

**Case Study: ERP Implementation Failure at Hershey Foods Corporation**

Case Study Report – (Group-4)

Satyajit Mohanty - 020

Siddharth Verma - 023

Anirban Roy Choudhury – 001

Nagesh Kumar – EPGP-04B-056

Table of Contents

[Executive Summary 3](#_Toc364109348)

[Problem (Issue Statement) 3](#_Toc364109349)

[Data Analysis 3](#_Toc364109350)

[Key Decision Criteria 5](#_Toc364109351)

[Alternatives Analysis 5](#_Toc364109352)

[Recommendations 6](#_Toc364109353)

[Action and Implementation Plan 7](#_Toc364109354)

[Exhibits 8](#_Toc364109355)

[Exhibit 1 8](#_Toc364109356)

[Exhibit 2 8](#_Toc364109357)

[Exhibit 3 9](#_Toc364109358)

[Exhibit 4 9](#_Toc364109359)

# Executive Summary

Think of one day when the demand seasons are on peak and you ERP systems stops working properly resulting in a huge loss of around $100million worth of orders. For Hershey’s confectionary division this nightmare came true in 1999. When the Hershey’s decided to cutover its $112-million IT system, its worst case scenario became reality. It observed a 19-percent drop in quarterly profits and an eight-per cent decline in stock price due to the operational paralysis caused by the business and system process operational paralysis.

Hershey’s redesigned the whole process keeping customer in mind, to enhance their competitiveness, and to enhance their customer service. Based on the need of an efficient and reliable logistics system to cater with the large number of seasonal requirements, it decided to switch over to the New ERP system by April 1999. The software from Manugistics was to provide for transport management, production, forecasting and scheduling. The software from Siebel was to support Hershey in managing customer relations and in tracking the effectiveness of the company's marketing strategy.

# Problem (Issue Statement)

**Squeezed Deadlines**

* Project originally scheduled for 4 years.
* Company forced the implementation to 30 months.

**Wrong Timing**

* The company went live at their busiest time.
* Released the solution just before the Christmas and the Halloween.

**Big-Bang Implementation**

* To quicken the implementation, Hershey's opted for big bang implementation.
* Simultaneously implemented a customer relations package and a logistics package even without testing some of the modules.
* Orders from many retailers and distributors could not be filled, even though Hershey's had the finished product stocked in its warehouses.

# Data Analysis

Increase in revenue because of proper implementation of ERP

|  |  |  |  |
| --- | --- | --- | --- |
|  | 1999 | 2000 | Increase/Decrease |
| Revenue | 1066695 | 1196755 | 12% |
| Profit | 87578 | 107405 | 23% |
|  | 1999 | 2000 | Increase/Decrease |

**Fig No 1: Using Table 1**

Loss In Revenue Because of poor Implementation of ERP

|  |  |  |  |
| --- | --- | --- | --- |
|  | 1998 | 1999 |  |
| Revenue | 1217237 | 1066695 | (150542) Loss |
|  |  |  |  |

**Fig No 2: Using Table 1**

* Decrease in Revenue of $150542 from 1998 to 1999.
* Increase in revenue of 12% from 1999 to 2000
* Increase in profit of 23% from 1999 to 2000.

**Sale Facts:**

* 1969: US $334 million
* 2006: US $4.94 billion
* 2006,:the company had more than 14,300 employees
* Cost of ERP Project: US $ 110 million.
* Christmas and Halloween accounts for 40% of sales
* End of September 2000; the inventories were 25% more than the inventories
* during the previous year

**Effects of ERP Failure:**

* In 1999 September - because of failure of erp stock prices plunged by 8% in a single day.
* Because of ERP failure stock prices falls by 35% between 1998 to 1999.
  + Stock price in Oct 1999- US$ 47.50
  + Stock Price in October 1998- US$ (Refer Exhibit II for Hershey's stock price from 1998 to 2002).
* US $150 M lost in sales
* Profit decline by 19% annual sales declined in 12%
* Hershey lost around 0.5% market share.

**Bouncing Back:**

* As per Exhibit 3, year 2000, Hershey was back on track with sales reaching US$ 4.2
* In July 2001, after redesigning process all system were implemented successfully ahead of schedules and 20% less cost as compared to estimated budget.
* Please refer to exhibit 3 for whole cycle.

# Key Decision Criteria

The key factors decided the decisions made by Hershey’s are as follows:

* Expectations of high sales growth and a huge opportunity for the business growth
* Need to change the systems before y2k bug effects the entire process
* Need for a better coordination effort with the suppliers
* Better systems in existence for managing the company logistics and the supply chain
* Solving the Y2K effectively and efficiently
* Refer exhibit 4 for pictorial description

# Alternatives Analysis

**Activating complex ERP system during peak season of their business** – Hershey could have avoided the ugly situation just by choosing a lean season of their business to implement the complex ERP system. Previously, Hershey implemented CRM solution and it is not completely new to IT systems but still it chose a wrong time to go LIVE (Refer **Exhibit 1**). Till April 99 it was lean period but after that it was fast approaching season time as well as Y2K problem.

**High complexity** – Hershey not only implemented ERP during peak season but also integrated three different vendors in single platform with ‘**Big Bang**’ approach. They could have taken a phased approach in implementing three different systems so that the change impacts are minimal to organization and customers.

**Initial planning & analysis** – There was not enough research or ground work done prior to the implementation. There was no risk analysis done. They directly switched to new systems without any back up. If they had retained the legacy systems as back up then they could have managed the disaster to some extent. Even the planed timelines were unrealistic for a system of this magnitude and clearly shows lack of planning & analysis.

**Lack of customer focus –** The whole system was to provide better customer experience and Hershey was busier implementing the system. However, they did not talk to the department heads on how the new system implementation could impact current production related deliveries to Hershey’s customers. This knowledge would have enabled Hershey for a plan B for business continuity with manageable disruptions when they faced issues with new system implementation (Plan A).

**Inadequate Training & Testing** – There was not enough time for training & testing the new ERP system for the set unrealistic timelines. Also, the new changes in business process and new learning’s of three new systems were overwhelming for the employees as the season was a pick season and all employees were overloaded. The situation could have been avoided with better training to employees to reduce gaps and with enough testing before going live. A lean business season would have been sufficient to stabilize the system.

**Lack of top management insight** – Top management did not understand the project scope clearly. They did not even have proper process in place to monitor & steer the progress of such huge project. Hershey also did not have a CIO or IT expertise with experience of similar implementations. Therefore, Hershey could have looked for expert opinions or a CIO experienced in similar implementations before planning or implementing an ERP system of this magnitude.

# Recommendations

**Please refer Exhibit 2.**

**Timing –** Pay close attention to time the launch of the project as this is the final output which is visible to world and directly impacts customer credibility, market share etc.   
Hershey clearly failed to analyze their historical data to not to plan the huge ERP implementation during pick season time. Hershey usually will have lot of orders to fulfill during this time but they still went ahead with the implementation which was an additional load for the employees as well. So, this shows that it is not only the project schedule but also the project launch time which plays a crucial role.

**Schedule** - Project schedule was very aggressive given the size of the implementation which involved three systems to be integrated and usually ERP implementation alone comes with its glitches. So, appropriate project leadership, expert opinion etc. are recommended to derive a realistic project schedule. Hershey squeezed the 4 year realistic plan to unrealistic 30 month schedule.

**Training** – For any system of this magnitude, training needs to be planned upfront. This implementation involved three major segments of business i.e. majority of the touch points, interfaces etc. around the current business process was changing. So, continuous training is recommended but in this case there was not enough time left for training. Training is necessary to set the changes appropriately internally before it can have positive impact externally.

**‘Big Bang’ effect** – Hershey chose to go live with ‘Big Bang’ approach to fulfill seasonal orders. This involved three major systems and one of them is ERP. Big Bang approach completely pulls the plugs for legacy systems to make way to the new systems. So, when Hershey realized that there are problems with new systems then they did not had the choice to revert back to old systems as well. Therefore, it is recommended to keep the legacy systems open when there are high risks involved (pick season time in this case) instead of a Big Bang approach. Also, three different systems could have been rolled out incrementally instead of single shot implementation.

**Top management role** – Top/Senior management should scope the ERP project properly and they should have necessary expertise from IT field to assess and steer the project to right direction. Also, it is imperative to have proper process defined to report the project progress to top management and they understand the complete project scope and extend all the support.

**Team coordination** – Very good team coordination is recommended for big implementation like Hershey. All the teams involved should sync up regularly and update each other to avoid team coordination issues. Hershey did not have proper team coordination between team implementing ERP and the operation team. This gap in team coordination resulted in the unreported warehouses which caused havoc for Hershey when the new ERP system went live.

# Action and Implementation Plan

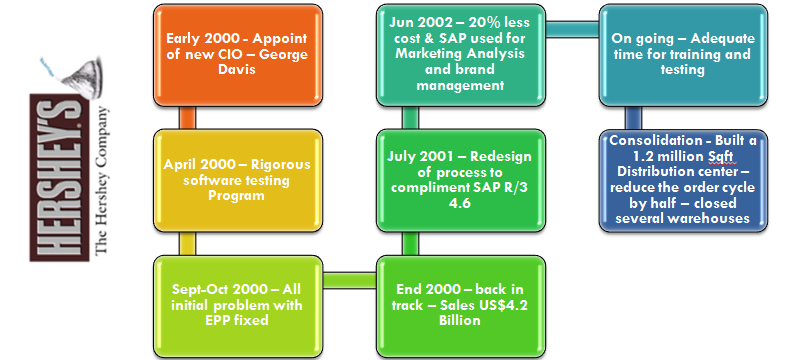
1. Appoint CIO or appropriate IT leadership to give right direction to project of this magnitude. Also, establish knowledge in the area of ERP implementation. Seek expert opinion to formulate a concrete realistic plan.
2. Align business processes properly to suite few areas of ERP best practices.
3. Test the system thoroughly to avoid live production issues for order fulfillment. Test network & IT infrastructures as well so that it can cope with the traffic inflow when the system goes Live. Possibly plan to do a dry run of the ERP system simulating the actual environment before going live.
4. Train all employees on the changed business process and on the new system interfaces or touch points for day to day business operations.
5. Establish strong program management and put processes in place to report project progress to top management level and ensure they understand the scope & project direction.
6. Keep the mode of continuous improvement, testing & training for the system implemented.
7. Reduce operational redundancies to consolidate the business & align business processes better to suite the ERP system.

# Exhibits

## Exhibit 1

## Exhibit 2

## Exhibit 3



## Exhibit 4

