



Progress Software Corporation

Insourcing Vs. Outsourcing: Choosing the Best Option

Featured Case Study

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The Situation In 2009, having faced the challenges of internally managing a ~\$200M recurring sales operation that relied on spreadsheets and manual quotes/orders, Progress Software made the decision to outsource this critical function. Leadership believed they could gain efficiencies by outsourcing their renewal sales business to a 3rd party company that specialized in selling recurring revenue products.

The business case to outsource had appeared straight forward. It was expected to improve revenue retention by utilizing well-trained sales teams with proven systems/practices. But over the last year, Progress began to question the effectiveness of the 3rd party's performance. Success metrics were not specific, and a series of acquisitions/divestitures, along with a new ERP system, had clouded previously set baseline measures.

At this point Progress asked Synergetics to assess its renewal business unit and to validate if outsourcing's return justified the premium in expense. The Progress CEO/CFO team of Phil Pead and Chris Perkins, having worked with Synergetics on previous company engagements, brought Synergetics into an organization they were again leading. Their strong positive history of success led to this decision.

The Business Analysis Synergetics' objective was to conduct an in-depth analysis over 8 weeks, provide clarity to the Leadership Team in determining the value and success of using an outsourced service, and identify opportunities for savings.

4 Key Areas to Maximize Revenue and Efficiencies

- *Current business state now as compared to pre-sourced*
- *Potential benefit(s) of insourcing vs. outsourcing*
- *Operational requirements to insource, with investment estimates needed to support required infrastructure*
- *Contractual obligations, risks, and opportunities with the 3rd party outsource agency*

Progress Software Corporation is a global software company that simplifies the development, deployment and management of business applications. The Progress portfolio includes solutions for enterprise integration, data interoperability and application development, to include Software as a Service (SaaS) enablement and delivery. Incorporated on December 31, 1981, Progress' headquarters are located in Bedford, MA.

Progress products and technology are used at over 60,000 organizations in 140 countries, including 90% of the Fortune 500. Progress technology provides the infrastructure for applications as diverse as ERP and financial trading, across a broad range of industries that include retail (Smartstores), manufacturing, telecommunications, financial services, and government. Its best known product is the OpenEdge ABL (formerly known as *Progress 4GL*), developed in the early 1980s.

The company is comprised of three business units: OpenEdge, Data Connectivity & Integration, and Application Development & Deployment. It has numerous offices worldwide, with its European headquarters located in Rotterdam.



"Synergetics provided us tremendous project management support and status reporting throughout the implementation, allowing our team to react appropriately and build measurable 'wins' as the project progressed."

Chris Perkins, CFO
Progress Software

Key Findings:

- ✓ Customer retention rates were negatively impacted as a result of outsourcing -- net growth within the business unit was driven by higher new sales and acquisitions, and not higher retention rates.
- ✓ If renewal sales were insourced, there existed an opportunity to reduce OpEx spend by \$2.5M annually, or 40% of OpEx, with the potential to generate \$1M of incremental revenue through a reduction in revenue leakage as well as churn reduction.
- ✓ Infrastructure investment to the enterprise system would be required to effectively support the renewal sales operation, a high volume of sales transactions of ~10,000 sales cycles annually.
- ✓ There was a strategic project path available that would make insourcing costs net neutral by offsetting investment with in-year savings through tight sequencing of key events.

With these findings in hand, the Executive Leadership Team made immediate plans to begin moving the renewals business and processes back in-house.

The Implementation Project Through a series of Leadership meetings, the consulting team laid out a two-phased approach that consisted of a **Phase 1 "quick win" concept** and a longer **Phase 2 multi-step phased approach**. Phase 1, seen as a high value/low effort segment, was a 45-day plan which yielded savings of approximately 15% of the renewals business. **The effect was an immediate reduction in annual OpEx of more than \$700K** – to be used in funding the rest of the 18-month implementation and to keep project cash flow positive for the entire duration.

Phase 2 – Building Capabilities

This intensive phase required an investment outlay to build sales and forecasting systems capability, hiring and training a team of sales reps, and coordinating the transition of business with the 3rd party outsourcing agent. Precision of execution was paramount in preventing stranded costs. Additional emphasis was placed on building a new management toolset to better control and improve business processes, reduce revenue leakage, and drive efficiencies.

Software Development

To effectively manage a high volume renewal sales operation, Progress needed a software toolset that enabled seamless forecasting/quoting, customer management, and order entry. Synergetics developed a Make vs. Buy business analysis model with input from IT, Business Operations, Finance, and Sales for a quoting tool that integrated into both their CRM and ERP systems. They also provided design support for best practices and created efficiencies through automation.

Business Relationship Management

A critical element to the success of the project was keeping the outsourced sales team engaged in the transition process to prevent revenue stream and customer service disruption. Detailed coordination and joint transition planning with all sales teams enabled both parties to achieve their goals.



Staffing

Detailed staffing models were developed to understand the relationship between volume, transaction complexity, product mix, and work effort to ensure each shared service center was effectively staffed. An HR partnership was vital for success, as staffing costs comprised the largest input into the company’s OpEx. These costs required constant monitoring to keep the project cost neutral.

Management Toolsets

Forecasting: Throughout the project, forecasting was an area of high focus to ensure business units were effectively managed during the transition period. To improve accuracy, forecast models were rebuilt moving from a high level historical estimate to a bottom-up model driven from quote line items. The managerial alignment (variable compensation) was changed from bookings to revenue, and this had a very positive effect on business performance.

Budgeting: A bottom-up model of the entire renewals book of business enabled the finance department to specifically account for churn, carryover, and price changes.

Reporting: Operations reports and cascading dashboards were created to enable proactive oversight of sales, operations, and business intelligence to better recognize and respond to underperforming segments of the business.

The Impact By bringing Renewal Sales Operations back in-house, Progress Software made significant improvements to several key metrics.

- Operational expenses were reduced by \$2.7M, a 44% reduction
- Improvements to renewals recovery of \$1M+ annually were recognized
- Churn reduction and revenue leakage gap closure within operations led to over \$1M in revenue recovery

Overall impact to the bottom line amounted to \$4.7M as a deliverable, and on-time renewal rates improved by more than 10%. Although not specifically captured in survey format at the time, anecdotal customer feedback on the new operations team was very positive.

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With two office locations in the US and UK, Synergetics operates internationally and employs over 150 professionals as analysts, consultants, project managers, and subject matter experts. As one of the largest “Implementation Consulting” organizations, Synergetics has completed over 1,600 business process engagements across 9 distinct industry verticals. It has built more than \$8B in bottom line profitability and improvements in overall operating efficiencies.

Synergetics has a diverse client portfolio comprised of leading industrial and service corporations across Private Equity, Small and Medium Enterprises, and Fortune 500 Companies. With customized service offerings and solutions, Synergetics performs detailed management, financial, and operational assessments to develop and deliver specific cost savings and revenue enhancement initiatives.

“Partnering with Synergetics to help us thoroughly evaluate the opportunity and project plan was critical to the success of the initiative. Their hands-on and collaborative approach was vital to a successful transition on a key customer facing area of our business.”

Chris Perkins, CFO
Progress Software

For more information

E-mail us at:
info@synergeticsww.com

Visit us on the web at:
www.synergeticsww.com

Call us:
+1-603-433-8940

Mail us:
75 Congress Street,
Suite 201
Portsmouth, NH 03801
USA

