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Intuit Strategic Audit

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INTUIT STRATEGIC AUDIT

An Undergraduate Honors Thesis
Submitted in partial fulfillment of
University Honors Program Requirements
University of Nebraska-Lincoln

by

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Abstract

Intuit is a financial technology company located in Mountain View, California. Intuit's goal is to "power prosperity around the world". The company does this by building software to help everyday people manage their money. Intuit has three main business segments: Small Business, Consumer Tax, and ProConnect.

Intuit's Small Business Segment focuses on creating software to help small businesses in their accounting. This segment generates the most revenue for the company, but it lacks a global presence. The Consumer Tax Segment creates tax filing software for the general public. It is facing an uncertain future, as competing free software is becoming more prominent and the government will soon be able to release their own tax filing solution.

This thesis examines Intuit's current situation and recommends actions to take for the business to continue being successful.

Background

In 1983, Scott Cook launched Intuit following his wife's frustration that there was not an easier way to balance a checkbook. 35 years later, the very kitchen table where this conversation was held sits inside of one of Intuit's headquarter buildings in Mountain View, California, reminding the company of its humble beginnings. Intuit now employs over 8,000 people and is comprised of three main business segments: Small Business, Consumer Tax, and ProConnect (Intuit, 2018). Led by CEO Brad Smith, Intuit's mission is to "power prosperity around the world" by delivering the following three key benefits to its customers:

- 1) **Making more money** by helping customers save money and grow their businesses
- 2) **Eliminating work** by streamlining financial processes
- 3) **Having complete confidence** by providing peace of mind in financial decisions

Small Business Segment

Intuit's Small Business Segment's flagship product is QuickBooks. QuickBooks is a software solution that was created to assist small business owners with their accounting. Currently, QuickBooks dominates this market in the United States with an estimated 80% market share. Despite this, it does not have as large of a presence in global markets.

Consumer Tax Segment

Intuit's Consumer Tax Segment is most widely known for the product TurboTax. TurboTax is a software to assist everyday people in filing their taxes. Unlike QuickBooks, this product does not hold the top market share in the United States, trailing behind H&R Block. The market for consumer tax software in the United States is competitive, with no company holding an

overwhelming percentage of the market. TurboTax is solely available for the United States and Canada.

ProConnect Segment

Intuit's ProConnect Segment focuses on building products to assist tax professionals. This segment consists of three main tax filing products: ProConnect Tax Online, ProSeries, and Lacerte. ProConnect Tax Online is an online software, designed for year-round usage. ProSeries is a desktop application that can be purchased for year-round or seasonal use. Lacerte is intended for accounting firms that handle highly complex tax returns. ProConnect is also available for use by tax professionals in Canada (Intuit, 2018).

Internal Situational Analysis

Though Intuit has been around for 35 years, the company is continuing to grow. The stock price one year ago was about 115 dollars and is now around 175. In the last fiscal year, Intuit revenue was up 10%, reaching 5.2 billion dollars. Figure 1 shows the breakdown of revenue between business units.

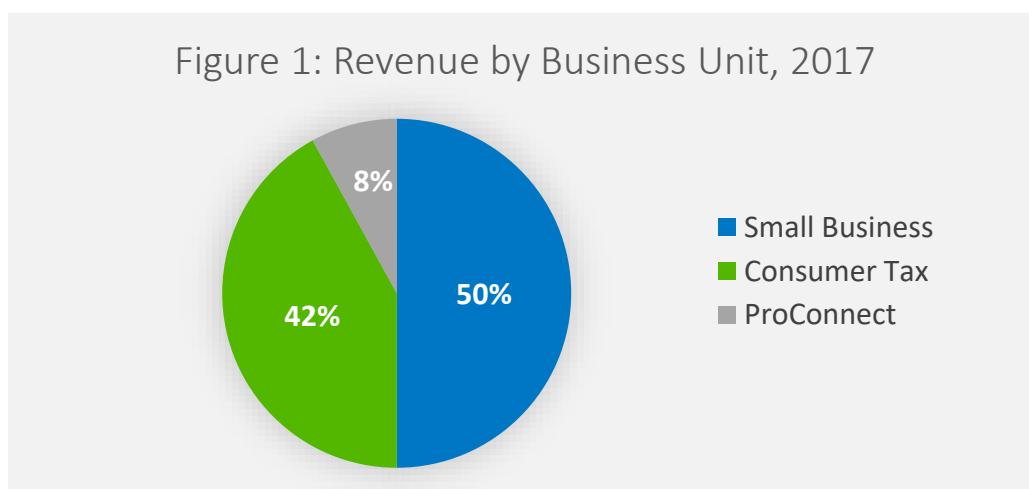


Figure 1 depicts the business units where revenue totaled over 5% of the company's revenue in 2017 (Intuit, 2018).

Strengths

This growth isn't a coincidence for the company; Intuit has many strengths that allow for their success:

- 1) **Intuit continues to improve on and diversify their product lineups.** For example, in the past year, Intuit released a new feature to its TurboTax customers that matched them with a compatible accountant. This consistent innovation is why Intuit has been able to not only survive but flourish in the last 35 years.
- 2) **Intuit puts a high emphasis on customer service.** The company operates under a "Design for Delight" initiative (Power, 2015). This initiative involves developing deep customer empathy, getting customer feedback early and often, and exploring many options before making decisions. This effort results in high customer satisfaction.
- 3) **Intuit highly values its employees.** The company ranked number 13 on the Fortune 100 Best Companies to Work for in 2017. It has been on the list for the past 17 years. Competitive wages and benefits, and perks such as fitness and transportation stipends, are not the only aspects that employees are happy with. Intuit employees are proud to work there and feel fulfilled by their jobs (Fortune, 2017). This dedication to employee satisfaction keeps Intuit full of top talent contributors.

Weaknesses

Despite these strong points, Intuit does have some weaknesses:

- 1) **Intuit's products are not making an impact on a global scale.** According to its 2017 Annual Report, international revenue totals less than 5% of Intuit's total revenue. QuickBooks is Intuit's only large, globally available product. In most countries, there are

existing accounting solutions for small businesses that are more popular. This is a weakness for Intuit because their revenue relies heavily on the United States market. If there were to be significant changes in the market, Intuit would be greatly affected.

2) Demand for tax filing software is seasonal. Intuit depends on tax season to make a large percentage of revenue, which means there is no room for errors when it arrives. Unlike products that are used year long, any changes to the software can only be tested with the majority of the user base once a year. If there are any issues or unpopular features with the product, Intuit could risk losing a portion of their user base. This seasonality may also lead to uncertainty on how many customers are expected to use the product, and in turn how much customer support will be needed. In addition, revenues are only seen during tax season. Because tax season timing is variable, it is also variable when Intuit will generate this revenue.

Competitive Advantage

Intuit's competitive advantage is the trustworthy reputation it has built in its 35 years of business. According to Ponemon Institute research firm, consumers ranked Intuit number 8 in privacy trustworthiness among all companies (Colvin, 2017). None of Intuit's direct competitors precede Intuit on this list. Accounting and tax filing products rely on users to share their financial data. Without trust from customers, businesses in these markets would fail. Users that value the safety of their data are more likely to choose Intuit products over other competitors. Figure 2 shows the top ten most trusted companies according to the Ponemon Institute study.

Figure 2: Most Trusted Companies, 2017

- | | |
|---------------------|-----------------|
| 1) Apple | 6) Facebook |
| 2) Amazon | 7) HP, Inc. |
| 3) American Express | 8) Intuit |
| 4) IBM | 9) PayPal |
| 5) LinkedIn | 10) USPS (tied) |
| | 10) USAA (tied) |

Figure 2 lists the top trusted companies, as reported in a 2017 Ponemon Institute study.

External Situational Analysis

In Intuit's 2017 annual report, the company acknowledged that interest in its product's markets has grown significantly and that the company faces "intense competition" in all of its businesses. Not only is Intuit affected by the rapid growth in competitors, the company also faces significant pressures from government regulations.

Competition

Each of Intuit's business segments faces their own unique competitors. QuickBooks is the leader in small business accounting software in the United States, but free or cheaper alternatives do pose some threat. FreshBooks is the leading budget alternative for QuickBooks software. QuickBooks has much more competition outside of the United States, where Xero is one of its top competitors. TurboTax's largest competitor is the leading tax filing company in the United States: H&R Block. H&R Block not only offers online software comparable to TurboTax, but they also offer in-person services that may attract customers who want a higher level of support. Currently, Intuit is under an agreement with the government to offer eligible citizens free tax filing services. Because of this, TurboTax also competes with publicly funded

government agencies that offer similar services. ProConnect's main competitors are CCH and Thomson Reuter's, though Intuit recognizes in its annual report that lower priced alternatives are becoming a growing concern (Intuit, 2018).

PEST Analysis

Political

Political factors have a large impact on Intuit's Consumer Tax Segment and ProConnect Segment. Tax laws change consistently, and Intuit needs to update their software according to these changes. Intuit is a part of the Free File Alliance, which is "a nonprofit coalition of industry-leading tax software companies partnered with the IRS to help millions of Americans prepare and e-file their federal tax returns for free" (Free File Alliance, 2017). This agreement with the IRS is effective through October of 2020. Once it expires, the IRS has the ability to create their own tax filing software. The government could potentially become a direct competitor to Intuit.

Economic

Intuit highly relies on a stable economy to be successful. If the economy was to suffer, small businesses could also suffer and therefore generate less demand for QuickBooks. Similarly, TurboTax is not essential for filing taxes. There are free alternatives available, though users would be sacrificing features to use them. If our economy was to suffer, customers may not be able to justify spending money on paid services, even if more features are offered.

Technology

Intuit is a technology company. To be successful, Intuit must keep up with the changing trends and advancements. Recently, these adjustments can be seen in Intuit's shift towards cloud-based software (Goel, 2016). QuickBooks initially began as a desktop application, but as competitors like Xero began taking advantage of online solutions, Intuit needed to as well if it wanted to remain competitive. Intuit has so far proved to be capable of handling these shifts in technological preferences, but these changes will never stop and the company must always be ready to adjust accordingly.

Opportunities

Intuit has a great opportunity to create an all in one financial ecosystem for its customers. Just this year, Intuit launched its first marketing campaign to promote its brand as a whole, rather than a singular product. Currently, Intuit has made some adjustments so that its products can work together, but there are many improvements that can be made. For example, users can export their transactions from Mint, an Intuit budgeting application, and upload them to QuickBooks. This process is far from seamless, though, as the transfer of information between systems needs to be done manually. If Intuit could integrate their products with no added effort to the user, there would be no other service that could offer the same unified experience between budgeting, accounting, and filing taxes.

Another opportunity for Intuit is the expansion of QuickBooks into global markets. The core QuickBooks product does not change significantly between countries, and adjustments like currency and language are already accounted for. The product is ready to make an impact

globally, yet it still has not. This is due to QuickBooks being late to the global market, and competitors already claiming a user base. In recent years, Intuit has seen some growth in their international revenue, thanks to the development of their cloud-based product, QuickBooks Online. In order to grow their global presence, Intuit needs to acknowledge its largest international competitor: Xero. While QuickBooks offers more features and better ease-of-use to its customers, Xero wins in its customer service and public relationships (Krause, 2018). If Intuit can improve its service and brand image internationally, the company has potential to gain a much larger percentage of international markets.

Threats

Intuit faces multiple threats to its Consumer Tax Segment. For one, companies can release cheaper or even free options for people to file their taxes. Credit Karma released a free software to file taxes last year (Lin, 2016). While the software has overall poor reviews, Credit Karma does have the potential to make improvements on its product and claim some of Turbo Tax's market share. Besides threats from other companies, the Consumer Tax Segment may have to compete with the government after 2020. Once the Free File agreement ends, it is a possibility that the government could release its own free software to the public for filing federal taxes.

Another threat that Intuit faces is a data breach. Now that their products are available for use online, it is a possibility that user data could be stolen. If Intuit were to lose security credibility, they would also lose trust in their users. This could cause them to lose a large portion of their user base and their competitive edge over other services.

Alternatives

Because Intuit has a reputation for trust, the company has potential to move into more markets that deal with financial data. One option for Intuit would be expanding its current products to other markets. For instance, QuickBooks and TurboTax currently cater to small and mid-sized businesses. It is possible that Intuit could create accounting solutions for large businesses as well. This option could dramatically shift the mission of the company.

While Intuit could create an entirely new product in a different realm of financial software, this would cost a lot of time and money. Instead, Intuit could look into potential acquisitions. One possibility of an acquisition would be payment software, such as Stripe. Stripe is a company that supports online payment processing for businesses. Intuit's trustworthy reputation would be valuable in this realm of software. Another potential type of acquisition could be banking software for community banks. This type of acquisition could open up an entirely new user base and it would keep the company true to its mission.

Recommendation

Intuit should continue to work on creating a seamless financial ecosystem. This alone would set Intuit products above its competitors, as no other competitor has the potential at this time to offer accounting, tax filing, and budgeting for their customers.

Intuit needs to prioritize QuickBooks global expansion. QuickBooks is the most successful product Intuit has, and there is no reason it could not be successful in other countries as well. Intuit has already shown some success in global expansion and is the fastest growing cloud accounting provider in Australia (Zhang, 2017). To gain market share in other countries, Intuit

should promote its products' extensive features, ease of use, and security advantages over alternatives.

As QuickBooks expands, Intuit should lessen their focus on advancing TurboTax. The tax filing software market is highly competitive, and there are many unknowns on what can be expected in the future. There is a risk that the government will release its own free filing software. Also, the market may likely become flooded with free options that offer the same services that TurboTax does. Intuit's best prospects for TurboTax is maintaining their current products, but focusing on premium versions that offer more than the competing free alternatives. The company could also benefit highly from TurboTax if they were able to achieve a seamless ecosystem with other products that users would be willing to pay for.

Intuit should not expand its services to large businesses. This shift would most likely require creating entirely new software, and the company does not have expertise in this market. Large businesses would also have large switching costs to take on a new financial software, so it would be difficult to acquire new customers. Also, Intuit has no portfolio for working with large businesses, and these entities would not be willing to take the risk of using a brand new software. Additionally, working with large businesses would shift the purpose of the company and would not support its current mission.

Intuit should continue to be open to taking on new acquisitions. Intuit is not a stranger to acquisitions, already making two this year. Some of these have already proved successful for the company. Mint, one of Intuit's most marketed products, was an acquisition in 2009 and

now has over 20 million users (Tracy Prince, 2015). Figure 3 shows the number of acquisitions per year in the last five years for Intuit.

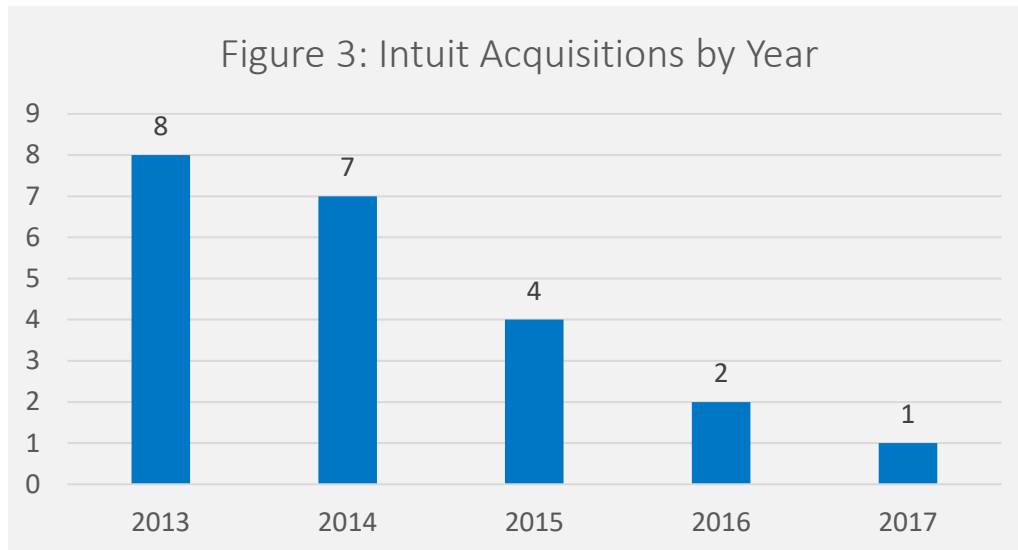


Figure 3 displays the number of acquisitions made by Intuit in the last 5 years (Intuit, 2018).

Implementation

To put these recommendations in action, Intuit should reference the following schedule:

2018

- Begin shifting priorities for TurboTax; focus more on developing premium features and scale back on efforts for developing the general product.
- Allocate excess resources from TurboTax to speeding up the ecosystem development.
- Create a marketing plan for global expansion of QuickBooks.

2019

- Rollout global marketing campaigns for QuickBooks.
- Allocate more customer service resources to global markets.

2020

- The Free File agreement will end this year. Intuit should take action to try and remain a relevant tax filing option. This may be in the form of marketing themselves towards people with more complicated returns, but because it is unknown what actions the government will take, this is subject to change.

Throughout these years, Intuit should continue to search for acquisitions that could enhance their financial ecosystem.

Contingency Plan

It is possible that the recommended plan for Intuit will not be successful. One possibility is that some countries are not receptive to the QuickBooks marketing. If 2 years after rollout, QuickBooks is not gaining profitable market share in the chosen countries, Intuit should focus on marketing in the United States, Canada, The United Kingdom, and Australia. These countries have already proven receptive to QuickBooks, and offer higher potential returns from marketing efforts. Another unknown outcome that should be considered is the United States government's actions regarding the Free File agreement. If the government does not choose to release its own free tax filing software, Intuit should allocate more resources to developing the basic consumer tax product so that TurboTax can continue to be a relevant competitor.

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