OpenMarkets Raises Series A Funds, Applies Groupon-Like Model to Health Care

February 26, 2013

By Brian Gormley | Skokie, Ill.

Hospitals looking to save money on big-ticket items such as an MRI machine can now turn to OpenMarkets Inc., a startup that's raised funds from TEXO Ventures to apply a Groupon-like model to health care, VentureWire has learned.

TEXO is leading a Series A round for the company, which bands hospitals together and negotiates discounts on capital-equipment items. Early this month TEXO provided $1.5 million toward a round expected to close at $3.5 million in April, said Chief Executive Dan Michalek.

OpenMarkets, which previously raised $1.2 million from individuals, expects to bring other venture firms into the round, he said.

The health-care reform law, which requires most people to have health insurance, promises to increase demand for medical services. As a result, hospitals will see more wear and tear on medical equipment, such imaging devices, ventilators, beds and furniture. This adds to their incentive to seek out savings, Mr. Michalek said.

Hospitals already save money on everyday supplies through large group-purchasing organizations such as Premier Inc. These organizations negotiate lower prices for bandages and other products that hospitals need to buy routinely.

Since hospitals make bigger purchases less often, the group-purchasing model doesn't work as well for capital equipment, since the group purchaser can't guarantee the manufacturer a certain amount of volume, according to Mr. Michalek.

OpenMarkets formed in January 2011 to solve this problem. The company, based in Skokie, Ill., recruits hospitals to join its network. When a hospital needs a piece of equipment, OpenMarkets finds others in its network that need the same item. Then it negotiates a price with manufacturers based on this volume.

By banding together through OpenMarkets, hospitals can typically get a price that's 13% below what they would have paid for the number of items they planned to buy, Mr. Michalek said.

Originally, OpenMarkets took a cut of the savings it produced but didn't charge hospitals to join its network. That didn't work well because hospitals weren't motivated to work closely with OpenMarkets and provide information on the types of purchases they were planning, Mr. Michalek said.

In January 2012 OpenMarkets started charging an upfront fee of $10 per hospital bed. Hospitals resisted at first. Only five signed on in the first quarter of that year, Mr. Michalek said. That resistance faded by year's end. Seventy-two signed on in the fourth quarter of last year.

In January of this year OpenMarkets raised its price to $15 per hospital bed. It also takes 25% of the savings it provides.

Nearly 300 health-care providers are now in the network, including large clients such as Memorial Hermann Health System in Texas, he said. OpenMarkets has negotiated prices with manufacturers such as Stryker Corp., he said.

These suppliers can also benefit from negotiating with a single party, instead of dealing with hospitals individually, Mr. Michalek said.

Group-purchasing organizations make money largely through administrative fees, in which they take a percentage of the sale price they negotiate with suppliers. Since these corporations would have to reorient their business to offer the exact same service, Mr. Michalek said he doesn't expect them to emerge as strong competitors. OpenMarkets's individual investors include Alan Weinstein, Premier's founder and former president, he said.

Competition is more likely to emerge from more nimble startups, he said. He didn't discuss OpenMarkets's revenue but said the company has had profitable months over the past year. As it invests in marketing and technology to expand its network of hospitals, it expects to operate in the red for a while, he said.

TEXO Managing Partner Randall Crowder is joining the OpenMarkets board.

http://openmarketshealth.com

Write to Brian Gormley at brian.gormley@dowjones.com