FoxMeyer Case

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CASE 9-1

Opening Case

FoxMeyer Drugs

Source: "The FoxMeyer Drugs' Bankruptcy: Was it a Failure of ERP?" in *Proceedings of the Association for Information Systems Fifth Americas Conference on Information Systems*, Milwaukee, WI, August 1999. Pages 223–225. Reprinted by permission of Dr. Judy Scott, University of Colorado–Denver.

FoxMeyer Drugs was one of the largest distributors of pharmaceuticals in the world, with a value of more than $5 billion. In 1993, they began an implementation of an ERP software package by SAP, and within four years they were bankrupt. The company officials have taken the stance that their failure was the responsibility of SAP and that the technology failed them; however, in-depth analysis leads one to conclude that the management of FoxMeyer Drugs is to blame because they did not understand the role organizational change was going to play in this implementation.

The failure at FoxMeyer was "not a failure of automation. It was not a failure of commercial software. It was a management failure,"[1] according to Judy B. Scott. FoxMeyer had senior management's support, but it did not have the proper communication channels in place for dealing with the organizational change. As a result, the morale of the workers was hurt and the quality of the products they produced diminished drastically because many felt they would soon be out of their jobs. To make matters worse, many of the workers decided to not wait until the implementation was complete, and there was a mass exodus out of the company to avoid what was seen as inevitable layoffs. If the situation had been communicated more effectively, the workers may not have fled, and the quality would have stayed at the prior standards, such that the business could sustain itself through the implementation; unfortunately, that was not the case.

Things went from bad to worse when the senior management "buy-in" became too powerful. Looking from the outside, it appears as though the belief of senior management was that the technology was the answer to everything. Instead of addressing the changes affecting the organization, and holding off or scaling back some of the technological enhancements, the company redoubled their efforts to implement the software package. They were essentially throwing good money after bad because the failure within the organization had doomed the system to failure regardless of the best-practice processes the system may have been able to deliver. Misunderstanding the role of organizational change in an ERP implementation may have bankrupted one of the world's largest pharmaceutical distributors.

In conclusion, a successful ERP implementation requires organizational change, and business processes are often reengineered to complement the benefits of the new software package. As we see in the case of FoxMeyer, failure to understand this connection can lead to severe financial woes or even bankruptcy. Because an enterprise-wide implementation is such an expensive undertaking, the role of organizational change cannot be overlooked. The success and failure of many ERP implementations do not lie with the technology, they lie within the organization. A stagnant organization that does not adapt its structure, people, and processes to its ERP system is doomed to fail. The role of organizational change in an ERP implementation is a decisive one that can have dire results if overlooked and spectacular results if embraced.

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[1] http://www.ndsu.nodak.edu/ndsu/bklamm/BPandTCreferences/BPTCScott1999Foxmeyerdrugs-bankruptcy%20was%20itafailure.pdf