Centralizing Accounting Functions for the Fourth-Largest Pharmaceutical Wholesaler in the U.S.

Background

The fourth-largest pharmaceutical wholesaler in the United States, servicing independent pharmacies, faced a significant challenge with its decentralized accounting functions. The company's financial operations were spread across various locations, leading to inefficiencies in financial reporting, cash application, and internal controls. Finstru's team member, serving as the controller, was tasked with spearheading an initiative to centralize all accounting functions into a shared services environment at the corporate office. This initiative aimed to streamline operations, enhance efficiency, and reduce costs.

Understanding the Financial Close Process

The first step in the transformation was conducting a thorough assessment of the **financial close process** across different locations. The controller identified several inefficiencies:

- **Inconsistent Reporting Standards**: Each location followed its own process for closing the books, leading to inconsistencies in the financial data.
- **Lengthy Close Times**: The decentralized nature of the accounting functions resulted in a **20-day close process**, delaying financial reporting and decision-making.
- **Weak Internal Controls**: Discrepancies in how each location handled key processes like cash application and accounts payable revealed a lack of robust controls.

Through a detailed evaluation, the controller uncovered these gaps and laid out a comprehensive plan to centralize the accounting operations into a shared services model, ensuring consistency and stronger financial governance.

Streamlining Cash Application

One of the critical areas of inefficiency was how **cash was applied** across different locations. The controller focused on:

- **Improving Accuracy**: Cash application processes varied significantly across offices, causing delays and errors in recording transactions. The controller implemented standardized procedures to ensure accurate cash reconciliation and faster processing times.
- **Automating the Process**: Manual cash application processes were replaced with an automated solution through SAP, reducing the error rate and allowing for more precise tracking of payments and receipts.

These changes led to improved cash flow visibility and faster application times, ensuring that independent pharmacies serviced by the wholesaler experienced fewer delays in their accounts being updated.

Leveraging SAP for Automation

A key part of the transformation was leveraging **SAP**, the company's enterprise resource planning (ERP) system, to automate financial processes and improve operational efficiency:

- **Automating Financial Close**: SAP's financial modules were used to automate tasks such as journal entries, reconciliation, and reporting, reducing manual intervention and minimizing the risk of errors.
- **Integrating Data Across Locations**: SAP allowed for real-time data integration across different locations, ensuring that all financial information was consolidated at the corporate level. This provided the controller with a clear, accurate view of the company's financial health at any given time.

By fully utilizing SAP's capabilities, the controller was able to standardize processes, reduce redundancy, and enhance the accuracy of financial reporting.

Reducing the Financial Close Timeline

Before the centralization, the **financial close process** took an average of **20 days** due to the disparate systems and processes in place at each location. The controller focused on:

- **Standardizing Procedures**: By creating a unified process for closing the books, all locations were now working from the same playbook, eliminating the inefficiencies caused by varying practices.
- **Leveraging SAP Automation**: Automating much of the close process within SAP, such as consolidating data, reconciling accounts, and generating reports, significantly reduced the manual workload.

These efforts led to a **reduction in the financial close timeline** from **20 days to 10 days**, enabling faster reporting and more timely decision-making for the business.

Cost Reduction and Efficiency Gains

Centralizing the accounting functions into a shared services environment had a significant impact on costs:

- **Reduced Duplication of Efforts**: Centralization eliminated redundant roles and processes that were previously scattered across multiple locations. This streamlined operations and improved efficiency.
- **Lower Labor Costs**: The company was able to reduce its accounting headcount by consolidating roles at the corporate office, saving on labor costs across locations.
- **Process Optimization**: The use of automation through SAP meant fewer resources were needed to perform manual tasks, further reducing operational costs.

In total, the centralization project resulted in cost savings of over **$5 million**, directly contributing to the company's bottom line.

Outcome and Impact

The controller's initiative to centralize accounting functions and leverage automation through SAP had a profound impact on the company:

- The **financial close process** was reduced from 20 days to 10, allowing for more timely and accurate financial reporting.
- **Cash application** became more accurate and efficient, improving cash flow visibility.
- The company achieved over **$5 million in cost savings** by centralizing roles and optimizing processes through automation.
- The overall financial performance of the company improved, with stronger controls, faster reporting, and more consistent processes.

This transformation not only enhanced operational efficiency but also positioned the company for future growth, with a more agile and scalable financial system in place.

This use case showcases how a well-executed centralization initiative, driven by a skilled controller and supported by automation through SAP, can significantly improve the financial health of a business. If your company is facing similar challenges, Finstru's **CFO services** can provide the strategic leadership needed to optimize operations, reduce costs, and improve financial reporting accuracy.