

Testimony
United States Senate Committee on the Judiciary
Hospital Group Purchasing: Has the Market Become More Open to Competition?
July 16, 2003

Mr. Gary Heiman
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to the
U.S. Senate Committee on the Judiciary
Subcommittee on Antitrust, Competition Policy and Consumer Rights
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Chairman DeWine, Ranking Member Kohl, and distinguished members of the subcommittee. Thank you very much for inviting me here today to provide my perspective as a vendor of hospital supplies who has extensive experience with the hospital supply chain.

I am the president and CEO of Standard Textile Company in Cincinnati, Ohio, a closely held, family-owned company that was founded by my grandfather in 1940. In the United States, we employ about 1,200 people, including 350 employees in Ohio and 600 workers in Georgia, where we have three manufacturing plants. Two of those plants – Thomaston Mills in Thomaston and the King Mill in Augusta – we rescued from bankruptcy proceedings by other companies.

Standard Textile produces reusable products for health care facilities ranging from surgical packs and gowns to incontinence products and bed sheets. We also supply some of the other fabrics that you see around hospitals, such as window coverings, cubicle curtains and upholstery fabric.

We began working with hospital group purchasing organizations about 20 years ago, competing against much larger companies – for example, Baxter International. Today, we have contracts with virtually all the GPOs, including AmeriNet, Broadlane, Consorta, Kaiser, MedAssets, Novation and Premier. About 75 percent of our revenue is generated through GPO contracts.

Using GPOs has helped us to reduce costs and increase the efficiency of our marketing, sales and customer service operations. Our bidding department used to be huge; today it has only three people. We have been able to cut our sales force by 15 to 20 percent. And while our prices have dropped substantially under GPO contracts, we have the benefit of much greater volume. Today, we are still a medium-sized company competing against Goliaths, but we are seven times larger than we were 20 years ago.

I'd like to give you one example of how GPOs helped us as a medium-sized manufacturer ... and also helped hospitals to adopt a technically innovative product that greatly enhanced safety and efficiency.

In 1990, Standard Textile developed a patented, proprietary fabric that we use to manufacture surgical packs and gowns and sterile wraps, a Class II medical device, for operating rooms and other clinical procedures. This fabric has greater barrier resistance to fluids and viral penetration, and, as such, enhances safety. It's also more cost-effective and environmentally friendly than disposable products, because it creates less medical waste.

When we developed these products, VHA (one of Novation's owners) already had a contract for

disposable products with a much larger, publicly traded competitor, Kimberly-Clark. It would have been easy for VHA to turn down a small company like ours. But they didn't. Not only did they clinically evaluate our products, they brought in a third party – Deloitte and Touche – to analyze our financial model and determined that we could create overall cost savings for hospitals.

Standard Textile doesn't always win the GPO contracts that we bid on. At times, we've been defeated by other companies. As a supplier, we of course never like to lose, but the GPO committees that evaluate these contracts are representative of the hospital industry, are qualified and are fair. We may not always agree with their conclusions, but we believe the process is open, fair and honest.

I can also say that whenever I have encountered a hospital or clinician who wanted to use my product, regardless of whether it was listed on their GPO contract, I have never had a problem getting it into their hands. They always have the freedom to buy directly from manufacturers.

In addition to being a supplier, I can also speak from a hospital perspective about the benefits of GPOs. I am the board chairman of the Jewish Hospital of Cincinnati, a medium-sized, tertiary, not-for-profit hospital with about 200 beds ... and growing. In 1998, the hospital was running an annual deficit of approximately \$5 million. To help reverse that situation, the hospital made many significant operating changes, including greater utilization of GPOs to assist in managing costs. This year, I am pleased to say that the hospital will report a net gain from operations of \$12 to \$13 million.

I have been following with interest the recent discussions about GPOs. I think it's commendable that this subcommittee has taken an active interest in the topic, and I believe many of the changes in the GPO industry since your first hearing have been positive.

But speaking as both a hospital supplier and a hospital board chairman, I think the existing GPO system brings enormous value to the health care system, and I hope it remains that way.

Again, thank you very much for inviting me to share my views at this hearing, and I welcome any of your questions.

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