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Intuit, Inc. Strategic Audit

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Intuit, Inc. Strategic Audit

An undergraduate honors thesis submitted in partial fulfillment of University Honors Program requirements
University of Nebraska-Lincoln

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Background and Issues

Company History

Intuit was founded in 1983 by Scott Cook and Tom Proulx ("Intuit®: Company Info"). As Intuit folklore goes, Cook experienced his lightbulb moment for Quicken when he heard his wife, Signe Ostby, complain about the monotony of balancing a checkbook at their kitchen table (Murphy, 2014). Leveraging his Proctor & Gamble background, he conducted market research to determine whether managing household finances was a common annoyance. He discovered this need went far beyond his kitchen table and left his job. Cook was only a hobbyist programmer, so he recruited Stanford student Tom Proulx to join his endeavor. Proulx was excited by Cook’s vision of simplifying household finances, and with that, Intuit was born (Taylor & Schroeder, 2003).

From the beginning of Intuit’s existence, Scott Cook was invested in the customer experience. The software market was already rife with household financial products, but none had really taken off. Cook wanted that to change and aimed to create a product that truly helped people (International Directory of Company Histories, 2000). Quicken 1.0 was released in 1984, but would not see mainstream adoption until the end of 1986. Quicken became a force, with users favoring its familiar interface, which resembled a check, over its competitors (Taylor & Schroeder, 2003). This dominance continued, resulting in Intuit having sales of $55 million and a workforce of 425 by 1991 (International Directory of Company Histories, 2000).

The 1990s ushered major changes in Intuit’s history. Cook had learned that many small businesses were using Quicken to manage their finances. This was not Quicken’s intended use, but Cook thought that Intuit could serve small businesses too. In 1991, QuickPay, a payroll management software, was released. This was quickly followed by QuickBooks in 1992, a small business bookkeeping software (Taylor & Schroeder, 2003). In 1993, Intuit had its IPO (Murphy, 2014). This increase in capital allowed for one of Intuit’s most critical acquisitions, ChipSoft, for $243 million. The San Diego-based ChipSoft produced one of Intuit’s now-flagship products, TurboTax (International Directory of Company Histories, 2000). This acquisition grew Intuit into a company with over 1,000 employees and revenues of $200 million overnight (Taylor & Schroeder, 2003). After a rough patch with major financial losses, Intuit moved into the Internet space, launching online versions of Quickbooks Payroll and TurboTax in 1999 (International Directory of Company Histories, 2000).

In the new millennia, Intuit has continued its trend of success. Intuit products have continued to migrate to the internet and, eventually, mobile (Colvin, 2017). A new addition to their product line, the cult-favorite Mint, was acquired in 2009 for $170 million (Patel, 2019). In an unexpected move, Intuit sold its original product, Quicken, in 2016 for an undisclosed amount. CEO Brad Smith stated Quicken no longer aligned with the organization’s focus on small business and consumer tax products (Keizer, 2016). In that vein, the company has recently released a new product, QuickBooks Self-Employed, aimed at participants in the gig economy. It is now their fastest growing product (Colvin, 2017). Described as the Tom Brady of their industry, Intuit continues to prosper with over 50 million customers, 9,000 employees, and reporting over $6 billion in revenues in 2018 ("Intuit®: Company Info").
Company Status

Leadership

Intuit has a large executive team. Its founder, Scott Cook, is still involved with the company. He stepped down as CEO and now serves as the chairman of the Executive Committee and is on the Intuit Board of Directors. Brad Smith, now the executive chairman of Intuit’s board, was CEO from 2008 to 2019. The newly-appointed CEO is Sasan Goodarzi, who previously served as leader of both the Small Business and Consumer divisions since he began at Intuit in 2005. Alex Chriss is an EVP and oversees the Small Business and Self-Employed division of Intuit. Greg Johnson is an EVP and oversees the Consumer division of Intuit. The rest of the executive team includes EVPs Michelle Clatterbuck, Laura Fennell, Anton Hanebrink, CeCe Morken, Diego Rodriguez, and Marianna Tessel as well as SVPs Lara Balazs, Al Ko, Rob Lanesey, Kerry McLean, and Mark Notarainni ("Intuit®: Company | Intuit Leadership", 2019).

Products

Intuit has three major product divisions: Small Business & Self-Employed, Consumer, and Strategic Partner. The Small Business & Self-Employed division houses the QuickBooks product line, the Consumer division houses the TurboTax and Mint product lines, and the Strategic Partner division houses the ProConnect product line. These divisions made about up 51%, 42%, and 7% of Intuit’s revenue in 2018, respectively ("Fact Sheet - February 21, 2019"). QuickBooks is a line of accounting software for small businesses and self-employed individuals. TurboTax is a consumer tax preparation software. Mint is a mobile application for managing personal finance. ProConnect is a tax preparation software made for financial professionals to assist consumers ("Powering Financial Prosperity", 2019). Intuit is headquartered in Mountain View, California and has eighteen other offices in nine countries ("Intuit®: Company Info").

Mission and Values

Intuit’s mission is to “power prosperity around the world” ("Intuit®: Company Info"). This ties in their products, which solve for financial struggles, and one of their objectives, increasing their global reach. Intuit’s values are listed below (Our Values, 2017):

- Integrity without compromise
- We care and give back
- Be bold
- Be passionate
- Be decisive
- Learn fast
- Win together
- Deliver awesome

Current Strategy

Intuit’s strategy has three components: provide personalized experiences, serve as a trusted open platform, and provide indispensable connections all in a “One Intuit Ecosystem.” Personalized experiences entail that a user’s experience with the product is well-suited for them and can predict the help they may need. Intuit wants to become a platform, allowing other developers to collaborate with its products to deliver even more value to the user. Lastly, Intuit wants to build connections between small-business owners, financial professionals, and consumers so everyone can receive the help they need ("Intuit Investor Overview", 2018).
Current Issues

New Management

In August 2018, Intuit unexpectedly announced it would be undergoing two major leadership changes. Its CEO, Brad Smith, and CTO, Tayloe Stansbury, would both be leaving their roles January 1, 2019. Intuit strategically announced this alongside strong fourth-quarter earnings, avoiding damage to Intuit stock value. Smith served as CEO for eleven years and oversaw Intuit stock rise 600% during his tenure while the Nasdaq rose less than 200% (Sparks, 2018). Smith was replaced with Sasan Goodarzi. Goodarzi has been with Intuit for fourteen years and served as the leader of the consumer group, leader of the small-business group, and the CIO (High, 2018). Stansbury was replaced by Marianna Tessel. Tessel previously served as the chief product development officer for the Small Business and Self-Employed group (Sparks, 2018). Smith and Stansbury were instrumental in many decisions that drove Intuit’s value. While the leadership has undergone great change, the newly promoted leaders have long, fruitful alliances with Intuit. This change in leadership could slow down the momentum Intuit has been maintaining or be a great success.

Tax Reform

Intuit’s Consumer division produces 42% of overall revenue, anchored by the TurboTax line of products. Intuit’s Strategic Partner division produces about 7% of overall revenue (“Fact Sheet - February 21, 2019”). There are a few ways this could be troublesome for Intuit. Firstly, Intuit is at the mercy of the government to keep taxes complicated (Zach, 2018). To combat this, Intuit has spent over $3 million on lobbying the government to keep taxes complicated and to prevent the IRS from releasing their own free tax preparation software. Intuit, along with other tax preparation providers, has an agreement with the IRS that prevents the IRS from creating their own free tax preparation software. However, this agreement could be terminated by the IRS with a year’s notice (Bankman, Hemel, & Ventry, 2018). If that were to occur, it could decimate TurboTax and ProConnect. Secondly, major changes to the tax code cause customers to move away from TurboTax in favor of an accountant. With more confusion happening among taxpayers over the major tax changes that went into action this year, there is a possibility taxpayers may be more inclined to visit a professional than to “DIY” their taxes with TurboTax (Steverman & Davison, 2019). This may have already affected Intuit. As of late February, the number of filings TurboTax processed was down 3.5% compared to the prior year at the same time (Gagliordi, 2019). In summary, 42-49% of Intuit’s business could be lost depending on legislation.

Situation Analysis

Business Model

Customer value created

Intuit creates customer value very clearly. TurboTax allows taxpayers to quickly and easily file their taxes from home. QuickBooks enables small businesses and the self-employed to manage their accounting without much previous experience. Mint lets users budget and track their personal finances. ProConnect provides software tools for financial professionals to quickly and easily serve their customers (“Powering Financial Prosperity”, 2019).

Revenue streams

Intuit has several major revenue streams: QuickBooks units sold, QuickBooks subscriptions sold, TurboTax units sold, ProConnect units sold, and revenue earned via advertising on Mint and Turbo. For FY 2018, QuickBooks had about 3.8 million subscribers and
sold 749,000 units, generating about $3.1 billion. TurboTax sold about 39.2 million units which, combined with advertising revenue from Mint and Turbo, resulted in revenues of $2.51 billion. ProConnect had 124,000 customers resulting in revenues of $456 million (“Fact Sheet - February 21, 2019”).

Strategic activities

As mentioned earlier, Intuit’s current strategy involves three main tenants: provide personalized experiences, serve as a trusted open platform, and provide indispensable connections all in a “One Intuit Ecosystem.” It is executing on each of these.

Personalized Experiences

Within Intuit, personalization has been a major focus. In the QuickBooks division, Intuit engineers are using machine learning and artificial intelligence to personalize the user experience. For example, a new user may be shown a recommendation for a free webinar while a more seasoned user with employees may get a recommendation for tracking hours in QuickBooks. This can also be applied to the “help” panel in QuickBooks, predicting based on the user and their context what problems a user may be encountering. This has even been applied to the QuickBooks home page. Depending on whether a user visits the website via an email ad, a search engine, etc. they may be shown a slightly different website (Madan & Gupta, 2019). In the Consumer Division, which contains TurboTax and Mint, personalization is also occurring. This is largely driven by the mobile application Turbo, which leverages data from TurboTax to provide financial insights. In Turbo, users can prefill application fields using their TurboTax information as well as create a Household View with other TurboTax users. In Mint, users receive “MintSights,” personalized tips powered by machine learning (“Intuit Turbo and Mint to Demonstrate the Future of Personalized Consumer Finance at Money 20/20 2018”).

Trusted Open Platform

In 2013, QuickBooks announced a partnership with Square that enables Square transactions to automatically be accounted for in QuickBooks. This started Intuit’s transformation into a platform company rather than a product company. By forming partnerships with key organizations, they were able to better serve their small business operators (Murphy, 2013).

In 2016, TurboTax began operating as a platform. Because Intuit has plenty of financial data for its users, they began allowing developers to engage with TurboTax customers. The first partnership was with Earnest, allowing TurboTax users to quickly assess whether or not they were eligible for student loan refinancing (“Intuit Launches Open Platform to Help People Achieve Financial Freedom”, 2016).

Indispensable Connections

Intuit has been tending to this portion of their strategy in several ways. Firstly, they have a matchmaking platform to connect QuickBooks users (small-business operators) with accountants. Based on their metrics, QuickBooks users with an accountant are 31% more likely to stay on the platform. This service is also tripling the average number of client leads for accountants (“Intuit Investor Overview”, 2018).

The QuickBooks unit has also rolled out another connections-based product: QuickBooks capital. This provides QuickBooks customers with capital. 60% of QuickBooks Capital users stated that they were previously unable to obtain a loan from a financial institution until discovering QuickBooks Capital. The loss rates from QuickBooks Capital are less than half of the
industry average ("Intuit Investor Overview", 2018). When QuickBooks users continue to be able to operate their business, that is good for both the user and Intuit.

Additionally, Intuit has been connecting TurboTax customers with accountants with the rollout of its new product, TurboTax Live. 60% of people are assisted by a professional when completing their taxes, and this was Intuit’s way of entering that market. This initiative has so far increased filer confidence, improved retention, brought in new customers from the assisted market, and generated income for over 2,000 financial professionals ("Intuit Investor Overview", 2018).

Lastly, Intuit has been providing indispensable connections through its new mobile application, Turbo. Turbo curates offers for loans, credit cards, etc. based on a user’s financial info. This connects users with Intuit’s partners and provides the partners with users that are good fits for their products ("Intuit Investor Overview", 2018).

One Intuit

This portion of the strategy involves both product and marketing. “Intuit” is not necessarily a household name, but “TurboTax” and “QuickBooks” are. To make consumers aware that one company is creating all these products, it has done several things, like reworking logos and websites (Russell, 2013). Intuit made a major splash by releasing its first Intuit-centric Super Bowl advertisement, featuring a robot and an entrepreneur using multiple Intuit products to manage her business and personal finances ("Intuit | A Giant Story", 2018). On the product side, Intuit is working to integrate its products. For example, QuickBooks Self-Employed now easily interacts with TurboTax Self-Employed. This strategy is intended for users to have seamless interactions across products and unite under one brand (Rodriguez & Stansbury, 2018).

Inputs and resources

Due to the nature of Intuit’s products, there are not many inputs and resources. The principal inputs are the employees, property, equipment, research and development, marketing, and cost of producing CDs and DVDs for certain products ("Form 10-K", 2018).

Major cost components

According to the income statement found in Intuit’s 10-K filed at the end of FY 2018, the largest cost components (in descending order) are selling and marketing, research and development, cost of services, general and administrative costs, costs of products, and amortization ("Form 10-K", 2018).

<table>
<thead>
<tr>
<th>Costs &amp; Expenses (&quot;Form 10-K&quot;, 2018)</th>
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<tbody>
<tr>
<td>In millions of dollars</td>
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<tr>
<td>Cost of revenue:</td>
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<tr>
<td>Cost of product revenue</td>
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<tr>
<td>Cost of service and other revenue</td>
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<tr>
<td>Amortization of acquired technology</td>
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<tr>
<td>Selling and marketing</td>
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<tr>
<td>Research and development</td>
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<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>General and administrative</td>
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<tr>
<td>Amortization of other acquired intangible assets</td>
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<td>Total costs and expenses</td>
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**External Analysis**

**Competitors**

Intuit is distinct in that it has products in several categories. Because of that, Intuit has no direct competitors. Instead, each category has its own competitors. Its largest businesses (Small-Business/Self-Employed and Consumer) each have their respective competitors listed below.

**Small-Business and Self-Employed**

The Sage Group is a British company founded in 1981. It produces accounting software for businesses with up to 2,000 employees. In FY 2018, it reported revenues of about $2.4 billion (Sage Annual Report 2018).

Xero is a New Zealand-based company that formed in 2006. Although a relative newcomer, in 2018 it reported revenue of $406 million and its first positive EBITDA. Like QuickBooks online, Xero offers cloud-based small-business accounting software. Xero is gaining traction, claiming they “lead the New Zealand, Australian, and United Kingdom cloud accounting markets” (Xero Limited Annual Report 2018).

Freshbooks began in Canada in 2003 and boasts over 24 million users. Freshbooks is privately held. It specifically targets the self-employed and provides value via accounting software-as-a-service (Freshbooks).

**Consumer**

As mentioned earlier, TurboTax faces a looming threat of free government tax preparation at the federal level. While this has not yet materialized, nineteen states offer free tax preparation for state income taxes, resulting in a competitor to TurboTax ("Form 10-K", 2018).

H&R Block is an intense competitor to TurboTax. Along with their 12,000+ brick-and-mortar locations, H&R Block also offers online tax preparation. In FY 2018, H&R Block reported $3.1 billion in revenue and prepared over 23 million tax returns ("Corporate Overview"). This compares closely to Intuit’s Turbotax business, which sold 39.2 million units in FY 2018. Combined with nearly negligible advertising revenue from Mint and Turbo, TurboTax resulted in revenues of $2.51 billion (“Fact Sheet - February 21, 2019”).

Credit Karma is a newer entrant into tax preparation, offering free online tax preparation. They make money by leveraging users’ tax data to recommend financial products. Credit Karma was founded in 2007 and started by providing free credit scores and rolled out their tax preparation service in 2017. Credit Karma is private but stated it prepared almost 1 million tax returns and had overall revenue of $500+ million (Calvey, 2017).
Beyond these other tax preparation behemoths, TurboTax competes with small-scale tax preparation organizations. Most of these are small businesses, with 53% employing less than ten people (Sena, 2018).

**Strategic Partners**

Wolters Kluwer is a “global expert solutions” company based out of the Netherlands. Like Intuit, they produce several types of software for financial professionals, most known for their CCH line. Their tax and accounting division reported revenues of about $1.5 billion in 2018 (Wolters Kluwer, 2018). This is far greater than Intuit’s reported revenues in the same category, $456 million (“Fact Sheet - February 21, 2019”).

Thomson Reuters is a massive Canadian media company that also produces software for tax professionals. It defines its customers as accounting firms (of any size), and government taxing authorities. This is slightly different, as ProConnect does not target government customers. This segment of Thomson Reuters’ business reported revenues of $770 million in 2018 (Thomson Reuters, 2019).

Drake Software is a private American company that creates professional tax software. It was established in 1977 and has over three hundred employees. Drake claims to have 50,000 clients and its software processes over 20 million tax returns every year (Drake Software).

**Critical success factors**

When operating financial software, there are a few factors that are necessary to survive in an industry. Those are security, compliance, and adaptability. Security is critical to all FinTech firms, and that is no different for Intuit. All of its products deal with personal data that is particularly sensitive. A TurboTax or QuickBooks data breach could shatter consumer confidence that could never be restored. In a similar vein, it is key that Intuit products comply with any applicable regulations. TurboTax, in particular, needs to comply with the IRS and tax law. Lastly, financial software firms need to be adaptable. For example, Intuit is known for “disrupting itself” by undermining its own products before a competitor can by adapting to the latest technologies and trends (Colvin, 2017). These practices in unison are key to be a successful financial software firm.

**Current competitive strategy**

As previously mentioned, Intuit’s strategy has three components: provide personalized experiences, serve as a trusted open platform, and provide indispensable connections all in a “One Intuit Ecosystem.” According to Intuit, they are growing taking on their small-business/self-employed competition by focusing on acquiring new users. It does this by providing “awesome first use experiences,” providing third-party apps to gain new customers, and matchmaking users with financial professionals. This ties into all three tenants of its strategy. TurboTax released its TurboTax Live product, which connects users with a financial advisor via video chat to assist them with their taxes. This takes on the “assisted” market, where a taxpayer may want to speak with a real person when completing their taxes. This addresses a $27.4 billion that Intuit has not yet penetrated. This also touches the personalized experiences and indispensable connections tenants of Intuit’s strategy. The TurboTax division is also addressing the trusted open platform portion of the strategy by launching Turbo, where users can consent to share their tax data with outside developers (“Intuit Investor Overview”, 2018).
Industry structure

As can be seen in the figures, Intuit has a significant foothold in all three of its major product categories. Intuit particularly dominates the small business accounting software industry and has a strong hold on the professional tax software market as well. The only category where it does not have the largest market share is in tax preparation. Finance professionals dominate this category, preparing 46.3% of all American and Canadian tax returns (Intuit, Inc., 2017). While TurboTax may dominate the “do-it-yourself” market, it has room to grow overall. This largely explains why Intuit is emphasizing its assisted product, TurboTax Live. Theoretically, this product could take on the dominance of tax professionals and cement TurboTax’s position.
PEST Analysis

Political
Lobbying for complex taxes

By far, the most threatening political issue to Intuit is the issue of tax reform. Not in terms of minor changes to the tax code, but regarding the IRS releasing their own free tax product, creating pre-filled forms, or otherwise simplifying the tax process. This is a major threat to not only the TurboTax business but also to the ProConnect business. Tax simplification would endanger tax professionals who purchase ProConnect products. Intuit combats this by lobbying alongside other tax preparation businesses, like H&R Block. Last year, the two companies spent $6.6 million on lobbying. In the Taxpayer First Act (authored by a lawmaker that has received campaign donations from Intuit), the IRS is blocked from creating its own tax preparation software. As a reconciliation, Intuit, along with other tax preparation organizations, offers free tax preparation to taxpayers making less than $60,000 annually, about 70% of Americans. This legislation indefinitely extends tax preparation providers’ agreement with the IRS and has not yet been made into law (Elliott, 2019). Still, this is controversial, as many believe that if the government is going to legally obligate taxpayers to file taxes, it should not cost money to do so. Intuit should be concerned about IRS-provided software, and clearly is taking steps to protect their business.

Economical
Environment for small businesses

Intuit’s Small Business segment is fortunate to be in a market where its consumers are thriving. The Index of Small Business Optimism has reached a record high, with planned job creation and job openings also setting new records (Dunkelberg, 2018). Small-business wages are also continuing to grow, but there is one fear: lack of talent. Many small businesses have job openings but are struggling to find candidates willing to take these roles, often losing out to larger firms (Morelix, 2018). For Intuit, small business growth is a win. More prosperous
businesses mean more potential customers for Intuit. The lack of talent problem could also serve as an opportunity for Intuit to assist their customers in a new way.

**Shift towards gig economy**

Another economic trend that Intuit has already capitalized on is the growing “gig economy.” This blanket term generally characterizes task-based work and is rising with the growth of ride-sharing and home-sharing, but can also include independent contractors and freelancers. The gig economy can be considered a response to the 2008 financial crisis, with many losing their “traditional” jobs and turning to “gigs” (Frazer, 2019). Intuit’s former CEO Brad Smith stated in 2017 that 34% of the US workforce fell into the gig economy and expected that to grow to 43% by 2020 (Gillespie, 2017). Intuit has already begun to address this, launching QuickBooks Self-Employed. However, with limited features compared to other accounting products, there is plenty of room for Intuit to improve their offerings (Intuit QuickBooks Self-Employed review for 2019).

**Social**

**Digital natives**

A shift that Intuit should prepare for is digital natives, or Generation Z, becoming old enough to use financial software. This generation has its own set of attitudes regarding finances. According to research, they tend to be financially cautious, concerned about lack of knowledge regarding finance, and a fear of debt (Mondres, 2019). Those attitudes demonstrate a tremendous opportunity for Intuit. People that know how to use software and are hesitant towards finances are a perfect segment for Intuit to serve.

**Tax reform inciting fear**

The recent drastic changes to the United States tax code has resulted in increased stress regarding tax preparation. While most people will not end up paying more in taxes under the new laws, some will have smaller refunds or larger payments to the IRS in April. Instead, they will have smaller withholdings from paychecks. Regardless, this has incited fear in many (Steverman & Davison, 2019). This could be an opportunity for Intuit to draw in more customers from the “other DIY products” and “manual filing” portions of the market. It could also be a threat with more consumers opting to see a tax professional in order to feel more secure in regards to the new tax laws.

**Technological**

**AI**

The major technological shift that Intuit should be investing in is artificial intelligence. Current CEO Sasan Goodarzi agrees, stating that AI presents a large opportunity for Intuit. Artificial intelligence could present Intuit with creating hyper-personalized advertising opportunities within their services or specialized finance insights (Weinberger, 2019). While Intuit has a good track record for keeping up with technological trends, they could be beaten by a competitor that better leverages AI. It is critical that Intuit follows through on Goodarzi's claim and utilize AI well.
Porter’s Five Forces

Threat of New Entrants
In nearly all software industries, the threat of new entrants is high. There are few barriers to entry for any Intuit product. All an organization would need to do is spin up a novel solution, which is not costly apart from labor. With the increase in cloud computing, a new entrant could cheaply launch a web-based tax preparation or small-accounting software. There may be some added complications when a new entrant has to handle government regulation, but overall, this is not a difficult industry to break into.

Bargaining Power of Buyers
Buyers, or users, have a lot of power in this industry. It is very easy to switch from filing taxes with TurboTax to filing with H&R Block. The same goes for the ProConnect line of products. There is more difficulty in switching away from an accounting software, as having past data is helpful, but it is still relatively easy. There are lots of other options for consumers, so Intuit needs to create products that users want at a fair price.

Threat of Substitute Products
In each of Intuit’s categories, there are substitutes. For the accounting business, users can purchase other accounting software, use something like Microsoft Excel, or manually track their expenses. The latter two options are a bit of a hassle, but are cheaper than any accounting software. Consumer taxpayers have many substitutions. They could purchase a different software, use free software, visit a financial professional, or complete their taxes manually. There is also the looming threat of the IRS creating their own software. Lastly, financial professionals using ProConnect could switch to a different product or manually perform tax preparation.

Bargaining Power of Suppliers
Intuit has very few suppliers due to the nature of software. They do have two major agreements. These are with Arvato Digital Services, which produce and distribute the CD and DVD versions of Intuit products. The other is with Harland Clarke, which oversees Intuit’s financial services business (i.e. printing checks). Both the disc and printed products Intuit produces are becoming less popular ("Form 10-K", 2018). This, combined with a general lack of suppliers, results in low supplier power.

Competitor Rivalry
Every industry Intuit operates in undergoes competitive rivalry. Referring to the pie charts in the industry structure section, there are several strong competitors in each category. While Intuit may be dominant, there are other strong companies creating very similar products. Once again, this force is significant for Intuit.

Porter’s Five Forces Summary
All but one of the forces are strong for the industry Intuit operates in. This means that Intuit must stay competitive as the odds are against any organization that participates in financial software.

Threats
There were several threats identified through the PEST and Porter’s Five Forces analyses. One of the largest threats is tax simplification, which could wreck Intuit’s Consumer
and Strategic Partner groups by lowering the demand for tax products. Another concern is that Intuit may not adopt artificial intelligence as fast as needed to compete with other organizations. The threat of new entrants is quite high in financial software as well due to the low barriers to entry. Because buyers have many options for financial software, Intuit must deal with that bargaining power and threat of substitute products. Lastly, there are many strong, similar firms participating in financial technology that pose a threat to Intuit’s business.

Opportunities

Through the PEST analysis, many opportunities for Intuit were identified. The climate for small businesses is good right now, serving as a great opportunity for Intuit to earn more QuickBooks customers. Similarly, the gig economy is continuing to grow. Intuit has started to capture with its QuickBooks Self-Employed product, but Intuit could and should expand its self-employed offerings. Generation Z, or the digital natives, are starting to reach the point where they could leverage financial software. This software-savvy, financially anxious market segment is a dream for Intuit, but only if it markets to them well. Some forms of tax reform could be beneficial to Intuit. If taxes change, but remain complicated, more taxpayers may turn to an assisted solution. Lastly, the further understanding of AI capabilities could be a major opportunity for Intuit. If Intuit quickly adapts to this new technology and provides value with it, AI could transform their business in a positive way.

Internal Analysis

Financial Situation

Capital Structure

<table>
<thead>
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<th>Abbreviated Balance Sheet (Form 10-Q, 2019)</th>
<th>In millions of dollars</th>
</tr>
</thead>
<tbody>
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<td><strong>Liabilities and Equity</strong></td>
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<tr>
<td>Current Assets</td>
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<td>Long-term investments</td>
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<td>Property and equipment, net</td>
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<td>Goodwill</td>
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<tr>
<td>Other Assets</td>
<td>257</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,335</td>
</tr>
</tbody>
</table>

According to Intuit’s 10-Q filed for the second quarter of 2019 (see above), Intuit finances its operations with about 47.6% debt and 52.4% equity. This results in a debt-to-equity ratio of 0.91. This is a fairly conservative capital structure and lower risk. Additionally, Intuit has only about 21.2% of its overall debt in long-term debts, with the remaining 78.8% in short-term debts. 41% of its short term debt is held in cash, another indicator of Intuit’s conservative capital structure. Intuit offers no preferred stock. It has $5.6 billion in common stock and $11.3 billion in treasury stock (Form 10-Q, 2019). Holding so much treasury stock is an interesting decision.
and gives other shareholders greater claim to future earnings. It also indicates Intuit’s confidence in the value of their equity. Overall, Intuit has a conservative, low-risk capital structure.

Operating results
Intuit has a strong financial basis. For FY 2018, revenue was $6 billion, up 15% from FY 2017. Operating income was $1.5 billion, up 7% from FY 2017, and net income was $1.2 billion, up 25% from FY 2017. Intuit also increased its cash held by $1.5 billion in FY 2018. Intuit also pays quarterly dividends and intends to continue to do so ("Form 10-K", 2018).

Physical Assets
Intuit’s only physical assets are property and equipment. Intuit has 8 main offices that are either leased or owned and a number of smaller locations. For FY 2018, Intuit reported having $812 million in property and equipment ("Form 10-K", 2018).

Intellectual Capital and Intangible Assets
Intuit is quite diligent about maintaining its intellectual capital. It utilizes patent, trademark, copyright, and trade secret laws to protect these intangible assets. It continues to add to its list of patents, but also acknowledges that patents are not silver bullets. Nearly all of Intuit’s product names are registered trademarks. Intuit holds about $61 million in intangible assets as of FY 2018 ("Form 10-K", 2018).

Human Capital
Intuit has about 8,900 employees. Intuit experiences seasonality due to its tax products, so some additional hires are added then to aid with that. Additional seasonal employees peak at around 2,400. Intuit supplements employee compensation with stock issuance, totaling $96 million in FY 2018. Intuit also does 401k matching for employees, which added up to $50 million in FY 2018. While there is no direct numbers regarding how much Intuit spends on employee compensation in general, the cost of product revenue and the cost of service and other revenue for FY 2018 was $962 million. Because software requires few inputs besides labor, this is likely largely employee compensation. For the last seventeen years, Intuit has appeared on Fortune magazine’s “100 Best Companies to Work For” list. Intuit notes that it experiences intense competition for talent, particularly technical ("Form 10-K", 2018).

Competencies
Intuit’s core competency is creating software that helps small businesses, the self-employed, consumers, and tax professionals manage their finances and comply with tax law. Intuit is distinctive in that its products are user-friendly and make typically mundane tasks less so. It is also distinct in that its suite of products complement each other in a way its competitors’ do not.

Organization and Situation fit
Intuit is currently in a good situation regarding finances and market share. This is not true for all in this industry; H&R Block has been suffering for some time. This longtime rival was designated by Moody’s to have a negative outlook and is generally struggling to stay viable (Bourgeault, 2018). Intuit is experiencing consistent growth in all of its target metrics and appears to have a positive outlook ("Form 10-K", 2018).
Strategic Alternatives

Each strategy should fit the following criteria: growth-oriented, customer-serving, and reasonable. Growth-oriented in that the strategy will continue Intuit’s history of success and growth. The strategy should be of benefit to the customers and not upset them. Lastly, the strategy should not be logistically outlandish.

Option 1: stay the same

The first option is for Intuit to continue with its current strategy. This would mean sticking to its product-oriented strategy where it provides personalized experiences, serves as a trusted open platform, and provides indispensable connections all in a “One Intuit Ecosystem” ("Intuit Investor Overview", 2018). This strategy is not explicitly growth-oriented, but instead aims to gain more customers by bettering the product. This strategy focuses primarily on improving the product, so it benefits the customers. Lastly, this is the current strategy, so it is inherently logistically possible. Intuit has a long history of having successful strategies, so it makes sense that the current strategy is a very viable option.

Option 2: divest in taxes

Another option would be for Intuit to shift its focus away from taxes. While taxes are the basis for both the consumer group and the strategic partner group, there is a long-looming threat of tax simplification that only seems to amplify. Intuit could pull resources from these product lines and put them into the small business and self-employed product lines. That segment is not seasonal nor does it possess the same risk of swift obsoletion. This strategy may upset consumers, as TurboTax, Mint, and ProConnect may not be receiving the level of care and improvement that users are used to. This strategy is partly growth-oriented in that it focuses on growing the small business unit. However, it only achieves that via shrinking the consumer and strategic partner groups. Lastly, this strategy would be logistically possible, but difficult. Transferring employees to the small-business unit does not sound too difficult, however, the consumer and strategic partner groups have offices in locations separate from the small business group ("Form 10-K", 2018). This would mean employees would either have to relocate, potentially resulting in a loss of talent.

Option 3: focus on internationalization

International revenues account for less than 5% of Intuit’s total revenues ("Form 10-K", 2018). While the tax market is quite specific to the United States, the small business and self-employed sectors are not. Intuit does state that it is attempting to expand globally, but international revenues have stayed stagnant for the last three years. This strategy intends to grow the consumer base and, in turn, revenues. Consumers may like this strategy, particularly those that newly adopt Intuit products and gain value from them. Lastly, this would be an investment for Intuit. It would have to perform significant research to adapt the product to more regions and invest in marketing. However, with Intuit’s large stores of cash, it could be reasonably done. Intuit should funnel more resources into marketing the QuickBooks line internationally to a whole new set of consumers and embrace its mantra of “powering prosperity around the world” ("Intuit®: Company Info").
Recommendation

Intuit should continue with its product-oriented strategy, but emphasize and invest more in international expansion of the small business and self-employed products.

Enterprise

Power prosperity around the world.

International

Grow QuickBooks' international presence in order to maintain a history of growth in an unaddressed market.

Corporate

Intuit products provide personalized experiences, serve as a trusted open platform, and provide indispensable connections all in a “One Intuit Ecosystem.”

Business Unit

Consumer

Enable North Americans to file their taxes quickly, easily, and with confidence.

Small business and self-employed

Provide tools for small businesses and the self-employed to manage their finances, worldwide.

Strategic partner

Provide tools for North American financial professionals to help consumers file their taxes quickly, easily, and with confidence.

Functional groups

Engineering

Create great products that can easily be adapted for international markets.

Marketing

Understand how to best earn new customers around the world.

Research

Conduct research to understand how to best adapt QuickBooks products and serve international customers

Justification

Intuit needs to maintain the growth it has experienced. While Intuit does not fully dominate the markets it currently operates in, it should still look beyond the United States for new customers. TurboTax and ProConnect would be far more intensive to scale internationally due to local laws. Expanding those products would mean intensive work to become compliant on top of marketing to a new region. QuickBooks, on the other hand, would be far easier to scale. Intuit has a good track record for creating products that consumers appreciate by understanding them. Intuit would have to apply that same magic to international consumers. While that may be an investment, it could very likely pay off.
Financials

Worldwide, there are over 800 million small-business and self-employed customers. By Intuit’s own calculations, that is a $173 billion market ("Intuit Investor Overview,” 2019). QuickBooks currently has around a 62% US market share (SMB Group, 2015). It has achieved this over 28 years of existing (Taylor & Schroeder, 2003). It would not be unreasonable then for Intuit to aim for a 10% global market share over the next 10 years, capturing an additional $1.73 billion market and 80 million customers, considering Intuit has far more resources now than it did in 1992. It would fund the research and marketing costs needed to enter more markets by dipping into its nearly $2 billion reserve of cash ("Form 10-K", 2018).

Implementation

Timeline

May 2019
Begin resource planning for internationalization project. This entails identifying a specific budget, deciding who will be conducting the research, and target countries.

November 2019
Spin up research teams in target countries to conduct user research regarding what local business owners and the self-employed are currently using to manage their finances, what their problems are, and how QuickBooks could better serve these regions.

May 2020
Research concludes and teams deliver documentation regarding their findings and make suggestions for how to better the product for each target region.

June 2020
Product adjustments are decided on and product teams are reorganized to handle the additional work.

December 2020
User and beta testing begins on the new versions of QuickBooks by users in the target regions.

March 2021
Based on user feedback, product teams complete a round of fixes for the product.

June 2021
Care and Sales teams begin training on the new versions of the product and how to serve the new segment of users.

September 2021
Product is finalized, quality assurance begins. If any new issues arise, they are addressed at this time.

January 2022
QuickBooks launches in new target regions. For the next ten years, QuickBooks works towards adoption of 10% of the global small business and self-employed consumers.

Organizational changes

Since all other activity at Intuit would remain the same, Intuit would need to create new teams to address the international portion of the strategy. This would involve bringing in experienced leaders and researchers both internally and externally, resulting in a reorganization of the small business and self-employed groups.
Resources

Intuit would fund this endeavor internally, using its $2 billion reserve of cash (“Form 10-K”, 2018). Ideally, $0.5 billion to $1 billion of this would go towards this international strategy.

### Pro-forma Financial Operational Impact

<table>
<thead>
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<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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These values are all in millions of dollars and assumes QuickBooks to gain 1% of its market each year following its initial launch. This also assumes subscriptions are sold, resulting in recurrent revenue.

### Measurement and control strategy

While the global versions of QuickBooks are in development, prospective users will be involved from the start. Potentially, if the users are not interested in QuickBooks from the beginning, the strategy could be ended at that stage. This would mitigate some risk of the product not being useful to a new market. Increased attention would be given to why users seek help from the Intuit help center. User feedback would be critical, as Intuit has not adapted for a global audience on a large scale before. Quarterly check-ins on the progress of global adoption would be key. If adoption is not hitting growth targets, the strategy may need to be retooled or scrapped altogether.

### Contingency

If this strategy failed, a few things would occur. Intuit would have to stop investing in further marketing the product, but it would need to continue to support global versions of the products. If this were the case, it would be relatively easy to revert to the previous strategy. Unfortunately, it would be a failed investment on the scale of millions to billions.

### Conclusion

Intuit has experienced steady, continual growth for extended time, an unusual feat in software. While it undergoes its leadership transition and threat of tax simplification, it must consider how it will maintain its legacy of success.
Works Cited


Intuit®: Company Info • Core Beliefs • Culture • Executive Profiles • Press. (n.d.). Retrieved March 30, 2019, from https://www.intuit.com/company/


