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Case 2.1 - Appex

Summary of Corporation

Appex Lunayach Systems Corporation is a for-profit that was incorporated in 1986. The company was originally a small operation consisting of twenty-five employees and only two million in revenue. They were started by venture capitalists and a management expert was hired to become the new CEO after the capitalists realized there was a problem with the way the company was being managed. The company was renamed to Appex Corporation in 1989. The company resulted from a merger with 300,000 stocks for \$3,000 (one cent per share) which is approximately \$6,803.83 in today's dollars (Appex Lunayach Systems Corp., 1986).

The industry the organization was marketed in was the personal telecommunications field. Most of their services was from creating advanced systems for the special the needs of telecommunication niche market. The company has two main services that it provides:

Intercarrier Systems and Cellular Management Information Systems.

Intercarrier services (ICS) was online services that Appex provided to clients. There was three main products in this line of services: Positive Roaming Systems, Intercarrier Settlement Services, and Roaming America. Positive Roaming Systems is a national verification system that was used by participants to verify callers to authorize roaming cellular calls. Intercarrier Settlement Services is a national financial clearinghouse to settle roaming charges between cellular providers. Roaming America is a national location and call forwarding system for location roamers that would forward their phone calls. These services was all batch transaction processors and accounted for 60% of the firms revenue.

Cellular Management Information Systems (IS) are integrated software systems designed to manage primary functions of a cellular carrier in its home market. There was two systems that

was maintained by the company in two flavors: CMIS and ABS. CMIS (Appex Cellular Management Information System) which was online software that included customer information, billing information, A/R, credit and collection info, inventory control, and cellular network engineering analysis. ABS (Appex Billing Services) was for smaller companies or companies that wanted the management information system to be managed by information system organizations, there was a monthly subscription fee per client's customer (\$3 to \$4/month). These services accounted for 40% of the firms revenue.

Business Problem

Appex's business problems stem from growing too big too fast with not enough employees, policies, or management personnel to adequately maintain itself at the rate it was growing. Here are a few examples of the issues the new expanded corporation were having: spending cash quickly and not monitoring its expenses, only "fire-fighting" no development of an underlying planning structure, and due to the increase in customers and call volume one customer complained it took 150 times before receiving a response.

Industry Competitive Analysis

Mission Statement

The mission statement of the Appex Corporation is "to provide marketing and services to the personal communications industry for business and technical systems and computer services" (Appex Lunayach Systems Corp., 1986).

Competitive Rivalry

Appex had many competitors, mainly other telecommunication companies that was developing internal systems. These companies include: GTE, Cincinnati Bell, McDonnell Douglas. These companies at first created an organization to help create systems, Appex already implemented causing the organization to disband. Since Appex owns these systems they have a competitive advantage, which decreases competitive rivalry. The competitive rivalry is low.

Threat of new Entrants

Cellular Telecommunications was a very new industry in 1980's, there was many major players in the cellular businesses. Most of these companies was already in Appex's client or had an internal custom system. The cost of capital to enter the market is most likely low, because you technically do not have to have anything to start software development except the cost of time to hire programmers, the technology cost, and domain knowledge. Since most of these already have similar software and Appex's are some of the most advanced in the market, so the threat of new entrants is low.

Threat of Substitutes

Unless companies use generic CRM/ERP system's to manage the functions and replace the current products lines for cheaper, but more generic features not in telecommunications the threat of substitutes are low (Positive Vision, 2012).

Bargaining Power of Suppliers

Since Appex is more software development industry and does not seem to have very many if any physical products, the bargaining power for suppliers is low.

Bargaining Power of Customers

Apex has customers moving costs are most likely great from other companies to switch from any of the systems. Because of switching costs being so great I feel that the power customers is low. However, due to the fact that maintenance and support was so bad for a time it would increase the power of customers or give them an incentive to switch.

Stakeholders

Appex industries has a few stakeholders like all companies. The starting capital was given from a venture capitalists who are a major stakeholder. Other stakeholders would be the employees and clients.

Options

Do nothing

The option of doing nothing with how it currently stands may not be the WORST option, but it is very desirable. As of now the divisions are playing with financial statements, and depending on how they are doing could violate the Sarbanes-Oxley Act of 2002, which requires executive signatures and imposes harsh penalties for fraud and specific account methods to be used (Congress, 2002). One other problem is costs are increases exponentially since all divisions need to have similar resources.

Venture Capitalists would not like this option as their dividends or investments would be lowered due to frivolous spending due to poor planning or it being the easiest way to fix the issues. Employees would not care as much as they are not directly affected. Customers also would not care as much either since they are not directly affected.

Setup Revenue/Cost Centers

Revenue/Cost centers are a way to allocate costs for programs and sectors such as marketing, or even in smaller categories like marketing services-IS or smaller to each product. This would give the company bigger insights into the costs and allow for breakdowns for each division accurately. It would also have to be enforced into the policy to ensure all transactions are accounted for approximately (Accounting Coach, n.d.).

Venture Capitalists would like this because it would allow for accurate representations of costs and what can be cut. Employees may like this method because they can vouch for costs. Customers also would not care as much either since they are not directly affected.

Split the divisions into different corporations and Appex be the sole member of each

Splitting the organization into different corporations would be worse for tax purposes and allocation of assets along with administrative services. It would hold every segment accountable, and pieces could be sold if necessary to have an inflow of cash quickly if needed. All financial statements would be managed by the individual company with the sole member not being financially responsible for fees assessed due to accounting practices of the sole member.

Venture Capitalists would probably like this would force all companies or subsidiaries to cut costs individually. Employees could be affected more depending on if payroll and contracts are moved between corporations. Customers may have a bigger problem with splitting the organizations especially if they use more than one product.

Sell off the software rights and liquid/sale the company

Cashing out would probably be a big return on investment due to how big the corporation is.

This would probably be a mistake thought because they are one of the huge providers of specific services for their designated market.

Venture Capitalists would get their money back but could potentially lose significant amount of future money. Employees would be out a job and not like this option either. Customers would also probably be apposed to this as no one would know how the new company will handle or care for their products.

Recommendations

My recommendation is to start using cost centers to determine where costs need and can be cut or at least get a bigger picture. The implementation of such a feat would be initially taxing, but could have better results in the end. Each cost center would be responsible to decrease the costs and it improves the center's obligations to Appex. It would increase effientcies by holding the cost center responsible for its costs.

References

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