Testimony of

Ms. Mina Ubbing

March 15, 2006

SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS, COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

TESTIMONY OF MINA UBBING
President and CEO, Fairfield Medical Center
Lancaster, Ohio

March 15, 2006

Good afternoon. My name is Mina Ubbing, President and CEO of Fairfield Medical Center in Lancaster, Ohio. I'd like to thank Chairman DeWine and Ranking Member Kohl for inviting me to testify today before the Subcommittee on Antitrust, Competition Policy and Consumer Rights. It's a special pleasure to be here before a fellow Ohioan, Chairman DeWine.

Background

I appreciate the opportunity to speak about the way in which the health care supply chain operates, having spent 27 years in the field of healthcare finance. In 2001, I was appointed President and CEO of Fairfield Medical Center, and before that served as Fairfield's CFO. I began my career as an auditor and hospital controller, and have spent the subsequent years entrenched in the finances of Ohio health care systems. I have also taught health care purchasing management at the college level.

Fairfield Medical Center is a 222-bed, not-for-profit, general acute care facility. Established in 1916, our community hospital has grown to become a widely respected, modern system and a major referral center serving the healthcare needs of southeastern Ohio region. I am extremely proud that Fairfield has twice been named the Lancaster Fairfield County Chamber of Commerce Business of the Year, and a finalist for HealthLeaders' Top Leadership Teams in Healthcare last year. We were also one of 21 hospitals in the nation to be recognized for our recycling and environmental awareness efforts.

I bring to this hearing my perspective not only as FMC's CEO, but additionally as the chair of the Ohio Valley Hospital Consortium, a four-hospital regional collaborative entity. I have also served for nearly 2 years on the Board of the Ohio Hospital Association, and in that sense I believe I speak for all the 170 hospitals who are members of that organization.

The Health Care Purchasing Marketplace

As the members of this subcommittee are undoubtedly aware, America's health care systems are under tremendous pressure to deliver health care at affordable prices, and to do so without undermining the financial well-being of our own delivery systems. In addition to providing top flight health care professionals, we must maintain an inventory of goods and services that enable us to provide the highest quality of care to every surgical patient, every emergency room visitor, every expectant mother, and every individual in need of medical testing.

Doing this requires us not simply to stockpile bandages and bedpans. Rather, in today's environment -- in which costs continue to increase while fees are held flat and federal reimbursements steadily decline - hospital purchasing extends from pharmaceutical compounds to food service, from syringes to state of the art imaging systems. We must bear the cost of infrastructure improvements as much as the cost of constantly upgrading and replacing our equipment, and we must do it all on a very tight budget.

The Value of GPO Membership

At Fairfield Medical Center, we purchase thousands of categories of goods and services, and have relationships with more than 1,600 vendors. Every day, our materials manager has to put tens of thousands of items in our hospital; our pharmacy has an equally large burden. And while ours is a strong and well-respected hospital, we are relatively small and our power in the enormous health care purchasing marketplace is modest.

That is why we have long been a member of a health care group purchasing organization, or "GPO." For more than 22 years, FMC has been a proud member of Amerinet, and we have reaped tremendous benefits from that relationship by being able to leverage Amerinet's market expertise and market power.

The hard dollar savings to FMC directly attributable to participating in Amerinet are roughly $1.1 million per year. These savings do not reflect the many other values that we get from being part of Amerinet, including education, assistance in negotiating for non-Amerinet products, and benchmarking of FMC's performance against our peers. If FMC were forced to perform its own contracting in place of those GPO services we use, we would need to add at least 5 new professional staff positions to our purchasing department, at an annual cost of at least $400,000. And without the nationwide knowledge of products and prices currently maintained by our GPO, FMC would be at a further disadvantage in negotiating our own contracts, likely yielding even more erosion of our pricing power. I need hardly tell you that we simply cannot afford such a proposition.

FMC is fully aware of that Amerinet receives administrative fees from vendors and that these fees result from purchases that we and other Amerinet members make under our GPO contracts. Amerinet has always been extremely transparent with us and other members in terms of revenues they receive and services they provide. I believe these fees are quite reasonable, particularly measured against the benefits we receive from being part of a GPO - and against the value of the GPO to the suppliers themselves, who rely on GPOs to provide marketing and distribution support in exchange for the fees they pay.

Purchasing Decisions

That is not to say, of course, that we do all our purchasing through Amerinet. To the contrary, only about 63 percent of FMC's purchasing occurs through our GPO. Indeed, of the top 500 items purchased by FMC, only about half come from our GPO. The remainder we buy directly from vendors. FMC does not purchase sutures through Amerinet, for example, because Amerinet does not offer the brand that our clinicians demand. As such, we buy sutures direct from another manufacturer. This underscores a critical facet of hospital purchasing - namely, that hospitals do not make their purchasing decisions based only on what our GPOs have to offer. Purchasing decisions are driven by a variety of factors, including clinician preferences, our own comfort level with certain products and services; and the knowledge that our purchase is cost-effective, not just low-cost.

In other cases, we can access certain goods and services - items we buy locally, for instance - at already-low costs on our own. More often, however, we may wish to buy goods or services that our GPO does not offer on contract. In those cases, we go outside our GPO and make those purchases directly from the product vendor.

In the end, like all health care systems, FMC retains total control over its selection of products and technologies in use within the system. The portfolio offered by our GPO is a valued source of options, but any final decision about whether to use a GPO vendor or non-GPO vendor rests totally with us, and is driven by the types internal factors I have noted.

Indeed, when we consider whether to purchase a new device or innovative technology, we rely on a wide array of resources to guide our decision. We may seek input from clinicians, outside experts, manufacturers, government

agencies, consulting firms and our GPO each time we contemplate acquiring something new. At FMC, we have established a Value Analysis Committee for all new medical technologies. Whether the technology comes to us at the request of a physician, through a trade show, through the recommendation of an outside consultant, or through a direct appeal from the potential vendor, we subject the proposed purchase to a 16-point "Value Inspection," an analysis we perform ourselves to measure the value of the product and its ability to meet clinical needs cost-effectively. A copy of our Value Inspection is attached hereto.

Ultimately, after we consider all these factors, the purchasing decision remains that of our hospital and our clinicians. There isn't a GPO in the nation that can dictate what we buy, or whether can get access to a medical technology that our clinicians believe is beneficial and needed in our system. If we need it, or if our clinical staff demands it, we purchase it. It's as simple as that.

One example of an item that our clinical staff required that we did not purchase through our GPO is a technology produced by a small Dublin, Ohio company called Neoprobe. Neoprobe makes a gamma detection device used in cancer surgery. When we could not buy this item through our GPO, we went directly to Neoprobe and established a vendor relationship.

Sometimes, moreover, items cannot be accessed through our GPO because the manufacturer will not sell on a GPO contract. This is often the case with items still under patent. In such cases, where the market has deemed the device to be a legitimate new innovation, we also buy directly from the vendor. One instance of this is with a California company called Kyphon, which produces an injectable substance for treatment of spinal pain. Kyphon does not sell this device through GPOs, and yet we purchase more of this product, measured in total spend, than any other surgical item in our hospital.

Restrictions on GPOs are a Direct Threat to Hospitals
The technological needs of FMC, like any health care system, are constantly changing. We can count on health care consumers to demand access to the best new technologies, just as our clinicians demand use of the same. We must be able to respond to these demands. That is why we have a system in place at FMC to identify and evaluate new medical technologies, and to acquire them when doing so is the right clinical and financial decision for our hospital.

In this light, GPOs do provide immense value to FMC and other health care systems, even though they hardly control our purchasing decisions. The GPO model of charging administrative fees to suppliers, and providing cost savings and other important benefits to FMC and other members, is critical for any health care system in today's economically challenging environment. This is particularly the case for small and rural systems like ours, which have the least market power and the most to lose from margin pressures.

If GPO administrative fees were eliminated and FMC had to pay its GPO as part of its operating expenses, we would realize an enormous net loss. I have little doubt that, wherever possible, we would have to look to shift the expense to health care consumers beyond governmental payors whose reimbursement rates are constantly being challenged From what I understand, it was this very threat that prompted Congress to establish the 'safe harbor' to Medicare rules that allows GPOs to operate as they currently do. Elimination of administrative fees would also, I expect, mean that our GPO would have to reduce or eliminate many of the other services that they provide to us.

Over the nearly three decades I have been a hospital administrator, I have seen many unintended consequences of well-intentioned but misguided efforts to better "control" business practices in the health care sector. Where GPOs are concerned, I believe that any restrictive legislation would have a dangerous and severe ripple effect on America's hospitals - adverse consequences that would be felt most severely by small and rural systems such as ours. There is no doubt in my mind that a voluntary initiative among the leaders of the GPO industry, like the one that General Bednar is here to describe, is the best available way to sustain ethical and transparent business practices among GPOs while preserving the savings and benefits that GPOs offer to us, and to patients who rely on us for excellent care.

We were made aware of the GPO Industry Initiative last year when the effort was launched by Amerinet and eight other leading GPOs. We are proud of what Amerinet and its colleagues in the GPO industry have done to form the Industry Initiative, and we believe that the Initiative sets a standard of industry practices by which all GPOs are

judged. We have no interest in doing business with any GPO that is not willing to measure itself against the Industry Initiative's standards of conduct, and I suspect that most, if not all, other hospital CEOs feel the same way.

Mr. Chairman, Senator Kohl, members of the Subcommittee, I ask you to join me in recognizing the value that GPOs bring to the health care marketplace - to recognize that, while important, these entities do not control the purchasing marketplace, but rather help to make it a more robust, competitive, cost-effective and informed decision-making environment - and to support the continuation of the GPO Industry Initiative rather than any proposed legislation that would impose costly new restrictions on GPOs and the health care systems that depend on them.

Thank you for your consideration of my views.