

# **Appex**

## **Case 2**

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### **Introduction**

Founded in May of 1986 in Waltham, Massachusetts after the merger of Appex Inc. and Lunayach Communications Consultants, Appex Corporation provided management information services and intercarrier network services to cellular telephone companies. By 1990 Appex was rated one of the fastest growing companies jumping from 1 million in revenues in 1987 to 16.6 million by 1990. In May of 1988, the company decided to bring in Shikhar Ghosh as its COO to help with the organizational structure of the company. Apex would run until October 1990 where it would be bought out by a subsidiary of General Motors.

### **Industry / Competitive Analysis**

#### **Mission Statement:**

Appex Corporation is to remain as one of the leading service providers for clients in the cellular telephone industry by using innovation and the newest technology to lower costs and deliver the product in a timely manner.

## **Generic Strategy:**

Appex only has 2 services being their Cellular Information Management Service and Inter-carrier Service which they focus all of their effort on improving and adding new features to stay ahead of the competition. Appex Corporation's pricing strategy is focused around having a "lean organization" and charging a relatively low cost of \$3 to \$4 per subscriber allowing their customers to only pay for what they use. All of this leads to Appex having a Focus Differentiation strategy.

## **Porter's 5 forces**

**Rival Competitors:** GTE, Cincinnati Bell, and McDonald Douglas are some of Appex's competitors. Appex has the ability to develop new techniques faster than their competitors demonstrated by the (ACT) example, where Appex's ability to beat them to address an issue in the cellular industry and implement it. (ACT) would eventually be disbanded.

**Threat of Substitutes:** Due to the cellular industry only being 6 years old the threat of substitutes are not a current concern for Appex. This allows Appex to continue on its current path with cellular users expected to increase to 20 million by 1995.

**Threat of Buyers:** The threat of buyers demanding lower prices come from Appex's main competitors GTE, Cincinnati Bell, and McDonald Douglas. Appex focuses on keeping a low cost to ensure a leader position within the niche space.

**Threat of Suppliers:** Appex is a cellular information service supplier thus they do not have any real suppliers that could cause a raise in prices to their service besides typical office supplies and costs.

**Threat of New Entrants:** With this space being only 6 years old the threat of new entrants is high and the barriers to entry are low as long as you were to build a software that is up to par with the current firms. Appex needs to continue development of its products to stay ahead of the competition.

## **Organizational Structure**

Over the last 30 months Appex saw 6 organizational changes with the last one being a Divisional Organization. They focus around their 2 products which are IS and the ICS, both have divisions containing P & L responsibility and marketing of the product. The Operations branch maintains customer service, data center, and network services. The final branch is the Finance and HR department. With the CEO overlooking the entire organization.

## **Business Issue and Key stakeholders**

### **Business Issue**

The current business issue is the ability to find an organizational structure that is efficient in solving the problems that pop up while still being able to have an R&D mindset that propelled Appex to the position it is in today. Early on while they were growing rapidly they kept the same entrepreneurial mindset that was very informal which caused many tasks to be done at an “as-needed” basis and problems to try and be solved with hiring and spending money. This upset investors and actually lost some accounts due to the lack of customer service and expectations. Throughout the other 6 org changes many improvements were shown with side effects such as personalities

being represented, a loss in ideas and innovation, and a lack in information flow to name a few. As stated in the book “A business has to plan for changes in the nearer term of 2 years to survive” (Fried) but is 6 changes in a little over 2 years too much? With the buyout from Electronic Data Systems Apex must now find an org structure that will work for them while being under EDS.

### **Key Stakeholders**

#### Internal

CEO / OOO

ICS department

IS department

Operations

HR and Finance

Employees

Board of Directors

#### External

Customers

Stakeholders

EDS

# Proposed Solutions and Alternate Courses of Action

## Alternate courses of action

### 1. Keep Divisional Organizational Structure

By keeping with the Divisional Organization Appex would keep the same structure as EDS. This would make it easier for the transition of data and information to flow from the main company and its subsidiary. It also was proven to work decently as Gosh stated "At one point I was involved in everything, now the company could run without me" This would free up his time to be able to focus on the long term strategy of the company instead of day to day tasks. Employees also now had targets and goals to strive for. It created coordination mechanisms that were now generally more routine with a few exceptions. It wasn't all sunshine and rainbows as Appex lost a lot of its cross-pollination of ideas which was Appex's bread and butter. Also many divisions started "playing games" and setting aside money to keep within their own organization and not sharing with the company as a whole. As *Managing Information Technology in Turbulent Times* says "Products and services will have to change" Which brings the question how many departments are going to have to appear for Appex to stay alive?(Fried)

#### How are Stakeholders Affected

This action would greatly help EDS be able to keep track of and get information relayed down to the lower level as this is the same organizational structure that they use. The different departments would

remain the same but will undoubtedly make a few small changes to maintain and keep up with the growing environment. This structure helps management and the CEO as they are able to easily keep track of data coming in and sending information down the line as they decide on the strategic decisions and receive from EDS.

## **2. Transition back to a Functional Structure**

My least favorite alternative that they could take is to transition back to a Functional Organizational Structure. The functional structure provides a very clear understanding of where the lines are drawn in what is your responsibility and what is someone else's. When this was used early on it succeeded very well in getting tasks completed. Everyone knew directly to report to and information was passed down and data up very efficiently. Also the spread of ideas as all of the people in the same department worked together helped to generate ideas, Appex's greatest strength. Its downfalls came when people started to get power hungry. Departments began to form their own teams and spider-webs grew out of this causing the structure to be out of whack.

### **How are Stakeholders Affected**

EDS would have a slightly harder time monitoring and sending information down the chain as the org structures would be different. Appex Management and CEO would be in charge of respective departments meaning that the IS and ICS departments would be replaced. External

Stakeholders would be pleased to see an organization with rigid structure. Employees would revert back and have the same issues as seen before.

### **3. Transition to a Matrix Structure (Recommended Action)**

“Some organizations need to have the benefits of both Functional and Divisional structures.” (Cash) I think a matrix organization would be the most beneficial in this scenario. Throughout the case Appex’s competitive advantage came from being able to produce new upgrades and have a free flow of ideas that always kept them ahead which a Functional organization provided. While they struggled to have the free flow of ideas during the Divisional Organization I believe this was the closest of the 6 different organizational structures that was able to solve the issue of a loose and well organized company for Appex. “The matrix is appropriate for when the environmental pressures come from two or more critical dimensions.” (Cash) something that Appex has in its 2 products and support divisions. Some of the other issues Appex had was the allocation of resources. “Resources are flexibly allocated” (Cash) The matrix would allow for flexibility of the market as it inevitably changes being that it is so young. EDS would be able to adapt to this structure being that it is half divisional and could send information down that pipeline when needed. The Division of Labor being narrow but deep allows for employees to focus on their task while still being able to spread ideas. Some worries that *Building the Information-Age Organization: Structure, Control, and*

*Information Technologies* brings up are that the managers must adapt to power sharing in the matrix and employees must collaborate with each other. (Cash) Both of these were accomplished when Appex was still in its start-up phase and were done really well. I think the Matrix Organizational structure would work best for Appex moving forward.

### **How are Stakeholders Affected**

EDS would be affected in the learning curve required to pass information down the line. The CEO and Management of Appex would need to ensure they work together and do not get power hungry while the employee's need to lean into their desire to work with each other to create new ideas. The two departments would maintain their employees but would be open and allowed to work with each other in their respective job roles.

## **References**

- Cash, James I. *Building the Information-Age Organization: Structure, Control, and Information Technologies*. Irwin, 1994.
- Fried, Louis. *Managing Information Technology in Turbulent Times*. John Wiley & Sons, 1995.