Anyone who follows the business news knows that the telecommunication industry has not done well in the past few years. In fact, it has performed abysmally. As the Telecommunication Industry of America's President Matthew J. Flanigan recently stated, "The telecom industry remains in an unstable condition. It has not fully rebounded from the 600,000 manufacturing jobs lost, $1 trillion in corporate debt and dramatic capital expenditure cuts that have occurred over the past three years."

Liam Kelly immigrated to the United States after World War I. He settled outside Pittsburgh and began a small business, the Kelly Telephone Manufacturing Company that made telephone switches used primarily by some independent municipal telephone companies. After the breakup of AT&T the company moved aggressively into supplying equipment to the Baby Bells. Times were good and the small company started by Kelly in the 1920s has grown in a large, publicly held corporation, KelTel. KelTel now is a global supplier of broadband network equipment, software and systems integration services that enable communications service providers to deliver high-speed Internet, data, video and voice services to consumers and businesses worldwide. The Company has two major business segments: 1) Broadband Infrastructure and Access products, which consist of connectivity devices that provide the physical contact points needed to connect different communications network elements and 2) Integrated Solutions products, which consist of systems integration services and operations support systems software that aid communications service providers in the provisioning, delivery and billing of broadband, multi-service communications over land and wireless networks. Although KelTel has retained a strong engineering basis, over the past decade it has reoriented the corporation to provide much higher priority to sales and customer relations.

KelTel now has 47,000 employees. The corporation has been hard hit by the slowdown in the telecommunication segment. For the fiscal year ended 9/30/05, revenues fell 31% to $8.47 billion. Results reflect a reduction in capital spending by large service providers, offset by improved operating
margins. The losses at KelTel may be decreasing but the company is still in a very precarious financial position. It has laid off over 20% of its work force during the last two years and several units have been closed. Further cuts still need to be made.

The Chairman and CEO of KelTel is Pat Kelly, a direct descendent of the company's founder. Robin Beck is CFO and Vice President. Each of the two divisions has a President: Jan Stevenson is President of Broadband Infrastructure and J.P. Phillips, is President of Integrated Network Solutions. Chris Lensing is President of Global Sales. KelTel has branches in six locations in the U.S. Each of those locations is headed by a Vice President. Blair Krebs is the VP in charge of the Integrated Network Solutions division located in LaGrange, Georgia.

You work in the KelTel division located in LaGrange, Georgia. You are part of an information support service department. There are 26 employees in the unit. Your budget this year was $1,230,000. Because you work in a support unit, most of the costs in your department go towards personnel. In fact only 7 % of your budget last year was spent on non-personnel costs. It is now time to begin planning the budget for the next fiscal year. Blair Krebs has just issued a memo to departments. Because of continued losses at KelTel all budgets for next year are to be cut by 15%.

Your Task

Your group should work together to prepare the following parts of this assignment. One copy of the budget package should be handed in per group. A group grade will be given for the assignment. The budget package should contain the following parts:

- Describe your information support service department. Although all of the services described should be a part of the KelTel Corporation, the unit you are budgeting should be one of your own creation. It can be a systems office, network management department, training unit, technical information center or any other information-related service that interests you. You can draw from real life or from your ideas about an interesting work situation.
- Next identify at least five primary services or functions that your unit supplies. Here is your chance to be creative and come up with some services that you think will improve information provision in the KelTel Corporation.
• Then create a reasonable line-item budget for the FY 20xx-20xx (the one your organization is working under now). Obviously, in real life you would not draw up the budget you are working under now at the same time you are preparing next year's budget but in this case you will.

• Provide explanations for both expenses and for categories of spending. For as many expenses as possible, provide evidence of why the items in your budget cost what you say they will cost. For instance, if you need to buy computers to support a new service of the Information Center, provide the managers who will be reviewing your proposed budget with the cost associated with the purchase of those computers and document where you found information on the costs associated with them. Provide your employees with salary and benefits based on their job specifications. Although line item budgets usually do project last year's figures onto next year's budget, you always have to plan for changes in costs and be ready to justify these changes.

• Next, using the services and functions in the line item budget above as a basis, draw up next year's budget with a 15% cut in the total allocated your department. Think about what your department does. What will you have to cut? Who will you have to cut? What will happen to your services? How will these cuts affect the overall functioning of the LaGrange unit? What can you do to preserve as many of the services you provide as possible?

• Finally, write a cover letter to Blair Krebs. This is the letter that will accompany your budget package, providing the justification for the budget you have requested for next year and justifying the cuts that you have made. This letter should be no more than one page in length but it should succinctly highlight both the budgetary decisions you have made and the impact that you think those decisions will have on the overall unit. A delegation from your department has been invited to meet with Blair Krebs and some other executives to explain your budgetary decisions.
The Pharmagen Corporation is a large, multinational pharmaceutical company located in northern New Jersey in an area where several other leading pharmaceutical firms such as Merck, Bristol-Myers, and Pfizer have their corporate headquarters. Pharmagen produces a variety of prescription drugs: Myprelia, an antidepressant; Zipilor, a blood pressure drug; and Sanlemex, a sleeping aid, are among its steady sellers. However, its most profitable drug for the past three years has been Benesure, a weight loss drug that has been widely prescribed to individuals who sought a doctor's aid in losing weight. This drug was widely advertised, and as a result there was great customer demand for the drug which seemed to provide assistance in shedding excess pounds. Both doctors and patients were shocked when on August 18th of this year, Pharmagen announced that it was withdrawing Benesure from the market because a study found it increased the risk of heart attacks and/or strokes after 12 months of use. In addition to losing the revenue from the sales of Benesure, Pharmagen faces an additional problem. Hundreds of lawsuits have been filed against the company related to the increased health risks associated with Benesure.

Pharmagen profits fell 31 percent in the last quarter. The company had earned 1.86 billion or 82 cents per share in the previous quarter. Revenue earned in this latest quarter were 1.33 billion, or 50 cents per share. Pharmagen estimated that lost Benesure sales, estimated customer returns, unused inventory and costs of the recall slashed net income by about $553 million for the quarter. The recall of Benesure has been very costly to Pharmagen since Benesure was the source of about 2.5 billion dollars or 11 percent of company revenues. Pharmagen has announced that the recall would cut earnings per share between 50 and 55 cents. The price of Pharmagen stock has tumbled over the past few weeks as stockholders sell for fear that the lawsuits may cause even more damage to the company.

Obviously, Pharmagen is going to have to find a way to cut costs. The company has announced a restructuring in an effort to eliminate inefficiencies in the business. It plans to eliminate about 1,000 jobs in research and development, manufacturing, sales, and marketing to save more than $150 million year.
Pharmagen will close several of its out of state operations to streamline operations and improve productivity. Employees at Pharmagen's corporate headquarters have been told that they face cuts in funding and personnel levels. “Unfortunately, we will not return to business as usual at least in the foreseeable future,” was the pronouncement of Dr. Sidney Levin, Pharmagen CEO last week.

You work at Pharmagen as part of an information support service department. Your department reports to Robin Compton, the Vice President for Information and Resources. There are 26 employees in the unit. Your budget this year was $1,230,000. Because you work in a support unit, most of the costs in your department go towards personnel. In fact only 7% of your budget last year was spent on non-personnel costs. It is now time to begin planning the budget for the next fiscal year. Robin Compton has just issued a memo to departments. Because of the financial crisis, all I & R budgets for next year are to be cut by 15%.

Your Task

Your group should work together to prepare the following parts of this assignment. One copy of the budget package should be handed in per group. A group grade will be given for the assignment. The budget package should contain the following parts:

- Describe your information support service department. Although all of the services described should be a part of the Pharmagen Corporation, the unit you are budgeting should be one of your own creation. It can be a systems office, network management department, training unit, technical information center or any other information-related service that interests you. You can draw from real life or from your ideas about an interesting work situation. You need to describe the department and the type and organization of the people who work there. Try to make this department as realistic as possible.
- Next identify at least five primary services or functions that your unit supplies. Here is your chance to be creative and come up with some services that you think would be necessary in a leading pharmaceutical company such as the Pharmagen Corporation.
- Then create a reasonable line-item budget for the FY 20xx-20xx (the one your organization is working under now). Obviously, in real life you would not draw up the budget you are working under now at the same time you are preparing next year's budget but in this case you will.
• Provide explanations for both expenses and for categories of spending. For as many expenses as possible, provide evidence of why the items in your budget cost what you say they will cost. For instance, if you need to buy computers to support a new service of the Information Center, provide the managers who will be reviewing your proposed budget with the cost associated with the purchase of those computers and document where you found information on the costs associated with them. Provide your employees with salary and benefits based on their job specifications. Although line item budgets usually do project last year's figures onto next year's budget, you always have to plan for changes in costs and be ready to justify these changes.

• Next, using the services and functions in the line item budget above as a basis, draw up next year's budget with a 15% cut in the total allocated your department. Think about what your department does. What will you have to cut? Who will you have to cut? What will happen to your services? How will these cuts affect the overall functioning of your unit? What can you do to preserve as many of the services you provide as possible? Can you substitute less costly services for those you are providing already? How can you minimize the impact of this cut on your department and on the services it provides Pharmagen.

• Finally, write a cover letter to Robin Compton. This is the letter that will accompany your budget package, providing the justification for the budget you have requested for next year and justifying the cuts that you have made. This letter should be no more than one page in length but it should succinctly highlight both the budgetary decisions you have made and the impact that you think those decisions will have on the overall unit. A delegation from your department has been invited to meet with Robin Compton and some other executives to explain your budgetary decisions.

Your budget preparation will involve two parts: The oral presentation you will give to the Robin Compton and the I & R budget group (you have been scheduled for fifteen minutes at their November/December meeting) and the written documentation that you will give them at a slightly later date that further supports your presentation.
Group Budget Exercise
Corporate Group

The XYZ Corporation

Scenario: You have just been hired as the director of a small information support service unit in the XYZ Corporation. Although you are a relatively new manager (just two months out of your MLS program) you have stepped up to this new opportunity with great enthusiasm. You report to Ms. Katherine Parr, the VP for support services, and you have found that Ms. Parr and all of the other people you work with are very supportive and helpful. After one month in the job you are finally beginning to feel you have a sense of how your unit functions, what policies exist, how your staff works together and how your unit fits into the rest of the company.

Before you were hired, you were given a large number of tests measuring your attitude and attitude by the corporation's Human Resources Department. XYZ hired you, or so you think, because of your technical expertise and your innovative, creative and imaginative ability. When you were hired you were told that the organization wanted you to make some changes in your unit to bring it more into line with company goals and to allow the corporation to exploit the latest ideas in information provision. In response, you told them you were looking for a challenge. Even though you had not had a great deal of experience in managing, you were able to recall enough management terminology from your introductory management class to convince them that you were the right person for the job.

Lately you have begun to sort out what you think are the most important services that should be supplied to your users. Ms. Parr seems to think that you are doing a good job, but of course, she knows very little about what happens in your section. Your staff members, who are more knowledgeable and who have run the operation while you have settled in, also seem satisfied with your performance to date.

You think you have been blessed, on the whole, with a good staff. They are a strong and cohesive group. You have an immediate assistant, with the title of "Deputy Director" who was acting head of the unit prior to your arrival. You have one other professional and two clerical workers. In addition, you have three part-time employees (students from SILS) one who works 20 hours per week; the other two work 10 hours each week.
Today you received a memo from Ms. Parr asking for your next year's budget proposal and suggesting that increases be kept within 5% of last year's allocation. The budget that was approved for your department last year amounted to $500,000 in total—with $250,000 for personnel and benefits, $100,000 for operating funds, and another $150,000 for equipment and materials. The items in the budget for operating funds include supplies, telephone, photo duplication, travel, professional memberships, and other miscellaneous items. She informed you that you would have flexibility in moving expenses among the budget categories.

Your Task

Your group should work together to prepare the following parts of this assignment. One copy of the budget package should be handed in per group. A group grade will be given for the assignment. The budget package should contain the following parts:

1. Describe your information support service. Although all of the services described should be a part of the XYZ Corporation, the unit you are budgeting for can be one of your own creation. It can be a special library, systems office, network management shop, technical information center or any other information-related service that interests you. You can draw from real life or from your ideas about an interesting work situation. (If you want to draw up a hypothetical budget for an organization described in a previous Management Portfolio exercise that would be fine if you can make the budget numbers fit the situation).

2. Next identify at least seven primary services or functions that your unit will supply. Here is your chance to be creative and come up with some of the new services that you think will improve information provision in the XYZ Corporation.

3. Then create a reasonable line-item budget for FY 20xx-20xx (the one your organization is working under now) and then create the line-item budget you propose for next year's budget, FY 20xx-20xx.

4. Provide explanations for increases and for changes in categories of spending. For as many expenses as possible, provide evidence of why the items in your budget cost what you say they will cost. For instance, if you need to buy need computers to support a new service of the Information Center, provide the managers who will be reviewing your proposed budget with the cost associated with the purchase of those computers and document where you found information on the costs associated with them. If you are hiring a new person, provide a salary and tell why you are paying the salary proposed.
Although line item budgets usually do project last year's figures onto next year's budget, you always have to plan for changes in costs and be ready to justify these changes.

5. Next, using the services and functions in the line item budgets above as a basis, present your 2002 budget as a program budget (that is a budget with costs distributed across functional or service categories). A program budget takes the line item costs and distributes the same costs across specific programs.

6. Finally, write the cover letter to Ms. Parr and sell her on your proposed budget. This is the letter that will go on top of your budget package, providing the justification for why your unit needs the funds you say it will need. This letter should be no more than one page in length but it should succinctly highlight both the needs of your unit and the expected benefits that will accrue from the funding.