

Chapter 6.9

Strategic Maneuvering in Healthcare Technology Markets: The Case of Emdeon Corporation

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ABSTRACT

Healthcare technology markets have been recently identified as potential investment targets. Having survived a major environmental shock, the dot.com bust, firms in the healthcare technology industry are presently experiencing an impressive revenue growth. In this study, we investigate the strategies of Emdeon Corporation, a healthcare technology firm whose e-business model provides clues for achieving a sustained revenue growth and profitability. We trace the current sustainability of Emdeon's e-business model to a related diversification strategy that the firm's upper management has pursued via mergers and acquisitions (M&As). We also address the motivation behind current restructuring of Emdeon's e-business

model. We argue that maturation of diversified e-business models leads to the transformation of individual segments into distinct entities focusing on specific technology markets.

INTRODUCTION

A growing specialization of e-business models has offered a variety of new services that create business value for the healthcare industry (Parente, 2000; Payton, 2003; Singh, O'Donoghue & Soon, 2002). These diverse services can encompass online execution of medical transaction processing, health information retrieval, and/or online enrollment to health plans, to name a few examples. Recent publications in the trade press

have reflected a growing sense of optimism on the part of investors in e-business firms that serve niche technology markets. In particular, healthcare technology markets have been praised as potential investment targets (*New York Times*, 2006; *Wall Street Journal*, 2006). Investors presently focus on funding start-up companies that provide access to health-related information as well as offer Internet-based capabilities to compare quality and outcomes of healthcare services.

The gigantic size of U.S. healthcare industry presents many opportunities for technology firms that have a potential to improve value chains. According to the National Coalition on Health Care, the total healthcare spending in the United States reached \$1.9 trillion or about 16% of the gross domestic product in 2004. The fact that healthcare is a data-rich industry creates opportunities for technology firms to make health data exchanges more efficient and reliable. The other distinctive characteristic of healthcare is that it is strictly regulated. In this regard, the value proposition of technology firms is evident in their capability to decrease complexity of medical-transaction processing and reduce the number of data-related medical errors.

U.S. healthcare organizations first began to build proprietary information systems in the 1960s (Collen, 1991). At that time, hospital networks were most prolific adopters of information systems given that they possessed sufficient capital bases to do so. Only recently has it become cost-effective for physician practices to embrace medical software systems. Mass adoption of broadband Internet and decreasing costs of worldwide delivery of digital materials offer opportunities for technology firms to interconnect hospital information systems and connect to software systems of physician practices.

In addition to improved affordability of information systems and technological advancements, healthcare institutions could potentially benefit from incentives offered by the regulatory agencies to digitize the exchange of health-related

information. In the mid-2000s, the U.S. government intensified efforts to raise the adoption rate of electronic health record (EHR) systems. This technology enables caregivers to collect and circulate digitized patient data across the network of authorized healthcare providers (Goldschmidt, 2005; Ford, Menachemi & Phillips, 2006). The U.S. government plans to link individual EHR systems in a centralized network, allowing access to patient data on a national basis (Office of the National Coordinator for Health Information Technology, 2005). The planned centralization of EHR systems would be a massive undertaking on the part all the stakeholders of the U.S. healthcare industry. The increased quantity of digitized patient data would fuel further demand for medical-transaction processing services. Such a scenario indicates greater revenue-growth opportunities for the healthcare technology industry. Firms that are capable of building EHR systems, processing digitized data, and facilitating health-related decision-making would benefit from proliferation and centralization of EHR systems.

In the light of these important developments in the U.S. healthcare industry, we investigate the strategies of Emdeon Corporation, a healthcare technology firm whose e-business model provides clues for achieving a sustained growth of revenues and earnings in the emerging healthcare technology industry. Whereas e-business models built on a single source of revenue are dominant in this industry, Emdeon Corporation relies on a variety of revenue streams to sustain a leading market position. This case study explores the evolution of Emdeon's e-business model from a strategic management perspective. We trace the current sustainability and profitability of Emdeon's e-business model to a related diversification strategy that the firm's upper management has pursued through mergers and acquisitions (M&As). We also address the motivation behind the current restructuring of Emdeon's e-business model. The time period for this investigation spans 1998 to 2005.

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