

THU, OCT 30, 2008 16:56 EDT

## Overstock.com's Four-Year ERP Nightmare



POSTED BY: [Thomas Wailgum](#) in [News](#)

TOPIC: [Applications](#)

BLOG: [Enterprise Software Unplugged](#)

CURRENT RATING: ★★★★★ COMMENTS: 5

Overstock.com, the upstart unafraid to battle e-commerce goliath Amazon, has become semi-famous because of its brash and highly quotable leader, [CEO Patrick Byrne](#), who once explained a \$14.2 million third-quarter loss to investors this way: "**My bad.**"

The online retailer has also drawn notice for its gimmicky advertising campaigns: "The Big O" and "It's all about the O."

The latest publicity for Overstock.com, however, has been all about "Uh-oh."

This week, Overstock.com executives announced they were restating earnings for a five-and-a-half-year period, dating back to 2003. All told, the accounting mistakes during the period had lead to a \$12.9 million reduction in revenue and a \$10.3 million increase to cumulative net loss.

The culprits behind all this mess? An overly aggressive CEO and a problematic Oracle **ERP** rollout that started back in 2005.

I'll spare you the [financial accounting reasons for the restatement](#), and let a sampling of Byrne's [explanation to shareholders sum it up](#): "The short version is: when we upgraded our system, we didn't hook up some of the accounting wiring; however, we thought we had manual fixes in place," he wrote. "We've since found that these manual fixes missed a few of the unhooked wires."

Looking back through Overstock.com's short history, it appears that the **ERP implementation** has been nothing but trouble. The strife started in 2005. That's when Byrne's "my bad" mea culpa over the \$14.2 million loss was further exacerbated by a customer service meltdown related to the hurried Oracle ERP rollout.

"I bit off more technology projects than my colleagues could chew," Byrne told investors at the time.

"The last bite, an ERP implementation, was one bite too many, and we choked on it."

Overstock's transition from a homegrown ERP package to the new Oracle system, which was rushed to completion before the 2005 holiday shopping season, left it unable to tell customers the status of their orders or to provide any shipping information, [reported The Register's Ashlee Vance in late October 2005](#). The result: Overstock.com's customer tracking systems were down for nearly a week.

"In total," Vance added, "it's a shocking display for a supposed Internet-savvy retailer meant to compete with the likes of Amazon.com and eBay."

Byrne, in the 2005 note to shareholders, remained resolute. "We anticipated that a small number of background processes would fail, but we had more trouble than expected," Byrne wrote. "Rather than pass the problem to the customer in the form of bad service, we ate the cost by doing a great many things manually that would normally be done automatically."

Things didn't get any better in 2006. In November, in another letter to investors, Byrne wrote "The IT problem that developed last September...has had lingering effects that ran well into this year," [reported The Register's Vance](#). "In fact, while we viewed it internally as a 2005 Q4 to early 2006 Q1 problem (which is what it was technologically), I see now that, in terms of affecting customer behavior, it was more of a 2005 December to 2006 April problem.

"It has taken an enormous amount of work to recover," Byrne added, "but our operations and infrastructure are now healthy and strong."

Vance, who had had a bad customer experience with Overstock.com during 2005, went on to point out in 2006 that "after denying evidence to the contrary, Overstock has admitted that its customer service systems and infrastructure needed a lot of work and that they had a negative, long-term impact on consumers."

In August 2007, Byrne and Vance had a sit down (apparently their CEO-reporter relationship had been tense), and Byrne cleared the air about the **ERP meltdown and customer service nightmare**, accepting full responsibility for installing the Oracle ERP software in "record time." Byrne told Vance: "It was really my fault. I had us wait too long to upgrade the IT system and then pushed too hard to get a new one rolled out."

Problems with the rush job manifested itself in strange ways. "Some things were going through okay and a lot weren't," Byrne said. "It was just spraying orders. Sometimes customers might not get a ship confirm. Sometimes the order might not flow through the system. Sometimes the order got misrouted."

Byrne even sketched a picture of Overstock's ERP system for Vance, which can be seen [here](#). (It's such a rarity to see a CEO's representation of core IT systems, you have to check it out.)

By late 2007, Overstock.com's technology odyssey seemed like yesterday's news.

But then, in October 2008, we learned about the mother of all ERP-related problems: Overstock.com had to restate earnings because of the Oracle ERP system. For the record, Overstock.com placed all the blame on themselves (they're getting quite good at that, it seems). "Honestly, it didn't have anything to do with Oracle per se, it was the implementation," said Kevin Moon, Overstock.com's director of investor relations. "We had consultants and we had help, but it was all driven by Overstock. We set the timelines."

Will Overstock.com recover? After the restatement and delivery of the third-quarter financials, The Motley Fool financial website **named it as one of five stocks in a tailspin** (though Overstock would seem to have a great deal of company these days).

Byrne seems unchanged. In the 2008 Q3 results letter to shareholders, after delivering details on the company's lackluster results, Byrne wrote: "Other than that, Mrs. Lincoln, how did you like the play?"