



CQO:
The Health Care
Supply Chain

Supply Chain FTEs Per \$1M in Total Non-Labor Supply Expense



Purpose:

Assess how many full-time equivalents (FTE) are needed to cover supply chain purchasing and contracting operations. FTE represents the number of working hours that one full-time employee completes during a fixed time period, such as one month or one year.

Value:

FTE converts workload hours into the number of people required to complete that work, which helps simplify scheduling. More importantly, it helps budget analysts and project managers estimate the cost of labor. Managers may also benefit from looking at FTE to determine if overtime costs are making it worthwhile to open up a new full-time or part-time position (Newman, par. 1).

Additionally, this KPI is helpful in budgeting FTEs and assessing supply chain labor costs related to non-labor supply expense. This, coupled with other supply chain KPIs, can help supply chain executives understand the efficiency of their purchasing and contract operations in relation to other hospital supply chain groups. It can also help executives broaden their perspective on the impact and influence of supply chain; by pegging FTEs to total non-labor supply expense, it enables executives to understand that supply chain has a role beyond traditional areas.

Equation:

Firstly, sum Total Supply Expense and Total Purchased Services Expense to arrive at your '**Total non-labor supply expense**'. Divide this value by 1 million to arrive at '**Total non-labor supply expense in millions**'. To calculate the Key, divide **Total number of supply chain FTEs** by this '**Total non-labor supply expense in millions**'.

Total supply and purchased services expense / 1,000,000 = **Total non-labor supply expense in millions**

$$\frac{\text{Total number of supply chain FTEs}}{\text{Total non-labor supply expense in millions}} = \text{Supply Chain FTEs Per \$1M in Total Non-Labor Supply Expense}$$

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

Example:

A health system has \$25,000,000 in total monthly non-labor supply expense and has 273 supply chain FTEs.

$$\begin{aligned} & \$25,000,000 \div 1,000,000 = \mathbf{25} \text{ Total non-labor supply expense in millions} \\ & \mathbf{273} \text{ supply chain FTEs} \div 25 = \mathbf{10.92} \text{ Supply Chain FTEs Per \$1M in Total Non-Labor Supply Expense} \end{aligned}$$



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Input Descriptions and Sources:

Input Name	Includes	Excludes
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.
Total purchased services expense	All Purchased Services expenses (clinical and non-clinical) such as Facilities, Information Technology, Maintenance, etc.	Taxes, Salaries and bonuses, Charitable contributions, Dividends, securities, interest payments, Stock repurchases, Organizational memberships.
Total number of supply chain Full Time Equivalents (FTEs)	List total number of FTE's in the supply chain department, whether employed full-time or part-time, with 1 "standard" FTE being based on a 40 hour working week. E.g. Someone working a 50 hour working week is 1.25 FTEs.	Anyone who is not employed by your organisation (e.g. the staff of vendors providing "purchased services")

Points of Clarification:

- Regarding calculating non-labor supply costs: Hospital finance departments have their total non-labor supply expense number readily available. These costs typically exclude insurance, bad debt and depreciation. Pharmaceuticals may or may not be included.
- Holiday hours and other paid leave (sick leave, maternity/paternity leave, etc.) are already accounted for as part of the hours worked, so special calculations for these hours are required.