

## COMEBACKS: STEVE CASE

### The (R)evolution of Steve Case

He built AOL, bought Time Warner, and saw it all come crashing down. Now he's going to save the health-care system.

By [David Stires](#)

The former chairman of the company formerly known as AOL [Time Warner](#) is sitting back on a tan leather couch in his Washington, D.C., office, looking happy and relaxed. I'm here to talk to Steve Case about Revolution—his holding company for a weird mix of small health-care businesses, media ventures, even a desert spa—but there's an elephant in the room, and we've got to deal with it. So after 45 minutes discussing medical clinics and health spending accounts, I bring it up: AOL's 2000 deal to buy Time Warner (the outfit I work for), an acquisition that devastated the company's stock and smashed more than a few retirement nest eggs.

Case is a good sport about it, for a while. Five years later, he insists, the deal still makes sense. "It was the right thing to do for AOL and the right thing for Time Warner." The ability of the company to "leverage AOL as a platform to move into what is inevitably a more digital business was a good idea." And when I ask whether his portrayal as "the architect of the worst deal in business history" is fair, he shoots me a glare. "There's no question I was the architect. It was my idea, and I was the principal champion. But time will tell how it plays out."

AOL is showing signs of life (see preceding story). But the verdict on this deal was rendered a long time ago: AOL Time Warner, valued at about \$290 billion after the merger announcement in January 2000, shed more than \$150 billion of that market value by January 2002. The company wrote off almost \$100 billion in goodwill, settled Securities and Exchange Commission and Department of Justice investigations for \$360 million, and set aside \$3 billion to resolve shareholder lawsuits. Case, however, did very well by the deal: From 1999 through 2002 he sold stock valued at \$475 million.

Now that money is helping him launch his second act. In the past couple of years Case, 47, has invested, by his accounting, \$250 million of his estimated \$825 million fortune in Revolution, and he says he'll soon kick in another quarter of a billion. He has purchased large stakes in a dozen companies, ranging from Miraval, a spa and resort north of Tucson, to Lime, a cable and radio network devoted to New Age stuff like yoga and organic foods. But the heart of the company—and Case's next big, society-transforming, reputation-rescuing play—is health care. Inspired by his older brother's brave struggle with brain cancer (Dan Case died in 2002), the country's worsening health-care crisis, and the tantalizing chance to build another company from scratch, Case launched Revolution Health Group, a collection of small firms designed to give patients control over their medical decisions—letting them search for specialists, book appointments, learn about their illnesses, and manage their health-care costs online.

If you wonder whether the health of Case's reputation may be part of the subtext to this business, consider the board of directors he has recruited for Revolution Health Group. Some are, like Case, tarnished stars whose business judgement has come under fire: Carly Fiorina, who was ousted as CEO of [Hewlett-Packard](#) earlier this year after the merger she engineered with Compaq Computer failed to bring the growth she'd promised; Franklin Raines, who stepped down as CEO of scandal-plagued Fannie Mae last December; and Steve Wiggins, the erstwhile chief executive of Oxford Health Plans, who resigned following a spectacular stock flameout. (Others, including former Secretary of State Colin Powell and former Netscape exec Jim Barksdale, have better résumés.) Case says that he wanted people with a "track record of innovation and success," and that the setbacks of some directors don't concern him. "Reputations tend to cycle, and I recognize that," he says. And the board seems equally supportive of Case. "The deal didn't affect my thinking," says Powell, who used to serve on the AOL board. "Steve's a gifted guy."

What's the business plan? John Pleasants, whom Case installed as CEO of the health group in September, says selling subscriptions to consumers and ad space to companies will be two big revenue

streams. But Revolution also hopes to make money by doing everything from reselling health insurance policies offered by other companies to charging consumers for online doctor visits. Is there a little Pollyanna in the plan? Certainly Case will bump up against forces that test his boundless optimism. A number of big health insurers are targeting this niche. WebMD, a popular Internet health-care site, already offers some of the same information Case is proposing. Says Curt Morrison, a cardiologist turned health-care analyst at Morningstar: "I doubt anyone would pay for a subscription. Until you get sick, you probably wouldn't need to. But that doesn't mean they can't make money." Says Pleasants: "We come into this eyes wide open and humbled. But there's a place for a more complete offering."

**"Changing the world,"** says Case with a slight smile, "isn't a part-time job." He's back to his old dot-com habits, peppering his staff (30 people, not counting the 900 who work for the 12 companies he controls) with e-mails and expecting them to answer from dusk to dawn. "I'm a better builder than a manager," he admits, "and I'm a better attacker than a defender."

Certainly he knows something about sparking a revolution. Long before the masses were talking about e-mail, he was tinkering with a clunky, suitcase-sized Kaypro computer and modem, logging on to a now-defunct online service called the Source. It was 1982. Tapping marketing skills that he gained working as a new-product manager for Pizza Hut, Case transformed a startup that later became AOL into the most powerful company of the early dot-com era. Its purchase of Time Warner for \$147 billion, first announced at the peak of the bubble, was nothing short of a coup. But Case's career nearly imploded the minute the deal closed. The Internet ad market collapsed, and the SEC launched its investigation. Amid scathing criticism, Case resigned as chairman. He still sits on the Time Warner board.

Case soon began thinking about what he'd do next. In between shuttling his five kids to soccer games in his black Lincoln Navigator in McLean, Va., he toyed with devoting himself to philanthropy. He enjoyed his work at the Case Foundation, which he formed with his wife, Jean, in 1997 to fund health and other groups. But as he reflected on his days at AOL, he realized being an entrepreneur was what got his heart pumping. "The first ten years at AOL was the pioneering phase, trying to figure out how to take what was a niche market ... and make it more of a mainstream phenomenon," he says. "That's the part I really loved."

So he started with the broadest of visions: to find a business whose upheaval could do folks some good. And soon he began to reflect on his experiences with the health-care system, particularly the painful year when he watched his brother lose his fight with cancer. (As chairman of J.P. Morgan H&Q, Dan Case was one of Silicon Valley's top investment bankers. Diagnosed with brain cancer in March 2001, he died just over a year later.) Though his brother got "great care," Case says that "the system was kind of dysfunctional." Dan's weekly trips to the hospital—and hours of waiting once he got there—were debilitating. "I'd be with him thinking, 'Why does he have to do this?'" Case recalls. "Why can't he get this done somewhere down the block, or why can't someone come to him?" It became clear that there was a business in all this. "It's the largest industry in the country, and almost everybody is unhappy with it," he says. "Consumers feel disenfranchised. They feel like somebody else is making the decisions."

Case began meeting health policy experts and connecting the dots. "I could just see it in my head," he says. "There will be much more choice in health plans. There will be thousands of community-care clinics. And the tools will be better on and off the Internet so that people can learn about different diseases. The health-care system will be fundamentally different. It has to be. It's not working." In the past year Case started looking for companies that link patients to medical providers. He acquired a controlling interest in MyDNA Media, a website that provides medical news and information. He took a majority stake in 1-800-Schedule, a company that lets consumers find doctors and schedule appointments. And he purchased a large position in InterFit Health, which is building low-cost clinics to offer routine health screenings and immunizations in retail locations, including Sam's Clubs and Wal-Marts. "Everybody who talks about it says it's one of those 'duh' ideas," says Case of the clinics. "Why hasn't it been there all along?"

Gradually Revolution Health Group began to take shape, and smart people began to notice. One of them was Bryce Williams, CEO of Extend Benefits, a small health insurer with about 50 clients, such as [AutoNation](#) and [Continental Airlines](#). This past summer Williams was weighing offers from two venture capital firms in the \$5 million range. But then an investment banker friend suggested he hold off. "He said, 'You really ought to talk to Steve,'" Williams recalls. "He has a much larger strategic vision for your space." He did—and Williams inked a deal with Case six weeks later for twice the amount. "With Steve, it was about offering an entire suite of services to turn employees into consumers," Williams says, "from deciding which doctor to see to figuring out how much a certain procedure will cost."

To organize his growing portfolio of companies, Case consulted Warren Buffett. Like Buffett, he wanted to take ownership stakes in companies and run them for years rather than flip them for a profit. But he didn't know whether to take Revolution public or keep it private. Over hamburgers at the Happy Hollow Club in Omaha last winter, Buffett noted that public ownership would allow Case to access other people's money. But Buffett said he thought Case would probably find staying private more satisfying, considering he had enough money to finance the new company on his own.

In April, Case launched Revolution as a private company, though he doesn't rule out taking it, or parts of it, public. It has 12 companies divided into three business units: Resorts, which includes his Miraval spa and a luxury vacation club called Exclusive Resorts, offering members access to 260 homes in exotic locations around the world; Living, which includes Flexcar, a car-sharing service, and Lime, the cable and radio networks; and Health.

Case's primary focus is the Health group, which he thinks will strike gold in the consumer-driven market. "Somebody is going to build a company on the back of it," he says. "We think it can be us." The market's engine is a new type of health plan that resembles a 401(k). Companies typically pay each employee \$500 to \$1,000 in an annual health spending account to use for family medical expenses. Once that money is spent, additional health bills become the responsibility of the employee until an annual deductible of \$1,500 to \$3,000 is reached. At that point traditional insurance kicks in, and the employer covers most claims.

The idea is to encourage patients to shop around for cheaper drugs and services, or at least think twice about seeing the doctor for a sniffle. Advocates, including the Bush administration, say \$10 to \$20 co-pays insulate patients from the full cost of medical treatment. Some 20% of all companies, including [Medtronic](#) and Raytheon, now provide them to their employees, according to the Kaiser Family Foundation. That's up from just 5% in 2003. ([UnitedHealth Group](#) and [Aetna](#) are among the leading providers.) For the young and healthy, the plans make sense. Avoid doctor visits, and your health spending account grows; you're generally allowed to carry over unspent funds from year to year.

But if you get sick, watch out. Patients with even modest health costs can blow through their spending accounts in no time; then they pay full freight until their deductible has been reached. That may be part of the reason that fewer than 5% of employees at companies offering these plans have enrolled. Another problem, according to critics: As the young and healthy drop out of the traditional insurance pools, the sicker and older patients who remain will see their costs shoot up. Princeton health economist Uwe Reinhardt likens the "consumer-driven guys" to architects touting a huge, new skyscraper before they've had engineers figure out whether it's feasible to build. "They haven't even finished the blueprint," he says.

Case doesn't disagree. "We've only been at this for a few months and still have a lot to learn," he says. But he isn't discouraged by the industry's limited success. "People say, 'Well, some of these consumer-driven ideas, they've been tried and they haven't been successful.' But that doesn't mean they're not good ideas." As Case sees it, consumer-driven health care is about much more than how high you set the deductible in an insurance plan. "For us, it's about how you move the patient back to the center of the system," he says.

It's a great line. But what does it mean? Case won't get into details, including financials. But Revolution Health's plan reveals that Case is pursuing the same strategy as his old company: He's going to launch a web portal next year, just as AOL did this year. That will help patients find doctors, schedule appointments, and manage health spending accounts. Four companies—MyDNA Media, 1-800-Schedule, Simo Software, and Wondir—will provide some services. Case plans to add more, including information on doctor quality, either through acquisition or by developing new products in-house. "Our goal is bold but simple: Build the leading online resource for health care, period," says CEO Pleasants.

As for Case, he says he'll rely on the same strategy he used to grow AOL—by asking the questions that lead to breakthrough ideas. Back then it was "Why is a modem a peripheral device when it should be the most essential part of a computer?" Now, he says, it's "Why isn't it just as easy to pick a doctor as it is to pick a restaurant with Zagat's?" Or, "If you can track your stock portfolio on the Internet, why can't you track your family's health-care finances just as easily?" Good questions. Now his team is trying to come up with answers that are even better.

**In his office,** Case reflects on the past several years. Are there things he would have done differently? "There have been some disappointments," he says. "I'm not going to get into what they are because I'm focused on the future, not the past. I'm not about woulda, coulda, shoulda." Is starting Revolution a way to vindicate himself? "Maybe it's me, but I don't feel I need any vindication," he says. "I feel proud of the 20 years [I spent] building AOL. [It became] the most important company on the Internet and helped usher in an era where interactivity is a part of daily life." What drove AOL, he says, is what's going to help clean up the health-care mess: consumer control. "The conventional wisdom in 1985 was that consumers were couch potatoes," he says. "But in my head I could see a world where interactivity was ubiquitous. Health care feels similar to me. I just believe that 20 years from now it'll be different." Case was right 20 years ago. And he's surely right that health care is going to change dramatically in the next two decades. And maybe, 20 years from now, he'll turn out to be the guy who harnessed disruptive change not once but twice. If so, I hope he doesn't buy my company again.