



CQO:
The Health Care
Supply Chain

Spend Under Management (SUM)

Purpose:

To provide leadership with a measure of the amount of total spend that is being effectively managed by the organization's supply chain team.

Value:

As the organization's spend under management increases, the ability to optimize costs and forecast expenses increases. Effectively managed spend gives the organization greater control over the risk of using inappropriate products/services. It prevents the risk of having contracts in place that are in legal conflict with each other. SUM also identifies "maverick" spend in the organization.

Equation:

To calculate SUM, divide spend actively sourced/managed by supply chain by total spend (minus exclusions), then multiple the result of this first equation by 100.

$$\text{Spend actively sourced/managed by supply chain} \div \text{Total spend} \times 100 = \text{SUM percentage}$$

Example:

- Total spend actively sourced/managed by supply chain: \$600,000,000
- Total organizational spend on materials and services: \$1,000,000,000

$$\$600,000,000 \div \$1,000,000,000 = 0.60 \times 100 = 60\%$$

Includes:

- Direct materials and services
- Indirect materials and services
- Purchased services

Excludes:

- Taxes
- Salaries and bonuses
- Charitable contributions
- Dividends, securities, interest payments
- Stock repurchases
- Organizational memberships

Sources of Data for KPI Calculation:

Data usually comes from multiple sources. It is extremely important to ensure that all sources are included. The main sources of data are the organization's accounts payable (AP) system, which may be a module within an enterprise resource planning (ERP) system, and a purchasing card (p-card) system. If payments are made to third parties other than through the AP or p-card systems (e.g. voucher system, direct pay system, or travel and expense system) they should also be included.



CQO:
The Health Care
Supply Chain

If available, a health care organization may find the following systems useful in determining its overall, non-payroll, influenceable, and managed spend because they include additional information about the organization's financial transactions:

- E-procurement systems: For many organizations, spend managed by an e-procurement system has gone through an approval process and/or through a catalog (whether hosted or punch-out) and is more likely to be managed spend than other methods of buying.
- Contract management systems: These systems can provide information on which vendors and goods have a contract in place and are therefore likely to be influenceable or managed spend.
- Vendor management systems: They contain additional information about the vendors to help determine which transactions are influenceable and which are not.

Points of Clarification:

- Total spend refers to the cost of direct and indirect materials and services purchased (e.g. disbursements) in the year. The intent is "sourceable" spend not just "sourced" spend by supply chain professionals. Expenditures on taxes, employee base salaries and bonuses, charitable contributions, organizational memberships, dividends, securities, interest payments, and stock repurchases should be excluded from the spend amount.
- Spend actively sourced/managed by procurement professionals refers to spend that the supply chain organization led and/or was involved in the process of supplier selection and pricing.
- Spend under management is not equal to identified or realized savings.
- Spend management of 100 percent is not necessarily attainable or desirable.

Generally accepted accounting principles (GAAP) for health care providers calls for supplies and purchased services as separate expense lines on the income statement. While much of this expense may not be the spend sourced by procurement, it should be the goal of the professional to capture this spend and include it in the denominator of this KPI.

References:

Some content adapted from the following:

- [Analyze This: Procurement Metrics That Matter, SIG Global Executive Summit, 2014](#)
- [E3 Metric: Spend Under Management, Institute for Supply Management \(ISM\)](#)
- [What is 'Spend'?—Defining Spend in the Procurement Process, American City & County, July 2013](#)
- [Your Definition of Spend Under Management is Wrong](#)
- ["Spend Under Management?" Odds Are You're Doing it Wrong](#)



CQO:
The Health Care
Supply Chain

Note: The term “supply expense” used throughout the AHRMM Keys is based on the AHRMM/HFMA definition of this term: “The net cost of all tangible items that are expensed including freight, standard distribution cost, and sales and use tax minus rebates. This would exclude labor, labor related expenses and service, as well as some tangible items that are frequently provided as part of service costs.” Specific items to be included or excluded in the supply expense calculation are contained within the [AHRMM-HFMA Supply Expense Definition document](#), which is available for download from the AHRMM website.