

Sirius Restructuring - Business Case

Internal: DRAFT

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Table of Contents

Executive Summary	3
Strategic Context - The challenges the business is facing	4
A] The Covid-19 Pandemic	4
Overall Effect of the Covid-19 Pandemic on the business	4
Sirius UK Position due to Economic Effects of Covid-19	4
Sirius US Position due to Economic Effects of Covid-19	5
B] Significant Client losses leading to business shrinkage	5
C] Establishing Sirius US during a Global Pandemic	6
The Business Need - Now and into the Future	8
Getting back to growth with new sales	8
Region-specific Support now needed in the USA	8
Improved Standards Compliance	9
ISO 9001 and 27001 Requirements	9
Targeted benefits - What we expect to deliver	10
Staff Benefits	10
Comparison of Staff Position Before and After Restructuring	10
Staff Cost benefits	11
Sales Growth Benefits	12
Customer Retention and Service Quality Benefits	12
Options Appraisal	13
Evaluation of Potential Options	13
Action and Mitigating Options Already Taken	13
Implementation Strategy - What it is we're going to do and how	16
Approach	16
Risks	17
Costs	18
HR Advice and Oversight	18
Recruitment	18
Organisational Change and Development	19
Timescales	19

Executive Summary

Sirius Open Source (including the UK Limited company, Corporation and recently formed USA Incorporated company) has faced significant operating challenges over the 2 years prior to May 2022. A global health pandemic, client revenue fluctuations and evolving ways of operating have had significant impact on the commercial health of the organisation, requiring significant management action to ensure its survival and stability.

Despite these considerable pressures, Sirius *has* survived, stabilised and is showing strong signs of returning to growth with a healthy client business pipeline.

The significant challenges experienced have however made it clear to the management team that significant structural changes are required to key operational aspects of the business in order to continue to follow a successful path of growth and indeed to further develop the business strategy for the long term.

This business case document sets out the key rationale for a key component, reorganisation of technical support delivery, to meet client demand and operational need. The case indicates that the current exclusivity of delivery of support from the UK is no longer fit for purpose and will not enable Sirius to make continued growth and sustain client acquisition across all its currently targeted geographic regions.

The case therefore sets out proposed plans to move one of the 3 support shift patterns from the UK to the US and to move the staffing of that shift from UK resources to US resources.

Strategic Context - The challenges the business is facing

A] The Covid-19 Pandemic

Overall Effect of the Covid-19 Pandemic on the business

In common with almost every other SME, the Covid-19 Pandemic and the resulting economic and business environment has had a devastating effect on Sirius in both the UK and the US, resulting in the business losing revenue and shrinking dramatically due its effects.

As pandemic restrictions are slowly being lifted in both the US and the UK, we are seeing signs of recovery, but the legacy of the last two years, especially the revenue, cash-flow and accumulated debt effects, have put the business on both sides of the Atlantic in a delicate position. Recovery is still possible, and the management team are working on this basis, but it will require fundamental changes in the business, and especially in employee distribution and structure.

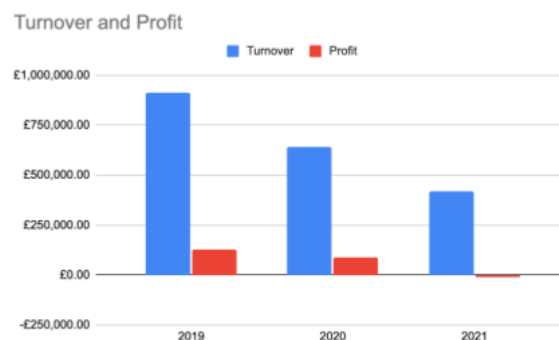
Sirius UK Position due to Economic Effects of Covid-19

- In 2019, Sirius UK turned over £913,026.63 and made a Net Profit of £126,752.60.
- In 2020, the first year of the Pandemic, Sirius UK turned over £639,240.11 and made a Net Profit of £89,670.08.
- In 2021, the second year of the Pandemic, Sirius UK turned over £418,550.90 and made a small loss.

Why we must Restructure

Covid-19 and Financial Position

- Declining UK Turnover over Pandemic
- Declining UK Profitability over Pandemic
- Investment in SiriUS
- Strained Cashflow
- But we survived!



The UK business coming out of the pandemic is less than half the size of the one going in and yet the company has retained the same number of employees and payroll costs. Sirius UK is now seriously over-staffed in comparison to actual revenue.

In cash terms, the company has gone from having a satisfactory cash position, and a reserve cushion, to operating on a ‘hand-to-mouth’ cash-flow basis, with significant liabilities only balanced by a sizable loan owed to it due to the startup investment in Sirius USA (which, should Sirius USA fail, would not be recovered).

As a company Sirius has shrunk in financial value to less than half its 2019 size, with a severely strained cash-flow and a deeply concerning balance sheet position.

Sirius US Position due to Economic Effects of Covid-19

Sirius USA was incorporated at the end of 2019, unfortunately coinciding with the beginnings of the Covid-19 Pandemic. Therefore, in the case of the US business, rather than a loss of business, the company simply failed to get off the ground as a ‘start-up’ and has had several years of negligible income despite incurring the significant overheads of operating a business with several full-time employees. This mismatch between revenue and the cost of operations has been funded by a sizable investment loan from the UK business.

B] Significant Client losses leading to business shrinkage

Partially as a result of the Pandemic already discussed, but also as a direct result of Customer Service and Support failings, Sirius lost a number of customers. Some, like ABN AMRO, were small annual amounts (although still prestigious from a marketing perspective). Others were financially significant and have caused serious financial (especially cash-flow) problems.

To illustrate, the two most important were Akrivia and RS Components.

Contact	Type	Jan-Dec 2021	Jan-Dec 2020	Jan-Dec 2019
Akrivia Health	Income	£42,150.00	£156,275.00	£397,260.00
RS Components Ltd	Income	£0.00	£52,000.00	£52,000.00

Revenue from Akrivia declined from £397,260.00 p.a. to £42,150.00 p.a. At which point they terminated their contract with us.

RS Components terminated their long-held contract with us in 2020.

In both cases the clients themselves cited poor customer service and support failings as their primary reason for termination, and forensic internal research by management and administration showed a history of service failings preceded the termination of contracts and loss of clients.

C] Establishing Sirius US during a Global Pandemic

Sirius is now no longer based just in the UK. Having incorporated Sirius in the US during 2020, Sirius has invested heavily in developing the business in a new geographic territory. The rate of growth of the US operation did not meet expectations and has been seriously stunted by the political, business and economic repercussions of the actions taken attempting to deal with Covid-19.

As economies have slowly recovered on both sides of the Atlantic, lead generation and sales have picked up once more.

Sirius has changed its marketing strategy and focus. The majority of its website traffic was historically UK generated, from the UK, and the company marketed as UK-based. We must now give equal weight to the USA. Our presence in the US has also had the unexpected effect of making us more attractive generally, to companies in other countries (Europe, Asia, South America, Russia and so on).

In fact the company's main growth is currently coming through US leads and conversions into US clients. There have been several client wins and there are now the first signs of the US operation winning further business. Sirius has won US Customers including the US Army, the IETF, Honeycomb.io, Akamai, and Argo AI. Due to management focus, and concerted effort to ensure the survival of the overall business, the US Sales pipeline is looking increasingly healthy with the prospect of some major client wins. In addition Sirius' recent partnership with CloudLinux and the joint professional services brand 'TuxCare' show every likelihood of being a significant revenue generator and source of new, shared clients.



This Marketing and Sales activity has the potential to turn SiriUS from a cost centre (to the UK business) to a revenue source, perhaps even a major one.

It is not without challenges however. The primary and major challenge being that Sirius' organisational structure and staffing is increasingly lopsided and unfit for the purpose of servicing our increasingly important US Customers. In short, SiriUS is under-staffed and unable to support the emerging US client-base without reliance on Sirius UK. Sirius UK is therefore resourcing the needs of the American business, including running the US daytime shift using the UK-night shift.

This approach has proven problematic from the start. The UK night shift has historically been mostly a care-taker function that monitors client estate availability, responds to service outages with some investigation and some small project work depending on resource availability. The increasingly important American clients expect a full day-shift service during US daytime hours. They are also more frequently indicating preference to be served by the local US business.

For these reasons, it has proved increasingly difficult to deliver the quality of service required to our US daytime clients from an out-of-hours late night shift from the UK. The expectations of our American clients are not being met.

The Business Need - Now and into the Future

Getting back to growth with new sales

The company is at a crossroads at this point, and must begin sustained growth once more to first regain lost revenue and then continue growth in order to meet its potential. Sirius cannot continue in business in its current form, with a client volume that is only marginally sufficient for survival, without risking the effect of repeated down-cycles that present the very real threat of business failure and the potential loss of *all* its employees' jobs.

Region-specific Support now needed in the USA

Historically Sirius has serviced predominantly UK based clients, only occasionally needing to provide service to other countries, and on those few occasions almost exclusively in Europe. Out of hours (in UK terms) support was provided by two minimally staffed (1 person) non-daytime shifts from the UK. With the acquisition of American customers, this arrangement is no longer appropriate and we urgently need a US-based daytime shift to service the growing American business.

Two customers in particular are calling for this, both newly developed partnerships with American Open Source companies - CloudLinux and Honeycomb. With CloudLinux we have developed the TuxCare joint venture, which provides Professional Services and Enterprise Support for North American customers. Honeycomb has outsourced its emergency support hotline to us, initially with its customer Vanguard (one of America's largest Financial Institutions) and with the intention of deepening the service from 'Tier 1' (call logging - catch & despatch) only to Tiers 1 and 2 (adding some ticket resolution), also looking to widen the service to more of its Enterprise customers.

These and other client wins will be best serviced by American national employees for reasons including working hours, cultural identification and revenue/expense matching (it is expensive to convert currencies and ship them across the Atlantic). Distributing employees more widely geographically also gives us a subsidiary benefit of resilience in the face of disaster recovery and contingency arrangements from events such as storms, extreme weather and Natural Disasters.

Improved Standards Compliance

In order to win business in the competitive Open Source marketplace it is increasingly no longer sufficient to simply claim an 'Open Source' ethos. The levels of professionalism required to win significant business are now extraordinarily high, and include compliance with such standards as:

- ITIL
- GDPR
- HIPAA
- Digital Marketplace (UK Government/Public Sector business)

Sirius needs to continue to systematically pursue relevant industry standards and build on its initial success from achieving the prestigious and recognized ISO 9001 and ISO 27001 standards in 2019. These have undoubtedly improved Sirius' position in winning new business with substantial clients but are also increasingly imposing higher standards and new working processes on our business and especially on our staff. In short we have far higher standards to live up to.

ISO 9001 and 27001 Requirements

Sirius needs to make improvements to implement detailed job descriptions for all staff roles to set out a more cohesive approach to delivering its services to UK and US clients, alongside new updated Citation contracts. This is a requirement of ISO 9001 to ensure all employees know what is required of them and will be further reviewed in detail at the upcoming annual ISO Audit.

This year's ISO compliance audit at the end of 2022, is a full audit of all of the company's processes and standards compliance. It is fair to say that we have perhaps narrowly achieved full compliance in the minor checks of the past two years, but a different approach will be required for a major audit or we will be at risk of losing these two quality marks (which would cost us both existing business and future sales). Sirius cannot afford to fail in this area and must make further improvements in its working practices, procedures and processes. These changes must be reflected in updated staff contracts and staff development procedures.

Therefore, Sirius needs to:

- Bring in a new organisational structure and staff contracts that support the new business realities and requirements from financial, revenue and geographic pressures
- Implement corresponding new staff development and review processes that deliver full compliance with our targeted industry quality standards
- Simultaneously take the opportunity to implement a new staff training and incentives programme that will dramatically improve staff development opportunities

Targeted benefits - What we expect to deliver

Staff Benefits

- Career Progression, clearer defined roles within a larger organisation
- Structured Training and Skills Development
- Better Clarity, Structure and Communications
- A staff incentives programme

Increasingly Sirius staff members are sharing with management that they have higher expectations for career progression and would like enhanced roles. This can and will be accommodated as the organisation returns to growth.

Comparison of Staff Position Before and After Restructuring

Before	After
Career Development	
<ul style="list-style-type: none"> • Lack of visibility of roles/opportunities • No obvious career progression • 'Ad Hoc' • 'No future' 	<ul style="list-style-type: none"> • Structured Progression based on Performance Appraisals • Equal Internal/External Market for Opportunities • Career Path
<ul style="list-style-type: none"> • No official Incentives program • 'Spur of moment' (perceived unfair?) • 'Ad Hoc' 	<ul style="list-style-type: none"> • Recognising/Rewarding effort and innovation introduced into culture • Incentivised Performance Appraisals • Outstanding Performance Incentives
Training	
<ul style="list-style-type: none"> • Ad-hoc 'training' program • Staff-driven (if that) 	<ul style="list-style-type: none"> • Structured Training Program • Whole Company approach • Individual staff training plans
Team Development and Collaboration	
<ul style="list-style-type: none"> • Low Team Spirit • Absence of shared work ethic • "What's going on?" 	<ul style="list-style-type: none"> • Set out clear responsibilities for all, so workload shared across all staff fairly • Providing improved opportunities for collaboration • Improved communication • Improved Tools (e.g. better use of Slack, project management tools) • Addressing recognition that overnight

	<p>working can be isolating.</p> <ul style="list-style-type: none"> Improving the Mental Health of staff to bring them into a healthier timezone and lifestyle.
Improved Terms & Conditions	
<p>Outdated contract between Employees and Sirius - (doesn't currently reflect technological reality, modern ways of working, no 'rights' and corresponding 'responsibilities' defined) - hence lack of clarity in relationship</p>	<p>Updated contract, properly setting out benefits and expectations, ways of working and more explicitly stating what the company expects, and what staff can expect in return. This is needed in order to enable career development, training and incentives programs.</p> <p>Improve policy items such as more extensive use of home working and bereavement policy.</p>
<p>Job Descriptions are not always consistent and aligned to company goals and career development objectives. They are also not always complete (we don't have a job description for every role). Limited measurement of performance, and metrics to live up to.</p>	<p>Revised company organisation structure in-line with corporate objectives. Detailed Job Description, with accompanying metrics and training program for every role. A training plan and career development path will be visible for every role and every member of staff. Defined <i>measurements</i> of performance, and metrics to live up to.</p>
<p>Limited definition of personal goals and targets. Corporate goals and targets are not always well shared and measured.</p>	<p>Well defined goals and targets, with support from Management for performance management.</p>

Staff Cost benefits

- Staff salaries to be reviewed in line with progression in corporate revenue
- Address UK/US exchange rate conversion mismatches (cost of shipping money around.)

Sales Growth Benefits

Our new US clients and client prospects are increasingly stating as a benefit the desire for support to be delivered by the US business through US-based staff. We expect this to lead to a significant improvement in our success rate for new business development.

- Increased new business acquisition
- Improved capacity to deliver services to a broader range of clients, through provision of day-time based response rather than 'out-of-hours' UK shift cover
- Greater ability to scale support services in-line with variance in demand

Customer Retention and Service Quality Benefits

Having a US shift will address many of the challenges experienced to date with covering US clients from the UK.

- Fuller, more proactive and more collaborative service expected from US day shift
- Better cultural match to Local Economy (improved ability to do the job through better understanding of cultural norms, US economy and political and environmental factors)
- Reduced technology burden from international call-routing
- Improved response times to customers from reception, sales and support calls.

Options Appraisal

Evaluation of Potential Options

Firstly, the severity of the current financial position of the business (a small profit loss last year) from the factors described in previous sections is significant enough to consider the viability of the overall business. One extreme option might be to close the business in a structured and controlled way in order to prevent continued decline into an uncontrolled closure and harsher impacts on staff, creditors and investors.

Having considered this option, the management team is confident that the efforts of the last 18 months have been very promising and the continued restoration and growth of the business is highly achievable if appropriate remedial action is taken.

Significant Factors have already been undertaken to mitigate and achieve the performance improvements to date.

Action and Mitigating Options Already Taken

- Kept existing staff on payroll rather than making drastic staffing cuts.
- Using UK Staff to handle US work
- Sharing phone systems

Why we must Restructure

Mitigations and Returning to Growth

- Eliminated Office
- Reduced Costs
- Flexible use of Associates
- Bore brunt on Management Team
 - Shrank Management Team (Account Manager, Head of Digital)
 - Management Pay Cuts

However, significant further action is required as set out above and the following options have therefore been considered:

Options Appraisal			
No.	Description	Analysis	Outcome
1	Do Nothing / No Change (Continuing to run support entirely from the UK)	Despite persistent attempts to improve services to US clients via the UK night shift, it has not been possible to meet the existing (currently minimal) demand that is coming from US clients. No change, would lead to continued US client dissatisfaction and impact our ability to recruit new clients and grow the business in line with plans. Further it would be forecast to see further client losses and reduction in revenue.	Rejected
2	Lay off staff members to reduce staffing to a size commensurate with current revenue.	Current demand from both UK and US customers is already being met in a sub-optimal way and further reductions in staff numbers would likely lead to further client losses in both the US and the UK.	Rejected
3	Lose 24/7/365 support operation and shrink to a simple consultancy	Whilst this option would be financially viable, it would remove a key selling point for current client business and reduce our ability to attract further new business. It would also include a requirement for staff redundancies without replacement. Our analysis suggests that this would therefore further negatively affect overall revenue and our ability to grow the business.	Rejected
4	Restructure Support Shifts to balance resources across UK and US	Our assessment of the potential benefits that this restructure approach would deliver and the problems it would solve,	Selected

		<p>suggest that this approach will provide significant value to both the business and to the majority of Sirius' existing staff. The approach is targeted to align with the significant business development opportunities being seen in our US market and targeted to improve both business retention and business acquisition. It is further anticipated that we can also achieve significant improvements in staff benefits and our long term development objectives in parallel.</p>	
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Implementation Strategy - What it is we're going to do and how

Approach

What we are proposing is to restructure staffing across America and the UK. This will see the introduction of a new organisation structure that fully sets out the resource model of the business to match its operational needs.

- We will fully define job descriptions for each role to ensure that we more accurately set out how the business will meet the needs of its clients and enable us to better align our staff development to those needs.
- We will target staff development, acquisition and retention of high-calibre, motivated staff to support our plans for growth.
- We will implement a support day-shift in the USA to meet the demands of our emerging USA business and provide us with the best chance of success. Specifically, this will entail the replacement of the UK evening shift (Shift 3 - 17:30 - 01:00) entirely with a US daytime shift, staffed by US support employees.
- To achieve the above, we will implement updated contracts suitable to the new international business and current operations.

What this means for the Sirius Group

Organizational Chart - planned new structure



Risks

Risk Log (initial draft)				
No.	Risk Title and description	Mitigation	Severity	Probability
1.	Disruption impacts staff morale	Ensure regular communication to staff throughout the process. Give transparency of the process, criteria used and outcomes. Actively invite staff engagement and involvement in helping to shape the new Sirius structure.	High	Medium
2.	Support service impacted during restructure	Ensure restructure process is thoroughly planned and timescales are realistic to avoid impact on required resources. Ensure US service is transitioned in place with overlap and handover before UK service is decommissioned. Ensure adequate contingency planning for implementation.	High	Medium
3.	Lack of knowledge of Sirius process in new US Support Team	Ensure adequate knowledge transfer and provision of Sirius standards and existing processes. Complete identification and documentation of any gaps. Potentially explore ISO certification or equivalent accreditation in the US team to ensure high quality from the outset.	Low	Low
4.	One-off costs from onboarding new team are higher than expected	Ensure each stage of the restructure is carefully coordinated to minimise	High	Low

		costs. Use local US resources for US recruitment. Use appropriate networking and all available non-cost channels first for recruitment. Consider longer-term approach to restructure if this provides better value for money.		
5.	Reduction in UK support capacity impacts UK clients	Ensure introduction of new US day-shift includes adequate planning for out of hours UK support. Ensure overall restructure planning includes provision of all support shifts including weekends, public holidays, staff leave and sickness. Ensure evaluation and monitoring processes are included in the implementation plans to measure success-rate of new approach.	Medium	Low

Costs

HR Advice and Oversight

The restructure process will involve the use of specialist external Human Resources services to support adherence to legislation and HR governance. Sirius is fortunate to have already retained the services of Citation Ltd, whose advice, guidance and oversight is already included in our existing HR services contract. There will therefore be negligible cost impact from this factor.

Recruitment

The number of roles involved in the initial reorganisation of support is expected to be 2-3. Recruitment costs are expected to be minimised by opening up the new US roles to existing staff and to external applicants using networking, open source recruitment channels and other

low-cost options. In the event that paid external recruitment is required, sufficient funds may be required.

Organisational Change and Development

The management team is able to conduct all other organisational change activity with its own resources and experience. Costs here will be lost-opportunity cost from needing to focus on the re-organisational activity rather than other business development or operational matters.

Timescales

The reorganisation of support is required as soon as is achievable in order to prevent further negative experience and perception from existing US clients and to maximise the acquisition of new prospects. It is also considered highly desirable to achieve this before further significant acquisition makes the process a much bigger task.

The reorganisation process is therefore targeted to begin in May 2022 and to complete in July 2022.

This planning includes significant staff consultation and the initiation of all key programmes that it includes.

What happens next

Restructuring Timeline

