



Association of Software Company Owners

# Success Story

*Improving Results for Business-to-Business software companies*

## Software Company Profitable For 30 Years Maintains Top Price to Earnings Ratio in its Sector Over an Extended Period

**Earns Average of 14% Return on Sales During the  
Toughest 5 Years the Software Industry Has Seen  
Charges Significantly More Than Competitors  
Hard Data Shows the Customers Love What They Get for the Price  
They Pay**

**Keys: Laser-Like Focus, Do Right Thing for Customer, Do Right Thing for  
Company**

*By Tom Ingram, PMP*

How can a low-key software and services firm in southern Missouri outperform 99% of all public software companies over the last five years?

How does this software company charge prices that are significantly higher than some competitors, yet their customers consider the cost a good bargain?

An acid test: If you were courting a prospect to sell them a software system, would you turn them loose to talk to any one of your 1500 customers with no strings attached? This Company does.

Jack Henry and Associates, Inc., headquartered in the southwest corner of Missouri (near Branson in the Ozarks) has performed exceptionally over the last 30 years and, in particular, in the last five years.

Jack Prim, CEO of Jack Henry was kind enough to share his views on what makes this company distinctive and what contributes to the

spectacular record of results that they have accomplished over the last 30 years. Following are some lessons that, hopefully, will be helpful to you as you seek to improve the performance of the software companies that you are associated with.

**"Sometimes having a strategy means being able to say 'no' to an opportunity."**

**Laser-Like Focus:** "I came to Jack Henry several years ago through an acquisition," Prim explains, "The first thing I was impressed with was the company's 'laser-like focus' on what business it is in and what business it is not in."

"I have seen three or four other situations in my career that were undone by a lack of focus. These companies had a strategic focus that changed every quarter. One of my favorite quotes, which I don't know the source of, is



'Sometimes having a strategy means being able to say no to an opportunity.'"

Prim continues, "Our focus is a significant competitive edge, especially against our key competitors [which are typically larger and often very well funded]. Our profitability is higher and the price to earnings ratio of our public stock is higher than most of our competitors. The reason our P/E ratio has remained strong over time is that our focus has allowed us to maintain growth and profits, while some of our competitors have not been able to produce consistent results.

**"The six most expensive words in business are, 'We've always done it that way'"**

### Experimentation and Listening to Customers Result in Major New Business Area:

Prim describes his views on the need to continually become more than what you are today. "One of my favorite quotes, which the people around Jack Henry almost get tired of hearing, is, "The six most expensive words in business are, 'We've always done it that way', by Katherine DeVrie.

"My best example of this need to stretch beyond what we used to be is that, prior to 1995, we primarily provided core accounting systems for banks. Around that time, our customers started experiencing significant change with industry consolidations and the extreme complexity of the new products and services that they were trying to offer. Our customers told us, 'we want these things, but we've had reductions in force and consolidations to the point where we don't have personnel or attention span to deal with them. We will buy these products and services from you if you will manage the complexity for us.'"

"This resulted in Jack Henry entering the outsourcing business in 1995. This outsourcing area has been an enormous success for us. It is

possible that we might not have survived the difficult times in the last five years without it." [Editor's Note: Having worked with, observed and studied hundreds of software companies, I am convinced that Jack Henry would have survived without the outsourcing business unit because of the other inherent strengths of the company. Jack Prim is perhaps being a bit modest here, but the point is that being close to customers, listening to their needs and responding resulted in a significant new strategic direction for the company that paid off spectacularly.]

Prim also mentioned that Jack Henry has made a successful expansion into the credit union business based on the inherent strengths of the company.

### Understanding Customer Problems Better Than the Customers Do:

As mentioned above, Jack Henry understood that its customers were facing an enormous wave of complexity and had limited personnel to deal with that complexity. Out of this difficulty, and out of understanding the customers' problems, as well as Jack Henry's strengths, the successful outsourcing business unit was born.

#### Jack Prim, CEO – brief background

- Worked for a bank in college
- With Burrough's for eight years after college, selling and servicing bank systems in Charlotte, North Carolina
- Moved to a banking service company that offered a more "turnkey" solution.
- The company he was working for was acquired by Jack Henry and Associates, Inc.
- Currently 50 years old, CEO of Jack Henry and Associates, Inc.

**An Example of Focus:** ASCO (see sidebar at end of case study) is completing a study of the 5-year financial performance of



some 300 publicly held software companies. The results of this study, coupled with what I have observed in practice, are beginning to make it clear that "Being Focused on the Right Customer" is probably the single most significant success factor for software firms.

It is also, perhaps, one of the most difficult things to do. I am often asked, "How do you know if you are focused tightly enough on the right things?" While there is no easy answer, I will direct you to ASCO's web site [www.ascodirectory.com](http://www.ascodirectory.com) for a listing of success stories. There are a dozen or so cases cited where software firms found the right mix of focus.

Jack Prim added an additional example that I find instructive.

**"We have comprehensive annual customer service studies and hard data to show that we charge more than our competitors, and our customers like it."**

**Saying "No" When Many Competitors are on an Acquisition Binge:**

Prim and I discussed things that tend to go wrong when companies with more money than sense go on acquisition binges. They tend to overpay for companies, acquiring them close to the peak of their value, which happened to an extreme degree during the tech bubble of the late 1990s. Approximately 80% of the time, the acquisitions failed to produce the promised benefits to the acquiring shareholders due to failures of execution, failures of judgment, self-service, etc. Prim mentioned that they walked away from numerous potential acquisitions over the last five years.

**Saying "No" to buying a base of customers:** Prim explains, "The pitch is that by acquiring a particular company at an extreme bargain, we could acquire a base of customers far cheaper than we could ever grow the equivalent number of customers ourselves.

While this approach has some merit, and can work, we declined to pursue it for a number reasons:

- We concluded that acquiring the customer bases in this fashion was too costly.
- We concluded that the acquisition of an entire new firm, with all its people, its initiatives, its products, etc. was simply too distracting. It would dilute our efforts to remain focused on serving our customers.
- Customer expectations and culture often do not match when acquiring firms. We provide a significantly higher level of service for what we offer than most of our competitors. Often, the competitors that we might acquire operated as low-end providers, and provided less expensive systems and lower levels of service. As a result, the customers were used to paying quite a bit less, and getting quite a bit less. When we would acquire this type of customer base the customer was delighted to receive substantially improved service, but dismayed, and often unwilling, to pay the additional price associated with the service we provided. We recognize that not every customer is interested in our bundle of exceptionally high value products and services at prices that reflect this high value.
- In the final analysis, we did not want to "Hurt the ones that brung us to the dance". Our conclusion was that these acquisitions would pull too much of our attention away from serving our customers.

**Charge More and Be Worth It:** Prim and I discussed customer service, customer value and the passion for customers that exists within the culture of Jack Henry. "We are often the highest price provider in our area. We lose some business on price, and we think that's OK." (See discussion of declining to acquire customers above.)



"We know that we provide a significantly higher level of service than most of our competitors. We have extensive customer service measures, even to the daily performance of key customer service issues".

"We are priced consistently higher than our competition, but we have comprehensive annual studies that indicate our customers see the additional value."

**The Only Customer Service Measure That Really Matters:** "We think the most important customer service question that we measure is, 'Would you recommend us to a close friend or relative?' This is the end-all, do-all of customer service measurement."

"Our customer feedback says we are providing levels of service that are actually above what we need to provide in order to justify our prices."

**The Need for Strong Margins:** Prim and I discussed why software companies, and businesses in general, need to strive for high margins – and the implications for the software business. We agreed on the basic concepts that call for strong margins:

1. Healthy profit margins are one of the best indicators that you are providing significantly better value to customers than your competitors.
2. Things go wrong. Recessions occur. Oil embargos occur. "Stuff happens", and a prudent business needs a significant cushion to be prepared to absorb these shocks.
3. We live in a lawsuit-happy society, and, even assuming we do nothing materially wrong, a software company must budget for defense against frivolous claims. It is also prudent to provide some type of litigation reserve for the unexpected adverse outcome.
4. These higher profits are essential to maintaining customer service. Prim and I agreed that we have watched numerous

firms operate too close to the edge, believing that keeping their prices low was the best way to increase sales. When one of the "shocks" described above hits the business, the first things to go are often levels of customer service and future investments in providing increased value to customers. This creates a declining spiral of unhappy customers, fewer deals won, fewer referrals, declining revenues and further declining ability to provide value and service customers.

**The Only Customer Service Measure That Really Matters:** "We think the most important customer service question that we measure is, 'Would you recommend us to a close friend or relative?' This is the end-all, do-all of customer service measurement."

**The Mission Statement that Everybody Gets:** Prim described the short version of the company's vision/mission statement. He also mentioned that, while they have a more in-depth, formal set of statements, this is the statement that sticks in everyone's brain. It is, "Do the right thing, do whatever it takes for the customer, have fun."

Prim goes on to describe a situation where Jack Henry put its money where its mouth was. "There are situations that arise in the software business where customers and software suppliers get upset with each other. Sometimes it is the customer's fault, occasionally it is our fault and often it is due to the simple realities and difficulties of this industry.

We have discovered that it is far more effective to give the customer the benefit of the doubt and either make it right or refund their money. By taking this approach, we avoid the enormous management attention drain that goes into battles with customers. We also avoid sending mixed signals to our organization. In fact, this willingness to do the right thing for



the customers, even if it costs us money, sends very important positive signals to the organization.

In one case we refunded over \$250,000 to a customer. Not necessarily because we were wrong, but because it was the right thing to do. This customer has stayed with us and we have certainly earned back that revenue."

"We also work at not taking ourselves too seriously. We try to stay low-key and recognize that life is too short. We work on having fun."

**Fun Instead of Fear at User Group Meeting:** If you ever want to strike fear in the heart most software salespeople, suggest that they disclose a list of all the company's customers to their current hot prospects. Suggest that the prospect is more than welcome to talk to any customer.

Jack Henry and Associates, in effect, does this. At annual user group meetings, approximately 1500 customers are represented. The Jack Henry salespeople bring new prospects to these user group meetings and turn them loose. The prospects are free to talk to anyone they wish to, completely unfettered and unhandled by the sales force.

"We have found that doing the right thing, over time, really pays off," Prim concludes.

**"In one case we refunded over \$250,000 to a customer. Not necessarily because we were wrong, but because it was the right thing to do. This customer has stayed with us and we have certainly earned back that revenue."**

**Shortening Sales Cycles:** I asked Prim what advice he would have for software companies struggling with sales and long sales cycles. "We are a mature company selling in a mature industry, and there is little that can be done to substantially shorten the sales cycles. Having said that, let me offer a few things that you need to make sure you're doing:

- Make sure you are qualifying the prospects well.
- Make sure that prospects have sufficient pain to motivate the change needed to buy your system .
- There is more attorney and consultant involvement in system sales these days, which is causing delays and problems.
- Be prepared to walk away from the deal. [Editor's note: this is one of the most common themes among successful software companies. The unsuccessful software company takes any business it can get, allows promises and expectations to be stretched to close the business, then fails to produce a happy customer and a profitable project. The unsatisfied customer does not buy more or produce referrals, and a negative declining spiral results. The successful companies work hard to fill their pipelines so that they can accept only the business that they are confident will produce both a profitable project and a happy customer.]
- The biggest challenge is getting the prospect to make a decision to change. This means picking prospects well. One of the great mistakes is spending too much time and attention on prospects that are marginal or unlikely to make the change needed and too little time on the prospects that have the higher likelihood of making the needed change and the needed purchase.
- Watch for shenanigans by incumbent vendors. When we are heavily involved in a sales cycle, often, the incumbent vendor, which has been selling on low price, will cut their prices even further to make us look extremely expensive by comparison. We often walk away from this type of business. We know that the competitor cannot



provide a reasonable level of service at the price they are selling at. We know that we will have another opportunity down the road to sell a system or services to the customer for a reasonable price. We know they will be unhappy with the incumbent competitor that focuses on price alone to win.

- **Focus on selling to business unit executives (not the IT department.)** Let me offer a caution. We recently went through a situation where the business unit executives told us we had convinced them that we were the right solution. Then they handed us off to their "negotiating team". This team included consultants and lawyers – but not the people who really had to do the job. This was the toughest negotiation situation I've had to deal with in 25 years.
- **Make sure you are calling on business executives who have a significant problem that you can solve and who have access to a budget."**

**What We Have Done Different From Our Competitors:** Prim comments, "As discussed, the first thing that stands out versus our competitors is our focus. Close behind is that we have been willing to do the right things for the customers – even in difficult times. In the last five years, which has certainly been the toughest that the software business is seen in a long time, we have invested significantly in our products and offerings. We invest significantly in customer service and support, and believe it is our primary sustainable competitive advantage."

"Over our existence, we have made some 30+ acquisitions. We have spent significant amounts of money to train every new customer service person. We are currently spending millions on a CRM (customer relationship management) system to make sure that all of

our acquired entities present good service to customers."

**Editor's Note On Customer Service and Customer Value:** I commented to Jack Prim that one of the things I find interesting about Jack Henry is that customer service is not a slogan. In our entire discussion and my review of Jack Henry's publicly available information, I did not hear the traditional customer service slogans and pabulum.

What I did observe were numerous tell-tales that customer service and creating value for customers are simply embedded into the entire fabric of the organization.

**Customer Service Culture as Primary Competitive Advantage:** Prim went on to discuss the need to preserve the customer service culture that is currently healthy at Jack Henry. "We know that we are performing at a level beyond our competition, and have done so for a long time. We believe that customer service is our primary, sustainable competitive advantage, and that customer service is a function of culture [not slogans]."

"We are taking a number of steps to embed this customer service culture into our organization for the long-term, even as we grow. For example, all of our senior executives teach parts of our training courses to management. We teach our people college-level topics to help bring out and sustain the skills necessary to maintain the company's competitive edge and performance."

"We recognize it is necessary to promote and sustain the culture through growth." [Editor's Note: I have seen numerous companies with solid customer service cultures go on acquisition or growth binges and devastate their formerly good record of taking care of customers, providing value and making a profit.]

**Investment Bankers and Venture Capitalists are Not High on His List:** Prim



explains why he is very cautious in dealing with people who are bringing him deals. "At a previous company I saw my management become mesmerized with the lure of taking the company public, and the financial gains of doing so. They did short-term things to hasten the public offering and the appearance of the financials, but those short-term actions substantially hurt our culture and performance."

"We thought that after the company went public, the pressure and nonsense would cease. This did not happen because once the company became public, our bosses had to keep the stock price up for 3 years or so in order to cash out. This meant that they lived and died by the quarterly reports and stock price. We were whipsawed back and forth between trying to do the right things for the business and turning somersaults to make the quarterly numbers look good. This is a counterproductive way to run a business and I eventually got out."

**Summary:** Jack Henry and Associates' financial performance and record of customer service is enviable and worthy of imitation. I note the following key elements that are worthy of imitation in other software businesses:

- **Laser-like focus** – particularly on the decisions regarding what sales to pursue and accept what things not to pursue and accept.
- **Customer service and customer value as the single most important sustainable competitive advantage.** Most of the public software companies that ASCO studied and that I have observed and worked with over 23 years are focused on something other than producing results and value for customers.
- Avoiding the big snares and distractions of acquisitions, deals, turning somersaults to

take the company public, then turning further somersaults to keep the stock price propped up, etc.

- **Margins high and customers happy to pay them.**

**"...we conclude that Jack Henry is among the top 3% of software companies. ...the underlying fundamentals of Jack Henry & Associates are consistent with the fundamentals of other software firms that produce strong returns for shareholders."**

ASCO is just completing a study of 300 publicly held software firms. By being profitable for the last five years, we conclude that Jack Henry is among the top 3% of software companies. Perhaps more important than the recent performance, I find that the underlying fundamentals of Jack Henry & Associates are consistent with the fundamentals of other software firms that produce strong returns for shareholders.

Hopefully, you will find these lessons from Jack Henry and Associates, Inc instructive in improving the performance of the software companies you are associated with.



Association of Software Company Owners

---

***Need further information?***

Call us if you would like more success stories, have questions or would like more information. This case is written as a teaching tool and is not intended to fully describe exact details or dialog.

***Feel free to duplicate and redistribute this article!*** (provided you distribute it as a whole, with credit to the Association of Software Company Owners) See [www.ascodirectory.com](http://www.ascodirectory.com) for details or contact us at 972-394-5736.

***The Association of Software  
Company Owners  
(ASCO)***

ASCO is a group of owners, investors, CEOs and other professionals focused on business-to-business software companies. We help owners and investors reduce the risk and improve the returns from their software companies.

We help our members and associates through success stories, case studies, conference calls, peer review and a network of professionals. For more information go to [www.ascodirectory.com](http://www.ascodirectory.com) or call 972-394-5736