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On I.T.

Hospital systems supplementing revenue by selling technology

By [Mohana Ravindranath](#) August 8, 2014 Follow @ravindranize

For MedStar Health, a system with hospitals in the Baltimore and Washington regions, health-care services are just one source of revenue.

During the past couple of years, MedStar has been experimenting with a new business model: developing and selling health technology to outside customers. In 2009, it launched the MedStar Institute for Innovation, a District-based office with about 25 employees. Many of them are engineers and software developers who build, and in some cases sell, technology concepts dreamed up by hospital staff members.

MedStar is part of a growing group of health-care systems investing in “innovation centers” — teams that develop nascent ideas into commercially viable products. Some, such as MedStar, use sales to supplement their overall revenue. Others, such as the University of California at San Francisco’s Center for Digital Health Innovation, aim eventually to fund themselves entirely from technology sales and royalties.

This industry-wide interest in selling technology for profit has been helped in part by the ubiquity of electronic medical records, Forrester Research health-care analyst Skip Snow said. These software systems let hospitals gather data about their own organizations, “driving [them] to say, ‘If we have all this data, we should monetize it,’” he said.

It’s not just data; hospitals also rely heavily on technology for many purposes. Last year, MedStar licensed the patent for a diaphragm-implant — designed by a MedStar physician to help patients breathe — to Beltsville, Md.-based technology company InnoVital Systems for further development. Among other applications, it is preparing to license an iPad app to guide patients with Bell’s palsy through facial

rehabilitation exercises. MedStar also has a partnership with 1776, an accelerator-incubator in downtown Washington, in which MedStar physicians work with start-ups building health-care products.

“I think the theme is there’s a huge amount of intellectual and creative talent capital in these large health-care systems,” said MedStar Institute for Innovation director Mark Smith.

In 2006, for instance, MedStar sold software co-developed by Smith at its Georgetown University Hospital to Microsoft for a sum that wasn’t disclosed. The software, called Azyxxi, was a repository for patient clinical information as well as EKGs, scanned documents and other images. (Microsoft subsequently spun the product, renamed Amalga, into a joint health IT venture with General Electric called Caradigm.)

For MedStar, these technologies have not yet generated significant revenue. Since 2011, MedStar has partnered with Cleveland Clinic Innovations, a similar entre-pre-neur-ship hub within Cleveland Clinic health system, to navigate the patenting and commercialization process. (CCI has similar partnerships with several other health systems, such as ProMedica and North Shore-Long Island Jewish Medical Center, in which it provides such services for a fee. Since 2000, CCI has spun at least 67 companies out of software developed internally by hospital staffers and has raised nearly \$1 billion in equity for these start-ups.)

Not all ideas emerging from MedStar’s innovation center gain traction outside the health system, Smith said, although he noted, “Even ideas that don’t have commercial value may have clinical value.”

For instance, a MedStar pharmacist developed a system for managing pharmacy inventory that MedStar uses internally today. “We actually tried to see if the big hospital pharmacies were interested. They weren’t.”

Still, he said, “it’s also huge value for the associate who gets to see the product of his or her creativity actually be used and make a difference.” Employees who design technology are also entitled to a portion of financial returns.

At Cleveland Clinic, the opportunity to develop and sell technology is a draw for hospital staffers, according to Gary Fingerhut, CCI’s executive director. “We use it as a method of retaining and recruiting the caregivers.”

He added that hospital staffers sometimes identify technology needs that an outside company — one that does not spend all day interacting with patients — might miss. For instance, one of CCI’s spinoff companies, called iVHR, developed software that takes data from electronic health records and presents it visually, so physicians can assess patients more quickly.

IVHR was developed by four physicians in the clinic who used the electronic health system every day and struggled with the way its software design caused it to present information.

In large health-care organizations, Fingerhut said, “it is critical that the technology fits within the work-flow of the environment that we’re in.”

Mohana Ravindranath covers IT and small business for the Washington Post and its weekly Capital Business publication.