DARDEN
BUSINESS PUBLISHING
UNIVERSITY of VIRGINIA

UVA-M-0496

INTUIT: QUICKBOOKS UPGRADE

Tom Klenke, marketing database and analysis specialist at Intuit, had often argued that his firm should take better advantage of its new database capabilities. Klenke saw modeling and testing opportunities in almost everything the marketing group did. With almost $100 million in marketing and sales expenditures in fiscal 1995, he reasoned that any gains in efficiency would reap substantial dollar rewards. "We might be doing fine now when response rates are high and sales are growing," he said, "but I think we could be doing even better. And in the future if things get tighter, it will be imperative to be better at deciding where and/or on whom we spend each marketing dollar."

Klenke was now getting the opportunity to put his ideas to the test, using the results of a recent 801,821-piece direct mail campaign. If this modeling project proved successful, it could change the way Intuit did business and enhance the status of Klenke's marketing group.

Company Background

Founded in 1983 by Scott Cook, a marketer from Procter & Gamble, and Tom Proulx, an engineer fresh out of Stanford University, Intuit sought to revolutionize the way consumers performed everyday personal financial tasks. The company attempted to create software products so easy to install and use (so "intuitive") that even new computer users could use them right away.

With the introduction of Quicken in 1984, the company took a huge first step toward its goal. In contrast to the 30 or so existing personal-finance packages, Quicken was designed with the consumers in mind. Cook and Proulx surveyed potential customers by phone and in person and then incorporated their ideas into the software. Quicken was designed using innovative screens and a checkbook metaphor to mimic the way people currently handled their personal finances. The software quickly dominated the personal finance software market. By 1995, Quicken was the top-selling personal finance software package in the world (with a 70% share of the U.S. market across all platforms) and Intuit was the largest maker of financial software.

In 1992, Intuit introduced QuickBooks, an alternative to accounting software. QuickBooks provided complete and powerful bookkeeping capabilities to small businesses. In keeping with the

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This case was prepared by Professor Phillip E. Pfeifer. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Rev. 8/98. ◊

company's philosophy to make their products as easy as possible to use, QuickBooks used familiar checkbook and invoice forms in place of debit/credit accounting methods. In 1995 Intuit had approximately 800,000 QuickBooks users.

In 1993, Intuit introduced Pocket Quicken, software for financial tracking on the go. By 1995, Pocket Quicken was available on all key mobile platforms.

In December 1993, Intuit acquired ChipSoft Inc., makers of TurboTax, the country's leading tax-preparation software. And in 1994, Intuit purchased National Payment Clearinghouse, Inc., a small electronic financial services operational center, which allowed Intuit to deliver automated services such as bill payment, electronic banking and stock quote retrieval.

In 1994, Microsoft (the world's largest software company) agreed to buy Intuit in a stock swap worth $1.5 billion. At the time, it was the largest transaction ever in the software industry. Microsoft founder, chairman, and CEO Bill Gates initiated the deal in the belief that electronic transactions could become the most significant new use of the home computers. Just as Microsoft's operating system controlled most personal computers, Gates wanted to provide software that helped people think about and spend money. Microsoft could save consumers the cost and hassle of paying bills by mail in return for a few pennies per transaction. The combination of Intuit's software and Microsoft's ability to get that software on the majority of home computers meant that those few pennies would really add up. "The opportunity is really an incredible one," Gates said.

The U.S. Department of Justice thought the opportunity a little too incredible. They filed an antitrust suit to block the merger, arguing that the combined company would dominate the personal-finance/checkbook software market. The Justice Department argued that the other two competing software packages combined accounted for less than 10% of the market and had almost no competitive significance. Microsoft, citing the lengthy process required to fight the suit, decided to walk away from the deal, and paid Intuit a $46.25 million break-up fee in the spring of 1995.

In the summer of 1995, Intuit announced an alliance with 19 banks, credit card companies, and financial institutions for the purpose of offering home banking and financial services bundled with the new version of Quicken that was scheduled for fall release. The new version allowed users to access their bank accounts, pay bills electronically, and purchase other financial services from their home computer. Commercial banks and Intuit had been separately pursuing a vision of computer-based home banking for years (with some banks even offering their own software). This alliance signaled that the banks had decided to join Intuit rather than continue to fight them. Banks realized it would be far easier to add in-home banking to Quicken (whose customers already used their home computers to manage their personal finances) than to market a separate system for in-home banking to the larger market of home-computer owners.

Financial results for the fiscal year ending July 31, 1995 were promising (see **Exhibit 1** for income statement). As of that date, Intuit had over five million names in its customer database.

Database Marketing

With the acquisition of TurboTax in 1993, Intuit saw a wonderful opportunity for cross-selling Quicken to TurboTax users and vice versa. They saw the considerable overlap between the two customer lists as a positive indication that users of one would be interested in buying the other.

This cross-selling opportunity convinced the company they needed a more sophisticated database. In an October 1994 interview with *Direct Marketing News*, someone from Intuit said, "Two years ago we didn't need to be too sophisticated. We had a smaller number of products, but now we have many more targeted products, so better-targeted direct marketing becomes critical."

The direct-marketing effort to cross-sell TurboTax to Quicken owners was a tremendous success. Purchase source, frequency of purchase, and other variables were examined to determine which customers would be most likely purchasers of Turbo-Tax. The company sold over one million copies of TurboTax in 1995.

Names for Intuit's database were gathered through a variety of methods. Registration cards worked well, and so did rebate coupons for upgrades (found in the owner's manual). Intuit also collected names of users who bought new computers with Quicken pre-installed.

The company did not view direct marketing as competing with the more traditional marketing approaches (print, television, and radio). Quoting once again from the October 1994 interview with *Direct Marketing News*, an Intuit spokesperson said:

> The team is responsible not just for generating direct sales, but also for the number of people we motivated by direct marketing to buy retail. We still use all of the typical direct marketing tricks of the trade, but we can talk about upgrades and discounts found at the retail level. We hope the mail sends thousands of people to the stores.

The Project

In keeping with his strong belief that modeling could improve profits, Klenke suggested that the firm insert a modeling effort between the first and second waves of any direct mail campaign. A second-wave mailing was a repeat mailing of a very similar package to all those who had not responded to the first wave mailing. Sometimes the second-wave mail packages contained words like "We are giving you a second chance," or, "You must have missed this offer," but often the second-wave mailing was identical to the first. Heretofore the firm had used a very simple decision rule on second-wave mailings. If the response rate to the first wave was high enough, the second wave went out to all nonresponders from the first wave. If the first wave response rate was too low, no second wave went out. Klenke explained:

> If we are quick about it, we can take the results of the first wave, build a model, apply it to the nonresponders and predict who's likely to respond to the second wave. Rather than mail everyone or no one, I bet we can increase our response rate and save some money by remailing only to those who are likely to respond. The results of the first wave ought to provide fantastic information on who is likely to respond.

Rather than adopt Klenke's suggestion outright, his boss suggested that he first demonstrate its effectiveness on some recent data. They decided to use the results of an 801,821-piece first-wave mailing promoting a QuickBooks upgrade to existing owners of QuickBooks (see **Exhibit 2** for highlights of the mail package). The mailing resulted in 38,487 orders worth $2,309,220 in gross sales. The company generally evaluated a campaign based on total direct sales minus cost of goods sold minus total cost of the mailing. There was some talk about applying a multiplier (2x or 3x) to direct sales to account for retail sales generated by the direct-mail campaign. But since the exact value of the multiplier had not been validated, Klenke kept it simple and conservative and did not apply a multiplier. Campaigns that broke even were considered successful. The first wave generated $910,788 in net profit.

Usual practice would be to assume a 50% drop off in response from wave one to wave two. Thus, net profit for wave two would be projected as follows:

Number of Orders	19,244
Gross Sales	$1,154,640
COGS	398,543
Mailing Cost	601,366
Net Profit	$154,731

Since the projected net profit for wave two was positive, wave two was mailed.

Exhibit 3 contains a list of variables available in the database for the 801,821 names. The firm had debated but not resolved the question of whether to account for follow-on revenues from newly upgraded customers in a profit-and-loss evaluation of the upgrade mailing. So far they had been simply ignoring any downstream revenues and Klenke's demonstration would do the same.

Klenke's challenge was to use these variables to decide which names should receive the second-wave mailing. Once Klenke had decided which names to mail to, the actual wave-two responses would be used to calculate a net profit for Klenke's approach. The difference between Klenke's net profit and the actual net profit achieved by mailing to all names would be the dollar gain (or loss) associated with Klenke's approach.

Exhibit 1

INTUIT: QUICKBOOKS UPGRADE

Condensed, Consolidated Statement of Operations
(in thousands of dollars, except per share data)

	Year Ending July 31, 1994	Year Ending July 31, 1995
Net Revenue	$194,126	$395,729
Costs and Expenses:		
Cost of Goods Sold:		
Product	50,941	105,603
Amortization of purchased software and other[1]	18,558	11,329
Customer service & technical support	34,970	73,359
Selling and Marketing	41,814	99,595
Research & Development	22,057	53,368
General & Administrative	10,544	24,417
Charge for Purchased Research & Development[1]	151,888	52,471
Other merger costs, including amortization of goodwill and purchased intangibles[1]	40,412	41,775
Income (loss) from operations	(177,058)	(66,228)
Microsoft merger termination fee, net		41,293
Interest and other income, net	2,497	3,813
Income (loss) before income taxes	(174,561)	(21,122)
Provision for income taxes	1,752	24,241
Net income (loss)	$(176,313)	$(45,363)
Net income (loss) per share	$(5.22)	$(1.11)
Shares used in computing per share amounts	33,804	40,762

[1] Affected by the fiscal 1994 purchase of Chipsoft ($306.4 million), the fiscal 1995 purchases of Parsons Technology ($67.3 million), and Personal News ($10.4 million).

Exhibit 2

INTUIT: QUICKBOOKS UPGRADE

QuickBooks Upgrade Mail Package

QuickBooks®

Introducing new QuickBooks 3.0 for Windows — with the features you asked for! Upgrade now, and pay only $59.95!

Dear QuickBooks User:

Let me tell you a story about upgrades.

When I first started this business 10 years ago, I looked around to see how other software companies were designing their upgrades. What I found was a mindset of copying whatever the competition was doing....and what seemed to be an amazing disregard for what customers really wanted.

Way back then, I was determined that things would be different at Intuit. So I set about developing a strong relationship with our customers. I encouraged users like you to write and tell us how you liked our software — and what, specifically, you were using it for. I asked you what you wanted to see in future versions. I even encouraged people to come to our offices and test new features we were planning to include in our upgrades.

Now I'm pleased to report that the results of all these efforts have been effective — and gratifying — beyond my wildest dreams. You've cheered us on every step of the way. You've been unfailingly helpful in telling us how to make our products even better. And my early beliefs about this business have been confirmed. The better we understand what you want, the better we can meet — and exceed — your expectations.

So when we sat down to figure out what should go into the new QuickBooks 3.0 for Windows, we had your letters piled on our conference table. And now, after users like you have spent thousands of hours testing QuickBooks 3.0, we're proud to offer you the best QuickBooks ever.

Great new features. At a great price.

QuickBooks 3.0 has been expanded to take care of even more of your bookkeeping needs...with do-it-your-way invoices...easy inventory tracking...a built-in audit trail...automatic calculation of finance charges, sales tax and vendor discounts...purchase orders...and more.

We've packed so many new features into this must-have upgrade. But the upgrade price is only $59.95 — a bargain for a program that gives you capabilities far beyond those of QuickBooks 2.0.

Exhibit 3

INTUIT: QUICKBOOKS UPGRADE

Database Variables

	ID	Consecutive numbers
1.	SEX	M=Male, F=Female, B=Both (Mr. & Mrs. at same address), U=Unknown
2.	ZIP	5-Digit ZIP Code (0=unknown) (some international ZIPs contain letters)
3.	BIZFLAG	Business Flag. Address contains a business name (1=yes, 0=no or unknown).
4.	RENT	Rental restriction (0=no restrictions, 900=send no mail, 903=do not rent, 904=Intuit restricted access—Professional Tax Customer)
5.	CORGDT	Corporate original date. Earliest purchase date of a Tax[1] or Finance[2] product (Date Format is YYMMDD; 0=never purchased or unknown)
6.	CORGPR	Corporate original product (two character product code for earliest product purchased; 0=never purchased or unknown)
7.	CLSTDT	Corporate last purchase date. Most recent purchase date of Tax or Finance product.
8.	CLSTDL	Corporate last dollar amount. Dollar amount of last direct purchase (dollar formats are in cents: 10,000 = $100.00)
9.	CLSTPR	Corporate last product. (Two character product code for most recently purchased product; 0=never purchased or unknown)
10.	CTOTDL	Corporate total dollars. Total dollars spent direct with Intuit.

[1] Tax products include TurboTax and MacInTax.
[2] Finance products include Quicken, QuickBooks, and Financial Supplies.