

## SAP Customer Success Story Healthcare – Pharmaceutical



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Joseph Kress, VP, Operations and Technology Plan, McKesson Corp.

### AT A GLANCE

#### Summary

McKesson Pharmaceutical, a division of McKesson Corp., a leading healthcare services company, upgraded legacy systems to provide more flexibility and a stable IT environment, primarily for sales and distribution, materials management, and business intelligence applications.

#### Web Site

[www.mckesson.com](http://www.mckesson.com)

#### Key Challenges

- Support rapid growth with adequate business software
- Develop robust, flexible business applications
- Provide a stable environment for supporting complex functions
- Provide a scalable platform

#### Project Objectives

- Improve sales and distribution, materials management, and business intelligence operations
- Provide real-time information
- Integrate business components in a process-driven system

#### Why SAP® Solution

- Ensure tight integration between inventory and financial systems
- Build on existing SAP® solutions
- Leverage more business intelligence through analytics
- Provide proven scalability

#### Implementation Highlights

5,000 users in McKesson Pharmaceutical

#### Key Benefits

- Returned significant earnings before interest and taxes (EBIT) and working capital benefits
- Drove key business initiatives
- Managed inventory more effectively
- Met requirements and expectations of new customers
- Responded more quickly to customers
- Integrated batch-mode data to enable real-time access
- Provided a solid foundation for future growth and expansion of IT infrastructure

#### Implementation Partner

SAP Consulting

#### Solutions and Services

Components of SAP R/3®, functionality now available in the mySAP™ ERP solution

#### Existing Environment

Legacy systems

#### Database

Oracle DB

#### Hardware

IBM P690

#### Operating System

AIX

## MCKESSON PHARMACEUTICAL

**A Flawless Upgrade to SAP® Solutions Was the Prescription the Country's Largest Drug Distributor Needed to Handle Its Phenomenal Growth**

When Charles Olcott and John McKesson opened the doors of their New York City drug importing business in 1833, the partners had growth in mind. By the century's end, their products were sold from Vermont to California. One hundred years later, the company is still growing – at a rate even its ambitious founders could never have foreseen.

Today, McKesson Corp.'s 24,500 employees provide drugs, medical supplies, and healthcare information technology to more than 25,000 retail pharmacies, 200,000 physicians, and 20,000 healthcare facilities. They touch the lives of 100 million patients daily. In 2004, the San Francisco-based company's revenues reached almost US\$70 billion, up 22% over 2003. Growth like that demands business applications that can keep up with the healthcare industry's demands for real-time, tightly integrated information. That's why McKesson turned to SAP for solutions that would help it operate efficiently, accurately, and profitably – all at high velocity.

McKesson Pharmaceutical – a division of McKesson Corp. and the largest drug distributor in the country – had outgrown its aging software applications. The group had previously implemented financial and accounting software from SAP but had not yet upgraded or replaced any of its transaction systems.

“Significant growth, coupled with a legacy environment that was probably 20 years old, meant we had systems that were becoming unsustainable,” says Joseph Kress, McKesson’s VP, Operations and Technology Plan (OTP). “We were growing so quickly that those systems couldn’t handle it and would eventually collapse under the strain of the additional transactional volume. The existing system was extremely old and had become unstable. It used outdated technology and lacked the flexibility that a growing company needed to manage its busy distribution centers.”

### **Faster Responsiveness**

McKesson’s systems were loosely integrated and transactions were running in batch mode. The company’s growth meant new customers with new requirements; McKesson employees needed to respond quickly to those requirements. However, the old systems were preventing employees from doing so. Any inefficiencies or inaccuracies, such as cycle count or inventory discrepancies, were addressed within a monthly or quarterly reporting period. In such a fast-moving, highly regulated environment, that speed of processing just wasn’t good enough.

### **Providing a Process Perspective**

In addition to the aging systems, Kress says, “We were also looking at things from a very functional rather than process perspective. Components were not integrated, which meant employees were operating in functional silos.” And that meant inefficiencies and inaccuracies were buried in the business.

The OTP team supported integrated systems and process efforts with a structured change leadership and training program.

Instructors delivered more than 40,000 hours of process-based training to approximately 2,500 employees. Substantial involvement of key stakeholders and retraining of the workforce helped ensure a smooth transition to the new SAP environment.

### **Driving Key Business Initiatives**

After diagnosing the ailments caused by the outdated systems, McKesson designed an operations and technology plan that would keep the rapidly growing pharmaceuticals

group healthy. It would need a robust, flexible system to address the following seven key business initiatives:

- Redesign the returns process
- Increase investment buying opportunity
- Reengineer retail sales processes
- Expand the generic pharmaceuticals business
- Improve inventory management
- Reduce supplier-driven costs
- Improve back-office credit processes

Because McKesson had been satisfied with its SAP® financial accounting and controlling software, the company easily decided to implement other components of SAP R/3® including functionality for sales and distribution and materials management, as well as business intelligence functionality. (This functionality is now

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available in the mySAP™ ERP solution.) “We had the financial software, and it was just a natural progression to go with SAP for the other components,” says Kress. “We have a very good relationship with SAP.”

Using support from SAP Consulting, McKesson completed the three-year implementation in June 2004. The new system provides tight integration between McKesson’s inventory and financial systems. Now, cycle count, inventory discrepancies, and other critical business information hits McKesson’s financials in real time. Issues are addressed on the spot, which is how company executives want to run their business. Furthermore, says Kress, “With the SAP implementation of SAP software, it made us take a step back and look at things from a process mode.”

As a result of tighter integration, faster and more accurate information, better control over inventory, and an improved process flow, the new SAP software helped McKesson realize significant earnings before interest and taxes (EBIT) and working capital benefits.

McKesson plans to use the SAP solutions as a foundation to build on and address another company initiative – leveraging more business intelligence. Increased business intelligence capabilities will enable McKesson to drive its business through profitability reporting and customer compliance metrics.

#### **Partnering with SAP**

SAP Consulting provided project support for the implementation of the sales and distribution, materials management, and business intelligence functionality. In addition, the company engaged SAP Consulting on an as-needed basis to recommend ways in which to build on its new foundation. This advice enabled McKesson to leverage its design options and apply SAP Consulting's recommendations through to the next implementation phase.

McKesson executives were extremely satisfied with the implementation. Kress says, “Our executive vice president/group president [Paul Julian] referred to the implementation as ‘flawless,’ which is a pretty large compliment given that this implementation is the largest capital investment McKesson has ever made outside of an acquisition. For it to go off without any adverse impact on our business or our customers and for it to actually drive benefit from essentially day one is something that people are very proud of here.”



