*

But Hill learned that technology alone was not enough – that a first class portal is not a substitute for personal interactions when it comes to developing the kinds of relationships that can drive volume.

> *"We found ourselves competing with local home care agencies who were staffing experienced teams of field marketers whose primary purpose was to grow leads and coordinate discharges of patients from acute care facilities. They were willing to drive across town to meet a family, bring them coffee and pastries, conduct a free home safety inspection and a two-hour consultation. We were very reluctant to add the additional headcount, but we realized the **best way to win the highest net worth clients was not to build faster and fancier technology, but to engage in the hand-holding and spend long hours with the family** [emphasis added]."*

On What HomeHero Relied Upon for Its Competitive Advantage

When we first wrote about the prospects to deploy an Uber-like model to home care a year ago ("Can Home Care be Ubered?"), we acknowledged that, even though the practice was very much under fire, there was at least a plausible rationale to classify caregivers as independent contractors. There was also a precedent to do so, a la nurse registries. Under such classification, HomeHero would avoid having to pay wage taxes and other payroll expenses and "on-boarding" costs, giving the firm a pricing advantage compared to traditional agencies.

What surprised us is the extent to which the company apparently relied upon this "precarious" designation – rather than its slick interface, ease of use for client and caregiver, robust feedback loop, and more – for its competitive advantage – and survival.

According to Hill,

> *"HomeHero lost its **core identity** [emphasis added] when we were effectively forced to terminate our working relationships with 95% of our 1099 caregivers and required to adopt an inferior employment business model. In the process, **HomeHero also lost a majority of its competitive differentiators in price, speed and scalability that allowed us to be so disruptive in 2014 and 2015** [emphasis added]."*

On Shifting Focus to Hospital Relationships to Reduce Readmissions and Post-Acute Costs

Once HomeHero shifted to an employment model under which it could exert more control over its workforce and provide more in-depth training, the company concluded that it was now better positioned to participate in health care reform-inspired coordinated care initiatives. According to Hill, health care reform

> *"…created enormous opportunities for companies like HomeHero to partner with hospitals and help them find more cost-effective options for post-acute care and reduce their reliance on skilled nursing facilities and medical home health. We doubled down on the belief that the big winner in this space would be the one who could win the largest contracts with hospitals and health systems."*

The problem, however, is that, at least in coordinated care 1.0, the focus on reducing re-admissions or managing costs under a bundled payment system relies more upon skilled, multi-disciplinary, intermittent services over a post-hospitalization period of around 60 days, vs. longer term home health aide and companion-like services…a domain that is arguably better suited to a Medicare certified home health agency.

> *Accordingly, it became apparent that there was limited "financial incentive for certain health systems across the country to pay for **non-medical home care** [emphasis added], especially if they are only at-risk for a few thousand patients."*
>
> *Consequently, HomeHero concluded that "we were still going to be reliant on private pay for the foreseeable future. **This gentle realization was the straw that broke the camel's back** [emphasis added]."*

For the investors that had bet $23M on the venture, the good news is that the parties decided to discontinue home care operations **before** the capital ran out, providing the entrepreneurs behind HomeHero the opportunity to move the company in an entirely new direction.

So, does this spell doom for other venture-backed, tech-enabled home care providers like Honor and Hometeam?

Here's what the CEO of Senior Helpers, one of the nation's largest franchisors of private duty homecare, had to say:

> *"I think everyone was worried that [these companies were] going to be a big tech disruption that would change how home care is done. But I've seen they've all had to change their model. They're now directly employing the caregivers. They're still using tech to communicate with clients, but a lot of us were doing that already.*
>
> *Maybe they're using tech a little better than we are, and they might have some bells and whistles, but we feel confident that client acquisition is not an issue for us. We have great referral sources.*
>
> *I think Honor will do well over time, but they're going to be just like us."*

We'll let time be the final arbiter on the fate of home care's whiz kids.

But as we suggested a year ago, it's one thing to take Uber to home. It's quite another to take a home to Uber.

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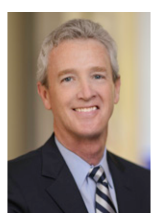

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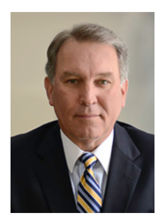

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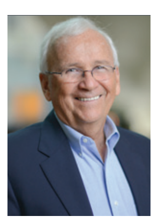

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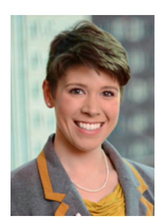

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