



CQO:
The Health Care
Supply Chain

Supply Expense as Percent of Net Patient Revenue



Purpose:

This Key is a high-level metric that monitors the relationship between supply expense and net patient revenue.

Value:

Changes to this metric may indicate a shift in the relationship between supply expense and the associated net patient revenue. If the change is a trend (versus single point of variation), it should trigger an evaluation of the root cause and the development of an action plan. Causes can range from increased supply cost or increased supply utilization, to changes in the patient and/or payor mix that effect net revenue.

Equation:

$$\text{Total Supply Expense} \div \text{Net Patient Revenue} = \text{Supply Expense as \% of Net Patient Revenue}$$

Note: it is favorable to have a lower value for this Key. The lower the value the better.

Example:

Source data, a hospital that has:

- Total supply expense: \$1,000,000
- Net inpatient revenue: \$3,800,000
- Net outpatient revenue: \$2,200,000

Net inpatient revenue \$3,800,000 + Net outpatient revenue \$2,200,000 = **Net patient revenue of \$6,000,000**

$$\begin{array}{r}
 \$1,000,000 \text{ Total Supply Expense} \\
 \div \\
 \$6,000,000 \text{ Net Patient Revenue} \\
 = \\
 \mathbf{16.67\%} \text{ Supply Expense as \% of Net Patient Revenue}
 \end{array}$$



CQO:
The Health Care
Supply Chain

Input Descriptions and Sources:

Input Name	Includes	Excludes
Net patient revenue	All inpatient and outpatient revenue such as Medicare, Commercial Insurance or self-pay.	All deductibles such as Adjustments, Reimbursements, Rebates, etc.
Total supply expense	All medical, non-medical, inventory and direct-ship/on-consignment supply expense. For medical, include expenses for Surgery, Cath Lab, EP Lab, Interventional Radiology and Interventional GI departments. For non-medical, include Office Supplies, Purchased Services, Facilities, Information Technology, Maintenance, etc. For consignment expenses, include freight, standard distribution costs and sales-and-use tax (minus rebates). Refer to AHRMM/HFMA supply categories for further details.	Purchased services, labor and labor-related expenses and services (salaries, bonuses), real estate, physician payments, capital, utilities, some tangible items that are frequently provided as part of service costs (e.g. toner that is part of a print contract), taxes, reimbursements to individuals or contractors, insurance, bad debt, depreciation.

Points of Clarification:

- Changes to this metric may be caused by both supply expense and net revenue shifts. Therefore, a root cause analysis must be completed prior to developing action plans. For example, if revenue reporting is favorable, this KPI may cause the health system to underestimate the potential of supply expense savings opportunities. The opposite is also true, if revenue reporting is unfavorable, supply expense saving opportunities may be overestimated.
- Should there be a fluctuation in supply expense as a percentage of net patient revenue, it may indicate a change in supply consumption or utilization behavior (e.g. adoption of new supplies, emerging or disrupting technologies, change in practice variation, pricing, etc.) with no corresponding increase in patient revenue.
- If using this metric for benchmarking keep in mind it does not take into account regional and national differences in reimbursement rates.