

Lejacord Wireless*

Lejacord Wireless Telecommunications

Sitting in the corner office on the 8th floor of the Lejacord Wireless Telecommunications Headquarters, Skousen Loomis was watching the sailboats get an early start on Lake Travis. She was reflecting on the strategy that she was going to present in the afternoon to the Lejacord board of directors. Her executive team was going to prepare her this morning for the board meeting by giving her updates on each functional area.

The 12 months since she had been hired as CEO had been very successful, with strong growth. The board had hired her to implement a value creation program, which she had done successfully by generating more revenues than the resources cost. The competition, however, was getting stronger, and Lejacord was fighting to maintain its 25% market share in the region. Where did they need to invest to respond to the strong growth? As she reflected on this question, her executive team walked in to her office.

Human Resources

After they were seated, John Sanador, the director of human resources, got right to the point, “Skousen, you know that in Human Resources we strive to provide the firm with motivated employees that have all the relevant skills to provide high quality service to our customers. We need you to invest heavily in hiring and training our people, to meet our goals. We have grown in the past year, but have reduced the level of training to our employees. Here are the numbers.”

	<i>Last 12 Months</i>	<i>% Change from Previous 12 Months</i>
Employees	1,700	+8%
Training Budget	\$3,400,000	-10%

“How are we doing on these issues, compared to the competition,” asked Skousen. John replied, “A recent industry study showed that increased change in telecommunications technology and a tightening labor market will frustrate our efforts in the near future, by making it harder to keep up with the technology and hard to find people with relevant skills.”

Marketing

Bruce Bohdi, the director of marketing, jumped in, “While keeping up with the technology is important to our customers, if we want to achieve our aggressive market penetration goals, in a

**James L. Ritchie-Dunham prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The company is fictitious, representing the combination of three different wireless telecommunications firms.*

rapidly growing market, we need to focus on continued high customer service and much higher coverage. The industry experts forecast continued strong growth in demand, from the current six million customers in the area to ten million in the next seven to ten years.” Skousen asked, “How do we stand today?” Bruce replied, “Based on customer account information, we put together the following estimates of the customer base.

	<i>Last 12 Months</i>	<i>% Change from Previous 12 Months</i>
Number of Customers	1,200,000	+0%
Market Share	20%	-5%
Average Annual Revenue per Customer	\$600	+5%

We just completed a study with some marketing consultants on customer satisfaction in the market. We are below the market average of 0.90 with a rating of 0.79. The study indicated that we are strong in customer service at our call centers, but our coverage is poor. Customers complain that it is hard to get a call through and their calls are often dropped.”

Operations

Skousen turned to Rebecca Upham, the director of operations, “How is your group responding?” Rebecca took a deep breath, preparing herself, and responded, “Look, our goal in Operations is to provide excellent service quality to our customers with the most efficient fleet. To meet this goal, in the growing market, we need heavy investment in infrastructure (see Exhibit 1 for a description of the infrastructure). We have been growing rapidly, but still not able to keep up with customer growth. We have also invested heavily in internal information systems to provide information throughout the supply chain. Here are the numbers.

	<i>Last 12 Months</i>	<i>% Change from Previous 12 Months</i>
Base Stations	2,000	+0%
Time to Build Base Stations	30 days	+3%
Network Coverage	50%	+20%
Network Quality	92%	+0%

From a recent survey of our suppliers, it looks like our growth will begin to outstrip the capacity of our suppliers, leading to increased lead times in building base stations.”

Skousen nodded her head. “As always, we all need resources to support growth in our departments. We have to decide how to allocate our limited resources to those areas with the highest leverage.”

Finance

Hanif Padmasambhava, the director of finance, interjected, “Well, we in Finance see our purpose as providing you with accurate information about the flow of financial resources throughout the firm. As you can see below, we are performing strongly (see Exhibit 2 for financial statements). To continue to satisfy our shareholders, we need you to grow revenues while constraining costs.

	<i>Last 12 Months</i>	<i>% Change from Previous 12 Months</i>
Revenues	\$705,041,453	+10%
Operating Expenses	\$325,770,932	+25%

Our capital structure is also in decent condition.

	<i>Last 12 Months</i>	<i>% Change from Previous 12 Months</i>
Equity	\$600,000,000	+10%
Debt	\$700,000,000	+25%
WACC	11%	+20%
Economic Capital	\$625,000,000	+14%
Cash	\$50,000,000	+5%

As her executive team left her office, Skousen reflected that what she knew for sure was that if they were not able to continue to create economic value while increasing market share in this rapidly growing market, she might be looking for a new job.

Exhibit 1: Cellular Network Description

Although different technologies exist, all cellular networks have the same basic structure. A cell, consisting of a base station (tower) with a certain range of coverage, represents the basic unit in the cellular network. Figure 1 depicts a cell with the tower at the center and a circular region of coverage.



Figure 1: A Cell in a Cellular Network

Each cell has a maximum capacity measured in channels. The number of channels determines the number of telephone connections that can be handled simultaneously in a base station's coverage area. To increase coverage and capacity, a wireless telecommunications company constructs a network of cells (see Figure 2). Since adjacent cells overlap slightly, the cells must be designed so that the same channel in different cells are not adjacent. Otherwise, different telephone connections using the same channel in different cells might interfere with one another.

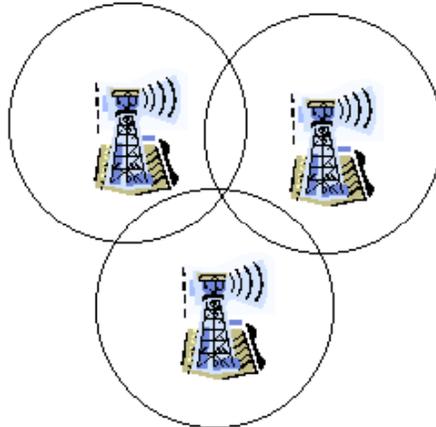


Figure 2: A Network of Cells

A Mobile Telephone Switching Office (MTSO) represents the heart of a cellular network. The MTSO interfaces with all the base stations in the network through landline cable connections. Additionally, it connects the network to Public Switched Telephone Networks (PSTN) such as Southwestern Bell and other cellular networks. Therefore, all telephone traffic between the cellular network and the PSTN or other networks passes through the MTSO.

A cellular network is constructed in stages by adding more cells to increase coverage and capacity. The construction of each cell requires base station installation and connection of the base station to the MTSO through a landline cable connection. If construction crews are available, the construction of a cell takes 30 days and costs \$300,000. The cell is not functional until construction is complete.

Exhibit 2: Financial Statements

Income Statement	
	Last 12 Months
Sales	
Sales	438,000,000
Other	267,041,453
Total Sales	705,041,453
Less Cost of Goods Sold	
Materials	60,000,000
Labor	15,015,000
Overhead	180,000,115
Other	179,452
Total Cost of Goods Sold	255,194,567
Gross Profit	449,846,886
Operating Expenses	
Salaries and wages	67,999,865
Employee benefits	27,063,946
Payroll taxes	4,759,991
Rent	23,000,000
Utilities	38,790,000
Repairs and maintenance	17,999,975
Other	70,000,000
Total Operating Expenses	249,613,777
Operating Income	200,233,109
Interest income (expense)	172,880,060
Depreciation (expense)	(161,950,084)
Total Nonoperating Income (Expense)	10,929,976
Income (Loss) Before Taxes	211,163,085
Income Taxes	102,433,235
Net Income (Loss)	108,729,850
Cumulative Net Income (Loss)	108,729,850

Balance Sheet	
	Today
ASSETS	
Current Assets	
Cash	50,000,000
Marketable securities	120,000,000
Accounts receivable, net	108,000,000
Inventory	141,600,000
Prepaid expenses	7,000,000
Other	54,500,000
Total Current Assets	481,100,000
Long-Term Assets	
Property, plant, and equipment	951,974,000
Less accumulated depreciation	54,355,800
Net property, plant, and equipment	897,618,200
Other long-term assets	77,000,000
Total Long-Term Assets	974,618,200
Total Assets	1,455,718,200
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Short-term debt	200,000,000
Current maturities of long-term debt	14,000,000
Accounts payable	75,000,000
Income taxes payable	8,536,103
Accrued liabilities	43,000,000
Other	5,700,000
Total Current Liabilities	346,236,103
Long-Term Liabilities	
Long-term debt less current maturities	500,000,000
Deferred income taxes	1,300,000
Other long-term liabilities	1,900,000
Total Long-Term Liabilities	503,200,000
Shareholders' Equity	
Common stock	600,000,000
Additional paid-in capital	0
Retained earnings	5,000,000
Other	1,282,097
Total Shareholders' Equity	606,282,097
Total Liabilities and Shareholders' Equity	1,455,718,200