The Greatest Supply Chain Disasters of All Time 2009

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Introduction

Many of us rightly take pride in the growing recognition role of supply chain both within companies and in the public markets. An increasing number of companies cite supply chain initiatives and prowess in annual reports and meetings with financial analysts.

But of course the opposite effect must then also occur – supply chain snafus are increasingly cited by CEOs and CFOs to explain poor financial performance.

Which got us thinking, what have been the greatest supply chain disasters we've seen in the 25 years or so since that term started being used? SCDigest created its first top Supply Chain Disaster list in 2006, based on substantial research on identifying these punishing disruptions.

Now, we update the list in 2009 and include a few more recent disasters, as well as adding one "oldy but goody" that we missed the first time around (the Covisint debacle for the Big Three auto OEMs).

First, some caveats: we focused only on "man made" strategy, technology and process-related disasters, and so excluded such things as Mother Nature and factories burning down, even though these often evidence holes in supply chain strategy and risk reduction plans. Second, we looked primarily for examples that had a significant impact on the company in terms of finances, stock price, brand equity, etc. Third, it's a subjective list, and we probably missed a few "good" candidates.

The list is meant to provide lessons for us all, and not to embarrass specific companies. We hope all take it in that spirit.

Below you will find a summary table of our "Top 16," (weird number, yes, but that's what made the cut) in order from worst to not quite as worse, as well as more detailed stories on the nature and impact of each disaster.

What is interesting to note is that of late, technology related disasters have ebbed substantially, replaced more often by process-related problems.

1. Foxmeyer's Goes "Lights Out" - Literally

In 1996, Foxmeyer was the second largest wholesale drug distributor in the U.S., with sales over $5 billion dollars in a highly competitive industry.

The disaster started with an ambitious project to revamp both its IT systems and its distribution facilities. This involved a new ERP system, and a highly automated DC in Ohio that relied on huge number of carousels for order picking and conveyors for product movement.

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The company was estimating huge efficiency gains from the new systems – so much so that it started to bid future contracts based on the expected cost reductions.

Not a smart move, it turns out.

First, this was perhaps SAP's first foray into the world of high volume distribution. The system was unable to handle the volumes of orders. "We ran some simulations," said one company exec, "but not with the level of data we have in an operating environment."

Foxmeyer, for a myriad of reasons, ignored many warning signs. Said one consultant on the project, "Every time we showed them something that didn't work, they'd say 'Is it a deal breaker?' Well, no one thing was a deal breaker. But if you put enough cinder blocks in a rowboat, it's going to sink."

*Lights out warehousing?
Try "lights out" Foxmeyer.*

But the order processing system wasn't the only issue. The DC automation system also was a disaster. At the time, it was one of the most highly automated facilities in the U.S.

Nothing much worked right. The automation controls had constant bugs, and Foxmeyer had to deploy hundreds of workers to work around the issues. "The underlying software would fail in the middle of the process, so we'd have to stop and restart in the middle of intense picking hours," said one logistics executive.

The whole thing snowballed between the combined system issues. An order would be partially shipped due to DC problems. The customer would receive a partial order, and call to complain. Unable to see the rest of the order had shipped on a later truck, the customer service rep would authorize a replacement shipment for product already on its way to the customer. Tens of millions of dollars in unrecoverable shipping errors ensued. Add to that cost savings that weren't ever likely to materialize at the level Foxmeyer had assumed in bidding some large new contracts, and it spelled total disaster.

Lights out warehousing? Try "lights out" for Foxmeyer.

After filing for bankruptcy, the main operating division of the $5 billion company was sold to its larger rival, McKesson, for only $80 million. Last we knew, there were still outstanding lawsuits working their way through the process between Foxmeyer and several technology and consulting companies.

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Top Supply Chain Disasters

Rank	Company	Year(s)	Issue/Problems	Impact/Result
1	Foxmeyer Drug	1996	New order management and distribution systems don't work, and fulfillment cost targets built into contracts are unattainable	Huge sales losses; Foxmeyer files for bankruptcy, and is eventually bought by McKesson
2	Boeing	2007/08	New outsourced supply chain can't deliver components for new Dreamliner 787 aircraft	Two-year delay in product launch, more than $2 billion in charges to support/expedite component supplies
3	GM	1980s	CEO Robert Smith invests billions in robot technology that mostly doesn't work	Smith fired; Low tech Toyota uses lean manufacturing to gain strong competitive advantage as GM's market share heads south
4	WebVan	2001	On-line grocer has many problems, including massive investment in automated warehouses that drain capital and aren't justified by demand	Company goes from billions in market cap to bankrupt in a matter of months
5	Adidas	1996	New warehouse system – actually, first one then another – and DC automation just don't work	Company under-ships by 80% in January; incurs market share losses that persist for years
6	Denver Airport baggage handling system	1995	Complex, hugely expensive automated handling system never really works	Airport opens late; huge PR fiasco; system is only minimally used from start and shuttered totally in 2005
7	Mattel	2007	Infamous recall of tens of millions of toys made in China becomes poster child for concerns about quality of offshore goods	Costs for the recall were huge, but damage to brand perhaps even more; starts big stock price slide that lingers for long time
8	Toys R Us.com	1999	Can't fulfill thousands of orders for which it promises delivery by Christmas	Famous "we're sorry" emails 2 days before Christmas cause fire storm of negative PR; eventually outsources fulfillment to Amazon.com
9	Hershey Foods	1999	Order management and warehouse implementation issues cause Hershey to miss critical Halloween shipments	Company says at least $150 million in revenue lost; profit drops 19%, and stock goes from 57 to 38
10	Cisco	2001	Lacking adequate demand and inventory visibility, Cisco is caught with piles of product as demand slows	Company takes $2.2 billion inventory write-down; stock drops 50% and has stayed near that level since
11	Nike	2001	Trouble with new planning system causes inventory and orders woes	Nike blames software related issues for $100 million dollar revenue shortfall for the quarter; stock drops 20%

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Rank	Company	Year(s)	Issue/Problems	Impact/Result
12	Wal-Mart	2003-09	Grandiose RFID strategy never really gets untracked six years after initial plans announced	Wal-Mart can't possibly have seen payback from its investment in time and technology; vendors also see little from their efforts, and technology vendors spend a bunch with almost no return either
13	Aris Isotoner	1994	Division of Sara Lee makes disastrous decision to move production from Manila to even lower cost countries; cost rise instead as quality plummets	Sales are cut by 50%; company goes from strong profit to big losses; Sara Lee soon sells Isotoner unit to Totes
14	Ford, GM, Chrysler	2000-2004	Plans for mega trading exchange Covisint, along with a parallel e-procurement effort by Ford, eventually blow up	Big 3 lose $250 million plus in investment; Ford wastes another $200 million on its failed Everest e-procurement system that strangely is not connect to the Covisint platform it helped create
15	Loblaws	2005	Canada's largest grocer has problems with executing logistics network redesign program	Company blames supply chain snafus on two consecutive poor financial quarters; stock price takes big hit, and has never recovered.
16	Apple	1995	Playing a conservative inventory strategy, Apple is swamped with demand for new Power Macs and can't deliver the goods	Apple takes PR black eye and loses PC market share, which it never really recovers
Source: Supply Chain Digest				

2. Boeing Outsources its Way to Delays and Big Hits to Bottom Line

Aircraft giant Boeing wanted to transform the way it designed and built airplanes for its critical new Dreamliner 787 aircraft.

For the 787, which has attracted high interest from airline customers due to the significant improvements it offers in fuel use and maintenance costs, Boeing decided to move sharply away from the integrated design and manufacturing strategy it traditionally employed for new aircraft.

Suppliers from around the globe were used not only to make the majority of components, but also to take the lead role in the design and engineering of those parts and sub-assemblies. The final assembly process would also make a dramatic shift; at Boeing's massive Seattle production facilities, workers would primarily just assemble huge finished sections from tier one suppliers, complete with wiring and other technology Boeing had always before handled in house.

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The expected benefits: a reduction in the expected cycle time for design to first shipment from six years in the past to just four years for the 787; and an expected reduction in assembly time in Seattle from about 30 days to just three. The cost savings were estimated in the billions of dollars over the life of the aircraft, as well as speeding time to market.

Unfortunately, it didn't quite work out that way.

For Want of a Bolt

Problems in the schedule were first acknowledged early in 2007, when delays in the supply of a variety of bolts, usually called fasteners in the industry, were cited by a variety of company sources and then finally CEO **Jim McNerney** as causing schedule problems.

When Boeing unveiled the new 787 in a roll-out ceremony in July of that year, the plane was assembled with 1000 temporary fasteners that ultimately had to be replaced with production grade product. But it didn't stop there.

In many cases, the primary suppliers were themselves outsourcing pieces of the design or manufacturing to other companies – with the same second tier firm sometimes taking business from multiple first tier suppliers.

The result: a lack of visibility by Boeing into what was really happening in its supply chain and, in some cases, supplier's taking on more work than they could fulfill.

"In addition to oversight, you need insight into what's actually going on in those factories," **Scott Carson**, president of Boeing's Commercial Airplanes unit, said at the time. "Had we had adequate insight, we could have helped our suppliers understand the challenges."

Some suppliers had to build huge new factory spaces to manage the volumes, the size of the sub-assemblies, or new manufacturing processes, such as oven-treating, that Boeing used to do in the past. All these changes also contributed to challenges in meeting supply schedules. In some cases, the suppliers say Boeing itself was months late with specifications.

With billions of dollars on order for the new plane, the supply chain challenges caused Boeing to announce at least five major delays to the aircraft launch. Although ultimately other factors, such as a machinists' strike, were also involved, the current plan for first customer deliveries of the plane in Q1 2010 are at least two years behind the initial schedule.

Not only were billions in sales dollars delayed, but some of that revenue surely permanently lost as the collapse in the world economy caused orders to be cancelled or not placed that could have been captured if the aircraft had been delivered on time.

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That, plus the at least $2 billion that Boeing took as a charge to help suppliers get components completed and the firing of several executives associated with the problems made this our number 2 supply chain disaster, and perhaps actually the largest absolute financial supply chain disaster of all time.

3. GM's Robot Mania

General Motor's CEO in the 1980s was Roger Smith, of "Roger and Me" fame, the documentary that really launched the career of liberal filmmaker Michael Moore.

Smith was fascinated with technology. Among other projects, such as the purchase of IT firm EDS, Smith embarked on a very aggressive effort to implement robots in GM factories.

As one GM finance executive later noted, at the time the company could have bought both Toyota and Nissan for the money invested in the failed robot technology

When Smith was appointed, GM had approximately 300 robots of one kind or another. He soon created a joint venture with Japan's robot designer Fujitsu-Fanuc, and said he planned to deploy 14,000 new robots in GM plants by 1990.

Bad move.

Costing billions of dollars, the robots never really worked. As one observer wrote, "The robots accidentally painted themselves and dropped windshields on to front seats."

A "show place" factory in Hamtranck, MI turned out to be more like a "basket case." Introduction of the robots lowered productivity. A nearby Mazda plant produced just as many vehicles, with 1,500 fewer employees.

The entire project was later largely scrapped, as GM's costs rose and market share shrunk. Meanwhile, Toyota delivered low cost, high quality vehicles using comparatively low tech "lean production" techniques.

As one GM finance executive later noted, at the time the company could have bought both Toyota and Nissan for the money invested in the failed robot technology, a point especially painful given GM's troubles and Toyota and Nissan's relative success today.

4. WebVan Automates itself to Oblivion

Though the spectacular rise and fall of on-line grocer WebVan was hardly only a supply chain story, its decision to invest huge sums in highly automated warehouses

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was certainly a strong contributor to that fall, and today seems almost ludicrous in its concept.

WebVan was among several major on-line grocery initiatives launched during the late 1990s. Backed initially by prominent financial outfits like Goldman Sachs, hiring a high profile CEO from Accenture, and then later going public and raising billions of dollars, WebVan went on a building spree, erecting hugely automated warehouses that cost $25-30 million each.

"We made the assumption that capital was endless and demand was endless."

Saying that this was overkill is putting it mildly. As one analyst commented, "They opted to automate the entire business, and that dug a very big whole."

In an industry that typically has net margins in the very low single digits, WebVan bet the farm that it could drive out logistics costs enough to make a solid profit. Unfortunately, if the strategy could be successful at all, it had to depend on huge volumes to drive high levels of system utilization, which never came close to materializing. "Using a hammer to kill a flea" is a reasonable aphorism.

After original CEO George Shaheen left as the business was collapsing, the new CEO stated, "We made the assumption that capital was endless and demand was endless."

Wrong on both counts.

Within less than a year, WebVan saw its market cap shrink from billions to almost nothing, and the company shut its doors completely in 2001.

Would survival have been possible with less spending on the automated warehouses? Hard to say, but building them certainly made survival impossible.

5. adidas' 1996 Warehouse Meltdown

Starting in 1993, athletic shoe and gear maker adidas tried to implement first one and then a second warehouse management system in its Spartanburg, SC, distribution center.

The troubles were caused in part by adidas insisting the vendor's Unix-based system be ported to fault tolerant Stratus computers. They couldn't make it work, and eventually the company (Integrated Software Logistics Engineering) went belly-up in mid-project.

Another WMS vendor, perhaps unwisely, then tried to implement their system.

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The DC also featured heavy automation, requiring extensive logic and integration in the WMS. Perhaps frustrated by the long project delays, adidas then went live before the system was really ready.

The system just didn't work, and adidas was unable to process and ship orders. Estimates were that in January, 1996, the company in total was only able to fill 20% of its $50 million in North American orders, and much of that came from overseas plants shipping direct. It took many months to get the system up to full speed.

Though not well known, adidas' nightmare made the front cover of Information Week magazine, under the simple title of "Meltdown."

As a result, adidas suffered major market share losses that persisted for a long while, while IT and logistics staff left the company in droves.

As a cautionary note to the media, Modern Materials Handling magazine had named the Spartanburg DC its "Warehouse of the Month" in late 1995 – before the facility even went live.

6. Denver Airport can't Manage the Luggage

In 1995, the Denver International Airport finally opened, after several delays and enormous PR problems for the airport and United Airlines around a hugely automated baggage handling system that just never really worked as planned.

The automated system was an underground, computer-driven railroad network for moving baggage. But bags were mis-delivered, luggage was chewed up and cars derailed and jammed tracks.

Early in the new airport planning stage, United Airlines insisted on an automated high-speed baggage system. This was driven in part by the significant distances at DIA from the concourses to the main terminal, which United and others felt were too great for traditional approaches to baggage handling and would delay their ability to turn around aircraft quickly.

There were numerous problems. The underground tunnels to be used for the conveyance system had already been built before the prime contractor, BAE Systems, was awarded the contract, and were not designed with this level of automation in mind. Miscommunication between BAE, airport officials, the airlines and others led to numerous problems, especially an inability to see inter-related problems and the impact of change on the total system. There wasn't much time to test the system, and little redundancy was built in. And even though ultimately the system became partly operational, its continued complexity, mishandling of bags,

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and operational costs in the end led United to return to traditional handling methods. It is arguably the greatest material handling fiasco of all time.

7. Mattel's China Syndrome

Not completely fairly, toy icon Mattel became the poster child for concerns over the quality of products manufactured in China and the benefits of offshore production with its massive and highly public recalls in two waves of tens of millions of toys in the summer/fall of 2007.

The story seemed to linger in the press for months.

The press primarily focused on the supposed quality issues with Chinese manufacturing, especially with regard to use of lead-based paints on some toys. The controversy eventually spread to some other toy manufacturers as well, but Mattel took the PR beating almost alone. This led to calls in Washington for creating a position of "import safety czar" and other federal responses to the "crisis." Toy retailers such as Disney announced steps to inspect incoming goods at a much higher level than they had done previously.

In the end, it's not clear how much of the issues were related to sloppy manufacturing processes by Chinese suppliers versus flawed product design (at one point, Mattel actually offered an apology to China for having caused much of the problem).
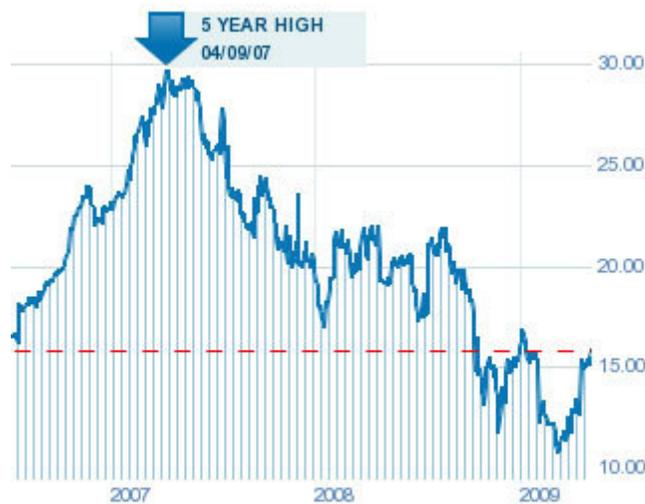
Mattel's Stock Peaked before the Toy Recalls and Never Recovered

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Regardless, the damage had been done, even though many have actually praised Mattel for its handling of the crisis once it began from a transparency and communications perspective.

However, the recall clearly cost Mattel tens of millions of actual profit dollars and delivered a severe hit to its brand image. Its stock price dropped from about $27.00 per share before the crisis to $17.00 by the end of 2007, and has not come close to the July, 2007 high before the crisis ever since.

Looking for a "silver lining," the Mattel China Syndrome showed to the world that offshoring entailed greater risks than many realized at the time, and that companies couldn't abdicate QA to offshore suppliers and needed to have feet on the ground in China to ensure standards were being met before products left the factory.

8. Toys R Us.com "Can't Deliver" Christmas of 1999

It's 1999, and on-line retailing is finally starting to heat up. The on-line division of the leading toy retailer, Toys R Us, advertises heavily, and promises it will make Christmas deliveries for any orders placed by Dec. 10.

Toys R Us.com is swamped with tens of thousands of orders. Though the inventory is mostly in place, the company simply cannot pick, pack and ship the orders fast enough – though it was close.

"We'd have been OK if Christmas was on Dec. 26," one company executive says.

Some employees work 49 straight days

Just a couple of days before Christmas, the company sends out thousands of now infamous "We're sorry," emails, telling those customers their orders will not arrive in time for Christmas. The media has a field day, and customers are irate.

Toys R Us.com's Christmas 1999 failure led hundreds of other companies to add e-fulfillment capabilities the following year.

"How do I explain to my four-year-old that his present will be coming a week late?" is typical of more gentle complaints in the avalanche of mail and calls the company receives. "I've never been exposed to fouler language," says then vice president Joel Anderson.

The Toys R Us brand generally takes a big hit, even though other e-tailers have some similar problems. In fact, the Christmas of 1999 causes hundreds of companies to analyze their e-fulfillment capabilities in more detail the following year, and put in capabilities that significantly reduce the issues in 2000 and beyond. The Toys R Us.com failure really was a wake up call to the rest of the industry.

Toys R Us.com later outsources its fulfillment to Amazon.com.

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9. Hershey's Halloween Nightmare 1999

Like most candy manufacturers, industry giant Hershey Foods typically has a significant percentage of sales related to Halloween.

For a long while after the disaster, Hershey supply chain executives were regularly presenting to Wall Street analysts.

In 1998-99, Hershey spent more than $100 million on a new order management, supply chain planning, and CRM system to transform the company's IT infrastructure and supply chain. When disaster hits, the company is later criticized for a "big bang" approach to implementation, trying to go live with all these systems in parallel.

Expected to go live in April, 1999, the schedule slips, and rather than wait until the following year, Hershey switches over in the summer. The system has major issues. In many cases, Hershey has product on the dock, but can't get transactions to work that will enable it to put the candy in a truck and ship it to customers. Inventory is not visible to the order management system for allocation – so the orders won't process.

The company ultimately says at least $150 million in orders were missed. Quarterly profit drops 19% in the 3rd quarter, and it takes another hit in the 4th quarter. The fiasco makes headlines across the business press. The stock drops from 57 in August, 1999 to 38 by January, 2000, though it recovers strongly in subsequent years.

For a couple of years afterwards, Hershey supply chain and logistics executives are trotted regularly to Wall Street analysts to assure them the delivery glitches are completely gone. The company also changes the way it has systems talk to each other, using EDI messaging internally through a central hub for integration between applications.

10. Cisco's 2001 Inventory Disaster

Cisco rode the technology wave of the 1990s to incredible growth, profits, stock valuation, and prominence for itself and CEO John Chambers as global business giants.

As the tech bubble burst, however, Cisco was slow to see the slowing demand, and had inventory system and visibility issues that left it caught unprepared when its market tanked. As a result, it had way more routers, switches and other gear than it needed.

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How much more? In May, 2001, the company announced it was taking a $2.25 billion (that's with a 'b') inventory write down, probably the largest in history.

"The networking industry, having no experience with a downturn and never having to deal with double or triple ordering, responded to high order patterns with higher build rates and substantial inventory accumulation to facilitate the projected shipping rates," said one analyst.

In one fell swoop, the "Cisco bubble" also burst, with the company being wildly pilloried in the business press, and the stock price being cut in half and never regained its former levels.

11.   Nike's 2001 Planning System Perplexity

In February, 2001, athletic gear maker Nike went live with a new – and complex – supply chain planning system. A myriad of issues, including software bugs and integration problems, complexity and change for planners, lack of training, etc., lead to major challenges forecasting demand and deploying inventory.

At a quarterly conference call, the company publicly cites "software problems" for causing a $100 million revenue shortfall. CEO Phil Knight said the supply problems had created significant inventory shortages and excesses. In certain cases, Nike would have to slash prices to get rid of the additional inventory, putting pressure on margins and profits. Wall Street reacts strongly, quickly knocking 20% off the company's stock price.

The Nike saga is another one blamed on a "big bang" approach to deployment, rather than a more phased implementation. The software provider says Nike didn't implement the software the way it recommended.

12.   Wal-Mart's Endless RFID Saga

This is likely to be our most controversial selection, for two reasons. First, many maintain that basically Wal-Mart has continued to move forward with its RFID program and that it has not been a disaster. Second, others argue that all told Wal-Mart's RFID strategy helped to move the RFID industry along well beyond what would have happened otherwise.

The first point is highly debatable. The second point is probably true – but at what cost?

Wal-Mart first announced its intentions to have suppliers tag cases and pallets being shipped to its stores in June, 2003. That and subsequent news had the entire industry buzzing for two years, as technology vendors spent substantial sums on

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marketing and technology development to capture the "Wal-Mart gold rush" of thousands of suppliers needing to ramp up to massive tagging efforts. Consumer goods companies, on the other hand, ranged from being publicly supportive but wary and concerned behind the scenes due to the costs involved to those who mostly sat on their hands and hoped the whole thing would just go away.

Many years later, it is inconceivable Wal-Mart could have achieved any return from its investment in time and equipment for RFID to this point.

"We have asked our 100 top suppliers to have product on pallets employing RFID chips and in cases with RFID chips. By 2006, we will roll it out with all suppliers," Wal-Mart spokesman **Tom Williams** said in August of 2003."

Not quite.

Though a few waves of several hundred suppliers did limited tagging of products going to a few distribution centers in Texas, no critical mass ever materialized. Wal-Mart's story of how its suppliers would benefit changed several times in the first few years. A solid feel to the whole program never developed, despite the PR efforts. Consumer goods executives were saying that they didn't mind piloting the technology, but that the substantial costs for a full blown effort would have to be passed on somehow.

Wal-Mart itself seemed to lose focus in 2006 as it moved on to other initiatives, as the company started seeing dramatically slower sales growth (though to its credit it has rebounded on that front of late).

In October, 2007, Wal-Mart announces a major change to its RFID strategy, which largely took the focus away from tagging cases going to Wal-Mart stores. Major consumer goods companies have told SCDigest that Wal-Mart no longer cares if they tag product or not. As a result, technology vendors have almost totally abandoned Wal-Mart focused strategies, with some quickly latching on to "closed loop" solutions in other sectors to stay afloat.

The many people who took manager or director positions with "RFID" titles at consumer goods manufacturers, which once looked like a great role to have, now try to find a spot back in IT or operations where they used to be, their services no longer needed for RFID at present. Companies like Procter & Gamble cut way back on their RFID teams, and in February 2009, P&G ended what it says was a "successful" pilot with Wal-Mart for improving in-store execution of promotional displays, implying Wal-Mart simply wasn't using the data to get displays to the floor on-time.

In the end, this rates as a top supply chain disaster because:

- Many years later, it is inconceivable Wal-Mart could have achieved any return from its investment in time and equipment for RFID to this point.

- Hundreds of suppliers also spent much time and cost in tagging cases and planning for the future, a future that turned out to be much later than they were expecting early in the program.

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- Though there are no guarantees, of course, technology companies and their backers invested literally hundreds of millions of dollars in technology and marketing for the Wal-Mart initiative and the large wave of other retailers generally expected to come along for the ride once Wal-Mart proved a success. We may not be where we are now in terms of RFID/EPC technology maturity if those investments had not happened, but the companies and investors lost a boatload of money to get us here.

13.   Aris Isotoner's Sourcing Calamity in 1994

In 1993, Aris Isotoner was a highly successful division of Sara Lee Corp. A manufacturer of gloves and slippers, it was one of the most well-known brands in the U.S., made famous in part by commercials featuring NFL quarterback Dan Marino.

It was very profitable, with sales of $220 million, 15% net profit, and high growth.

Isotoner's plant in Manila, Philippines, was a crown jewel of the business. Highly skilled labor there had been turning out 27 million pairs of gloves a year at such low cost that even factories in China couldn't compete.

Said one company executive later: "The plant in the Philippines couldn't be duplicated. So many of the people had been there 15 years; they were so skilled. It was the low-cost producer in the world."

Trying to chase even low costs, however, a new Aris Isotoner executive shutters the Manila plant and sources production to other Asian locales.

Bad choice.

Aris Isotoner shut down a "crown jewel" in its Manila plant chasing still lower costs – and got higher costs and big quality problems instead.

As it turned out, the "low-cost" suppliers Aris Isotoner chose to replace the in-house production ended up costing between 10% and 20% more. Managers found they couldn't turn around orders as quickly as before. Product quality plummeted.

Aris Isotoner's sales also plunged. Three presidents later, the glove maker's sales had fallen in half, to $110 million. By 1997 operating losses had totaled $120 million, and Sara Lee had invested over $100 million to keep the company afloat.

In late 1997, Sara Lee announces the sale of the once high flying division to Totes Inc., a unit of Bain Capital, for a bargain price.

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14. Auto OEMs Get Trading Exchange Fever

We're lumping two related efforts, the strange saga of the Covisint automotive industry trading exchange and Ford's failure in developing its own e-procurement platform.

It is hard to imagine the fever that existed for about a year in the 1999-2000 era for on-line "exchanges," through which electronic commerce would be conducted. Announcements of new such exchange products by industry groups and software vendors, often in partnership, came fast and furious. If a company wasn't seen announcing its participation in one of these exchange efforts, a company was widely viewed as an "old business" dinosaur of some sort.

It is within that environment that Detroit's "Big Three" auto OEMs (Ford, GM, Chrysler) announced in early 2000 the launch of Covisint, a new exchange through which these three fierce competitors would execute most of their procurement spend, which amounted to something like $300 billion at the time.

The announcement, made in conjunction with some technology partners, was seismic – and expectations huge. The three Detroit OEMs committed some $250 million to get the thing off the ground. Later in 2000, Renault and Nissan came on board with their own sizable investments. The OEMs were saying at the launch that they expected Covisint to go public within a couple of years based on revenues of some $3 billion coming from not very clearly defined transaction and services fees, with a market capitalization after the IPO of somewhere between $30-40 billion.

Well, let's just say that projection was a bit aggressive.

Costs and losses soared. There was a parade of CEOs, one lasting all of 31 days. Within a just a couple of years, Covisint started to lose connections with its founding OEMs.

If this were just the case of a software company having struggles this wouldn't have made our list. It was the involvement of the Big Three, who in part lost the core and commendable mission of driving supply chain efficiencies in their quest for IPO gold, which makes this story different.

There were problems from the start. First, the stock market "internet bubble'" burst within a couple of months after the initial announcement, dampening prospects generally. Second, spending to get the platform off the ground was out of control – as much as *$30 million per month* on consultants alone by 2002 when annual revenues were in the $40 million dollar range.

"It was a speed-to-market thing. Forget expenses, just go," then VP of operations **Rick Stephenson** later said.

That was in part because there were some early successes. Chrysler purchased $2.6 in parts over one four-day auction period, for example.

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But suppliers started to balk, feeling marginalized and commoditized. The OEMs found they each needed different "modules" added to the platform. Costs and losses soared. There was a parade of CEOs, one lasting all of 31 days. Within just a couple of years, Covisint started to lose connections with its founding OEMs, and started doing more "portal work" for suppliers such as Delphi. One Covisint CEO envisioned the company as services provider, not an exchange or hosted software provider. Meanwhile the losses mounted. Myriad software and business partnerships came and went. Everything was confused.

Ultimately, Covisint was sold to Compuware, and seems to be successful as a provider of electronic messaging services for a variety of industries – far from its original mission. The OEMs lost basically all of their investment, and reverted to previous or new proprietary procurement solutions.

Strangely, Ford, which was said to be the initial driver of the Covisint idea, was involved at the same time in building a new e-procurement platform to replace an existing legacy system. This effort was independent of Covisint, for reasons that are not clear, other than bringing into relief part of Covisint's challenges from the start. In 2004, after four years of development effort and more than $200 million dollars in spend, Ford killed the project and went back to its original systems.

For amazing problems in developing electronic procurement solutions, Detroit certainly merits being on the list of top supply chain disasters.

15.   Loblaws Redesigns itself into Supply Chain Problems

Loblaw Companies is Canada's largest grocer, operating under a variety of banners, including Loblaws, Dominion, and several other store groups.

In the fiercely competitive grocery industry, supply chain and especially logistics effectiveness is critical to overall store and company financial success. With that in mind, Loblaws announced its plan to redesign its supply chain in March of 2005. Plans called for the 1000+ store chain to revamp its supply chain systems and network, a strategy which called for shuttering six company-owned warehouses, moving some distribution operations to third- parties, and consolidating/standardizing its warehouse management and other back-end supply chain systems, among other changes.

It is not completely clear what the underlying cause of the execution problems that subsequently ensued, but it appears to have largely been the result of trying to do too much in too little time, and not having appropriate contingency plans. The result was a big hit to sales and profits and the company's stock price as the redesign faltered for several quarters.

In October, Loblaw announced that challenges in executing the strategy had led to a material impact on both costs and sales. The company's third quarter 2005 report noted that "the company experienced disruptions in the flow of inventory to its stores

in particular in western Canada resulting from the supply chain restructuring and from certain supply chain systems conversions undertaken as part of the creation of a national information technology platform. In addition, the new third party-operated general merchandise warehouse and distribution centre for eastern Canada has not reached planned operating efficiency or capacity as quickly as expected."

The problems impacted both operating costs and sales. Operating costs increased due to additional handling, storage and movement of inventory in light of the disruptions. Lack of inventory on the shelf was also estimated to have reduced expected sales growth in the quarter by approximately 0.8% to 1.2% when compared to 2004.

Challenges in implementing and converting warehouse management systems were a leading cause of the problems. The conversion of Loblaw's Calgary general merchandise distribution center to the new WMS was especially difficult, and resulted in store service levels falling "below normal running rates, resulting in recurring general merchandise out-of-stock positions at retail."

The company also noted that "In Ontario, the transfer of the warehouse and distribution activities of general merchandise to a new facility operated by a third party continued into the third quarter of 2005. Complexities are being experienced during the start-up phase and as a result, service levels are not meeting expectations. This has resulted in some out-of-stock positions in Ontario and a delay in the transition of volume into the third party facility from existing Company distribution centers, which, in turn, is placing additional pressure on existing Company distribution centers.

Oct. 3, 2005   Open C$70.00 High 70.10 Low 68.75 Close 69.10 Volume 1,351,670
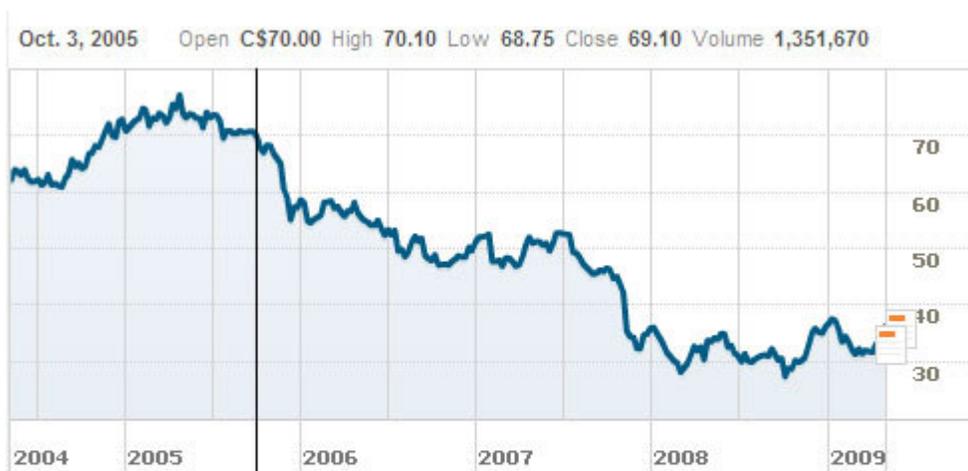
It wasn't only Supply Chain, but Loblaws'
Stock Price Decline Started at the
Same Time as Logistics Network Woes

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Additionally, issues with higher operating costs and declining store service levels were also impacted by falling productivity in the DCs scheduled for closure but still operating in 2005.

At the time of the Q3 announcement, Loblaws' stock price was at about c$66.00, and subsequently began a fall that has never abated, with the stock now at about c$35.00. While there were other issues in 2005 besides the supply chain disruption, it certainly played a key role in the start of the subsequent stock market slide.

The problems continued into Q4 of 2005, with the company issuing a profit warning in early 2006, citing the continuing drag on its results from the problems with the supply chain network redesign. 2005 net earnings were $746 million, down from $968 million in 2004.

"The reality is that the supply chain has cost the business," president John Lederer said then. "We have an appreciation for the number and it's not a small number," he said, pegging it at "tens of millions of dollars."

"When stores expect product and they don't get it, you've got to put extra labor in, you can't get the top-line growth," Lederer also said.

By Q1, 2006, the project seems to have stabilized, though the company also said at the time that the expected cost benefits would all be pushed out one year from the initial public projections.

For experiencing one of the few network redesign foul ups of its type and the impact on company financials and stock price, Loblaws makes our list.

16.   Apple Misses Power Mac Demand

Many forget that even through the mid-1990s, Apple was often the leader in market share in the then still deeply fragmented PC market. That position took a permanent hit in the last half of 1995 due to supply chain foibles.

Apple was introducing its new line of Power Mac PCs, to be launched just before the Christmas season in 1995. Just two years before, however, the company had been burned by excess inventories and production capacity during a similar launch for its Power Book laptops.

At one point, Apple had an order backlog of $1 billion.

So this time, it played things very conservatively. That turned out to be the expensive option.

When demand for Power Macs exploded, Apple was caught short for the critical Christmas season. Forecasts were too low, there wasn't enough flex in the supply chain, and some parts suppliers developed additional delivery issues. At one point, Apple has $1 billion dollars in unfilled orders in its system. Unable to capitalize on the market opportunity it had been handed, the stock price was soon cut in half, the

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CEO was shown the door, shareholder lawsuits came pouring in, and Apple's market position in PCs took a permanent hit such that it took the IPOD years later to lead a recovery in the company.

Other Candidates

SCDigest considered a handful of other supply chain disasters to include in our list. Though not making the formal "Top 11" list, some of these other events include:

- **Sony** had a tough 2006. First, there was a series of fires caused by Sony batteries used in laptops built by Dell and other PC OEMs that resulted in massive recalls, at huge costs to Sony. Then, a strategy of single sourcing blue ray lasers from a single factory backfired when quality issues significantly reduce production output. That causes Sony to push back the product's release and undersell the critical holiday season due to product shortages. Together, that year ranks as a real supply chain bummer.

- The near disaster Ford's **Land Star division** found itself in during 2001, when its sole source of chassis for a new vehicle launch was nearly bankrupt and demanded a payment of tens of millions of dollars in almost blackmail-like payments to keep production going. The issue nearly cancelled the new model's launch, and had to be resolved in the British courts. Ultimately, Land Rover purchased the supplier.

- The **Federal Emergency Management** Administration (FEMA's) poor response in getting supplies to victims of Hurricane Katrina. With all the issues to sort through, including politics, we thought it best to just leave it alone.

- **Snap-on Tools**, which had a challenged order management system implementation in 1997, which it says led to $50 million in lost sales for the first half of 1998, while operating costs soar 40% as extra workers are hired to work around the system issues. Company profits drop 22% in 1998.

- **Tri-Valley Growers**, which around 1996 spent millions on a new ERP and supply chain planning system which it never could get to work, ultimately throwing that system out and replacing it with another.

- **Norfolk Southern's** inability to successfully combine its systems with fellow rail carrier Conrail after a merger in 1999. The company suffered through months of train back-ups and delays, lost track of cars, and had major crew scheduling disruptions. The company lost at least $100 million in business, and had extra operating costs of nearly that much as well.

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