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ENTREPRENEURIAL EDGE

In Health Care, the Opportunity Is in Keeping Costs Down

By JAMES FLANIGAN

The drive to hold down medical costs is spawning a new industry, known as health care information technology. Small companies offering software systems and medical devices are attracting venture capital and giving rise to visions of doctors as high-tech tinkerers, coming up with money-saving ways to diagnose diseases and provide care.

Aperio Technologies, for example, recently received \$10.6 million in venture capital from two funds: Galen Partners, in Stamford, Conn., and Advanced Technology Ventures, a Massachusetts and California investment firm.

Aperio, an eight-year-old company in Vista, Calif., developed software that makes digital images of the tissue samples that pathologists study on glass slides under microscopes. This allows several technicians at once, even in separate locations, to view tissue samples and help with diagnoses.

Among more than 220 users of Aperio's systems, which cost \$80,000 to \$200,000 each, are the Johns Hopkins Cancer Center in Baltimore and the [Memorial Sloan-Kettering Cancer Center](#) in New York. "We can speed diagnoses and even make possible instant second opinions on tissue diagnoses," said Dirk Soenksen, founder and chief executive of Aperio.

The company must, however, obtain [Food and Drug Administration](#) authorization before it can market its scanning device for diagnostic assistance by pathologists in hospitals. At present, its sales efforts only point out the convenience of big-screen high-resolution images of the tissue samples. Some of the new venture capital will go toward financing F.D.A. trials for such approval.

Elsewhere, Dr. Michael Ross, chairman of the obstetrics and gynecology department at Harbor-U.C.L.A. Medical Center in Carson, Calif., owns the rights to the F.D.A.-approved CerviLenz device, which measures the cervix of pregnant women to determine susceptibility to premature delivery. "Length of the cervix is a reliable indicator of premature birth vulnerability," Dr. Ross said. It is most often measured today by ultrasound examinations during pregnancy, which can cost \$150 an exam, he said.

"The CerviLenz can do that measurement at a fraction of the cost of ultrasound," Dr. Ross said. "The aim ultimately is to prolong pregnancy and avoid premature birth, which leads to enormously costly incubation and treatments for the infant."

He and Stan Tomsic Jr., a partner in Acoda Technology and Investments, a Pasadena venture capital firm, want to raise \$1 million to start a company to market the CerviLenz. Dr. Ross also wants to create a company around CerviLenz to use as an incubator for other physician-entrepreneurs. "Doctors have a lot of ideas for devices and systems that can deliver treatments more efficiently," Dr. Ross said. "I see them trying out ideas at my company and starting their own independent firms."

Universities are already providing centers for health care innovation. The Paul Merage School of Business at the [University of California](#), Irvine, has an active entrepreneurship center that produces dozens of companies a year.

New health care information technology companies started last year include MediQuin Credentialing Services, which provides records verification for hospitals and health maintenance organizations, and OCT Medical Imaging, which uses optical coherence tomography to give clear pictures of the larynx and gastrointestinal tracts.

With health care costs now more than \$2 trillion a year — accounting for more than a sixth of the total United States output of goods and services — pressure is increasing to rein in the rising bills. BidShift, a five-year-old San Diego company, illustrates how ready the health care system is for the efficiencies that

technology can bring.

Founded in 2002, BidShift developed an online auction system that allows nurses to offer to work on shifts at hours that suit them and hospitals to fill open shifts and even unforeseen nursing needs. “A hospital often can fill staffing needs within its own pool of nurses, without incurring costs of outside registries,” said Ian Chaplin, founder and vice president for product development.

The BidShift system is now used by 140 hospitals and the online auction company itself has grown to 40 employees. “Hospital administrators tell us of considerable savings,” said Mr. Chaplin, who started BidShift after studying innovations at the Clarian Health Partners group of hospitals in Indiana.

Mr. Chaplin, a serial entrepreneur who founded [RedEnvelope](#), Prophet Brand Strategies and New Media Merchants among other online sites in the last decade, says the BidShift auction model can work for any business that has temporary staffing requirements. Thus, the necessity of cutting costs in health care could become the mother of invention elsewhere in the economy.

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The Ernst & Young Entrepreneur of the Year awards in Los Angeles in June, an Oscar-like gala for new businesses, showed the vigor and variety of entrepreneurship in Southern California. A crowd of 650 saw winners chosen from among 18 finalists, including makers of snack foods, organizers of schools for troubled children, bankers, online marketers and service providers and a Spanish-language classified advertising firm.

The growing field related to health care was represented indirectly by Montgomery & Company, an investment banking firm based in Santa Monica that this year helped to underwrite a public offering in February for [Synta Pharmaceuticals](#), a drug discovery company. Montgomery also advised Eisai Pharmaceuticals, a Tokyo-based company, in April in the \$325 million acquisition of Morphotek, a United States developer of genetic antibodies for cancer treatment.

Emerald Health Services, a Los Angeles firm that provides traveling nurses to fill needs of medical centers throughout the country, was a finalist at the event which the Ernst & Young accounting firm holds regionally leading up to a national championship in the fall.

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Clearstone Venture Partners, a firm with California headquarters in Santa Monica and Menlo Park, recently made a move that could indicate a trend when it opened an office in Mumbai, India.

“This is not at all an outsourcing move, but a venture directed at India’s large and growing domestic market,” said Jim Armstrong, Clearstone’s managing director. The venture firm, which handles investments of \$650 million, sees global patterns changing. For three decades young Indians have come to the United States for university studies and to form businesses, in California and elsewhere.

But now, in their home country with a middle class of 250 million and a total population of a billion, “there is a new generation in India that does not believe it has to emigrate to succeed,” Clearstone stated on its Web site. So, Mr. Armstrong said, “we’re opening operations staffed by our own Indian partners to serve a market where who you know still is very important in business.”

James Flanigan, business columnist for The New York Times, The Los Angeles Times and other publications, has covered national and international business and economics for 44 years.

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