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## **Experiment 10**

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**Case Study Title:** FoxMeyer Case - A Failure of Large ERP Implementation

**Aim:** To choose a case study and analyse the project success or failure

**About FoxMeyer:**

- **Business:** FoxMeyer was the fifth largest drug wholesaler in the United States (1995) with annual sales of about 5 billion US\$ and daily shipments of over 500,000 items. The business of the company was principally in healthcare services, which included the followings:
  - Distribute a full line of pharmaceutical products and health and beauty aids to chain stores, independent drug stores, hospitals, and other health care facilities. In other words, FoxMeyer's customers were retailers and dispensers.
  - Provide managed care and information-based services to health care facilities, pharmacies and physicians.
  - Conduct business in franchising variety stores and the franchising and operation of crafts stores, and wholesale distribution of products to those stores.
- **Distribution:** The company had 25 distribution centers located throughout the USA. It conducted business mainly through two operating units: FoxMeyer Corp. and Ben

Franklin Retail Stores, Inc. The latter was engaged in franchising and wholesaling to the franchised stores; while the former was engaged in the distribution to the individual units and chain stores and in the provision of managed care and information-based services.

- According to Christopher Cole, chief operating officer at Pinnacle, the FoxMeyer mess was "not a failure of automation. It was not a failure of commercial software. It was a management failure". Perhaps management had unrealistic expectations. FoxMeyer was driven to bankruptcy in 1996, and the trustee of FoxMeyer announced in 1998 that he is suing SAP, the ERP vendor, as well as Andersen Consulting, its SAP integrator, for \$500 million each.

### **Project Details:**

With the goal of using technology to increase efficiency, the Delta III project began in 1993. FoxMeyer conducted market research and product evaluation and purchased SAP R/3 in December of that year. FoxMeyer also purchased warehouse-automation from a vendor called Pinnacle, and chose Andersen Consulting to integrate and implement the two systems. Implementation of the Delta III project took place during 1994 and 1995.

### **Project Risks:**

- **Customer Mandate-** A definite morale problem among the warehouse employees. This was not surprising, since the project's Pinnacle warehouse automation integrated with SAP R/3 threatened their jobs of FoxMeyer employees. This distrust grew so large that disgruntled workers damaged inventory, and orders were not filled, and mistakes occurred as the new system struggled with the volume of transactions. \$34 million worth of inventory were lost.
- **Risky Scope** - FoxMeyer was an early adopter of SAP R/3. After the project began, FoxMeyer signed a large contract to supply the University Health System Consortium (UHC). This event exacerbated the need for an unprecedented volume of R/3 transactions. Although, prior to the contract, testing seemed to indicate that R/3 on HP9000 servers would be able to cope with the volume of transactions, in 1994 R/3 could process only 10,000 customer orders per night, compared with 420,000 under FoxMeyer's original mainframe system.
- **Execution** - of the project was an issue due to the shortage of skilled and knowledgeable personnel. FoxMeyer did not have the necessary skills in-house and was relying on Andersen Consulting to implement R/3 and integrate the ERP with an automated

warehouse system from Pinnacle. Although at the height of the project there were over 50 consultants at FoxMeyer, many of them were inexperienced and turnover was high.

- **Environment** - FoxMeyer must have realized the project was in trouble, its perceived dependence on consultants and vendors prevented it from seeing how it could gain control. Since FoxMeyer was competing on price, it needed a high volume of transactions to be profitable. Yet with the UHC contract "the focus of the project dramatically changed", contributing to rising project costs (eventually over \$100 million), lowering FoxMeyer's already narrow margins and erasing the profitability.

## **Causes of Project Failure:**

The failure of the ERP can be viewed from two perspectives:

- Planning
- Implementation

Following are the detailed factors responsible for project failure:

### **1. Planning**

- a. **Poor selection of the Software** - sAP R/3 was originally designed for manufacturing companies and not for wholesalers, especially those doing large number transactions. R/3 has never been used by a distributor until that time. It lacked many requirements needed for successful wholesale distribution.
- b. **No consideration of other consultants' advice**- FoxMeyer did not listen to other consultants' advice in the early stage of the project, A Chicago-based consultant firm warned FoxMeyer that SAP would not be able to deliver what FoxMeyer needed. FoxMeyer selected SAP mainly because of its reputation.
- c. **Lack of contingency planning**- there was no contingency planning to deal with changes in the business operations. For example, a major customer, Phar- Mor Inc. that accounted for more than 15% of FoxMeyer's business, declared bankruptcy shortly after FoxMeyer's launched SAP. Much of the Phar-Mor business was gone to competitors.
- d. **No end user involvement**-The project was done using a top-down approach. No restructuring of the business process was done-sAP was not fully integrated because FoxMeyer was incapable of reengineering their business processes in order to make the software more efficient

- e. **Over-ambitious project scope-** the project team members and information system staff were unfamiliar with the R/3 hardware, systems software and application software. The project scope was enlarged with simultaneous implementation of a \$18m computerized warehouse project.
- f. **Dominance of IT specialists-** personal interest-since the project was new for the wholesaling industry, the IT specialists wanted to learn the system and secure their employment in the SAP technology business. They placed their personal interest of getting experience in SAP implementation over the company's interest in getting suitable software technology.

## 2. Implementation

- a. **Poor Management support-** initially management were supportive and committed to the project. However, once the implementation started, management was reluctant to acknowledge the system problems. Management failed to understand the complexity and risks in the process and agreed to have 90 days early implementation although the system was not fully tested. Management failed to recognize the timelines and resources required in the implementation process.
- b. **Lack of end-user cooperation-** the user requirements were not fully addressed and there was no training for end users. Employees had no chance to express their priorities and business needs. Workers especially at the warehouses were threatened by the implementation. The automated warehouse created many problems. Employee morale was low because of the layoffs. They knew their jobs were soon to be eliminated. As the end users were not fully involved, they felt they didn't have the ownership for the project and did not work closely with the IT specialists to solve problems.
- c. **Insufficient Testing-** Due to the rushed schedule, some modules testing was skipped. Besides, the system was not properly tested to identify its shortcoming in handling large amounts of orders. There was inadequate testing and insufficient time to debug the system to ensure its functionality.
- d. **Lack of end-user cooperation-** the user requirements were not fully addressed and there was no training for end users. Employees had no chance to express their priorities and business needs. Workers especially at the warehouses were threatened by the implementation. The automated warehouse created many problems. Employee morale was low because of the layoffs. They knew their jobs were soon to be eliminated. As the end users were not fully involved, they felt they didn't have the ownership for the project and did not work closely with the IT specialists to solve problems.

### 3. Other Factors

- a. **Social Factors** - It is likely that Andersen Consulting and SAP needed to externally justify the Delta project. They probably did not consider de-escalating the project since abandonment would not be good publicity. Moreover their "norms for consistency" were such that perseverance with project problems usually paid off for them.
- b. **Organizational Factors** - Both FoxMeyer's CEO and io were strong advocates of the project. However in February 1996, Thomas Anderson, FoxMeyer Health's president and CEO (and champion of the company's integration/warehouse-automation projects) was asked to resign due to delays in the new warehouse and realizing the SAP system's projected savings. A change in management is often needed for de-escalation. But it was too late for FoxMeyer.

### Impacts of ERP Failure:

Production declined. Thomas Anderson, FoxMeyer Health's president and CEO was asked to resign due to delays in the new warehouse and realizing the SAP system's projected savings. FoxMeyer was driven to bankruptcy in 1996, and the trustee of FoxMeyer announced in 1998 that he is suing SAP, the ERP vendor, as well as Andersen Consulting, its SAP integrator, for \$500 million each (Caldwell 1998, Stein 1998)

### Lessons learned and Preventions that could have been taken in the project:

#### 1. Lessons Learned: Planning

- a. **Software Selection:** Project steering committee should have a high level of technical and operational expertise in software selection process
- b. **Contingency Plan:** Develop contingency plan of how to survive in case of system failure Stipulate clearly the roll back procedures in case of deploying any new system
- c. **Stakeholders Involvement:** An ERP project should get involvement of all stakeholders, including the end users and customers .All stakeholders should understand the goals and expectations of the project and needs to be encouraged to voice-up their opinion. Impact analysis should be done to determine the nature and extent to which different units will be affected.

## 2. Lessons Learned: Implementation

- a. **Inclusion of the necessary business process reengineering-** ERP cannot be expected to improve profits without the prior accomplishment of improved supply chain planning systems, enterprise optimization systems, customer relations management, transportation and logistics management and warehouse management ERP installation is not the end process;
- b. **Thorough testing-** Develop an organized comprehensive testing plan, encourage user participation in the testing, and make sure adequate testing scenarios are conducted to the new system.
- c. **Realistic project scope-** Scope should be clearly identified with realistic time targets.
- d. **Close Monitoring of project status-** Top management and the implementation team should have a close communication with the software vendor, consulting firms and IT people, ensuring that the project progress is running on the right track, and the project goals are continuous.
- e. **Seek end user support-** Employees should be well trained in software. Identify the change agents and create a high morale to meet the new challenges.
- f. **Post implementation review-** Develop quality assurance and control programs to ensure system checks are in place. Develop business metrics to measure the project's intended benefits versus what has actually been achieved.

## Conclusion:

In this experiment, we successfully studied a major failed project FoxMeyer and presented a case study for the same. Implementations of ERP systems are struggling throughout the World. They take too long, cost too much and fail to deliver the promised benefits of competitive advantage and cost reduction. Despite high investment required to implement ERP systems, statistics show that more than 70 percent of ERP implementations, whether self-created or designed by established ERP software vendors, fail to achieve their corporate goals.