

CASE STUDY

Clinical Lab Improves Cash Management with A Three-Pronged Solution

Overview

The payment collection process at a commercial clinical lab was consuming precious cash flow. Management decided that the 53-day service-to-payment cycle needed to improve. TBM helped the company scope out and execute a rapid turnaround in billing and collections. Following these efforts, overall productivity and lead times from services performed to claim submittal have improved dramatically.

Topics Covered

- Current state mapping
- Standard work
- Business process optimization
- Cash flow management

A diagnostic analysis reveals that internal billing delays were the root cause of excessive DSOs (days sales outstanding). The team created a process to issue accurate invoices faster and improve collections.

A full-service commercial clinical laboratory had been wrestling with a growing problem for months. They were processing thousands of specimens every day. But there was a cash-pinching, 53-day lag time between when the services were being performed and when the company was finally paid by insurers. Each “days sales outstanding” (DSO) represented approximately \$1 million. Billing throughput issues had been intensified by recent acquisitions that had increased work volumes.

The initial diagnostic and root cause analysis conducted by TBM Consulting Group revealed that collections itself wasn’t the issue. The real problem was getting invoices out the door. The assessment also found that “days sales unbilled” (DSU) was a better measure of improvement potential than DSO, which was more of a lagging indicator.

“We found that days sales outstanding (DSO) was a lagging indicator. The more telling metric was days sales unbilled (DSU), the difference between when the work was completed and when the invoice was issued. Collections wasn’t the issue. Eliminating billing delays dramatically reduced DSO.”

“They were grappling with both legacy accounting systems and inaccurate job coding that was causing a lot of rework,” recalls the TBM Senior Management consultant who led the engagement. “Overtime was high despite the fact that they had hired some temporary clerical help in an attempt to catch up.”

A Three-Pronged Solution

TBM identified three processes that, if attacked and redesigned, could rapidly reduce DSO by an estimated 33 percent. The first target was rework. The sole responsibility of some employees at the time was to correct errors made earlier in order entry and processing.

Eliminating the errors at the source would eliminate the need for such rework. A kaizen team comprised of people inside and outside the area identified and then implemented the following solutions:

- Reorganization into three-person teams who specialized in specific types of claims and insurance carriers.
- Simplified job instructions posted on the company’s intranet for easy reference.
- Data entry rules to eliminate order-entry errors.
- Two-day classroom training and one week of on-the job coaching to cement the new practices.

The second target for improvement was the 18,000 backlog of payment claims. When a kaizen event team mapped out the current process, they found that employees were spending an extraordinary amount of time scouring the Internet for insurance providers’ claim processing information. They subsequently automated

and standardized this search work. And they created different teams, who rotated quarterly for cross-training purposes, to handle specific insurance payers.


And finally, the third target was the cash management process itself. The department had an excessive number of work procedures, paperwork requirements and loopbacks that didn’t add any value and delayed processing time.

“We combined some steps and reduced the batch sizes for electronic postings, which dramatically improved velocity,” recalls the consultant.

Following these three improvement projects, the company reduced average days sales unbilled by 42 percent. They also improved productivity by 80%, reduced overtime and eliminated the need for temporary help.

Results

Days Sales Unbilled

 **42%** from 8.2 days to 4.75 days

of Jobs Worked Per Week

 **80%** from 10,000 to 18,000

of Jobs Processed Per Person Per Hour

 **70%** from 19 to 37

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