Appex

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Executive Summary

Appex is a rapidly growing business in a growing market. Like many rapidly growing businesses Appex has had difficulty changing it business structure from one where only a handful of employees do nearly all the work to a more traditional corporate style with many employees. The goal of this case study is to show that the Divisional structure will be the one most appropriate for Appex's needs as it continues to grow under its new parent company.

Industry Competition Analysis

Appex Mission

Appex provides innovative solutions to cellular network roaming handoffs and manage cellular network information systems as well as offer credit scoring systems.

Appex Strategy

To innovate in a rapidly growing industry by always being open to new and exciting ideas and deploying them to market before the competition. Appex offers two categories of services to cellular network carriers: Intercarrier Services (ICS) and Cellular Management Information Systems (IS). ICS is provides support for cellular roaming where customers "roam" from their home network to other networks. The ICS system handled the verification of roamer calls, provided a clearinghouse for the settlement of roamer charges between carriers, and a national location and call forwarding system to locating calls to roamers and forwarding those calls to them. This segment accounted for approximately 60% of Appex revenue in 1990. The IS segment was very different from its ICS counterpart. This segment is made up of two parts: Appex Cellular Management Information Systems (CMIS) and Appex Billing Service (ABS). CMIS is a fully online software system that handled customer information, billing information,

accounts receivable, credit and collection information, equipment inventory control, and cellular network engineering analysis. (Nohria) ABS was offered to customers that were either too small for the full CMIS system or preferred to have a professional IS service organization manage their systems. (Nohira). This segment accounted for approximately 40% of Appex revenue in 1990.

Appex Competitors

Appex's primary competition come from large, established phone corporations. In its early days it was able to beat out strong competition from a conglomerate of its rivals by develop and implementing the same technology before its rivals could. Primary competitors are GTE, Cincinnati Bell, and McDonnell Douglas.

Supplier Power

Appex is a service company and uses no raw materials to produce its services. The only major purchases it should make would be in computer equipment. Which are widely available at this time. The threat is considered to be **Low**.

Buyer Power

While Appex is a quickly growing company taking on many new customers a month the power of these buyers is quite high. Appex is in a service industry where customers may switch to another service if they are dissatisfied. The threat is considered to be **High**.

Threat of Substitution

As discussed earlier the threat of substitution is high as competition for the services that Appex offers is quite fierce between industry competitors. The threat is considered to be **High**.

Threat of New Entry

The market Appex is in is currently fierce with competition between established industry forces and Appex as the plucky upstart. This would lead you to believe that the threat of entry is low. However the cellular industry is rapidly growing and the demand for the services will increase with it. Barriers to entry are low which may lead to new entrants as the market continues to grow. The threat is considered to be **Moderate**.

The Problem

Appex before its rapid growth in the industry was run with the idea that formal business procedures where unnecessary. While this style works well with a company is a small entrepreneurial business trying to get started as a company grows larger there is a need for a more formalized structure. To that end Appex hired Shikhar Ghosh as Chief Operating Officer. Gosh was keen to try innovative new structures he had come up with or seen as a consultant with Boston Consulting Group (BCG).

Stakeholders

Appex Employees: Employees are a big factor in the success of Appex. They include mostly salaried employees with a handful of hourly employees.

Appex Shareholders: Hold shares of company stock and are directly affected by company performance.

Appex Customers: Mostly major cellular companies who pay for Appex's services.

Shikhar Ghosh: CEO of Appex who implements corporate structures in order to sustain Appex as a business.

Solutions

Solution 1: Do Nothing

This solution would leave Appex with the Division based structure they are currently working under.

Solution 2: Implement Modified Division Structure

This solution proposed by Ted Baker is to dissolve the current operations division and incorporate it into the other two existing divisions.

Solution 3: Traditional Functional Hierarchical Structure

This solution would move Appex to a more traditional hierarchical structure found in many businesses across the United States. This solution would ease the transition of acquisition into Electronic Data Systems who bought Appex in October of 1990. This system would better fit the bureaucratic nature of EDS which is a large organization with strict requirements for financial planning, resource allocation systems, and administrative procedures.

Proposed Solution

I propose that Appex adopt Ted Bakers modified divisional structure. While the divisional structure has posed a number of challenges to Appex already I believe this modified structure, combined with efforts to foster innovation, and performance measures, will lead to a better communicating company who will return to coming up with innovate ideas. The current divisional structure is untenable in the long run as each division plays games with its financial numbers, argues over resource allocation, and high walls that prevent meaningful communication. Clearly then doing nothing and leaving the existing structure as is would not be conducive to integrating with EDS and the Appex may collapse on itself. The classical hierarchy

would make it easier to integrate with EDS and would provide more direct management control over Appex. However its implementation would face a number of issues within Appex. Teams began to create challenges for Appex. Appex used to have an engineering department run by one person and the distinction between engineering and operations was non-existent. However in a team structure both teams have to coexist in the same department and each must clearly define how they are to interact with the product. Where does the engineer's responsibilities end and operations begin? This structure inhibits a working relationship which means spending more money that expect on development. Also in a traditional hierarchy managerial experience is very important. Typically in Appex mangers were those who were most functionally competent in their field. When Appex switched to a structure which emphasized managerial experience over functional experience it caused issues where employees did not respect managers who were not as functionally skilled as they were. Because of the reasons outlines above I believe that the modified divisional structure is the best fit for Appex going forward. According to Goldratt: "Every action that does not bring the company closer to its goal is not productive."

Works Cited

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