Case 1–1

QuickenInsurance: The Race to Click and Close[1]

We believe the vertical portal will become the most powerful long-term [financial services] distribution model . . . Among the vertical portals, we believe Schwab, Citigroup, Bank One, American Express, Intuit [Quicken.com], AOL, E*Trade and Yahoo! are, or will be, among the standouts long term.

—Morgan Stanley Dean Witter Analysts, 1999[2]

In summer 2000, Steven Aldrich contemplated the immediate decisions that he would need to make as he transitioned from his role as general manager, QuickenInsurance, to general manager, Quicken.com (www.quicken.com). The need to make tough decisions seemed to be a fact of life these days. It began with his decision to launch an online insurance "dot-com" one month after graduating from Stanford's Graduate School of Business in July 1995.[3] Less than one year after launch, his decision to sell the company to Intuit for $10 million had been equally tough.

In hindsight, Aldrich believed that both decisions were right. But at the time, the correct path seemed anything but clear. "When my partner and I first contemplated starting an online insurance business in 1994, the Internet was still uncharted territory," Aldrich recalled. "When we launched the business in 1995, we had a hard time convincing insurance carriers to join our service. The decision to link our fledgling company with Intuit's well-known and well-respected brand dramatically increased our credibility with both suppliers and customers. Today, we have 50 of the largest, name-brand insurance carriers linked to our service." Aldrich also gained instant market reach as the exclusive online insurance marketplace on Intuit's popular Quicken.com, which by summer 2000 was receiving an average of 30 million visitors per month with over 20 million return visitors. He also gained access to other top financial services portals and became the exclusive insurance broker for AOL Finance, Excite, Prodigy, CBS Marketwatch, CNNfn, Webcrawler, Motley Fool, The Wedding Channel, AutoTrader, and AutoWeb, among others.[4]

By October 1999, QuickenInsurance had received over 500,000 visitors to its website. During 3Q99, it provided over 225,000 auto insurance quotes and 3,400 term life insurance applications to its insurance company suppliers.[5] And unlike

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Harvard Business School case 800-295.

[2]U.S. Internet and Financial Services Equity Research Team, "The Internet and Financial Services," *Morgan Stanley Dean Witter Equity Research,* August 1999.

[3]The company that Aldrich founded was named Interactive Insurance, Inc., and was headquartered in Alexandria, Virginia. Quicken.com was headquartered in Mountain View, California. The term *dot-com* refers to a business that was built and launched as an independent company that did business on the Internet.

[4]A study by Media Metrix in May 1999 listed the top seven financial services vertical portals in terms of reach as America Online Finance (12.7 percent), Yahoo! Finance (5.4 percent), Quicken.com (3.2 percent), E*Trade (2.9 percent), MSN Money (2.7 percent), and First USA (2.5 percent).

[5] S. Appleby and R. Shane, "Intuit," *Robertson Stephens eFinance Research,* November 24, 1999.

most other Internet competitors, QuickenInsurance's life and auto insurance businesses were already profitable.

While some initially argued that he had missed out on the high market capitalizations afforded to Internet start-ups, Aldrich had always believed that in the long term, the value created for *all* stakeholders would be much higher if he aligned his online insurance business with Intuit's Quicken.com brand and assets.[6] Analysts supported his view, giving both Intuit and Quicken.com high marks:

> Not only is Intuit a highly profitable and growing software company, it also generates significant Internet revenues (almost $300 million in 2000). We believe this is a phenomenal franchise and that Intuit is a clear leader in the electronic finance space. The company has made it clear over the past nine months that it will invest aggressively to build its Internet business in lieu of passing upside through to the bottom line. [While] some investors could be disappointed, [we believe that] the time to act aggressively is now and Intuit is in a unique position of strength.
>
> —Hambrecht and Quist, November 1999[7]

> Once again, we are encouraged by Intuit's strong financial performance and recent announcements regarding its Internet strategy. We believe management is beginning to leverage the power of its strong brands into a powerful Internet presence. Coupled with [its] enhanced Internet products and services, we believe that Intuit is on track to build one of the first Super Financial Portals . . . which will cause Internet revenues to accelerate substantially in the back half of fiscal 2000.
>
> —Robertson Stephens, November 1999[8]

Despite these words of praise for Quicken.com, Aldrich was concerned about the future of the QuickenInsurance business. Intuit's 2000 annual report (published in July 2000) noted that penetration and growth of the automobile insurance business had been slower than expected:

> Users can currently receive quotes and apply for term life insurance from 12 national carriers in 50 states and Washington D.C. Auto insurance quotes are currently available from 2 carriers in 38 states (covering over 95% of the population), and online purchase of auto insurance is available from 8 carriers in 17 states (covering about 60% of the population) through the carriers' call centers. Progress for our auto insurance business has been slow. Future success will require that we offer a greater choice of quoting carriers in each state, and provide online purchase or call center/fulfillment capabilities in more states. While we have plans in place to increase carrier and purchasing options, we expect to face continuing challenges in implementing these plans.

Slow growth for the auto insurance segment was of particular concern to Quicken.com executives since auto insurance was expected to represent the largest online insurance market segment. While the insurance market was large—over $1.2 trillion in insurance premiums were written in the United States in 1998[9]—only 700,000 households had purchased insurance online in 1999. This represented less than 1 percent of all insurance sales.[10]

A number of factors hampered the shift to online insurance sales. First, most industry insiders believed that insurance products were too complex for consumers to purchase online. Second, many insurance products were purchased infrequently, and so a recurring revenue stream could not be generated. Finally, a restrictive regulatory environment hampered the entry of independent online marketplaces. Because of the relative simplicity of automobile insurance, the fact that it was renewed every year, and the overall size of the market, most analysts predicted much faster growth in online sales of automobile insurance than in those of other insurance products. In fact, these predictions had been validated, and 76 percent of all online insurance purchases during 1999 were for auto insurance. Online auto insurance sales were estimated to grow to $11 billion by 2004, and online research of auto insurance would influence over $34 billion in additional sales. In contrast, sales of online term life insurance in 2004 were estimated to grow to approximately $375 million in sales, and online research would influence an additional $1.4 billion in offline sales.[11]

By early 2000, established insurance carriers—especially those with significant investment in auto insurance products—were aggressively developing online sales channels. In fact, a Forrester Research study in early 2000 indicated that GEICO (www.geico.com), Allstate (www.allstate.com), and State Farm (www.statefarm.com) drew more traffic to their websites than did independent online marketplaces, such as InsWeb (www.insweb.com), QuickenInsurance (www.quicken.com), 4freequotes.com (www.4freequotes.com), and Quotesmith.com (www.quotesmith.com).[12] But while they trailed in traffic, customers rated 4freequotes.com and QuickenInsurance number one and number two, respectively, in customer satisfaction.[13] When asked to rate the most valuable features of an online insurance service, consumers chose (1) the ability to compare multiple competing quotes from multiple carriers, (2) the availability of information about policies and terminology, and (3) the ability to use tools to calculate premiums, etc. Over 30 percent of the consumers rated their experience as "horrible" when they were forced to receive quotes by contacting the company via e-mail or "snail mail" or to leave the website to contact an agent by phone. The ability to access an agent and purchase immediately through a Web-enabled call center was considered by most to be at least as satisfactory—and for some it was more satisfactory—as purchasing online.

As established carriers turned up the pressure, so too did independent online marketplaces like InsWeb. Fresh on the heels of its initial public offering (IPO) in July 1999, InsWeb had spent heavily to increase its supplier and customer base, improve its customer service and reliability, and extend its business model to become an online insurance agent.[14] Having gone public at the height of the dot-com euphoria, InsWeb's stock price had surged to $44 in July 1999, giving the firm a market capitalization of $1.5 billion. Cash generated by the IPO was immediately used to fund a $75 million online and offline marketing campaign,

[6]Many believed that the dramatic decline in the market value of pure-play dot-com businesses during 2000 validated Aldrich's decision to align with Intuit.
[7] G. Combes, "Intuit, Inc.," *Hambrecht and Quist, Internet Research Note,* November 24, 1999.
[8]Appleby and Shane, op. cit.

[9]R. Zandi and M. L. Vetto, "Insweb, Inc." *Salomon Smith Barney Equity Research,* November 24, 1999.
[10]During 1999, over 28 million households had purchased online. K. Clemmer, et al., "Insurance's Researched Future," *Forrester Research Report,* March 2000.

[11]Ibid., p. 14.
[12]Ibid., p. 10. In fall 1999, Allstate announced a two-year $1 billion capital investment ($300 million for capital equipment and $700 million for systems development, advertising, and deployment, including hiring and training people) to build the digital infrastructure required to do business on the Internet and through Web-enabled call centers. See E. Booker and J. Schwartz, "Will Allstate Pull Insurers to the Web?" *Internetweek,* November 22, 1999.

[13]While it received a lower customer satisfaction rating in the Forrester Research study (conducted in late 1999 and early 2000), InsWeb was rated the number one online insurance site by independent website rating service Gomez.com (www.gomez.com) and was ranked one of the top 100 websites by Yahoo! Internet Life's Top 100 Web Sites for 2001 (www.zdnet.com), May 2001. Gomez commended InsWeb for its "easy to use platform for requesting instant online quotes, wealth of educational content relating to insurance and a number of helpful calculators and tools for estimating an appropriate level of coverage." See InsWeb press release, January 4, 2001.
[14]S. W. Appleby, "InsWeb," *Robertson Stephens eFinance Research,* October 27, 1999.

open a Web-enabled call center and a backup data center, and launch an online insurance agency.

By 2000, InsWeb had signed distribution agreements with over 200 online sites and was the exclusive online insurance provider for Yahoo! Finance, Microsoft Network (MSN), E*Trade, and NextCard, among others.[15] The company offered auto insurance, term life, health, homeowner, and variable annuities quotes from 36 insurance carriers. In October 1999, InsWeb overcame regulatory hurdles preventing it from selling insurance and launched a wholly owned subsidiary, InsWeb Insurance Services, that was licensed as an insurance agent in 39 states. In the remaining 11 states, InsWeb was licensed through its officers or resident agents. An April 4, 2000, InsWeb press release stated: "Today, licensed InsWeb agents are closing customer [transactions] and supporting policy fulfillment services on behalf of 7 auto insurers . . . We have designed a comprehensive range of outsourcing services designed to help insurance carriers reduce paperwork and complete the entire business in record time."

Reflecting online insurance industry trends, auto insurance quotes represented the majority of InsWeb's 2000 revenues of $23.2 million, up from $21.8 million in 1999.[16] Revenues from two auto insurance carriers—State Farm and AIG—accounted for approximately 31 percent and 11 percent, respectively, of InsWeb's total 1999 revenues. Revenues from State Farm, AIG, and GE Capital accounted for 14 percent, 11 percent, and 9 percent, respectively, of InsWeb's total revenues in 2000. Effective May 1, 2000, however, State Farm stopped participating in the InsWeb online marketplace.

As confidence in pure-play Internet companies declined in summer 2000, so too did the price of InsWeb stock, which by fall 2000 had sunk to less than $2 per share. In an effort to cut costs, InsWeb announced plans to reduce its staff by approximately 40 percent by year end 2000.[17] Hussein Enan, CEO and founder, commented: "These measures, combined with other cost-reduction efforts and our more than $75 million in cash and short-term investments as of March 31, 2001, make us confident that we will have more than enough cash to allow us to operate comfortably through 2002, at which point we expect to begin generating profits."

As he assumed his new role of general manager of Quicken.com, Aldrich knew that he must work with his successor to plan a strategy to address the threats to QuickenInsurance even as he looked forward to broadening his focus to define strategic direction for Quicken.com. As he did, he was forced to balance priorities for investment.

Could an independent vertical portal like Quicken.com withstand the attacks of mega financial service providers like Citigroup and American Express while also countering focused attacks by brand-name niche providers like Allstate and State Farm across each of its six consumer businesses?[18] As independent dot-com players like InsWeb struggled, Aldrich and Quicken.com senior executives also wondered whether it was best to wait for firms to fail or to move quickly to snatch up assets before they fell into the hands of a competitor.

Recognizing that a vertical portal is only as strong as its independent business brands, Aldrich also wondered how aggressively to market Quicken.com's individual business brands like QuickenInsurance. Until then, he had relied almost exclusively on Intuit and Quicken.com to market and drive traffic to the QuickenInsurance site. Should Steve Bruce, his successor as general manager of QuickenInsurance, step up efforts to independently market the QuickenInsurance brand? If so, how aggressively should he act? In his new role overseeing Quicken.com, Aldrich also questioned whether he should increase marketing for QuickenLoan, QuickenTurboTax, and the other Quicken.com businesses. Alternatively, should the company focus attention and resources on marketing Quicken.com as an umbrella brand?

Finally, Aldrich and Quicken.com senior executives wondered how to allocate investment priorities in evolving the Quicken.com business model (see Exhibit 1 for Intuit financials). All agreed that electronic bill payment and the presentment and personalization features that allowed consumers to enter and maintain personal finance information were "killer apps" that would increase customer retention. Indeed, in November 1999, Intuit signed a five-year agreement to be the exclusive provider of integrated bill presentment and payment services for AOL. The service enabled AOL subscribers to use QuickenBanking to conduct a wide range of banking services and to view, track, and pay bills online. "We believe that EBPP [Electronic Bill Payment and Presentment] will be a [killer app for] online Super Financial Portals," a Robertson Stephens analyst commented. "Because Intuit and AOL are trusted providers, we expect that consumer acceptance of this service will develop quickly. With today's announcement, Intuit is positioned as a first mover in a space that Forrester analysts estimate will reach 20 million U.S. households within 5 years."[19]

In early 2000, the company had announced the launch of a personalized information portal called MyProfile. While this new service was an instant hit with Quicken.com customers, the company's key distribution partner, AOL, decreased support for MyProfile to prevent conflict with its personalization portal, My AOL. In late 2000, if you entered Quicken.com through the Personal Finance Webcenter and then clicked on the tab marked "My Portfolio," you received the following message. "*Attention Quicken.com Portfolio Users:* As part of the changes related to the launch of My AOL, we are no longer offering the 'snapshot' view of quicken.com portfolios. Your portfolio remains intact and viewable through the AOL Anywhere Personal Finance Webcenter. To see and make changes to it, sign in on the boxes to the right and bookmark the page. We apologize for any inconvenience this may cause." Should he respond to this action by a key partner that was also in a position to be a key competitor?

In 2000, Intuit had invested heavily in the launch of its Quicken.com for Small Business portal. The small to midsize business market was highly competitive, and Intuit had demonstrated the appeal of its traditional software products for both consumers and small business owners. In 1998, more than 13 million home business owners had spent more than $22 billion on technology alone.[20] The ability to access a wide range of business services, such as payroll, business accounting, and procurement, was expected to represent a huge—and previously untapped—market for online service providers.

When Mark Goines, senior vice president of Intuit's Consumer Finance Business, tapped Aldrich to become general manager of Quicken.com, he announced his intention to create tighter product and brand linkages among all of Intuit's online and offline consumer businesses (see Exhibit 2). As he contemplated his new role, Aldrich was convinced that the decision to unite Intuit's businesses into a seamless financial services vertical portal was right. But the path to take to address the many strategic, operational, and organizational hurdles was much less apparent.

[15] During 2000, InsWeb reported that it logged 8 million unique visitors and 2.1 million shopping sessions. See InsWeb 2000 annual report.

[16] As of March 2000, InsWeb offered auto insurance quotes to consumers in 49 states plus the District of Columbia. See InsWeb 2000 annual report.

[17] InsWeb press release, June 4, 2000. By year end 2000, InsWeb had 137 employees, down from 297 in late 1999.

[18] In addition to offering online insurance, Quicken.com's consumer portal provided access to QuickenLoan, QuickenBanking, QuickenInvestment, QuickenRetirement, and QuickenTurboTax (visit the website at www.quicken.com).

[19] Robertson Stephens eFinance Research, Appleby and Shane, op. cit.

[20] E. Schmitt, et al., "Unlocking Home Business," *Forrester Research Report*, December 1998.

EXHIBIT 1 Intuit Financial Overview (in thousands)

	Small Business Division	Tax Division	Consumer Finance Division	International Division	Other	Consolidated
2000						
Net revenue	$394,264	$379,270	$225,930	$94,361	—	$1,093,825
Segment operating income (loss)	112,275	165,400	(4,793)	14,042	—	286,924
Common expenses	—	—	—	—	(135,729)	(135,729)
Subtotal operating income (loss)	112,275	165,400	(4,793)	14,042	(135,729)	151,195
Realized gains (losses) on marketable securities	—	—	—	—	481,130	481,130
Acquisition costs	—	—	—	—	(168,058)	(168,058)
Interest income/ expense and other items	—	—	—	—	48,443	48,443
Net income (loss) before tax	$112,275	$165,400	$ (4,793)	$14,042	$225,786	$512,710
1999						
Net revenue	$292,707	$337,734	$137,681	$ 79,446	$ —	$847,568
Segment operating income (loss)	95,924	148,464	(6,621)	(2,252)	—	235,515
Common expenses	—	—	—	—	(114,938)	(114,938)
Subtotal operating income (loss)	95,924	148,464	(6,621)	(2,252)	(114,938)	120,577
Realized gains (losses) on marketable securities	—	—	—	—	579,211	579,211
Acquisition costs	—	—	—	—	(100,692)	(100,692)
Interest income/ expense and other items	—	—	—	—	18,253	18,253
Net income (loss) before tax	$95,924	$148,464	$(6,621)	$(2,252)	$381,834	$617,349

EXHIBIT 1 Intuit Financial Overview (in thousands) *(continued)*

	Small Business Division	Tax Division	Consumer Finance Division	International Division	Other	Consolidated
1998						
Net revenue	$208,349	$192,789	$120,860	$70,738	—	$592,736
Segment operating income (loss)	75,770	79,373	(16,414)	(11,472)	—	127,257
Common expenses	—	—	—	—	(66,776)	(66,776)
Subtotal operating income (loss)	75,770	79,373	(16,414)	(11,472)	(66,776)	60,481
Realized gains (losses) on marketable securities	—	—	—	—	—	—
Acquisition costs	—	—	—	—	(80,909)	(80,909)
Interest income/ expense and other items	—	—	—	—	605	605
Net income (loss) before tax	$75,770	$ 79,373	$(16,414)	$(11,472)	$(147,080)	$(19,823)
1997						
Net revenue	$184,169	$170,223	$97,572	$73,537	$73,424	$598,925
Segment operating income (loss)	55,323	60,360	(17,487)	(1,560)	6,745	103,381
Common expenses	—	—	—	—	(54,024)	(54,024)
Subtotal operating income (loss)	55,323	60,360	(17,487)	(1,560)	(47,279)	49,257
Realized gains (losses) on marketable securities	—	—	—	—	—	—
Acquisition costs	—	—	—	—	(39,041)	(39,041)
Interest income/ expense and other items	—	—	—	—	(507)	(507)
Net income (loss) before tax	$55,323	$(60,360)	$(17,487)	$(1,560)	$ (86,827)	$9,809

Source: Intuit documents.