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## Intuit QuickBooks: From Product to Platform

*You're a platform when customers think you are.*

– Bing Gordon (former Chief Creative Officer at Electronic Arts)  
addressing Intuit managers<sup>1</sup>

In March 2013, Intuit was the leading provider of business and financial management software products for small and medium businesses (QuickBooks, Payroll Services, Merchant Services, Checks and Supplies), consumers (Mint, Quicken, TurboTax), and accounting professionals (Lacerte, ProSeries, Intuit Tax Online, QuickBooks Accountant, ProAdvisor program, Payroll and Payments). Over 30 years, Intuit had achieved tremendous success by being one of the most customer-centric technology companies (see **Exhibit 1**). Intuit's market capitalization had reached an all-time high of \$19.4 billion (see **Exhibit 2**). Yet, despite Intuit's success as a product company, founder Scott Cook and CEO Brad Smith were keenly aware that the most valuable and powerful technology companies had platforms with network effects – e.g., Apple, eBay, Salesforce.com, Microsoft. Smith explained:

Winning companies can no longer just be great product companies, they have to be great product and platform companies that enable the contributions of others, whether it's third-party developers who can help us solve a problem that we're not going to focus on, or an end user who can configure the product and make it right for them or may even help a peer.<sup>2</sup>

As a result, Cook, Smith and their colleagues in Intuit's executive team were constantly seeking opportunities to turn Intuit's products into platforms with network effects, which they believed could provide durable competitive advantage. QuickBooks (QB) was generally viewed as the most promising platform candidate among all of Intuit's products.

However, transforming QuickBooks from product to platform posed significant challenges. First, to fund the development of platform initiatives for QuickBooks, Intuit had to divert valuable resources from core QuickBooks product improvement. Second, the organization had to decide how to allocate resources across various QuickBooks product offerings and platform initiatives. Should it double down on initiatives that aimed to enable more peer-to-peer transactions between QuickBooks customers? Or should it prioritize initiatives that brought new constituents on-board the QuickBooks platform(s) – third-party developers that could build and distribute applications complementary to QuickBooks, and third-party vendors (e.g. lenders, shipping, or telecommunications companies) that could make targeted offers to QuickBooks customers? Finally, what should the business model be for initiatives involving third-parties? Should Intuit manage them as eBay-like marketplaces (any vendor allowed to enter and interact directly with QuickBooks customers) or should Intuit limit access to a few key vendors and control interactions with QuickBooks customers?

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## Intuit Background

Scott Cook, co-founder and current chairman of the executive committee of Intuit, received his MBA from Harvard Business School in 1976, spent four years as a brand manager at Procter & Gamble, then two years as a consultant at Bain & Company. The idea for Intuit's first product came to Cook sometime in 1982, as his wife, Signe Ostby, was complaining about the time wasted reviewing and paying bills.

Searching for someone who could develop software, Cook literally ran into his co-founder, Tom Proulx, then an engineering student at Stanford, when Cook stopped Proulx outside the campus library to inquire about the best place to post recruiting notices. Intrigued by Cook's idea, Proulx signed on to develop the software that eventually became Quicken. The two entrepreneurs founded Intuit in 1984.

### *Personal Finance for Consumers*

To do the initial customer research for Quicken (initially named Kwik-Chek), Cook commissioned his wife's sister to cold call hundreds of people about their personal finance habits. Cook's obsession with thoroughly understanding customer needs had been developed during his years at P&G and quickly became a hallmark of Intuit.

Quicken was far from being the first personal finance software product (Cook and Proulx joked that they had the "forty-seventh mover advantage"), but distinguished itself by being the most intuitive to use and by best addressing customers' needs. After being turned down by venture capitalists in 1984, Cook had to resort to angel investors, who were mostly friends and family. Still, he was unable to raise enough money for the massive advertising campaigns necessary in order to get on retail shelves. Cook turned to bank partnerships for distribution instead: Wells Fargo and the Bank of Hawaii were Intuit's first two distribution partners.

After Intuit went through a near-death experience during 1985, more banks signed up as partners to distribute Quicken. Encouraged by these partnerships, Cook decided to make a bet-the-farm investment in a massive advertising campaign in 1986. The bet paid off and Quicken finally made it into the mainstream of software products.

The Quicken experience laid the foundation of exceptional dedication to customer research and customer support that became key to Intuit's sustained success thereafter. Cook explained: "If you blow that, it doesn't matter what else you do. You must invest in R&D to build superior products based on a superior understanding of customers. This is Intuit's fundamental advantage."<sup>3</sup> In 1989, Intuit instituted its "Follow Me Home" customer research programs: marketing and engineering members would literally follow customers home to observe them install and use Quicken.<sup>4</sup>

This obsession with thoroughly understanding and delighting customers proved to be the key weapon in Quicken's battle – and eventual crushing victory – against Microsoft's competing product, Microsoft Money. In 1990, Microsoft approached Intuit seeking to co-develop a Windows version of Quicken. While the two firms were debating terms, Microsoft decided it would independently enter the market. Intuit raced to build a Windows version of Quicken, but Microsoft had a head start and entered the market first with its own competing product, Microsoft Money. Even though the competition took place on Microsoft's home court (the Windows platform), by 1992 Intuit had emerged as the clear winner. Later, in 1994, Intuit and Microsoft came very close to merging, but the deal fell through after intense scrutiny by the United States Department of Justice.

### *Expansion to Small Businesses*

QuickBooks, Intuit's flagship product for small and medium businesses (SMBs), originated when Intuit noticed SMBs made up a significant portion of Quicken customers in the late 1980s. The critical tasks for SMB accounting were payroll, invoicing, and paying bills. Before QuickBooks, SMBs did most of these tasks by hand. After an internal debate, Intuit decided to create a new product to serve the SMB market, rather than just adding modules to Quicken. This led to the birth of QuickBooks as a desktop client product.

The development of QuickBooks started in 1990 but initially ran into problems. Intuit decided to use the code base from Quicken 3.0, but that code had been written very quickly, with little documentation and not much concern for modularity.<sup>5</sup> Furthermore, the company's attention was still mostly focused on Quicken's battle against Microsoft. As a result, the development of QuickBooks fell behind schedule. While waiting for QuickBooks, Intuit licensed a payroll product named QuickPay from an independent developer and sold it as an add-on to Quicken in 1991 to appeal to SMBs (despite internal resistance by Intuit engineers to an externally developed product).

QuickBooks Desktop (QBD) was finally launched in 1992 (two years behind schedule). Its first print advertising campaign bombed, and it also turned out that the initial product contained severe glitches that in some cases destroyed customer data. QuickBooks eventually overcame its rocky start and became the foundation of Intuit's current SMB business line, in the process beating yet another competing Microsoft product (Microsoft Profit, launched in 1992, retired in 1993).

As QuickBooks adoption increased, Intuit introduced product variants. QuickBooks was ported to multiple computing platforms (Windows and Mac versions), which increased development complexity with different code bases. To help accountants work with clients, Intuit also introduced an accountant-specific version. Another variant, originally launched in 2001 as "QuickBooks for the Web," eventually became QuickBooks Online (QBO) and represented the product's future trajectory, leveraging modern web-based technologies and operating entirely in the cloud.

### *Financial Supplies*

In the early days of Quicken, while trying to make its software capable of correctly printing personal checks, Intuit stumbled upon an intriguing business opportunity: it realized it could effectively and profitably sell supplies (e.g., personal checks) to its customers.<sup>6</sup> As Intuit expanded to SMBs with QuickBooks, this opportunity became even more attractive, which led to the creation of a financial supplies group.

Intuit relied on a single supplier (Harland Clarke) to fulfill orders of financial supplies that it sold to consumers and especially SMBs. Customers could order these supplies (e.g. standard or secure business checks, envelopes, business cards, invoices, deposit slips, statements, letterhead, tax forms, etc.) and request custom logos through QuickBooks or through Intuit's website (<https://intuitmarket.intuit.com/>). By 1998, this business line had grown to \$94 million in revenues.<sup>7</sup> In 2012, financial supplies remained a growing business for Intuit.

### *Expansion to Tax Software*

In 1993, Intuit entered the tax preparation software business by acquiring San Diego-based ChipSoft, developer of TurboTax, the leading tax preparation software at the time. With this acquisition, tax software became Intuit's third product pillar. In addition to TurboTax, the acquisition brought to Intuit ProSeries, tax software for professional tax preparers that sold at a considerably

higher price. Over time, Intuit expanded its tax preparation software business organically and through further acquisitions. In 1994, it acquired the tax preparation software division of Best Programs, Inc. In 1998, Intuit acquired Lacerte Software, which provided tax preparation software for tax professionals with more complex workflows and clients, and which was generally used by larger firms. Intuit maintained Lacerte as a subsidiary business.

By diversifying its product line to include offerings for tax professionals and consumers, Intuit captured a large swath of the tax preparation software market. Also, by offering software specifically for accountants and other tax preparation professionals, Intuit strengthened its ties with this key constituent group. Accountants, bookkeepers, and tax preparers were significant influencers in financial management software. Indeed, small businesses frequently turned to accountants for guidance on how to manage their financial records. Consequently, Intuit believed that if it earned accountants' trust, they would recommend QuickBooks and other Intuit offerings to their clients.

### *Technology Shifts: Cloud and Mobile*

In recent years, technology developments had significantly changed the way consumers expected to interact with financial services. Online banking was becoming increasingly commonplace. In the early days of web-based banking systems, consumers had been concerned about security and privacy, but as these systems became increasingly accessible, convenient, and more secure, consumers were adopting them in large numbers. Given the feature-richness and widespread deployment of mobile banking offerings, consumers were becoming increasingly comfortable with mobile transactions, thus raising their expectations to be able to access financial information anytime and anywhere. Furthermore, as applications such as Gmail and Dropbox achieved widespread popularity, users were becoming increasingly accustomed to having data reside on cloud-based servers. The idea that all of one's data should be on one's hard drive was becoming obsolete.

These technology and usage shifts were affecting Intuit's demand patterns. The company felt the need to transition from desktop to cloud-based and mobile software products to address these new demands and behaviors. As a result, in 2009, Intuit acquired Mint, an entirely web-based and free personal financial management service that allowed users to track and manage account transactions and balances. Mint, which Intuit retained as a separate branded product line, complemented Intuit's Quicken offerings for consumers and brought Intuit into the realm of cloud-based and mobile applications for consumers. Mint also enabled Intuit to offer cloud-based products to financial institutions. Intuit packaged the Mint functionality and sold it as a white label solution to banks so that consumers could track spending online through bank-branded websites. Similarly, in the late 1990's Intuit introduced TurboTax for the Web, which later became TurboTax Online, to migrate customers from a pure desktop-client offering to a cloud-based tax preparation solution.

In the domain of small and medium businesses served by QuickBooks, Intuit started offering online solutions as early as 2001. As technology improved and customers became more comfortable with cloud-based solutions, Intuit expanded its QuickBooks Online (QBO) product offering and aimed to move as many QuickBooks Desktop (QBD) customers as possible to the cloud-based QuickBooks Online. One significant execution challenge associated with this transition was that QuickBooks Desktop was a more mature product and contained many layers of features that had been incorporated over decades. QuickBooks Online was a newer product, with a modern code architecture, but had significantly fewer options and feature extensions. Still, because QuickBooks Online provided the convenience of a cloud-based system that QuickBooks Desktop could not offer, customers were slowly migrating to QuickBooks Online, which enabled Intuit to aggregate customer data in increasingly sophisticated and valuable ways.

## Intuit Today

Although Intuit's foundation had been Quicken, a consumer product, by 2013 the company's focus had clearly shifted from consumers to small businesses. The Small Business Group represented only about 40% of revenue, but many new product development efforts were focused on SMB opportunities. Even members of the consumer products groups were thinking about how to enable connections between consumers and SMBs, for example through direct payment systems, to drive further growth. On the company's main website ([www.intuit.com](http://www.intuit.com)), three of the four main tabs were dedicated to SMB solutions. However, Intuit's belief in its core values and its obsessive focus on customers remained unchanged.

The deeply embedded culture of customer obsession originated with founder Scott Cook. In contrast to many founders, Cook had successfully transitioned day-to-day running of the company to a CEO and strong management team, yet remained a highly visible and engaged leader whose presence and strong customer advocacy was felt throughout the organization. Intuit's operating values (see **Exhibit 3**) and mission echoed Cook's original vision: "To improve our customers' financial lives so profoundly they can't imagine going back to the old way."<sup>8</sup> Similarly, Intuit's "Design-for-Delight" product development philosophy, adopted in 2007, and its related calls to action such as "Deep Customer Empathy" and "Rapid Experiments with Customers" were mantras invoked throughout the organization reminding employees to put customers at the center of all decision-making (see **Exhibit 4**).

Based in Mountain View, CA, Intuit was a publicly traded firm (NASDAQ: INTU). For the fiscal year ended July 31, 2012, revenue was \$3.8 billion and operating income was \$1.2 billion (see **Exhibit 5** for summary financials). The company had approximately 8,500 employees and was organized into four main categories, which included seven financial reporting segments.

The Small Business Group (SBG), contributing 39% of revenue, included three segments: Financial Managements Solutions (QuickBooks with related products, and recently acquired DemandForce for online marketing), Employee Management Solutions (payroll products and services), and Payment Solutions (credit and debit card processing, electronic check conversion, web-based transaction processing for online merchants, and mobile payment processing services).

The Tax category, contributing 45% of revenue, included two segments: Consumer Tax (TurboTax and related services), and Accounting Professionals (Lacerte, ProSeries, Intuit Tax Online and a few other related services).

The Financial Services category, contributing 9% of revenue, was a distinct segment consisting primarily of digital (online and mobile) banking solutions for financial institutions.

The Other Businesses category, contributing 7% of revenue, included global businesses, primarily in Canada, the United Kingdom, India, and Singapore. It also included personal finance offerings Quicken and Mint, and Intuit Health Online patient-to-provider communication solutions.

## Transforming QuickBooks from Product into Platform

Cook and Smith had identified two main reasons for turning QuickBooks into a platform. First, it was increasingly clear that Intuit could not satisfy its SMB customers' demand for customized products on its own.<sup>9</sup> Second, Cook and Smith believed that platforms with network effects had better chances to build durable competitive advantage than pure products. Accordingly, Intuit's

management team explicitly included network effects platforms as one of three pillars of its corporate strategy (see **Exhibit 6**). Dan Wernikoff, Senior Vice President and General Manager for the Financial Management Solutions group, in charge of QuickBooks, elaborated:

Any time there's any type of platform shift going on, the game changes pretty dramatically. When you think about small business accounting, it's been a little bit behind the curve in terms of the platform shift – it only started to happen over the last two to three years. [...] Life was incredibly simple when everything was on a desktop and you locked up distribution channels: startup and marketing costs made everything very defensible. But as our industry starts to move to the web, there are new entrants that come into the space and take a more modern approach to solving the problem versus just trying to do a workflow application. They tend to rely much more on open standards and join open ecosystems, which they can leverage to enter the market.

So I think we've been a little pressured along with just recognizing that there's more to life than being a workflow application. We really have to rethink how we solve problems so that we're leveraging opportunities like collaboration between multiple users, third-party apps and vendors, and other potential network effects that could exist. I mean, it just opens up a whole world of different opportunities.<sup>10</sup>

There were three ways in which QuickBooks was becoming a platform.

### *Peer-to-Peer Platform*

The first was by enabling interactions among QuickBooks users directly within QuickBooks. An example was the planned introduction of the Intuit Commerce Network (ICN): this service would enable SMBs who were QuickBooks customers to more easily conduct transactions within QuickBooks. Smith elaborated:

Today there are a couple of billion invoices that are produced every year inside of QuickBooks. Suppose you're a landscaper. Today the average small business gets paid in 48 days. With ICN, we allow you to e-invoice and accept electronic payments for the cost of 50 cents a transaction, which is [the cost of] an envelope and a stamp. It's cheaper than credit cards. It's cheaper than PayPal. And you're getting paid in 10 days. And it's viral because now the people you're invoicing are saying, "Wow, this is an easy way to pay my landscaper. Why doesn't my plumber do this?" So, we're starting to see early signs of customers saying, "Well, why don't you send me an invoice like this and I'll pay you through QuickBooks instead of by check?" Hopefully, that's going to be one of our first network effects. It's exciting for us because approximately twelve percent of the U.S. economy moves through QuickBooks. So, if we only get a small piece of that to become an electronic payment, we've got a significant business opportunity.<sup>11</sup>

### *Platform for Third-Party Developers*

The second way in which QuickBooks was becoming a platform was by allowing third-party developers to build applications complementary to QuickBooks and offer them to QuickBooks customers. This initiative was named the Intuit Partner Platform (IPP) and was officially launched in 2008. IPP offered developers three main services:

- A set of QuickBooks APIs<sup>a</sup> that enabled integration with the QuickBooks application and provided access to select QuickBooks customer data (e.g., transactions with more than 19,000 financial institutions)
- A software development kit (SDK) designed to facilitate the writing of applications using the QuickBooks APIs
- Intuit Apps.com (apps.com), a website that marketed and distributed QuickBooks add-on applications and allowed QuickBooks customers to discover and buy apps that worked with QuickBooks.

As of March 2013, more than 5,000 third-party developers had built apps either through the SDK or the IPP cloud-based solution. These apps included Intuit first-party applications (e.g. Payroll, ViewMyPaycheck, Intuit Data Protect); premier third-party apps (e.g. eBay,<sup>b</sup> Salesforce.com) and regular third-party apps (e.g. Bill.com, Concur, Mavenlink). The difference between premier and regular apps was that the former had a closer partnership with Intuit and paid a larger revenue share to Intuit.

Alex Chriss, Director for the Intuit Partner Platform, explained the logic behind IPP:

The point of the partner platform is to open up our products so that they integrate with others, but then leverage the durable competitive advantages that we have (big customer base and established brand access to SMBs) to be the center of that ecosystem and the platform that others can build upon. We want to be *the* SMB platform if we can, because we have not only the channel access to SMBs that most companies don't have, but also invaluable data through our own product that we can leverage. Technology is changing so fast that I'm not sure you win with technology. I do, however, think you win with data – that asset is very hard to replicate.<sup>12</sup>

IPP was not Intuit's first attempt to turn QuickBooks into a platform for apps. In the early 2000s, Intuit had opened up an API and released a corresponding software development kit (SDK) designed to enable third-party developers to build add-on functionality to QuickBooks – then a purely desktop software product. Cook and Smith recalled that a key obstacle at the time had been the reluctance of the Intuit organization to give outside developers the same level of access as that enjoyed by internal developers. As a result, few third-party applications had been developed. To avoid the same problem with IPP, Smith evangelized throughout the organization the importance of clearly and credibly committing to not favor Intuit's own developers and products when inviting third-party developers. Smith elaborated:

Our IPP team had to fight through some of the classic, "Would we ever let PayPal and Square work with our product because we have our own payments product? Would we ever let ADP and Paychex do the payroll when we have our own payroll product?" And we finally got to the point where we said, "Look, if our product can't win in the open market, raising an artificial barrier is not going to protect us forever, so let's open up and compete on the merits." So, they've leaned into the wind and done that.<sup>13</sup>

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<sup>a</sup> Intuit Partner Platform, "What is the QuickBooks API," available from YouTube, <http://www.youtube.com/watch?v=sV7VatiYmFk&feature=youtu.be>

<sup>b</sup> This app targeted eBay's Power Sellers and allowed them to synchronize their customer lists, transactions, items and payment information with QuickBooks.

### *Platform for Third-Party Products and Services*

Third, Intuit could leverage the QuickBooks customer data available through IPP to build its own data-enabled platforms that allowed third-party providers of products or services for SMBs to connect with and target attractive segments within QuickBooks' customer base. As of March 2013, two initiatives were underway that experimented with this approach.

**QuickBooks Financing (QBF)** The idea behind this initiative was to match QuickBooks customers with third-party lending sources. Rich Preece, Director for the Partner Solutions Group, described the problems that QuickBooks Financing intended to solve:

A couple of years ago we did a survey of QuickBooks customers. We found that 90% needed a credit product and there are about six types of credit products commonly used by SMBs (term loan, line of credit, merchant cash advance, SBA loan, business credit card, factoring loan). The average QuickBooks customer needs a \$30,000 loan and 85% of them are looking for loans of less than \$100,000. Over 60% had applied for credit in the previous two years and over 70% of those applications had been declined. We then talked to the lending side and learned that lenders acknowledge the inefficiency of this system. They acknowledge that if you want less than \$100,000 and you have anything less than perfect credit it's just not worth their time looking through all of your tax documents, collecting all your business reports, looking at your cash flow analysis, etc. It's just too expensive. Well, if you think about QuickBooks, we have 4.5 million customers and many of them have been with us for many years. We have all the historical data pertaining to the health of their business, a lot of which is not captured by their credit score.<sup>14</sup>

The QuickBooks Financing initiative started in early 2012 as a partnership with Biz2Credit, an online marketplace that matched small business owners with loan options from a network of over 1,200 lenders.<sup>15</sup> Under the partnership, QuickBooks customers were simply directed to Biz2Credit's website ([www.biz2credit.com](http://www.biz2credit.com)). After running this partnership-pilot for 12 months and noticing significant customer and lender interest, the QuickBooks Financing team launched its own website (<http://quickbooksfinancing.intuit.com/>) in February 2013 to take control of the user experience and gain better insight into the data associated with the loan application process (see **Exhibits 7a** and **7b** for QuickBooks Financing sample marketing materials).

Preece believed that his team could leverage QuickBooks behavioral data to provide lenders with valuable insights they could not find elsewhere:

For example, think about a small business and the number of vendors they use. You could hypothesize that the more vendors you have in your QuickBooks files, the more successful and diverse your business and therefore the less likely you are to default. That is partly true. We learned that the total number of vendors is irrelevant, but the number of vendors paid in the preceding six months is predictive. For instance, if a small business has paid 10 vendors in the last six months – that's predictive. If a small business lists 100 vendors without any information regarding when they worked with those vendors – that's not predictive.<sup>16</sup>

**Concierge** The objective of this initiative was to provide QuickBooks customers with convenient access to savings on products and services they needed regularly to run their small businesses (e.g. shipping, telecommunications, flights, car rental, hotels, etc.). Concierge would enable third-party providers to make discounted offers to QuickBooks customers. Service providers would gain access to Intuit's customer base and the ability to leverage Intuit's QuickBooks data to make targeted offers

to SMBs of interest. Meanwhile, Concierge would help QuickBooks customers (SMBs) minimize total cost of ownership for products and services they bought most frequently.

Throughout 2012, the Concierge team ran a focused pilot with one vendor (a large shipping company). The pilot used QuickBooks behavioral data to identify attractive customers and showed them discount offers from the vendor. Ronny Tey, Group Marketing Manager for the Intuit Partner Platform, who led the pilot for Intuit with help from data scientists, commented:

The results exceeded the vendor's expectations in terms of new customer sign-ups and daily spend on the service. Overall, our SMB customers are receptive to the concept of attractive discounts on relevant products and services within QuickBooks as long as it's in context to the task they are completing in the product. But they are also concerned about security of their financial data. And they are unwilling to tolerate advertising within their accounting software. If we start showing them offers that are not highly relevant to the task they're completing, they'll wonder "why am I seeing advertising inside QuickBooks?" And they'll be unhappy with their QuickBooks product experience.<sup>17</sup>

Further customer interviews conducted by Tey and Parilee Edison, HBS MBA 2013, as part of an HBS field study, revealed additional insights relevant to the Concierge effort. First, SMB owners were extremely busy and, as a result, did not spend much time comparison-shopping. They reevaluated their purchasing decisions infrequently (every two to three years) and did not consider deals where the value proposition was not obvious. Second, they preferred buying from trusted brands ("peace of mind" brands) and their willingness to try new brands was gained mainly through personal recommendations and word-of-mouth.

In early 2013, the Concierge team was in the process of negotiating deals with several additional vendors. But Tey and his colleagues acknowledged the need for a clearer roadmap on how this would fit with the QuickBooks product offering and a business model that would service all parties – customers, service providers, and Intuit.

### *Data*

The key asset that enabled initiatives such as QuickBooks Financing and Concierge was QuickBooks customers' data available through IPP. This data created tremendous opportunities but it also posed two significant challenges. The first was data availability. Intuit was treading carefully when asking QuickBooks customers to allow it to leverage their data. The company had publicly committed to a set of "data stewardship principles,"<sup>18</sup> which bound it to place the privacy of customers above everything else. As a result, Intuit could only use data from customers that had given their explicit consent. In March 2013, Intuit had access to data from 1.1 million customers (out of 4.5 million total QuickBooks customers): 500,000 QuickBooks Online users and 600,000 QuickBooks Desktop users who had accepted to synchronize their data into the Intuit cloud.

The second issue was data quality. QuickBooks had been designed to be flexible and appealing for users. As a result, it lacked, for example, pre-defined expense categories, instead allowing users to define their own categories however they saw fit. While providing great user customization opportunities, this made it difficult for Intuit's data scientists to "read" and "interpret" customer data. Tey explained this problem in the context of the Concierge program:

Suppose for instance Marriott signed up to be part of our Concierge program. They would presumably be interested in us pulling out the hotel spending data from QuickBooks and figuring out how many dollars are going to Marriott versus how many are going to

competitors like Hilton. But that's not easily retrievable because there is nothing in QuickBooks that necessarily says it's a Marriott or Hilton or possibly even a hotel expense, unless, of course, customers wrote it explicitly in the expense description field. If they didn't, then it's a hard data science problem to figure it out.<sup>19</sup>

## Competitors and reference points

For most of Intuit's history, the company held very high market shares in its relevant markets, particularly with desktop client software. As online financial management solutions continued to proliferate, however, stronger competitors started to emerge, using new approaches.

One such competitor was Xero, a New Zealand-based firm initially focused on non-US customers that had recently started to aggressively expand worldwide. By 2013, Xero had offices in the United States, United Kingdom, Australia, and New Zealand. The company claimed to be "the emerging leader in online accounting software" and focused its efforts on professional advisors such as accountants and bookkeepers. Xero offered a software-as-a-service (SaaS) product that was easily accessible via standard browsers. Leveraging this cloud-based accessibility, and the potential for multiple users to access files simultaneously, Xero aimed its development and marketing efforts at helping advisors build their practices. The company touted functionality such as free reporting and practice management tools and emphasized its ability to help advisors with their clients. On its website, Xero explained, "Our online accounting software is built around the idea of a single ledger - allowing for greater collaboration and the forging of trusted relationships between advisors and their clients."<sup>20</sup>

On the QuickBooks Financing front, there were several companies that could be considered as both competitors and complementors. One example was Kabbage ([www.kabbage.com](http://www.kabbage.com)), a small firm that provided simple and immediate financing solutions to SMBs (e.g. cash advances for working capital). Established in 2009, Kabbage offered its standalone service directly to SMBs, while also actively participating on the QuickBooks Financing platform. In contrast to traditional underwriters, Kabbage utilized data from e-commerce sites like eBay and Amazon.com, such as buyer feedback ratings, selling history, and social media interactions, to determine applicants' creditworthiness within a few minutes. By early 2013, Kabbage had also begun using data from QuickBooks to predict an applicant's credit attractiveness. Factors such as a company's sales, payroll, and number of vendors all contributed to Kabbage's analysis.<sup>21</sup> Kabbage did not offer loans in the traditional sense, but rather offered cash advances on which customers paid interest rates between 2% and 18%. The average outstanding credit line for a Kabbage customer was approximately \$12,000 and Kabbage had more than 100,000 customers. The company was also testing advances of \$100,000 or more.<sup>22</sup>

As part of its research efforts, the Concierge team had identified three types of relevant reference points. First, American Express had a program named Open Savings (<https://www.americanexpress.com/us/small-business/opensavings/opensavings.do>), which was free and automatically available to all American Express Open business card holders (typically SMBs). The program provided access to discounted offers (5-10%) from about a dozen service providers, such as FedEx, Hertz, and Hyatt. American Express leveraged its customers' data only to market the Open Savings program. It did not use data to target offers, so that all Open Savings members received the same discounted offers. Similar programs were available from Visa (SavingsEdge) and Mastercard (EasySavings).

A second category of platforms for SMB deals were independent deal aggregators, such as the Allied Business Network (ABN) and America's Best Companies (ABC). ABN ([www.abnsave.com](http://www.abnsave.com))

was a for-profit, privately held “discount membership organization,” founded in 1998. The company used a “group buying” approach to negotiate discounts ranging from 5% to 85% on products or services from over 55 partners. ABN’s membership comprised over 140,000 businesses, entrepreneurs and individuals.<sup>23</sup> ABN membership was free and profits came from partner referral fees: ABN typically provided links to vendors’ websites and discount codes. Founded in 2006, ABC ([www.americasbestcompanies.com](http://www.americasbestcompanies.com)) was also a for-profit organization, “dedicated to helping small business owners stay in business, grow their business, and make more money in their business.”<sup>24</sup> Unlike ABN, ABC derived revenues from a \$540 per year fee charged to SMBs. In addition to pre-negotiated discounts from about 100 vendors (ranging from 3% to 70%), membership included services such as assistance with online advertising, tools and support for building custom business websites, marketing materials, etc.

The third reference point for Concierge was membership warehouse clubs, such as Costco, the largest in the United States. The essence of Costco’s business model was to offer bulk quantities for a low variety of products (relative to supermarkets and supercenters), at unbeatable prices. This enabled the company to achieve significant operating efficiencies and purchasing power over its suppliers. It had an iron-clad rule that margins on any product should stay between 1% and 14%. In turn, Costco’s profits came largely from annual membership fees charged to users: \$55 for individuals and businesses; \$110 for Executive level membership, which included additional perks (e.g. 2% rebates up to a maximum amount per year). Costco’s pricing strategy had been summarized by its Chairman in 1999: “I’d like to sell everything at cost and charge higher membership fees. That way no one can beat us on price.”<sup>25</sup> Since 1999, Costco had expanded to offer services by third-party vendors (<http://shop.costco.com/services.html>), such as auto, home and health insurance; mortgages; phone service; Intuit’s QuickBooks Online software; etc. Costco had explicitly chosen to expand only to services where it was able to negotiate savings of 20-40% over the competition and where members and partners could interact directly, i.e., with limited intervention by Costco.

## Looking Ahead

In attempting to transform QuickBooks from a product into a platform, Intuit had to solve two types of issues. First, it had to better define the QuickBooks platform opportunities and associated business models. In particular, how would Concierge and QuickBooks Financing make money? Second, despite the appeal of platform opportunities, there was still internal debate whether pursuing such opportunities was a good investment of resources. As a public company, Intuit would also have to convince external stakeholders that the transformation of QuickBooks into a platform was the right path forward.

### *Platform Business Models*

There were three possible models that Chriss and Preece envisioned for QuickBooks Financing and Concierge. The first was somewhat similar to Google’s AdWords, except that it would target SMBs instead of Internet search users. Specifically, Intuit could create an open marketplace, in which third-party providers would bid for the right to present advertisements (for loans in the case of QuickBooks Financing, for products or services in the case of Concierge) to QuickBooks customers. Intuit would then leverage QuickBooks data to show each SMB customer the most appropriate offerings (directly in the QuickBooks product), also taking into account third-party providers’ bids.

In the second model, Intuit would use QuickBooks data to determine SMB spending patterns that might interest third-party providers. The company would pre-negotiate attractive offers with select

providers, based on data patterns (e.g. 25% off to SMBs that fit a certain profile, or 25% off if more than a certain number of SMBs bought a particular product or service). Offers would be shown to relevant customers, either directly in QuickBooks or on a separate website linked from QuickBooks.

In the third model, Intuit would use QuickBooks data to select several product or service categories to sell directly to QuickBooks customers, while potentially outsourcing production and fulfillment. This would be similar to the model Intuit already employed to sell financial supplies.

In determining which model was best for QuickBooks Financing and Concierge, Chriss and Preece had to consider several questions. Would revenue come from third-party providers (e.g., cost per click or conversion) or from customers (e.g., a Costco-like membership fee)? Should Intuit allow any third-party provider to participate or restrict access to a small number of providers (possibly one) per category? Finally, how much and upon what type of data targeting should each model rely?

### *Organizational Challenges*

There were two main obstacles to pursuing platform opportunities that stemmed from Intuit's success as a product company. The first was that the Intuit organization's skillset was focused on solving customer problems, not partnering with third-party product or service providers. Bill Mirbach, Vice President of Marketing Innovation and Creativity at Intuit, explained:

We make applications that we sell directly and get word of mouth. [...] But when you're creating platforms and marketplaces you have to go out and do partner management. So the skillset changes completely. On one end of the spectrum it's just pure product capabilities, at the other end it's business development – a completely different skillset.<sup>26</sup>

The second obstacle came from the Intuit organization's incentives. Wernikoff explained:

The hardest thing is tied to being the incumbent: we have very predictable short-term opportunities. I can do a feature release and sell the next version of QBD, or I can improve performance in QBO or close a feature gap between it and the desktop. I can do all types of marketing campaigns and marketing tests which can lift conversion fractionally, but that fractional lift is an extra five million dollars of revenue and it's all highly predictable and all completely required when you're a big, public company where shareholders have expectations about growth. The hard part about doing something that's an interesting network effects platform is just the beta associated with it and the time for the return. It could take five years to really pay out, with a 5% chance of it actually turning into something.<sup>27</sup>

Although IPP had not generated significant revenue, Wernikoff believed this was not about short-term revenue. He had insulated the IPP group from short-term revenue accountability and was looking for alternative metrics that could provide some objective measure of the progress made by the platform initiatives. He recognized, however, that "it's much easier to measure new QuickBooks customer acquisitions than to say, "How much progress are you making on that network effect?"<sup>28</sup>

More broadly, Intuit's leaders wanted to ensure their organization was not stuck in a product-by-product mindset (i.e. how to turn product A into a platform and product B into a separate platform). They were also keen to find platform opportunities that cut across product silos. For instance, was there an opportunity to create platforms with network effects across QuickBooks and Mint or around Mint and TurboTax? Cook, an enthusiastic proponent of lean start-up principles,<sup>29</sup> believed they could also be applied to platforms, not just products. He wondered: "What can Brad [Smith] and I do to create an environment in which people can create new, game changing platforms?"

Exhibit 1 Intuit Offerings, January 2013

INTUIT OFFERINGS, JANUARY 2013

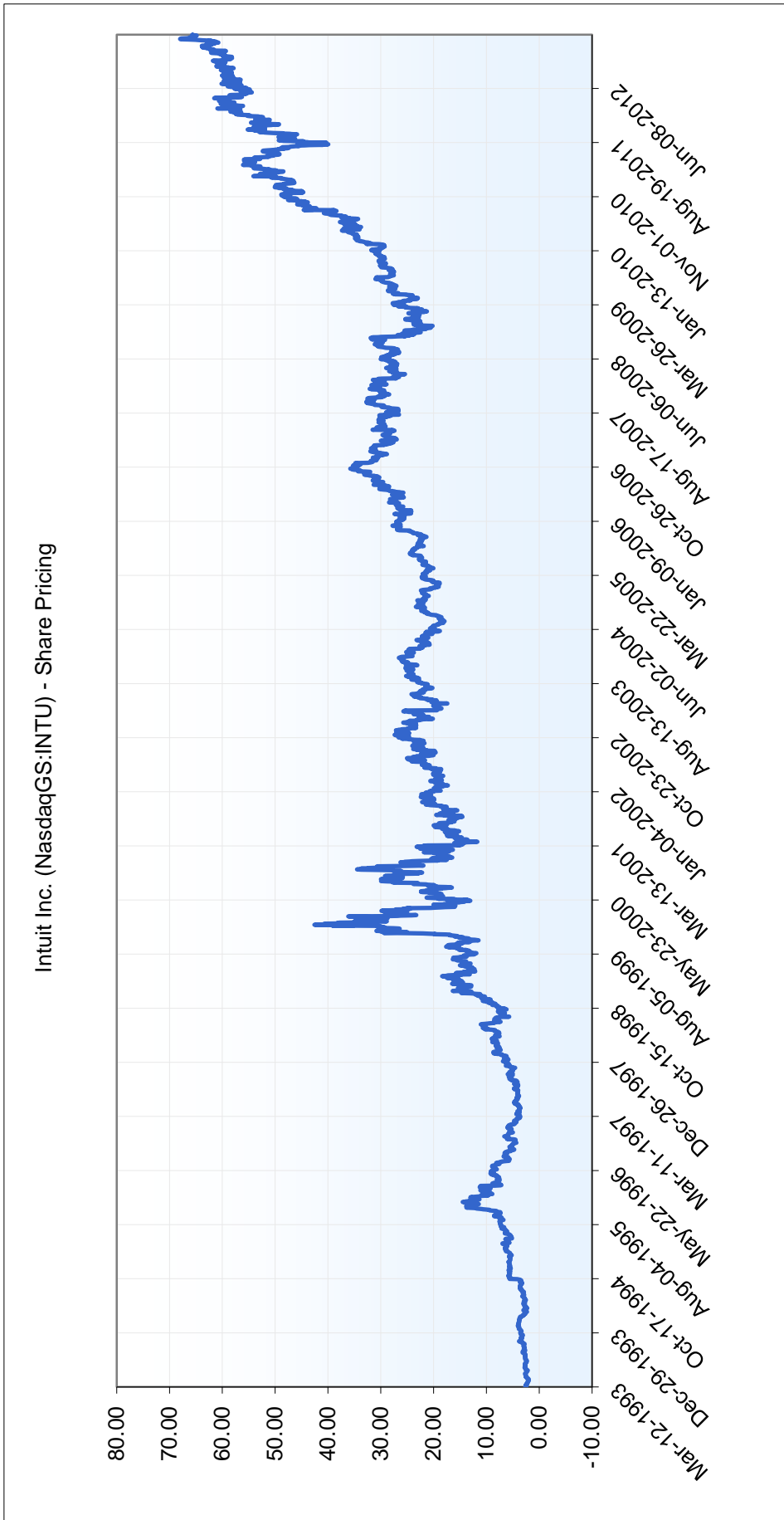
		Small & Medium Businesses							Developing Markets
		Consumer	Financial Management	Employer Services	Merchant Services	Interfirm Network	Accountants	Financial Institution	Health Care
Mobile									
Web									
Desktop									

Excludes test offerings



Source: Intuit, 2013.

Exhibit 2 Intuit Stock Price



Source: Capital IQ, October 16, 2013.

## Exhibit 3 Intuit Operating Values

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### Intuit Operating Values

#### Our Values Evolution

Intuit was founded in 1983, committed to integrity, to our customers and to our employees. That commitment remains as strong today as it did then.

As we grew, our employees preserved that spirit in a written legacy for the future. In 1993, we shut down for a day and gathered together to clearly define our vision, mission and operating values.

The result: a series of 10 Operating Values that guided us into a new millennium.

In 2010, we reaffirmed our commitment to our values, and re-examined their language to ensure they remained as relevant and meaningful today as they were when our employees defined them in 1993.

Through this journey, we reflected on our history, who we are today, and the company we aspire to be. In the end, what began as a mission to reaffirm our values became an opportunity to refresh them, while keeping the spirit of our original values alive.

#### Our Operating Values

These six refreshed values reflect the heartbeat and spirit of Intuit and, in concert with our [Code of Conduct & Ethics](#), remain the foundation that guides our actions and decisions.

Living by these values creates the type of environment we all desire: an environment in which we exceed the expectations of our customers and those of each other, where we don't just satisfy people, we wow them.

##### 1. Integrity Without Compromise

We hold ourselves and each other to the highest standards in all we say and do. Our actions and communications are always direct, honest, and transparent.

##### 2. Delight Customers

We put customers at the heart of everything we do. We work together to deliver end-to-end experiences so profound that customers love using our products and services, and actively recommend them.

##### 3. It's the People

We are high-performing people who achieve great things. We embrace personal growth and development, diversity, and teamwork.

##### 4. Innovate and Improve

We innovate to drive growth, and continuously improve everything we do. We move with speed and agility, and embrace change. We have the courage to take risks, and grow by learning from our successes and failures.

##### 5. Own the Outcome

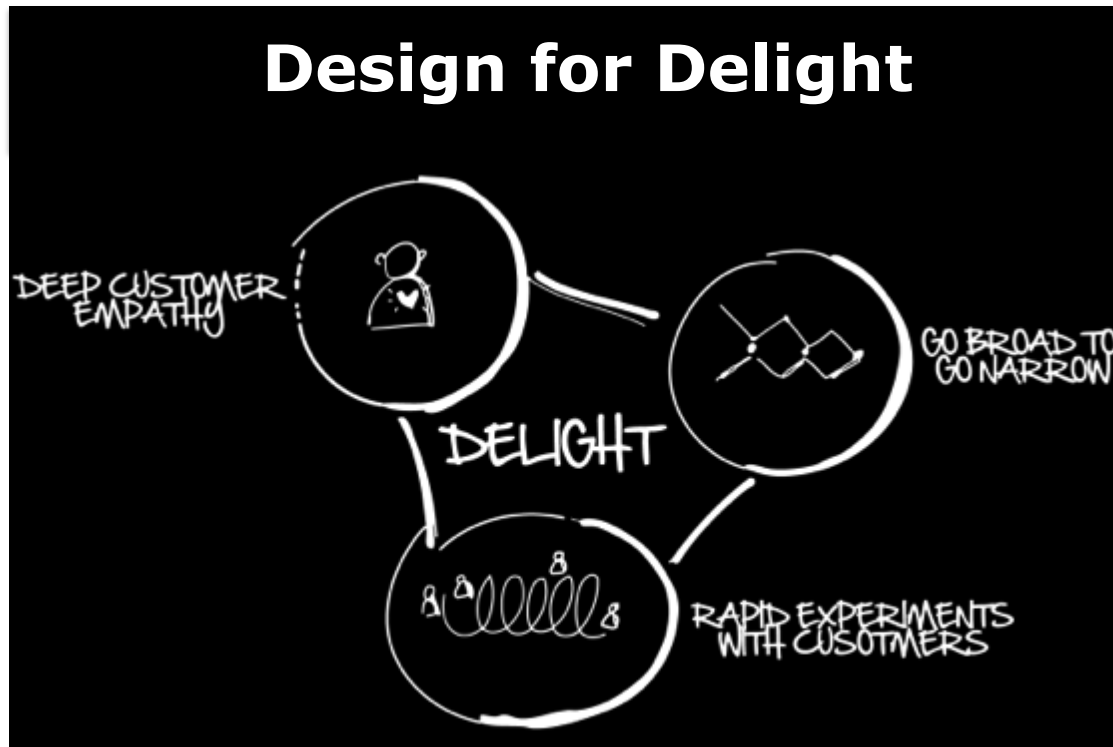
We are accountable for our behaviors, actions, and outcomes. We all own the success of the team, and take personal responsibility for delivering great results.

##### 6. We Care and Give Back

We give back to our communities and the environment. We enable our people to participate and collectively have meaningful impact.

Source: [http://about.intuit.com/about\\_intuit/operating\\_values/](http://about.intuit.com/about_intuit/operating_values/), accessed September 11, 2013.

**Exhibit 4** Intuit “Design for Delight” Product Development Philosophy Graphic



Source: Excerpted from slides from Intuit Annual Shareholder Meeting, January, 2013. Presented by Brad Smith, President & CEO (<http://www.slideshare.net/IntuitInc/intuit-ceo-highlights-strong-shareholder-value-and-strong-return-on-investment>, accessed October 7, 2013).



Exhibit 6 Intuit Strategy Slide



Source: Excerpted from slides from Intuit Annual Shareholder Meeting, January, 2013. Presented by Brad Smith, President & CEO (<http://www.slideshare.net/IntuitInc/intuit-ceo-highlights-strong-shareholder-value-and-strong-return-on-investment>, accessed October 7, 2013).

## Exhibit 7a QuickBooks Financing Fact Sheet

## QuickBooks Financing Fact Sheet

Intuit® has helped four million small businesses save time and money with products such as QuickBooks® and TurboTax.® Now we've developed an innovative service to help small businesses secure affordable financing.

### The Easy, Fast Way to Get Small Business Loans

QuickBooks Financing is a free loan matching service that makes it easy for small businesses to find the money they need to start, grow or thrive.

#### Key Features and Benefits

**Increase Loan Approval Chances**

- We cast a wider net to achieve your financing goals.
- Our network of traditional banks and alternative lenders enables us to find a customized solution for your business.

**Free Assistance**

- We help small business owners understand their options, package a more attractive loan application and find the right lender for their needs.

**Speedy Results**

- Quickly compare your loan options and rates.
- Get funding in as little as one day.

**Convenient One-Stop Financing**

- A wide range of financing solutions to satisfy short- and long-term needs.
- Get instant working capital, a line of credit, term loans, and refinancing.

**Save Time and Money**

- Intuit does all the legwork: comparison shopping, finding the right lenders, and negotiating the best rates.



#### Easy Process, Fast Results



Our loan specialists work closely with you to get your application ready.



Fill out a simple form. We'll show your offers and rates.




We'll recommend loan solutions. Easily compare and make an informed decision.






Choose your offer and get funded!

Source: Intuit, 2013.

## Exhibit 7b QuickBooks Financing ProAdvisor Pilot Flyer

QuickBooks Financing ProAdvisor Pilot


**Pilot Program for Intuit ProAdvisors®**

We're partnering with Intuit ProAdvisors to help grow their practice and build deeper client relationships by getting the right financing for their small business clients.

**How the Program Works**

- No cost to join or use our loan matching service.
- ProAdvisors own the relationship with their clients.
- We provide a dedicated loan specialist as a single "go-to" resource.
- Our loan specialist works closely with the ProAdvisor to meet their client's needs.
- ProAdvisors fill out a simple application, then help collect the relevant loan documents.
- We provide compensation for every loan package submitted.\*
- Our loan specialist does all the legwork to find the right lender and best solution.

\* ProAdvisors can keep the compensation or give to their client.

**Customer Successes**

QuickBooks Financing has helped small businesses across all industries and at all stages of their lifecycle.

Customer Industry	Customer Problem	QuickBooks Financing Results
Legal Service	Rejected by 3 banks that did not want to lend money to a startup and did not understand their online business model	<ul style="list-style-type: none"> <li>• \$35,000 loan</li> <li>• Got funding in 7 days</li> <li>• Able to buy urgently needed new equipment</li> </ul>
Software	Rejected by personal bank even though had relationship for many years Had existing line of credit that made it difficult to get a loan	<ul style="list-style-type: none"> <li>• \$100,000 loan</li> <li>• Able to fulfill 2 new contracts and create 4 jobs</li> </ul>
Media Distribution	Declining revenues in a tough economy	<ul style="list-style-type: none"> <li>• \$12,000 loan at 25% lower rate than customer could find on his own</li> <li>• Able to do marketing to help the company grow</li> </ul>
Fuel Retailing	Burdened with loan at high rate of 7.9% Not satisfied with the quotes he got from other lenders	<ul style="list-style-type: none"> <li>• \$2 million refinanced loan</li> <li>• Much lower rate at 5.2%</li> <li>• Saved \$160,000 in interest</li> </ul>

**Please email us at [pilot@quickbooksfinancing.com](mailto:pilot@quickbooksfinancing.com) for more information**

Source: Intuit, 2013.

## Endnotes

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- <sup>4</sup> Id., p. 72.
- <sup>5</sup> Id, p. 115.
- <sup>6</sup> Id., p. 22.
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- <sup>8</sup> Intuit. "FY13 Annual Shareholder Meeting." PowerPoint presentation slides, provided by Intuit, Mountain View, CA.
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<sup>26</sup> Mirbach, Bill. Interview by casewriter. Mountain View, CA, April 2, 2013.

<sup>27</sup> Wernikoff, Dan. Interview by casewriter. Mountain View, CA, April 2, 2013.

<sup>28</sup> Wernikoff, Dan. Interview by casewriter. Mountain View, CA, April 2, 2013.

<sup>29</sup> Ries, Eric 2011. *The Lean Start-Up: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* (1<sup>st</sup> ed.). New York: Crown Business.