

Entrepreneur starts the Costco of health care

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Ken Erickson thinks his company, Employer Direct Healthcare, can be the Costco of supplemental health care insurance.

Erickson, who began his career as a buyer for Costco Wholesale Corp. (Nasdaq: COST), is keen on selling in bulk to pass savings to customers. Now, instead of selling pallets of toilet paper or cases of soft drinks, Erickson is packaging surgical procedures and looking to sell them at a discount to self-insured employers.



“The principles that apply to retail also apply to health care,” said Erickson, founder and CEO of Employer Direct Healthcare.

Under Erickson’s model, EDHC is a supplement for employers that fund the risk of insuring their employees. The startup has negotiated prices for common surgical procedures — such as knee replacements, major heart surgeries, orthopedic surgeries and minor outpatient procedures — with vetted health care providers. The product is sold through insurance brokers, with employers buying surgeries as needed.

The 2-year-old startup, formerly known as the National Surgery Network, has piqued employers’ interest and secured veteran investors’ backing. It has about \$2 million in funding and counts TEXO Ventures, a local venture firm that focuses on investing in early-stage health care companies, as its main investor. EDHC has signed several clients and is on pace to start delivering its health care products in January.

Next year, the startup, which employs 30 people, hopes to raise another round of funding of \$8 million to \$10 million to expand its technology and hire more customer service staff.

Randall Crowder, co-founder of TEXO Ventures, said his firm was drawn to Erickson’s vision and was impressed with the progress he’s made in establishing a network of providers.

The company’s provider network includes 80 facilities for major surgeries and 40 locations that perform outpatient surgery. All EDHC providers must meet certain quality standards, Erickson said.

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Crowder believes the model addresses a need for transparency in health care.

“We cannot sustain the current health care costs path that we are on,” Crowder said. “The idea is resonating with a lot of people. We are building a network that is the best in class in care and best in class in prices.”

If successful, EDHC could tap a massive market. Nationwide, self-insured group health plans represents roughly 33 percent of all participants in private employment-based plans, according to a 2000 report by the Employee Benefit Research Institute. That’s about 50 million employees and their dependents.

The company is targeting self-insured employers that provide coverage for 100 to 2 million employees and their dependents. Its customers include Pacific Seafood and AmeriCold, a national cold storage company, Erickson said.

“We are in a pretty good position. There are a lot of major employers signing up for the service,” he said.

The new model started with surgeries because those tend to be the costliest medical procedures, Erickson said. Eventually, it plans to expand into other areas, such as imaging and rehabilitation.

Ron Buffman, president of the Austin chapter of the Texas Association of Health Underwriters, said the current health care landscape is fertile ground for innovation, but he urges employers to think carefully before making changes to their health care programs.

Employers “should exercise caution. There are a lot of creative ideas that are appealing. ... An employer needs to keep their eyes open and ask hard questions and get hard answers,” Buffman said. “Show me the actual statistics and comparisons, and then weigh that with what is in the best interest of the employees.”

Crowder concedes that EDHC’s model isn’t for every patient. EDHC is not meant to be used for ambulatory or emergency procedures, he said, but rather for procedures or elective surgeries that could be scheduled in advance.

Erickson believes EDHC’s challenge is educating prospective clients about how the new model works and its potential for savings.

“Our goal is to change the way health care is purchased, to have a real effect on the overall market,” Erickson said. Bringing transparency to the cost of surgery is “good for the employer, and it’s good for the consumer that is facing rising costs.”