



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:

Firstly, sum Total Supply Expense and Total purchased services expense to arrive at your '**Total supply and purchased services expense**'. To calculate SUM, divide **spend actively sourced/managed by supply chain** by this 'Total supply and purchased services expense', and multiple the result by 100.

$$(\text{Spend actively sourced/managed by supply chain} \div \text{Total supply and purchased services expense}) \times 100 = \text{SUM percentage}$$

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

Example:

- Total spend actively sourced/managed by supply chain: \$600,000,000
- Total supply expense: \$750,000,000
- Total purchased services expense: \$250,000,000

$$\$600,000,000 \div \$1,000,000,000 = 0.60 \times 100 = \mathbf{60\% \text{ SUM percentage}}$$



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). This is inclusive of Pharmacy, Lab, Construction, Research, IT, Purchase Services (Food, EVS, Clinical Engineering), Radiology, Facilities, and Maintenance. | Taxes, Salaries and bonuses, Charitable contributions, Dividends, securities, interest payments, Stock repurchases, Organizational memberships. |
| Spend actively sourced/managed by supply chain | Spend actively sourced/managed by supply chain professionals refers to spend that the supply chain organization led and/or was involved in the process of supplier selection, product evaluations, pricing, etc. This is inclusive of Pharmacy, Lab, Construction, Research, IT, Purchase Services (Food, EVS, Clinical Engineering), Radiology, Facilities, and Maintenance. | Everything not actively sourced/managed by supply chain. |

Points of Clarification:

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.

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.
- 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. This includes Pharmacy, Lab, Construction, Research, IT, Purchase Services (Food, EVS, Clinical Engineering).
- 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](#)
- [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](#)