SynGenta Pharma experiences ERP troubles

Company Background

SynGenta Pharma (SGP) is one of the Top 10 drug wholesalers in the United States of America (USA), with annual sales touching 10 billion USD in 2014 with daily shipments of over 400,000 items. The company distributed pharmaceutical, health, and beauty products to retail chains, independent pharmacies, hospitals, and other healthcare facilities.

The company has more than 20 distribution centers located throughout the USA. SynGenta Phara operated on a cost-efficient business model that ensured efficient inventory management, focusing on ensuring quality. They also complimented the medical distribution business with marketing campaigns, acquired new customers, and boosted sales. As a business, they also strived to maintain local responsiveness and have national coverage across the USA.

Pharmaceutical Distribution Industry and Competition

The pharmaceutical distribution industry is highly dynamic and competitive in the US. With the increase in prescription medicines sold in the country, several competitors existed in the US Pharmaceutical industry. Wholesalers like SynGenta Pharma are intermediaries between drug manufacturers (such as Pfizer & Novartis) and medical retailers & dispensers. They provide fast and cost-effective means for purchasing and selling prescription drugs.

They also have sophisticated ordering systems that allow retailers (and other customers) to electronically place and confirm orders instantly. These allowed their customers to reduce their inventory-carrying costs while maintaining minimum inventory to meet their demand. However, manufacturers could also sell directly to retailers bypassing any intermediaries.

However, given the large number of drug manufacturers in the country (over 20,000), the retailers can fulfill only a small fraction of orders through manufacturer-direct relationships. Besides, manufacturer-direct relationships tend to increase the volume of purchases, and as a result, retailers end up increasing their inventory carrying costs on such orders.

Customers of SynGenta Pharma

The majority of Sygenta Pharma’s customers consist of independent pharmacies that consist of Mom and Pop stores that account for around 60 percent of the orders placed with them. Collectively these independent pharmacies are registered under the Pharmacy Association of the US and demand significant buying power. They can negotiate contracts with wholesalers such as SynGenta Pharma to reduce their selling price to maintain sales volume.

The second customer segment comprises hospitals, clinics, and nursing homes that have formed an Integrated Healthcare Network (IHN). With some of these customers having revenues over USD 1 Bn, they, too, have significant buying power. These account for around 30 percent of the orders placed with them.

The third customer segment consists of medical and drug retail chains that rely on wholesalers to deliver a certain percentage of their drugs despite maintaining direct contact with drug manufacturers. Hence, these retail chains are also competitors who have contracts with drug manufacturers agreeing to sell drugs directly to these large retail chains.

ERP Implementation and Software Selection Decision

Due to the intense competition, SGP was in great need of a solution that would aid in managing their complex supply chain decisions and also meet the increased cost pressure. Based on several industry reports and studies conducted within the organization, SGP was convinced that an ERP system along with a SCM solution would perfectly solve their business problems by providing real-time information that would seamlessly automate and integrate their supply chain systems. The company hired a consulting firm, BizTech Consulting Inc (BTC), to manage its ERP implementation. BTC recommended ERP Product – ‘ERProc’, a leading ERP solution across the US.

‘ERProc’ came with an integrated package of over 50 modules across Accounting, Sales and Distribution, Finance, Purchase, and HR. The software was not known within the pharma industry but was a reputed brand that had been successfully implemented in other industries, such as Automotive and Engineering. The ERP is known to help companies link their business processes, so the whole enterprise can run smoothly.

The company, BizTech, was a large and diversified IT consulting company that provided consulting in enterprise business software to many large organizations across the US. It had a headcount of over 10,000 IT consultants that would help clients improve their business results by implementing IT solutions such as ERProc. However, there were consultants from other companies that were not entirely convinced with the capabilities of ERProc, especially in the pharma industry. But the company went ahead with ERProc based on the ERP product and vendor’s reputation alone.

Implementation of ERProc at SynGenta Pharma

The implementation of ERPProc was a multi-million dollar project that covered the entire supply chain – warehouses, inventory control, customer service, marketing, and logistics. The implementation cost for ERProc was budgeted at USD 70 mn that included the following:

i. ERP Proc License Cost: USD 5 mn
ii. IT Infrastructure (servers, storage, networking & end-user laptops): USD 5 mn
iii. New state-of-the-art computerized warehouses that were equipped with robots for automated order fulfillment: USD 20 mn
iv. SGP Consulting Fees: USD 40 mn

This was one of the first implementations of ERProc in the Pharma industry, and it was expected that the company would save USD 40 mn annually. In May 2016, SynGenta Pharma signed a large distribution contract that required it to add four warehouses. The consultant, BTC, and ERPProc scheduled the implementation at these warehouses in January and February 2017. Till then, they planned to implement the ERP at the existing ten warehouses.

The company also signed a 3-year USD 3 bn contract with a new customer on the assumption that the projected USD 40mn benefits. As a result, they prioritised meeting that customer’s needs more than making the ERProc implementation a success. The original delivery of ERPRoc was planned for early 2017, but the company preponed it by three months to match the new customer’s requirements. As a result, the much-needed business process reengineering was compromised to meet the revised timelines.

However, in Nov 2016, ERProc informed SynGenta that their ERP could only be implemented at the new warehouses, and the older warehouses had a volume of invoices larger than the system could handle. On average, the new warehouses could handle 13,000 transactions per day, while the legacy system could handle close to 2 lakh transactions per day.

This change resulted in new orders being created at the new facilities but with data errors due to inaccurate customer sale histories. This restricted the benefits from forecasting inventory needs and resulted in SynGenta spending an additional USD 15 mn in correcting the errors in the orders during the first eight weeks after opening the new warehouse. As a result, only half of the projected savings could be achieved, with several of the problems not fully correctable forcing the project to exceed the planned budget to over 100 mn USD.

The project was done using a top-down approach, with the bulk of planning done by the company's upper management,

along with the BTC consultants and a few technical people. Only a few end users participated in the analysis and design process resulting in communication gaps between the users and the system planners. Initially, the management was supportive of the project. But once the problems started to creep in, the management was reluctant to acknowledge the system issues or the complexity and risks involved in the project. They underestimated the importance of the timelines set for the project and the resources required to realize the project objectives.

After taking a USD 20 mn charge for covering uncollectable shipping and inventory costs, the company was suddenly facing a heavy debt burden making its financial viability a concern to its shareholders. Eventually, the company was acquired by its competitor 'Dunmore Pharma' for only 70 mn USD in 2018. The company separately filed cases against ERProc and BTC, accusing ERProc of fraud, negligence, and breach of contract for persuading them to invest in a system doomed to fail. BTC was charged with negligence and breach of contract for failing to properly manage the implementation. Both defendants denied the allegations, blaming SGP for mismanagement. The cases were still in court at the time this case was written (Aug 2020).