

Portfolio Management Business Development Investment Research Global Perspective

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HealthCare

Since 1924, the International Business Machines Corporation (IBM) has faced several, seminal moments:

- Business Machines
- Computing
- Artificial Intelligence

The United States (US) spends more than \$3.5 trillion a year on HealthCare. But how much is really spent efficiently? The answer beautifully illustrates the enormous opportunity for IBM – Watson Health.

A \$3.5 trillion segment of the US economy screams with a “need” in the market uniquely positioned to a competitive strength of IBM. Using the IBM Systems as well as the Watson-Health AI, it doesn’t take much imagination to connect the dots between market efficiency and Return on Investment (ROI).

IBM – Watson Health has the potential to create the greatest marketplace efficiency in one of the largest segments of the US economy, fraught with inefficiencies throughout the distribution channel. As a result, the US HealthCare Market presents a very attractive opportunity to IBM, because the market screams with a “need” uniquely positioned to a competitive strength of IBM. Opportunities like this don’t come around too often in an organization’s life cycle. Hence, the seminal moment for Virginia Rometty (IBM).

It’s time to bet the “farm.” I realize IBM is trying to develop other Industry platforms for Watson. They are important, no doubt. But none of them offer the market potential of HealthCare, because HealthCare absolutely screams with a significant need for efficiency in the market – and it represents one of the largest market, segments in the US economy: ~\$3.5 trillion, annually.

Marketplace Inefficiency = IBM Opportunity!

Consider this just a temporary allocation of capital, because the artificial intelligence you develop in one

area will translate to another area / platform. But right now, IBM needs to bet the farm on Watson Health!

What is **vital** to the success / failure of IBM – Watson Health? It’s the Quality (and Volume) of the Data? So, cultivate IBM Artificial Intelligence (Watson Health) to Diagnose the Data for the Benefit of Mankind.

On the one hand, you can secure this type of data by acquiring an organization like The Weather Channel or Merge Healthcare. On the other hand, you can acquire this type of data by developing an operating relationship with the producers (generators) of this type of data.

For example, General Electric (GE) has captured 32% of the U.S. Medical, Diagnostic, Imaging Market, which represents a very attractive position. Why not develop an in-depth operating relationship with GE? IBM can pay a royalty to the generator of the quality, teachable, medical record. The royalty could be split between the buyer of the equipment and the producer of the equipment. This arrangement will not only reduce the cost of ownership for the medical, diagnostic, imaging equipment but also improve the margins for the producer of the medical, diagnostic, imaging equipment.

By the way, this type of operating relationship naturally creates a consumer for IBM – Watson Health. You need quality data to develop the expertise, so develop the operating relationships to secure the flow of quality data.

Initially, GE represents an ideal organization to develop this type of operating relationship. Its CEO built the organization’s HealthCare line of business, and he recognizes the need to do more with the line of business.

Think of it this way, by paying a royalty for the medical record, IBM can secure (lockup) critical data needed to ensure the diagnostical success of Watson Health.

Sincerely,
Ken Copley
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