THE DIGITAL HEALTH ENTREPRENEURS’ DILEMMA: THE VALLEY OF DEATH

We could start this off by saying, “Imagine the following scenario.” But then, you probably don’t have to imagine it. Because, if you haven’t lived through this, you likely know someone who has.

• Experienced health care technology executive or practitioner identifies a problem in the health care delivery system.
• The communication loop between patient, payor, physician and their family is hopelessly broken.
• Patients are receiving care – but not the right kind of care for their individual bio-social condition.
• The revenue cycle from patient qualification, to insurance verification, to service utilization, to compliance substantiation, and to HIPPA authentication is, well, an abomination (you get the picture).

Concept Stage: So, you crack open a can of Red Bull and a bag of Doritos and start mapping out and coding a solution. You begin to get a glimpse of what your product or service could be, so you cash in your 401k, mortgage the house, and perhaps tap your rich uncle to fund the completion of a rough, first generation product.

Development and Beta Test Stage: You’re definitely, maybe, on to something. So, you tap your first line of third-party capital via an angel fund. You begin small scale beta testing, and it looks like there’s a there, there.

Proof of Concept Stage: You’re moving into the big leagues — well, at least single A — and you raise your first round of venture capital. You hope you’ll never have to go through all that again (even though you know you will), and you begin a limited roll-out to customers.

Time to add on expenses – a programmer or two, an implementation team, some operational infrastructure here and there. There’s a lot more customization necessary than you ever imagined to get the product up and running – but it does.

Kind of.

Iteration Stage¹: But after working with your first “real” customers, you begin to iterate the technology, jettison a couple of modules and develop new ones. Perhaps you

¹ Sometimes, iteration can turn into a more time consuming, disruptive, (albeit necessary) “pivot.” In that case, the Valley of Death may arrive sooner with even greater challenges.
narrow down the scope of the application to focus on a specific issue or condition – all the better to get something that works flawlessly.

And, oh yeah, you realize you’ve got the wrong revenue model in place.

So now you’re, let’s say, three to four years into this. You’ve got proof of concept. You’ve got revenues – less than a million, but hey, it’s something.

Of course, after adding on that layer of expenses, you keep having to replace the red ink cartridge on your printer. Living on ramen noodles is starting to get old. Your uncle needs his money to buy a boat. And your round 1 VC is morphing from Venture Capital to Very Concerned.

If only you had another couple of million bucks, you could ramp up your sales efforts, hire more implementation teams, develop and roll out product improvements and become a mini-corn, if not a unicorn.

Unfortunately, however, you are smack dab in the middle of the valley of death – all the promise but none of the momentum to raise the capital necessary to get to the other side (see illustration).

With a product in place, you could sell. And knowing that you could very well have another 2-3 years ahead of you on top of the 20 plus dog-years you’ve already put in, that could be appealing.

But that 5-7 x revenues everyone told you that you get when you finally sell??

You might still be able to get that. But of course, despite the robust multiple, 5-7 x very little revenues will get you a very little purchase price.

You can try and tough it out and reboot the bootstrapping that got the enterprise going in the first place. But then all you may have accomplished is living another day to run in the hamster wheel of not having enough funding to get the revenues you need to get the funding.

So, what’s the solution?

Plan for the Valley of Death so that you never get there.
INSTITUTIONALIZE URGENCY

At last year’s Rock Health Summit, one of the most insightful comments a panelist made on this type of scenario is that the best companies “institutionalize a culture of urgency.” They establish and widely report and promote progress on a series of small milestones. They champion the wins. They assign a rescue squad to the losses. They know that just like a marathoner who’s hit the wall at 19 miles knows there’s no way they can run another 7, they know they can run 100 yards. And another 100 yards. So they chase the baby steps like there’s no tomorrow. Because, you know, there might not be.

ABC

In sales, there’s an acronym made famous by Alec Baldwin in the movie Glengary Glen Ross: ABC – Always Be Closing; i.e. asking for the sale. Well, digital health care has its own version of ABC. In this case, Always Be Capitalizing.

The idea here is that, one way or another, a technology entrepreneur must always be seeking debt or equity capital. Wait until you need it? You may already be too late as impending desperation does not make for a strong negotiating position.

Now, this doesn’t mean that the day after you conclude your first round of funding you revive the road-show. What it does mean is that the smart entrepreneur is always networking with the financial community to promote their product and keep them abreast of their progress (without, of course, compromising proprietary technology or first-mover advantage).

They attend and speak at industry conferences, hob nob with industry glitterati, and generally do the opposite of what so many techno-wizards are preternaturally wired to do – commune with their code.

They keep their decks current, and their numbers intelligible.

That way, at the very worst, you can shift from indirect to direct solicitation of funds at a moment’s notice to a target audience that already has a clue as to who and what you are.

At the very best?
The money will come looking for you.

So, what if you somehow slipped through The Braff Group’s attempts to trawl the net for email addresses and never received this, only to find yourself wandering the Valley of Death seeking salvation?

Sure as we are that eventually someone will come up with a new name for blockchain that doesn’t first bring to mind a stay at Alcatraz, we’re most likely to hear some version of the following:

“If only we would have landed (fill in the blank with that slam dunk customer that turned out to be an air ball), we wouldn’t be in this situation.

But we are where we are.

I don’t know where it is, but we’ll find somewhere to cut some expenses. We’ll consider more service intensive projects to generate some cash flow, and, remember (fill in the blank with the last two or three VCs that you happened to meet) at (fill in the blank with the last trade show you attended)? I’ll give ’em a call to see if they might be interested.

But, if someone gave us (fill in the blank with 50% of what you know the company would have eventually been worth if you had landed that fill-in-the-blank customer above), we’d sell the whole thing.”

It would seem that the options come down to (1) raising capital to stick it out or (2) sell.

But there is a third option.

And it is the option we generally recommend.

That is, pursuing both at the same time.

In technology mergers and acquisitions and financing, where the only thing you can be sure of is that you can’t be sure of anything, a “dual-track” literally keeps both options open. And by pursuing them simultaneously rather than sequentially, you can compress the already limited time constraints you may likely be confronting.

All things considered then, the Valley of Death is as real as it is common and as difficult to circumnavigate as it is to make it out once you’re already in.

But destiny, it is not.

Dramatic, huh?

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2 Humor aside, please don’t pass off this dialogue as being cynical or insensitive. Start-ups are difficult. They always take far more time, cost far too much, are far more complicated, demand far more 24/7/365 commitment, and are far more subject to circumstantial luck and whimsy than what an entrepreneur could ever imagine. So, in one way or another, these scenarios play out daily. So much so that you could almost consider them a rite of passage. Almost.
The Braff Group is the leading mergers and acquisitions advisory firm specializing exclusively in health care services, including digital health, behavioral health, home health and hospice, pharmacy services, urgent care, health care staffing, home medical equipment, and ancillary health care services.

Founded in 1998, The Braff Group has repeatedly been ranked among the top five health care mergers and acquisitions advisory firms.

The Braff Group is pleased to have convened this esteemed group of industry thought leaders to tap into their broad and diverse knowledge base in the highly complex and dynamic digital health market.

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