

Teletech corp

Business



It was explained that that one hurdle did not regard the risk level the segment was at. For example, although Telecommunications Services' return is lower than the hurdle rate reposed, it still could be profitable if the risk-adjusted hurdle is considered. The choice of constant versus risk-adjusted hurdle rate did affect the evaluation of each business unit. Suppose the upcoming project for Telecommunication services would have a return rate of 9.00%, if we used the hurdle rate of the corporate, then we would likely to reject the project.

However, if we use the segment's hurdle rate, we would gladly accept the project. On the other hand, if the rate of return of upcoming project in Product and Services was 9.50%, we would accept the project if we used corporate hurdle rate, but we will reject if we use the segment's hurdle rate. Telltale's resource-allocation strategy at the moment was not efficient because it regarded both business unit had the same risk, while in fact, they differed. And this would cause the firm making wrong decision most of the time. 4.

No, we do not agree that "all money is green".

It says that Telltale Corporation is one box. And everything happened in that box should use the same exact hurdle rate, therefore, it does not matter which segments are going for an investment, all the future projects should be valued against one and only hurdle rate. The argument in favor is that we do not finance each business unit separately. The diversification of the company keeps the capital cost down and eases each division to borrow money for improvement.

In addition to that, single hurdle rate can result in consistent and understandable performance review.

On the other hand, the argument against it is that it is not fair to Judge all investment against one hurdle rate as different business unit carries different risk. 5. Helen Bono is wrong. Investing all the firm's assets in the telecommunications division would not destroy the value of the company.

It will, on the other hand, examine the value. It is because the WAC of the segment is particularly lower than the ROCK rate. " If the Return on Invested Capital of a company exceeds its WAC, then the company created value.

The Real Value if we invested 100% of our capital in PIPS will result in only \$1 5. Billions of value, while if we invested 100% of our capital in T/S, we will get \$17. Billions.

Even though we try to mix both segments, it will still result in lower value than 100% oft/S. 7. Telltale should say to: Rick Phillips: He understands exactly the whole point and Telltale should consider the risk rate for both segments and apply different hurdle rates to value the investments each business unit is going to take.

Even though it might cause the calculation of NP to be inconsistent and harder to understand for the stakeholders, but if explained carefully, it would resolve the problem. Helen Bono: She is wrong Ninth her theory that if Telltale invests only on Telecommunication Services, the value Nil be going down. She is to provide a change within her own segment, try to figure out how to lower down the WAC of the segment.

If there is no progress after some time, then Telltale Corporation might have to sell that division in order to maximize value for the stakeholders.

In response to Victor Historian, Telltale should say that if the hurdle rate of 9.30% to all capital projects are based on to evaluate the business performance regardless of the risk, which also mean Telltale is undervaluing reallocation's Services and overvaluing Products and Services. Therefore, to create value for shareholders, NP of each division is needed measuring with different hurdle rates considered by the risk for each business unit. Then, the division which has negative NP will be eliminated.

Reference: 1 . Investigators 2014, ROCK, Investigators, viewed 11 September 2014,