

# ACCPAC PRO SERIES

How to Restore Pro Series to a leading Position  
in the Accounting Software Market

# PRO SERIES MANIFESTO

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## OVERVIEW

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Pro Series, the SBT middle-market accounting library acquired by ACCPAC in July of 2000, is a product in decline. Since the collapse of the original SBT NOVA project, Pro Series has declined in the market for accounting software relative to its rivals. In addition, the channel of independent value-added resellers that sell and support Pro Series has suffered a net loss in numbers, average years of experience and average, annual SBT and ACCPAC purchases during this same period. This document is a strategic plan of how to restore Pro Series to a leading position in its market and stop the erosion of the Pro Series reseller channel.

This strategy depends on two initiatives:

1. Successfully executing the Pro Series product development plan described in “ACCPAC Source Solutions...The Future,” published by ACCPAC in November 2000.
2. Changing the Pro Series marketing plan to one that makes the product’s open architecture its distinguishing characteristic.

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## PRODUCT DEVELOPMENT

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“ACCPAC Source Solutions...The Future” is ACCPAC’s development plan for all three of the SBT product lines: VisionPoint, Pro Series and Executive/Director Series. Pages 5-7 describe the development plan for Pro Series. “ACCPAC Source Solutions...The Future” is a required precursor to this document.

The goals and timetable for Pro Series presented in “ACCPAC Source Solutions” must be met if the marketing and pricing proposals of this document are to succeed. Product development is a wasted investment if marketing and pricing initiatives fail. Conversely, marketing and pricing tactics are impotent if the product remains substantially inferior to its direct competitors. Each of these two strategic pillars supports the other.

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## MARKETING STRATEGY

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### **Exploiting the strategic value of source code and open architecture**

#### **1. Market appeal**

Open architecture and the availability of source code is Pro Series’ singular distinguishing characteristic. Although ACCPAC currently sells Pro Series configured with and without source

code, those who buy Pro Series without source code know that they may acquire a source code license in the future should the need for one arise.

The end-users that purchase source code licenses often do so because they intend to enhance their system through source code modifications, which are usually provided by their value-added reseller (“VAR”).

Others buy Pro Series source code licenses because they wish to use a third-party product available only for Pro Series. Many of these third-party products cannot be used without a source code license or would not have been developed for Pro Series at all if Pro Series were not constructed using an open architecture.

The flexibility of full source code and the appeal of third-party products developed for the Pro Series line are the two most compelling reasons for prospects to choose Pro Series in the current market. Without these assets, Pro Series compares poorly against its main competitors in terms of price, feature set, product architecture and brand appeal.

Without source code, Pro Series becomes another commodity accounting system, one with little to distinguish itself from many other accounting systems with better feature sets, better system architecture or lower prices.

## **2 Exploiting VAR preferences**

Open architecture and source code give VARs an opportunity to add real value to their customer’s systems while they add service revenue to their Pro Series sales. Most of the veteran VARs possess or contract for programming, which they offer to their clients. VARs also sell third-party products which, often, cannot be used without a source code license. These sources of VAR revenue encourage VARs to recommend Pro Series over other competing packages which, in turn, gives ACCPAC a strategic advantage over competitors which do not publish open accounting systems.

## **3 Attracting third-party support for Pro Series**

Open architecture encourages independent software development and promotion for the ACCPAC Pro Series line by third parties. This is a *free* asset for ACCPAC. Third-party software developers will invest their capital in ACCPAC Pro Series development and promotion if ACCPAC encourages them to do so through words and deeds. There is no stronger incentive for third-party developers than to sell only source code, core accounting modules at affordable prices. As third-party developers penetrate vertical markets, their success wins new sales of ACCPAC Pro modules into markets which would, in their absence, remain beyond the reach of ACCPAC’s conventional marketing activities.

## **Conclusions**

For these reasons, ACCPAC’s Pro Series marketing strategy must be one that establishes Pro Series as the best choice for organizations that require custom accounting systems and custom accounting solutions.

The best way to execute this strategy is to promote the universal availability of complete source code within Pro Series and to promote the developmental benefits of open architecture accounting software as Pro Series’ defining and distinguishing characteristic.

The important consequences of adopting this strategy are:

- Elimination of the option of buying a Pro Series license without source code. An exception for an inexpensive, two-user Pro Series software bundle, similar to ACCPAC Discovery Series, should be offered to attract small, growing customers.
- Distribution of the Customization Manager module in all Pro Series systems as a free feature rather than a add-on module. If it is included in every Pro Series system, it becomes the standard tool for customizing Pro Series screens. This act will demonstrate ACCPAC's commitment to establishing Pro Series as the premier customizable accounting system (and recoup SBT and ACCPAC's investment in the development of Customization Manager).
- The price of Pro Series source code modules must be cut to increase unit sales volume and keep the product competitive until current development efforts restore Pro Series to a stronger market position.
- Aggressive cooperative marketing campaigns with ACCPAC Development Partners must be launched in both vertical, industry-specific markets (e.g., produce wholesales, restaurant supply houses) and horizontal markets (e.g., manufacturing, distribution, retail).
- Aggressive cooperative marketing campaigns with ACCPAC technology partners emphasizing the development opportunities of Pro Series must be launched to attract new developers and resellers to the Pro Series standard.
- Advertising campaigns with ACCPAC source code Business Partners must present case studies of successful Pro Series implementations that could not have been accomplished using competing, 'canned' accounting systems.
- Pro Series Product design must take into account the needs of third-party developers and code modifiers through the introduction of useful programming tools, improved technical documentation, and early product release programs. Reseller education must include better Visual FoxPro and Pro Series programming curricula.

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## PRICING STRATEGY

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### **Summary and recommendation**

To maximize Pro Series revenue in both the short and long term, ACCPAC must cut prices to a point where Pro Series can compete against the leading products in the middle market for accounting software. Using a conservative estimate, ACCPAC is losing at least \$5 million per year in Pro Series license revenue because of less than optimal prices. Prices must be lowered if ACCPAC wishes to realize maximum, near-term revenue and must remain at reduced levels until product development and marketing programs restore Pro Series' technical and market appeal to a stronger position.

Current prices for Pro Series have risen steadily as the attraction of Pro Series relative to its rivals has declined. The predictable result of these two trends has been a prolonged slump in sales and revenue. Pro Series revenues have declined significantly since July 1, 2000, the date of the last price increase. New license sales have declined sharply and existing license upgrades have all but stopped. If these

trends are allowed to continue, the long-term viability of the Pro Series product line and its reseller channel are cast into doubt.

### **Pricing history**

Current prices for Pro Series modules are a legacy of the SBT management. This price schedule was established on July 1, 2000 and will be raised again on February 1, 2001. New compiled module prices were set at \$1200 each while new source code module prices were raised to \$2500. For the first time, users were permitted to purchase individual source code licenses that, for a few new customers, soothed the sting of higher source code prices. User license fees were raised, too, for licenses smaller than eleven users.

Pro Series upgrade prices were raised for both compiled and source code modules and, for the first time, a fee was imposed for upgrading user licenses. The effect of these two changes has been the near total elimination of ACCPAC's Pro Series upgrade business, a business that had been a healthy earner for SBT when it owned the Pro Series product line.

On February 1, 2001 ACCPAC will raise Pro Series prices again. Module prices for compiled and source code will remain at \$1200 and \$2500, respectively, but the option of purchasing individual source code modules will no longer be offered. This means that customers desiring source code for even minor enhancements will have to purchase a full suite of source code licenses at \$2500 per module.

User license ("LAN Pack") fees will rise from \$300 per seat to \$600 per seat for larger blocks of seat licenses.

Reseller discounts on Pro Series upgrade modules will be reduced from the reseller's standard discount (50% for the most active resellers) to 35% for all resellers. Although resellers object to this policy in principle, in practice it has little effect because there are nearly no upgrade sales.

### **Pricing recommendations**

To correct these problems, ACCPAC should implement the following pricing program. Pro Series source code modules and only source code modules should be sold for a suggested retail price if \$1500. This is the price at which ACCPAC revenue will be maximized. \$1500 is also the price that is most likely to revitalize the SBT reseller channel.

ACCPAC must set prices for Pro Series modules at the point where ACCPAC revenue is maximized. This is the price point at which each marginal increase or decrease in Pro Series prices causes absolute decrease in ACCPAC revenue. Revenue in this model is defined as total modules sold multiplied by the unit price of each module.

### **Pro Series and microeconomic price theory<sup>ii</sup>**

Demand for Pro Series modules, like the demand for most other products and services, is elastic because potential customers can choose any one of many competing products or choose to not buy a new or upgraded accounting system.

Empirical evidence that the demand for Pro Series modules is elastic can be seen by comparing the even demand for compiled Pro Series modules at \$1200 each vs. source modules at \$2500 each. If demand for Pro Series were inelastic, we would see fewer compiled modules sold. Resellers would

offer only source code and close as many sales for source code modules as they do now for both compiled and source code modules because customers would accept higher source code prices without complaint. But this is not the case.

Additional proof of Pro Series' elastic demand characteristics can be found in the decline in product sales that followed the increase in prices on July 1, 2000. Certainly other factors have contributed to this decline but they are ameliorated by the robust health of the U.S. economy during the same period. None of these contributing factors (post Y2K software fatigue, SBT acquisition anxiety) are sufficient separately or together to explain the sharp decline in Pro Series sales.

### **Profitable application of pricing theory**

It is clear from the steady decline in SBT and ACCPAC Pro Series revenue from July 1, 2000 on, coincident with the establishment of Pro Series price increases, that Pro Series has long since passed the point where increases in price result in increases in ACCPAC revenue. The logical course of action is to lower prices. But how much should prices be lowered?

### **June 30, 2000 prices?**

Setting prices to their level as of June 30, 2000, as has been suggested, is a step in the right direction but is insufficient if ACCPAC's goal is to maximize revenue. In addition, the June 30, 2000 prices are incompatible with a marketing program of selling only source code modules.

If ACCPAC chooses to sell only source code modules at current or June 30, 2000 prices, most compiled-only sales will be lost due to price intolerance. Instead, a price must be found that retains most of the current compiled module sales while extracting a premium for the addition of source code. Currently half of ACCPAC Pro Series sales are compiled modules and half are source code modules. Empirical evidence suggests that, if the compiled option were eliminated and the source code module price remained at \$2500 or even its former level, \$1800, most of the compiled sales would be lost.

### **The optimal price – static analysis**

If the price of source code modules was set at \$1500, less than the June 30, 2000 source code price, but more than the current compiled price, and the compiled option was eliminated, most of the current compiled module sales would be retained. Most resellers would be able to convince prospects to purchase source code modules for \$1500 instead of compiled modules for \$1200 because, for an extra \$300 per module, Pro Series customers would receive the added benefit of full source code. This is a sellable value proposition.

None of the current source code sales at \$1800 or \$2500 would be lost if the price for source code modules were reduced to \$1500. A deal closed at \$1800 can surely be closed at \$1500. Thus, if sales are *static*, total revenue to ACCPAC from an all source code scheme at \$1500 per module will remain steady.

### **The optimal price - dynamic analysis**

A more likely outcome of the adoption of this plan is the *dynamic* effect of an aggressive price cut. We believe offering universal \$1500 source code modules coupled to our marketing recommendations

will stimulate sales of Pro Series licenses and upgrades well beyond our static, revenue-neutral projection.

We believe Pro Series sales will increase immediately and dramatically due to price cuts. Outstanding Pro Series source code bids destined for rejection will receive a second look. Source code system prospects who would not have passed through qualification at the current prices will now receive proposals. And prospects who disqualified themselves from considering Pro Series because of price objections will now ask for sales presentations. All of these trends will increase sales in the near term.

### **Elimination of user-license upgrade fee**

No other policy has had a more chilling effect on ACCPAC revenue than the SBT decision on July 1, 2000 to impose an upgrade fee on user licenses. At the same time, SBT increased the price of upgrade modules by an average of 20%. These two policies have destroyed SBT's and now ACCPAC's Pro Series upgrade business. Most Pro Series VARs report that they have many clients who they consider to be good prospects for upgrades at the June 30, 2000 prices. To harvest these upgrades, ACCPAC must eliminate the user license upgrade fee and reset the prices of module upgrade to the June 30, 2000 level.

### **Near and long-term beneficial effects our pricing program**

Beyond higher near-term revenue, ACCPAC will receive substantial long-term benefits from a policy of offering only Pro Series source code modules at a lower price:

- Increased unit sales will stem the erosion of Pro Series VARs. As unit sales increase, VAR service revenue will increase. This will encourage current VARs to continue to sell Pro Series and will entice VARs who recently defected from Pro Series to resume selling it.
- Increased unit sales tied to lower source code prices will encourage third-party developers to invest in ACCPAC product development and ACCPAC product marketing. Their efforts will win new Pro Series sales for ACCPAC and enrich VARs of Pro Series and third-party products by 'pulling' otherwise lost sales.
- Increased unit sales will seed the market for upgrades and maintenance contract renewals.
- Increased unit sales will win market share from aggressive, larger rivals such as Microsoft/Great Plains.
- Lower upgrade prices will unlock a flood of upgrade orders.
- Lower prices now leaves open the option of introducing viable price *increases* when Pro Series versions 6.5 and 7.0 are released.

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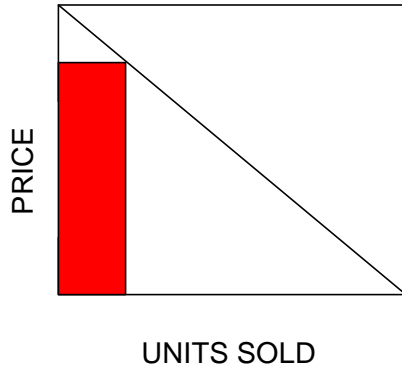
## **STRATEGY EXECUTION**

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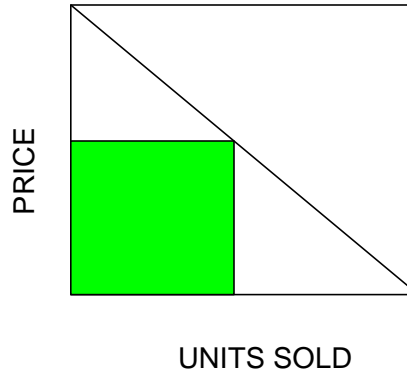
The success of this strategy and, with it, the success of ACCPAC's acquisition of SBT, hinges on cutting Pro Series prices and offering only source code to resellers and prospects as quickly as price schedules can be devised. Simultaneously, ACCPAC's Pro Series marketing department must implement a program of promoting Pro Series is the best choice for custom systems. And all the

while, ACCPAC's Pro Series development team must deliver the product promised in "ACCPAC Source Solutions...The Future." If executed successfully, these initiatives offer ACCPAC its best hope of maximizing revenue from the SBT acquisition, saving the SBT VAR channel and restoring Pro Series to a leading position in the accounting software market.

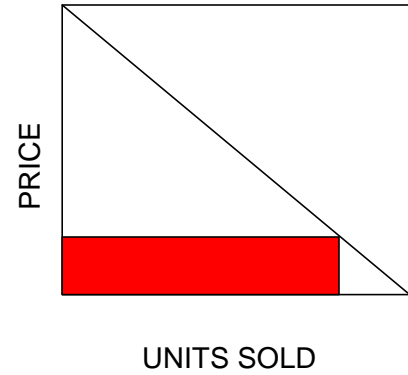
**Price it too high.**  
Revenue, the area in the red box, is not maximized.



**Price is correct.**  
Revenue is maximized.



**Price is too low.**  
Revenue is not maximized.



Revenue, equal to Price \* Units Sold and represented by the shaded areas beneath the demand curves, decreases when price is raised beyond or lowered beneath its optimal level.

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<sup>i</sup> Assuming an average drop in purchases by resellers of \$40,000 per year for only the top 150 resellers of Pro Series yields a loss of \$6,000,000 in annual revenue. We think this number is low but have reduced it to \$5,000,000 to keep our estimates conservative.

<sup>ii</sup> To understand why higher prices result in lower revenue, one must understand price elasticity theory and demand curve dynamics. Price elasticity theory describes how aggregate demand changes as price changes. Demand for a product is *elastic* if it varies inversely with changes in price, i.e. as prices rise, demand falls and as prices fall, demand rises. Conversely, demand for a product is *inelastic* if demand for the product stays constant as the price of the product changes.

Products with elastic demand characteristics are those for which potential customers have alternative options such as selecting a competing product or not buying a product at all. Fashionable apparel is a typical example. Products with inelastic demand characteristics are those for which potential customers have few alternative options such as staple foods and efficacious prescription drugs protected by patent.