



**CQO:**  
The Health Care  
Supply Chain

## Total Suppliers Per \$1M Non-Labor Supply Expense



**Purpose:**

Measures the hospital or health system’s effectiveness in managing its total supplier base.

**Value:**

Allows both hospital executives and supply chain leaders to understand their organization’s ability to reduce fragmentation of its supplier base.

**Equation:**

Firstly, sum Total Supply Expense and Total purchased services expense to arrive at your ‘**Total supply and purchased services expense**’. Divide this value by 1 million to arrive at ‘**Total supply and purchased services expense in millions**’. To calculate the Key, divide **Total number of suppliers** by this ‘**Total supply and purchased services expense in millions**’.

$$\frac{\text{Total supply and purchased services expense} / 1,000,000}{\text{Total number of suppliers}} = \text{Total supply and purchased services expense in millions} \div \text{Total number of suppliers} = \text{Total Suppliers Per \$1M Non-Labor Supply Expense}$$

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

**Example:**

A health system has \$50,000,000 in total monthly non-labor supply expense and utilizes 5,000 suppliers.

$$\begin{aligned} \$50,000,000 \div 1,000,000 &= \mathbf{50} \text{ Total supply and purchased services expense in millions} \\ \mathbf{5,000} \text{ suppliers} \div 50 &= \mathbf{100} \text{ Suppliers Per \$1M Non-Labor Supply Expense} \end{aligned}$$

**Input Descriptions and Sources:**

Input Name	Includes	Excludes
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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 suppliers	Total number of active vendors utilized by the organization (derived from the AP Master Vendor File).	

**Points of Clarification:**

- While differences may exist in each organization’s monthly operational and capital expenses, the metric will normalize the differences between organizations.
- If possible, organizations should clean and standardize supplier names when deriving supplier counts. For example, there may be instances when the same supplier shows up multiple times with different identification numbers in the materials management information system (MMIS). Cleaning and standardizing supplier data will ensure that a more accurate count is derived.
- Output should clearly indicate key components of the equation, including monthly supplier count and total non-labor supply expense.
- The audience should not seek a “target” when viewing this metric, as each organization may have differing needs. Instead, this metric should be used directionally to determine how the organization compares with its peers. Furthermore, this metric can be more effective when leaders track progress and improvements made over time.
- The audience should also recognize that a higher metric may be justified in some instances; for example, multiple suppliers may be needed to fulfill demand or inject healthy competition to achieve the best value within a category.
- Organizations should include both operational and capital expenses when deriving total annual non-labor supply expense. Supply chain expends significant resources managing suppliers that deliver capital goods and services.
- A lower metric will typically indicate the organization’s ability to consolidate its supplier base, leading to more effective control of quality, and cost of products and services. For example, a health system may be utilizing multiple suppliers to deliver the exact same products and services with varying levels of quality and cost. If the health system can standardize to fewer suppliers, it can not only control the quality of products and services, but also leverage spend to negotiate more competitive agreements.