

Education and health care are ripe for startups, AOL co-founder says

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Entrepreneurs who show up at AOL co-founder Steve Case's door begging for money better have more to show than an idea for a killer app.

In a new book, Case explains that some of the most successful startups in the next few years should enter complex industries such as [health care](#) and education. But to survive, they'll need sharp plans for how to both team up with big, bureaucratic institutions and navigate torturous, out-of-date regulations. Policy fights, partnerships and perseverance will be crucial in what Case calls the third wave of startups.

Now a venture capitalist at Revolution in Washington, D.C., Case recently discussed his "The Third Wave: An Entrepreneur's Vision of the Future." The interview has been edited for length and clarity.

Q: You've done nationwide road trips to better understand entrepreneurship. Did that feed into the book?

A: There's increasing evidence of entrepreneurship flourishing throughout the country. In some of the industries most ripe for disruption, including health care, the big players like UnitedHealth or Cleveland Clinic or M.D. Anderson are mostly in the middle of the country.

Partnerships are going to become more important, and that will lead to startups closer to where some of these companies are. Agriculture tech

in Louisville ... or St. Louis is huge. I'd expect dozens of ag-tech startups in St. Louis in a few years.

Q: You partnered with plenty of companies at AOL. How are the partnerships you're calling for now any different?

A: The first wave of the internet, which was building on-ramps to the internet and convincing people to get connected, required partnerships. We had hundreds of them with software companies, hardware companies and media companies.

The second wave, the real successful companies didn't need partnerships. You can go through the list - Facebook, Snapchat - to get going.

In the third wave, the sectors that are going to get disrupted are where partnerships with incumbent organizations like hospitals and universities are important to get significant market adoption. It's not just about the app on your phone.

Third wave partnerships will be similar to the first wave. It wasn't just about what you were doing on your own; it was how well you played with others.

Q: How do startups find the right partner?

A: If it's a young a [company](#), you're asking, "What kind of partnership can give you the scale and credibility you need?"

What can get you some acceleration and recognition that you are successful? The challenging thing is staging it so there's clarity on both sides around what the objectives are.

We had a partnership in the late '80s with Apple, we thought it was

transformative because we could license the Apple brand name. But almost immediately we had several conflicts. We had to tear up that agreement. More clarity going in around the marketing and distribution mechanics would have led us to do it with eyes wide open on both sides.

Q: Will we see increasing amounts of mergers and acquisitions if partnerships spread?

A: Sometimes it will be M&A, sometimes it will be joint venture, sometimes a business relationship. There will be more M&A, but it won't necessarily be the lead tool.

Q: How are some of your portfolio companies representing third wave ideas?

A: Revolution Foods, which is focused on healthier school lunches, started small in Oakland, Calif., and is now in 20 states and serving 200,000 meals (a day) and has raised a significant amount of money from us and others. They are emerging as a leader by finding a way to partner with a lot of schools on the policy front.

Logistics business Optoro has partnered with retailers to manage their returns process. (Sports data company) SportRadar is working with European leagues and now expanding with the U.S.

Q: Is there a way for companies to infiltrate industries without partnerships, like how chat app Slack has become infectious within corporations?

A: A backdoor Trojan horse can work and will work. But look at Echo360, it's in 700 universities. It does require schools to install technology and professors to embrace it. There are more examples of things that can be consumer-driven, and in health care, there have been

consumer driving things like Fitbit that doesn't need prescriptions or health care reimbursements.

But dealing with devices to manage diabetes or dealing with more life-threatening issues, that's when you have to partner with incumbents. There will be instances where companies can't commercialize without that support earlier on.

Q: Is what Tim Armstrong is now doing at Verizon to reinvent the company's AOL unit a good example of taking third wave strategies to heart?

A: I've been out of it for a while so I can't speak to AOL. But there's a variety of ones. One older company figuring out this new model is General Electric. They're investing in startups and trying to reposition the company to be more open to startups and moving their headquarters to downtown Boston to be closer to where people are doing innovative companies. And the last several years in Detroit, the automotive companies have woken up. Every sector has some company trying to develop a new model.

Q: There have been some serious allegations that startups have ignored regulations. Look at Theranos. Are the venture capitalists funding and advising companies to blame for that ignorance?

A: There are investors realizing the importance of policy and partnerships and trying to understand those dynamics better. (Silicon Valley venture capital firm) Andreessen Horowitz recently hosted a conference on public policy in Washington, D.C., with 200 or 300 people attending, including their portfolio companies.

They are going to be helpful in their companies understanding the environment. Other venture firms are going to start doing that well.

The Andreessen conference is an example of growing recognition that investment opportunities in the next decade are going to be sectors that require a different playbook. Firms that are able to add more value are going to be more attractive.

There's a recognition that policy creates a lot of uncertainty and extra risk but it unlocks opportunities in new parts of the economy, and iconic companies will emerge. People have a duty to recognize that and broaden their screen in terms of what they invest in.

Q: What's wrong with being a jerk as an entrepreneur? Hasn't it led to success for many, like Uber?

A: There are some sectors like offering drugs that you can't really wing it. In the case of autonomous cars, you're going to have to find a way to adhere to some standards. Otherwise, you're going to be knocked out of business.

Entrepreneurs are always going to push the envelope and try to disrupt the status quo and push with urgency for the world to be different, but they need to marry that with the importance of partners and policy.

Uber, now with two floors of offices in D.C., is recognizing they have to look at this closely. They were successful because the regulation is fragmented at the state and local levels, and there's been a public perception that many of the regulations they have fought are more about protecting incumbents than about safety.

Q: Has being a jerk actually hurt anyone though?

A: In retrospect, companies doing (massive open online courses) were too disrespectful of universities and saying that universities would disappear. But they need the help of trusted brands, and one of them

even hired the former president of Yale. There's been plenty of examples in health care where issues around regulation put some companies under pressure.

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