

Navigating Healthcare's Fragmented Landscape: A Guide for AI Start-ups



The rapid evolution of artificial intelligence (AI) has stimulated significant demand within the healthcare sector, with providers and payers alike increasing their IT investments in AI-powered solutions. While the enthusiasm for healthcare AI has opened doors for numerous start-ups, these companies must carefully strategise their entry into the fragmented and complex healthcare sector. Scaling business and access to substantial total addressable markets (TAMs) are also vital for the company's sustainable growth.

The healthcare sector is vast but inherently fragmented, the current system being a product of historical developments rather than comprehensive planning. Employer-sponsored health insurance, introduced as a response to wage controls during World War II, and programmes like Medicare and Medicaid are examples of how incremental changes have shaped the industry. This has resulted in a web of services, regulations, and reimbursement systems that vary not only by type of care but also geographically, with healthcare typically being a local service. For AI start-ups, this fragmentation presents both opportunities and challenges. Identifying the right market niche and understanding the localised nature of healthcare services are crucial for start-ups aiming to penetrate this industry effectively.

Targeting Total Addressable Markets (TAMs)

Healthcare AI start-ups looking to secure venture capital face the pressure to scale quickly and efficiently. Investors, such as those at Bessemer, closely evaluate a start-up's TAM to gauge the revenue opportunity available. A critical strategic decision for AI start-ups is to target inherently large markets or operate across multiple segments to expand their TAM. Furthermore, the modality of the AI solution — the way the product is delivered — can significantly impact the start-up's TAM. Modalities can include software solutions, AI co-pilot assistants for healthcare providers, diagnostic tools, and therapeutics. By focusing on more extensive markets and thinking creatively about the delivery method of their AI products, start-ups can significantly boost their TAM. For instance, combining multiple modalities into a comprehensive solution — such as offering AI software alongside an assistant supporting the entire workflow for healthcare providers — can enhance the product's appeal and addressable market size.

Balancing TAM with Gross Margins

While expanding TAM is vital for scale, AI start-ups must also balance TAM with gross margin considerations. Larger TAMs do not necessarily equate to higher profitability. For example, a start-up providing AI software to ophthalmologists on a pay-per-seat basis may have a smaller TAM due to its focus on individual doctors but benefit from higher margins because the software has relatively low production and distribution costs. Conversely, a company offering AI services for ocular injections might target a much larger market, as their solution is applicable in a widely performed medical procedure. However, these services often come with higher operational costs, potentially lowering the margins. Start-ups must weigh the trade-offs between pursuing a large TAM and maintaining healthier gross margins. The key is to find a balance that aligns with the company's long-term growth and profitability goals.

The healthcare sector presents a landscape filled with both vast potential and intricate complexities. For AI start-ups, success depends on a thoughtful approach to market targeting, maximising TAM, and balancing it with gross margin sustainability. Understanding the fragmented nature of healthcare, considering the suitable modalities, and strategically balancing market size with profitability are essential steps to navigate this space effectively. As the demand for AI-driven healthcare solutions continues to rise, start-ups that approach these challenges with an informed strategy are more likely to secure the venture capital they need to scale and significantly impact the healthcare industry.

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