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From Fitbits to Telemedicine: Employers are Embracing Digital Health

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Digital health has undergone one of the most dramatic hype cycles since the Dot Com bubble in 2000. Over a span of just three years, revenue multiples surged from approximately 4x to 12x before stabilizing back to around 4x. Despite this volatility and a subsequent return to more realistic valuations, investor enthusiasm for digital health remains robust. In many respects, the adoption of digital health solutions by employers is still in its early stages. Much like how Tesla revolutionized the automotive industry and Whole Foods reshaped the natural foods sector, employers are now seeking innovative solutions in health benefits.

A core part of HCC's thesis of investing in healthcare companies is backing businesses that reduce the cost of care while making care more accessible to the patient. While this may invoke thoughts of clinicians or health insurers, employers, who pay for their employee's healthcare, are also critical players in achieving this mission given their incentives to maintain a healthy workforce while keeping their medical expenses under control.

Over the past decade, many digital health companies entered the fray by bypassing health insurers and contracting directly with employers, who were eager to offer the newest benefits in a tight labor market to attract talent. Nowadays, it's impossible to go to an employer healthcare conference without hearing of "point solution fatigue," which plagues employers that bought too many disconnected healthcare benefits for their employees.

Today, as more white-collar employers conduct layoffs, HR and benefits teams are more focused on containing rising healthcare costs than showering their employees with perks. In the current economy, many are operating under an efficiency mindset – maximizing existing resources, rather than investing in anything net-new. Given this environment, we anticipate digital health incumbents in well-trafficked categories like mental health, MSK, and chronic condition management will renew their focus on outcomes and cost savings.

Although this market makes it more difficult for emerging point solutions to break into employer-buyers, below we highlight key areas to keep an eye on into 2025.

Navigation and Cost Transparency. Many employers have navigation tools in place, but this area is seeing a recalibration in terms of requirements and effectiveness. Existing platforms score low in their ability to offer high-quality, low-cost providers with availability, and ensure members actually follow through with care. The second wave of navigation platforms will likely incorporate price transparency data, human-powered navigation support, and can be expected to close the loop on completed care (e.g., help schedule appointments, follow-up, and/or price incentives for high-quality providers). Quarvis Health, a portfolio company of HCC, is an innovator in this space, pairing AI technology with specialized coaches for on-demand navigation support.

Women's Health. Point solutions in this space have historically focused on reproductive care and maternity services, which accounts for 30% of the market, while investments in female-specific conditions is notoriously low.[1] With the announcement of women's health investments from the federal government, and the recent focus on research to include women, this area is ripe for potential on offering female-tailored treatment for diseases that disproportionately impact women such as hormone health, neurological conditions, heart-disease, cancer, and more.[2] The strongest vendors are likely be those that offer robust care for the condition that they cover – testing and coaching alone won't cut it, members need to have a route to doctors and other services like nutrition, navigation, and mental health.

Caregiving Platforms. Although some companies in this space were founded 10+ years ago, this sector may just be entering its growth phase now. Gen X and Millennials are caught in the middle between raising children and taking care of aging parents, which takes a toll on mental health, physical health, and career growth. A new study found that 60% of family caregivers are working full or part-time, and that caregivers provide $600B in unpaid care in the United States annually.[3] This space is only tangential to healthcare for the caregivers, but the ROI story should still be strong for mental health and productivity costs. The best-positioned vendors will be those that have pre-vetted care networks, a human component, and white-glove support that closes the loop for members.

Substance Abuse Support. 70% of adults with substance abuse disorders are employed, and it is estimated that this accounts for 10% of the workforce. Employers offering some sort of treatment went from 20% in 2022 to 34% last year, with an additional 19% considering adding support this year.[4] Many platforms are far too lightweight to address moderate to severe disorders, but employers are shifting toward vendors that cover coaching, peer support, and medication management.

Metabolic/GI. With the emergence of GLP-1s and food-as-medicine benefits, this space, while already successful, is seeing a resurgence of importance for employers. Of employed Americans, 30% are classified as obese, and 34% are classified as overweight, costing employers $425 in economic costs annually.[5] Additionally, in a similar vein, 40% of Americans suffered from digestive diseases in the last year.[6] In this space it's important that each platform have robust care for the specific category they are targeting so members have one single point of care. For example, Cylinder (formerly known as Vivante Health), an HCC portfolio company, offers health coaches, registered dietitians, internists & GI specialists to ensure they offer resources for members across the spectrum of severity.

Regardless of where a digital health company is at in terms of growth, there is a new baseline set of expectations for vendors in the employer-customer space. As we continue through this era of efficiency, vendors who focus on these key areas will be able to weather the challenging selling conditions:

- Validated ROI reporting.
- Fees at risk across engagement and outcomes.
- Creative provider and/or customer fee structures (traditional FFS is out).
- Comprehensive services for the vendor’s care area (i.e., a platform offering chatbots, testing, and coaching won’t stand compared to a platform with access to clinicians and full spectrum support).

Sources:

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4. Fierce Healthcare. Substance use disorders cost employer-sponsored health insurance over $35B a year: CDC study. January 2023.
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