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CIS 410-01

Case 2: Appex Corporation

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**Summary**

Appex Corporation, created by the merger of Appex INC. and Lunayach Communications Consultants, was one of the fastest growing technology companies in the 1990s. Appex specialized in providing management information systems and intercarrier network services to cellular telephone companies. Appex’s revenue primarily comes from Intercarrier Services, ICS, which helped carriers manage information that carriers needed to provide cellular services. This segment accounted for around 60% of total revenues. The other 40% of revenues comes from IS, which was a large range of software that helped manage the main functions a cellular carrier needed in their home market. Although the company started out small, it was growing at a rapid pace. Employees could no longer keep up with the requests because the organization was unstructured and had a chaotic atmosphere. Shikhar Ghosh was hired as COO in the late 1980s to hopefully restructure the organization and continue its rapid growth in the industry. This case analyzes several different types of structures and hopes to determine what the best structure would be for Appex to help the business succeed and continue to make money now and in the future. (Goldratt)

**Problem**

At the beginning of the merger that created Appex Corporation, the business structure was extremely informal and fluid. If you wanted to do a job, you just did it. This worked for a while, until the company took off in growth. Things got chaotic, workers slacked off, and no plans could be made to accomplish daily tasks. The company was losing money with their current structure: investors were not happy with the company’s spending, customers were not getting the service that they deserved, and the company was not being innovative, as there were many failures in their product development during this time. After Shikhar Ghosh became CEO in 1988, he decided to try several different types of organizational structures in hopes of reviving Appex and finding a new way to handle all their new business. Eventually, Electronic Data Systems acquired Appex in 1990. EDS inherited all the problems that Appex had in prior years. The main challenge for Appex was to follow EDS requirements and create divisional structures inside of a larger, bureaucratic organization.

**Industry Competitive Analysis**

**Mission Statement**

The mission of Appex Corporation is to be the lead service provider to cellular carriers by using innovative technologies that revolve around improving customer service and bringing low cost, efficient products to the market in a timely manner.

**Market**

The cellular industry started in 1982. The market grew so quickly that it surpassed twenty million subscribers in just a little over ten years. The smaller phones were easier to transport and allowed them to become more popular in the market. The better technology and ease of access to cellphones made them cheaper, which allowed more people to purchase them. (Phones – Then & Now) The more cellphones in the market increased the demand of cellular carriers, which could increase Appex’s business.

**Porter’s 5 Forces**

**Inter-Industry Competition**

Appex’s main competition was GTE. Other competition included Cincinnati Bell, and McDonnell Douglas. Inter-Industry competition is high. Although Appex was able to get things done quickly and cost-effectively, they had to compete with companies such as GTE, who have significantly more resources. Since the industry was so popular in the 1980s and 1990s, competition was unwavering. Appex and its competitors had enough customers to survive off, but customers wanted companies that could provide the best customer service.

**Substitutes**

The threat of substitutes for Appex is at a low risk. Although the case did not mention any substitutes specifically, there is always a chance with the advances in technology that a substitute could arise. At the point in time that this case was written, I believe the threat of substitutes is low because the market of cellular carriers was at the growth stage in the product/service lifecycle. Sales were at an all-time high, and Appex had an abundance of customers that they were supplying services to as consumers were shifting to cellular phones with roaming plans. (Industry Life Cycle)

**New Entrants**

Threat of new entrants can differ company to company and market to market. Barriers to entry include absolute cost advantages, access to inputs, economies of scale and well-recognized brands. (Martin) The threat of new entrants in the industry is low. Although the industry was growing at a rapid pace, at the time this case was written the industry was already flooded with other companies like Appex. New companies would not want to enter the market because there are already so many other well-established companies with customers who trust them and value their business.

**Supplier’s Bargaining Power**

Supplier’s bargaining power for Appex is low. Appex is a service-based industry, not products. There are no direct suppliers that are needed for Appex to run its business. Software and hardware are needed to provide services to customers, and employees are needed for customer service and to keep the business up and running.

**Customer’s Bargaining Power**

Customer’s bargaining power is very for Appex. There are so many alternative companies, they will lose business if they are not competitive in the market. Appex must have lower prices or better technology to keep their customers. Customer service is extremely important for Appex since they are primarily a service-based company. Customers will only be happy if they are getting what they expect out of Appex regarding software support and questions being answered in a timely fashion for them to be able to run their own business. Some of Appex’s largest customers are BellSouth and Southwestern Bell. These were huge companies, and their contract with Appex could reach to over two million dollars.

**Stakeholders**

As stated in the article Who Are the Key Stakeholders in an Organization?, Faris says, “A stakeholder has an interest, or “stake,” in the success or failure of a business or its projects. If a business folded tomorrow, these people would be affected in some way. “(Faris) The four stakeholders in Appex are employees, shareholders, Shikhar Ghosh and customers. The employees are a large section of stakeholders. Appex employees doubled just in the year of 1989. Since Appex provides customer service, the employees are the face of the company. The shareholders also have a huge stake in the success or failure of Appex. They are investing in Appex and rely on them to make good decisions with the money, so they can keep the company running. The customers are obviously an important stakeholder; without them, Appex would not have a business. Finally, Shikhar Ghosh is another stakeholder. Being the CEO of Appex, he must ensure the company is thriving and if it is not, he must make the decisions on how to improve the state that Appex is in.

**Alternatives and Impact on Stakeholders**

1. The first alternative is to do nothing and continue operations with a divisional structure in EDS. Employees were not able to communicate across divisions. This caused the company to feel divided, which caused a mess inside of the organization. Employees may not want to work in an environment like that, so they may leave and take their employment elsewhere. The shareholders were very unhappy with the divisional structure. Ghosh noticed that he ended up having to purchase things three times; one for each division. This loses the company money that otherwise it would not have to spend. Hardly any product development was happening within the organization. This could cause the organization to lose money and slip under because there was no innovation that impressed customers and kept them around after their contract expired. Customers of EDS may be concerned that they would be dealing with APPEX. Otherwise, EDS customers have been and should remain happy with EDS. Finally, Shikhar Ghosh’s role changed after being acquired by EDS. Shikhar was no longer the CEO, and instead strategically planned how APPEX was going to operate under EDS. Shikhar probably lost money and lost his job title and now must work under a different company.
2. The second alternative is to use Ted Bakers suggestion. Ted Baker wanted the operation’s divisions to be incorporated in the other two divisions, and no longer have operations as its own division. Then, allow data processing to be centralized within the company. Employees may not want another change within the organization, as they liked having each division and were competitive against employees that were not in their division. Adding employees of the operations division to each team may make employees angry and create a hostile working environment. Shareholders would not care about the structural change, if Appex was prospering and continuing to make money. Customers would not notice the structural change since data operations did not directly impact the service for customers. This structural change will help information flow within the organization, so it may help employees help answer customers questions and provide better service with the ease of access to information. Finally, if the structure would succeed, Shikhar Ghosh may be promoted at EDS. However, if the structure failed, EDS may not trust Ghosh anymore and may find someone else to communicate with and discuss strategic planning of Appex.
3. The final alternative is to allow EDS to change the structure of Appex. EDS is a billion-dollar company, so they know how to structure divisions within the organization to ensure that operations run smoothly, and the company continues to have a profit. Employees may not want to change the divisional structure, since within the divisions, employees were working together and accomplishing divisional goals. Shareholders of EDS would once again be happy if the company is making money and using investment money wisely. Allowing EDS to change the structure may be wise, since they know how to organize structures to ensure this happens. Customers would be treated as all EDS customers are. Customers may be happy with their service they are receiving. Finally, Shikhar Ghosh may be happy if he is the one recommending the structural change. Ghosh may also like the change even if he did not recommend it, because he enjoys changing the organizational structure and may like the challenge of working in this new environment.

**Solution**

I believe that Appex should do nothing and continue within EDS with its divisional structure. Employees know how this structure works and could continue operating as normal. EDS has control over the financial planning systems, resource allocation systems, and administrative procedures. This would help work out the issues that Appex had in the past. Employees would be happy with this decision because they would not have to change and could continue operating as normal. Shareholders would be happy because this structure had made Appex money in the past. The only issue was spending money on extra resources, however, since that is now controlled under EDS, it will not be a problem. Customers would be happy because customers were getting the service that they expected. Shikhar Ghosh may not be happy with not changing the structure, however, he knows that this structure has been beneficial in the past. With EDS running and taking control over some of the organization, this should fix the minor problems that Appex was experiencing when they were their own corporation.

**Sources**

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