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APPEX

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**The Problem**

Appex is a growing organization that did not have a defined organizational structure. Their new COO Shikhar Ghosh was brought into a situation that demanded change and ever since then the company’s structure has been changing frequently. Appex has just been acquired by Electronic Data Systems (EDS) and now must comply to their standards, so the structure may need to change again.

Some factors to consider:

* The number of employees is growing rapidly
* None of the structures implemented have lasted more than a few months
* Appex is now itself a division in a larger bureaucratic organization

Appex must decide how to proceed, and I will give my recommendation.

**Industry Competitive Analysis**

## Mission

Appex provides online systems to cellular providers to primarily manage roaming and customer information. Their strength was their ability to get things done quickly and cheaply because of their lack of organizational structure. They had an informal and fluid environment where employees worked in close communication with each other to quickly accomplish goals.

## Market

Appex primarily services cellular carriers in the United States. The largest part of their business is their intercarrier services which manages the information needed for carriers to provide service to subscribers to and from other markets also known as “roamers”. People that travel outside of their cellular carrier’s service area pay a premium for service resulting in the original carrier and temporary provider making money.

## Strategy

Appex’s strategy is cost leadership. Their structure allows them to bring new products and technologies to market cheaply and quickly giving them the edge they need to compete with larger companies. Appex’s structure gave them the advantage they needed to get started in this industry, but it was turning into a weakness. They had too many requests from customers and began to fall behind schedule. Their strategy to focus on keeping cost low ran them into one of the risks of cost leadership – lack of attention to the needs and preferences of customer (Tanwar). If customers become unsatisfied with Appex’s service, they could potentially pay a higher price for better service.

## Porter’s Five Forces

**Inter Industry Competition** is a concern for Appex. Appex is a smaller company and they have large competitors such as GTE, Cincinnati Bell, and McDonnell Douglas. Cellular networks are a rapidly growing field and there is certain to be more competition coming.

**Substitutes** are not a major concern for Appex. Cellular providers will always need systems to manage their customers. Even if a provider’s network expands and they no longer have roaming charges, Appex can still provide them with their integrated software system to manage their primary functions. There is nothing like this that would meet the customers need in another market (Bristoll).

**New Entrants** are a concern for Appex. The amount of capital required to enter this space is relatively low. If a company can come up with some innovative ideas, they could potentially take business away from Appex.

**Suppliers Bargaining Power** is low for Appex. They are a company that requires little from suppliers. One interpretation is that their employees had a somewhat high bargaining power. This was an emerging market and many outsiders did not understand the product Appex offered. This potentially gave employees more bargaining power, but either way Ghosh was not afraid to bring in new talent and demote relics on the team.

**Customers Bargaining Power** is high. There are a lot of options in the industry and Appex has combated this by generally getting customers to agree to multimarket, multiproduct, multiyear service agreements. This is done to create a switching cost for the customer.

**Identifying Stakeholders**

**Appex Management** – This group consists of managers at Appex. This group was in flux due to the constant change from Ghosh. This group’s responsibility is to keep the other groups happy, but with a primary responsibility to shareholders. This group will prioritize keeping the business profitable.

**Appex Employees** – This group consists of all the employees at Appex. Appex has been continuously adding employees and this group is interested in keeping their job, making their job easier, and seeing the company grow.

**Appex Customers** – This group consists of all the customers Appex serves. Their primary interest is receiving the best service from Appex at the cheapest price.

**EDS Management** – This group expects Appex to conform to their business standards. Their primary concern is making sure Appex becomes a successful part of their business.

**Generating Alternatives**

1. **Do nothing** – The first option is to do nothing after the EDS acquisition. Appex will maintain the divisional structure they had previously adopted. They will not worry about their supposed role in EDS and will maintain their current course.
2. **Switch to Functional Structure** – Ghosh will lead the team back into a functional structure. Appex tried a functional structure in 1989 and the company was split into 5 teams; Sales and Marketing, (Finance, Administration and HR), Operations, Software Development and Services, and Engineering and Technology. These teams would be re-formed, and leaders will be assigned. Every employee would fall into one of these functional categories. This type of structure is typically well suited for a cost leadership organization (Barker). An issue with this structure is that it’s not well equipped for a dynamic environment. Cross-functional work can be difficult and as a result collaboration and innovation is typically lower.
3. **Switch to Matrix Structure** – A version of a matrix structure was implemented when Ghosh established product teams and business teams to coexist with the functional teams. This alternative would have Ghosh completely reform to a matrix structure where there are traditional functional teams and project teams will be created and become the focus. Priority will be given to product and project areas with functional specialisms providing support (Morgan). This type of structure allows members from different functions to work together like at Appex’s beginning. These types of team-based organizations usually improve the adaptability of an organization which is very important in an emerging environment like the cellular market.
4. **Continue with Divisional Structure while adding International Business division** – This option will maintain the current structure with the addition of an International Business division with a purpose to expand Appex more outside of the United States.

**Analyzing Impact on Stakeholders**

## Do-nothing

**Appex Management** – This will result in no immediate changes for management. Everyone will keep their current positions and business will continue. A potential issue with this is that Appex is expected to fit into a role as a division of EDS and changes may be expected or demanded. Another issue is that it’s already believed by Ghosh and Ted Baker already stated that the structure needed to be changed again due to growth and problems among the divisional heads. If nothing is changed then these problems could worsen and result in Appex declining.

**Appex Employees** – This will also result in no immediate changes. Employees would not feel the anxiety that comes with a structural change. Their jobs will not become easier or more difficult. The threat of employees losing jobs is low.

**Appex Customers** – Customers will likely not notice a difference in the near future. They will continue receiving the same service they’ve been receiving for the last few months. If the organization fails to change when it needs to then customers could begin to see poorer service and eventually go to a competitor.

**EDS Management** – EDS management may not be happy that Appex isn’t adjusting to their company’s standards for business. However, if Appex remains successful with their current model and sees growth that could dissuade EDS management from caring too much about the way Appex is ran. After all it is still essentially operating as its own organization.

## Switch to Functional Structure Appex Management

**Appex Management** – Management will be shuffled around, and some people may be promoted or demoted. This change would most likely bring back the same problems as when Appex first had this structure. Collaboration with teams would lessen over time and Appex’s innovation would be stifled. Shareholders would be unhappy with a lack of innovation, but they may be more comfortable with the traditional structure of a company.

**Appex Employees** – Employees will be reassigned to a functional department. This may make their jobs harder in the short term, but in the long run functional organizations have a narrow division of labor. This means that employees will have more defined responsibilities and more than likely less responsibilities resulting in an easier job.

**Appex Customers** – Customers may not notice an immediate impact. Over time functional organizations tend to be less adaptive and innovative. If Appex follows the trend of other functional organizations then their competitors will offer their customers new and improved technologies and take their business.

**EDS Management** – EDS management will be happy to see that Appex is adopting a structure more like their own.

## Switch to Matrix Structure

**Appex Management** – Management will be shuffled around, and some people may be promoted or demoted. The shareholders will be happy with the appearance that Appex is taking a turn towards innovation.

**Appex Employees** – Employees will be reassigned to a functional department and may be assigned to project teams. Matrix structures give employees a narrow and deep division of labor. This means employees are more like experts on one subject. Some employees may not be able to provide the depth necessary.

**Appex Customers** – Customers will likely receive a better experience. Appex would become more flexible and customers could see some of the quickness and effectiveness that made Appex a player in this market. Customers could begin to see new technologies faster and cheaper.

**EDS Management** – EDS management will be happy to see a structural change in the organization as it was expected. They will look for Appex to adopt some of their methods and standards under this new structure.

## Continue with Divisional Structure while adding International Business division

**Appex Management** – Things will remain almost the same besides the addition of one new division. This is the smallest way to address the idea that a structural change was needed. Shareholders will be happy that Appex is adding an International Business division and appearing to expand.

**Appex Employees** – Not much will change, a few employees’ jobs will change but everyone else will remain the same. Everyone will likely keep their job perhaps with minor changes.

**Appex Customers** – Customers will continue to receive the same experience they have been receiving. The international business division may draw in some new customers outside of the United States. If this minor structural change doesn’t address the issues in the business customers will eventually be impacted and likely experience a downturn in service.

**EDS Management** – EDS management may not be satisfied with such a small change. This change doesn’t make it appear that Appex is looking for a big change to improve.

**Solution**

My proposal is that Appex adopt the Matrix structure. This structure provides the most potential for Appex to succeed in the long run.

The do nothing alternative is perhaps the worst solution as it is clear a change needs to be made at Appex. What they’re doing currently is not sustainable and a change has almost been guaranteed with the talk from Ghosh and the acquisition by EDS. Doing nothing shows the customers that the company doesn’t care about improvement and is happy to maintain their position. This is not the right attitude to have for a small and growing company like Appex. They need to position themselves in a fashion to grow and expand, not maintain.

Switching to a functional structure is a tempting choice. It would likely please EDS management and employees. The cost is likely the long-term innovation that Appex needs to continue growing and expanding in the market. A functional structure does not promote collaboration between departments and projects.

Continuing with the divisional structure is not a good choice. It has already been determined that a change needs to be made and the addition of an international business division is not enough. Usually stability of a organizational structure is a good thing, but Appex’s rapid change along with the change of the cellular market demands a larger change be made. Appex’s products and services are too interrelated to justify a divisional structure. Appex is better suited under a matrix structure.

The matrix structure provides increased adaptability and improves coordination between functions (Morgan). This is precisely what Appex needs. These are the principles that the company began with and thrived on. They need to be able to offer customers the latest technology in an evolving environment. This change will allow Appex an opportunity to conform to enough of ESD’s standards while not adopting their bureaucratic structure. Customers will be satisfied with the improved innovation and service. Employees will become more specialized and get to work on more than just what’s in their department.

**Citations**

Barker, R. Lecture 9/11/2018

Bristoll, H. & Newton, P (Team FME), Porter’s Five Forces

Morgan, Gareth Images of Organization

Tanwar, Porter’s Generic Competitive Strategies