



## Case Study: Improving Aged Receivables in a Retail Pharmacy

The accounts payable division of a nationwide specialty pharmacy that provides medications to chronically ill patients found that its level of bad debt had grown beyond acceptable levels. Unable to control growing bad debt losses, senior leadership targeted a goal to reduce it by 30%.

Problems like bad debt are typically linked to many underlying causes, especially in situations like this where there is a lot of inherent complexity in the medication approval, disbursement, and payment processes.

Guidon first helped the company analyze data, which identified five primary reasons for bad debt, reflecting approximately 80% of the total value (and 65% of all transactions). This knowledge helped the company focus its improvement efforts on those causes.

Next, Guidon helped a team of the company's subject matter experts complete current and future state process maps on select processes. These maps depicted key decision points, handoffs, and efforts once a drug order was executed, and highlighted the hot spots of waste and inefficiency.

The team also mapped out a simple edit-and-logic improvement to their existing system so that, for example, prescriptions with amounts due were visually highlighted. This minor technological improvement provided another countermeasure for reducing bad debt.

Guidon then conducted five Kaizen events with subject matter experts from business units whose work impacted accounts receivable, to come up with even more ideas for improvement. With Guidon's leadership, the Kaizen teams used a Lean Six Sigma approach looking up-stream to identifying root causes, associated variables, and process requirements. By mapping out existing processes, the teams identified incremental future state design changes by identifying value add and non-value add process steps and routines.

Finally, Guidon recommended that the company establish an end-to-end Value Stream owner for bad debt, preferably someone who works close to where the actual work occurs. This person would have full ownership of the process, including accounts receivables metrics. Having greater end-to-end accountability can help improve the execution of non-standard processes, decrease Pharmacy exceptions, improve enrollment, simplify benefit verification, and limit outstanding accounts receivables—all of which contributes to reducing overall bad debt.

This effort illustrated how an environment filled with complexity (thousands of patients, payors, contractual requirements, physician orders and associated therapies) can benefit from using basic Lean Six Sigma tools to identify improvement opportunities and sustainable countermeasures.

**Client:** Retail and Specialty Pharmacy

**Industry:** Retail

**Service:** Kaizen Events, Program Leadership, Lean Six Sigma Expertise

**Challenge:** A specialty pharmacy manages a complex process between patients, insurance providers, physicians and government agencies. This complexity made the process of receiving payment very complicated. Some of the challenges were:

- Increased accounts receivable and bad debt expense
- Pressure to maximize profits and reduce expenses

**Solutions:** Guidon Performance Solutions helped the client identify:

- Five primary sources of their bad debt, which allowed very targeted improvement efforts to reduce the sources of bad debt
- Process improvement opportunities upstream, well before a transaction got to the point of becoming a bad debt
- Accountability and ownership opportunities with front line associates so they can address issues early in the process
- Reductions in wasteful practices

**Results:** The Kaizen team, led by Guidon consultants, helped the company identify significant improvement opportunities including:

- An estimated \$33 million in improvements in aged receivables
- Improved collection rates
- Reduced re-work



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