

Case 1-1

QuickenInsurance: The Race to Click and Close¹

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, 1999²

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

This case was prepared by Professor Lynda M. Applegate.

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Harvard Business School case 800-295.

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

³The 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.

⁴A 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).

⁵S. 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 1999⁷

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 1999⁸

⁶Many 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.

⁷G. Combes, "Intuit, Inc.," *Hambrecht and Quist, Internet Research Note*, November 24, 1999.

⁸Appleby and Shane, op. cit.

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 1998⁹—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 infre-

⁹R. Zandi and M. L. Vetto, "Insweb, Inc." *Salomon Smith Barney Equity Research*, November 24, 1999.

¹⁰During 1999, over 28 million households had purchased online. K. Clemmer, et al., "Insurance's Researched Future," *Forrester Research Report*, March 2000.

quently, 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

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.

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,

¹³While 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.

¹⁴S. 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

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

¹⁸In 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).

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

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

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, de-

creased 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.

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

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

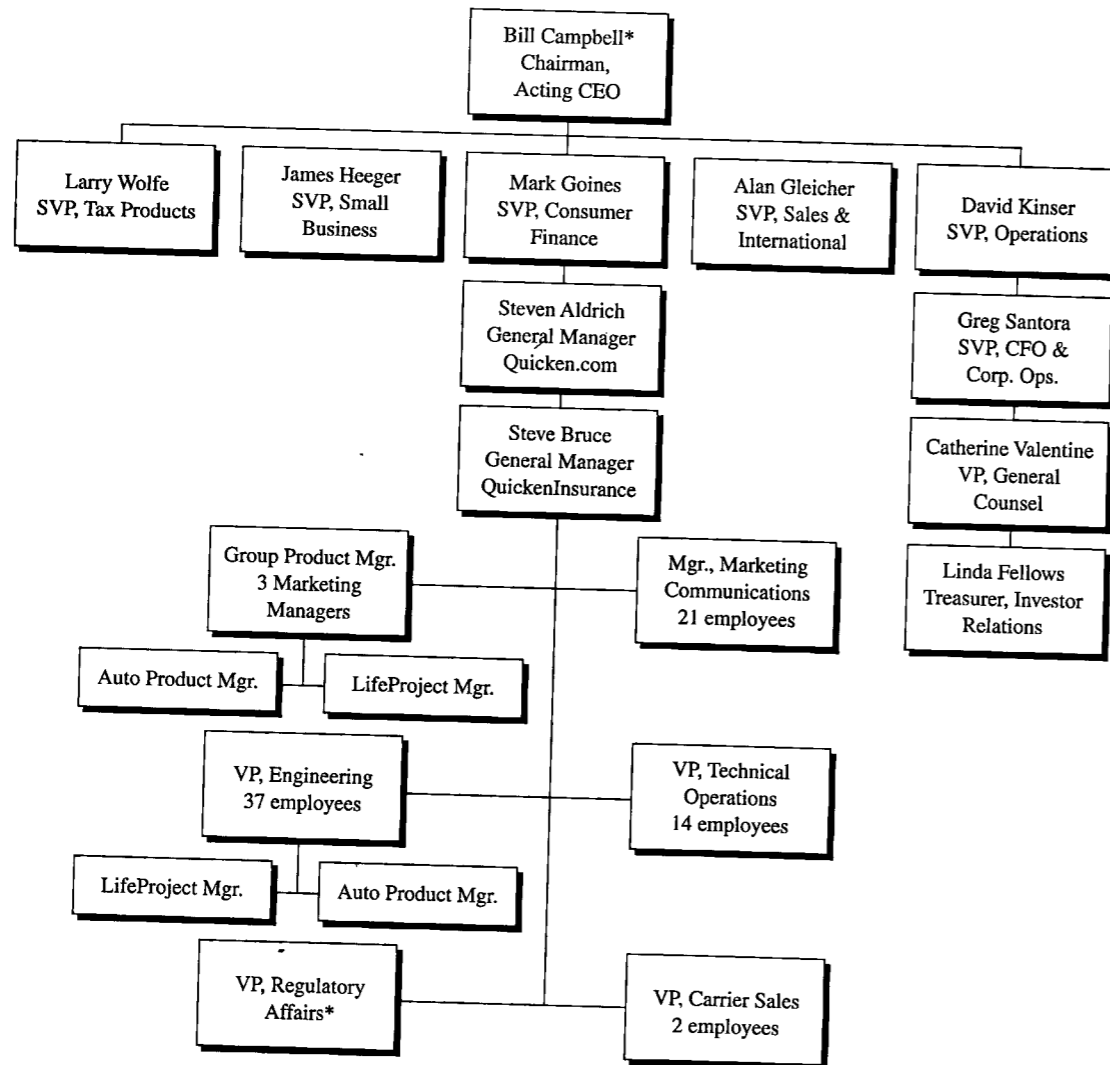
EXHIBIT 1 Intuit Financial Overview (in thousands)

	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)	<u>112,275</u>	<u>165,400</u>	<u>(4,793)</u>	<u>14,042</u>	<u>(135,729)</u>	<u>151,195</u>
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	<u>\$112,275</u>	<u>\$165,400</u>	<u>\$ (4,793)</u>	<u>\$14,042</u>	<u>\$225,786</u>	<u>\$512,710</u>
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)	<u>95,924</u>	<u>148,464</u>	<u>(6,621)</u>	<u>(2,252)</u>	<u>(114,938)</u>	<u>120,577</u>
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	<u>\$95,924</u>	<u>\$148,464</u>	<u>\$ (6,621)</u>	<u>\$ (2,252)</u>	<u>\$381,834</u>	<u>\$617,349</u>

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)	<u>75,770</u>	<u>79,373</u>	<u>(16,414)</u>	<u>(11,472)</u>	<u>(66,776)</u>	<u>60,481</u>
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	<u>\$75,770</u>	<u>\$ 79,373</u>	<u>\$ (16,414)</u>	<u>\$ (11,472)</u>	<u>\$ (147,080)</u>	<u>\$ (19,823)</u>
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)	<u>55,323</u>	<u>60,360</u>	<u>(17,487)</u>	<u>(1,560)</u>	<u>(47,279)</u>	<u>49,257</u>
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	<u>\$55,323</u>	<u>\$ (60,360)</u>	<u>\$ (17,487)</u>	<u>\$ (1,560)</u>	<u>\$ (86,827)</u>	<u>\$9,809</u>

Source: Intuit documents.



* In January 2000, Intuit announced the appointment of Stephen Bennett as CEO & President. Bill Campbell retired from day-to-day operations but remained Chairman.

** In addition to the personnel indicated on the QuickenInsurance organizational chart, there were three Administrative/HR/Accounting personnel.

In 2000, Intuit offered products and services through four principle business divisions.

- **Small Business Division:** Accounting software, financial supplies, employer services (such as online payroll), technical support consulting services, and other related services.
- **Tax Division:** Personal, professional, and small business tax preparation software, web-based tax preparation services, and electronic tax return filing.
- **Consumer Finance Division:** Personal finance software, marketplaces, and related services.
- **International Division:** Small business, tax, and consumer finance products, and services in selected foreign markets with the primary focus on small business customers.

Industry Background

In 1995, when Aldrich first launched his online insurance venture, the U.S. insurance industry was a mature \$270 billion market. By 1996, growth of life insurance premiums had slowed to 2.9 percent and growth of auto insurance had slowed to 4.3 percent per year.²¹ With thousands of insurance providers in each product line, consolidation was inevitable. In fact, considerable consolidation had already taken place within the insurance industry, both within industry segments and across segments, as large players, such as Citigroup and American Express, positioned to become the financial services superstores of the 21st century.

The insurance industry in the 1990s was large, inefficient, and highly fragmented. From the consumer's perspective, the decision to purchase insurance was anything but straightforward; the process was time-consuming, and there were roadblocks at each step. Policy features, quality of service, and cost varied widely among the 1,100 property and casualty insurance providers—274 of which offered personal lines insurance²²—and the nearly 1,200 life and health insurance companies. To support the decision-making process, insurance carriers traditionally sold their products through agents who received a commission for each product sold. Agents provided value to carriers by (1) generating leads, (2) educating consumers about the need for insurance, (3) providing personalized customer service, (4) collecting information and processing applications, and (5) evaluating claims. To the extent that they were familiar with—and were able to sell—a wide range of insurance products, agents added value to consumers by (1) providing a one-stop shop for insurance needs, (2) providing a single point of

contact for selecting the right product at the right price that met individual needs, (3) enabling a single point of data entry and storage of profiles, and (4) enabling efficient processing of applications and purchase.

By the mid-1990s, expenses for agent-based carriers often exceeded premiums, forcing insurance companies to rely more heavily on money made from investments. Estimates in 1998 indicated that over 1 million agents sold insurance to U.S. consumers. Independent agents sold policies for a number of insurance companies; dedicated agents sold the products of a single insurance company. Revenues from the sale of an insurance policy paid underwriting expenses—the cost of acquiring a customer, underwriting the policy, and paying the agent a commission—and other operating expenses, which included claims. Income after expenses was invested.

As early as the 1980s, some insurance firms bypassed the agent channel and sold policies directly to consumers—usually through call centers. By the mid-1990s, USAA and GEICO had become the largest of these “direct response” carriers.

By 1999, agent and broker commissions during the first year of a term life insurance policy had risen to 40 to 70 percent of the revenues received. Over the life of the policy, commissions averaged 5 to 10 percent.²³ Morgan Stanley Dean Witter analysts estimated that the shift to an Internet distribution channel would save carriers at least 10 to 15 percent per policy per year by reducing the cost of selling and administering an insurance policy. (Exhibit 3 compares life insurance distribution costs by channel and projected distribution channel shifts.)

As the world entered the 21st century, the Internet was becoming an attractive alternative distribution channel for less complex consumer insurance products, including automobile, term life, homeowner, individual health, and renter

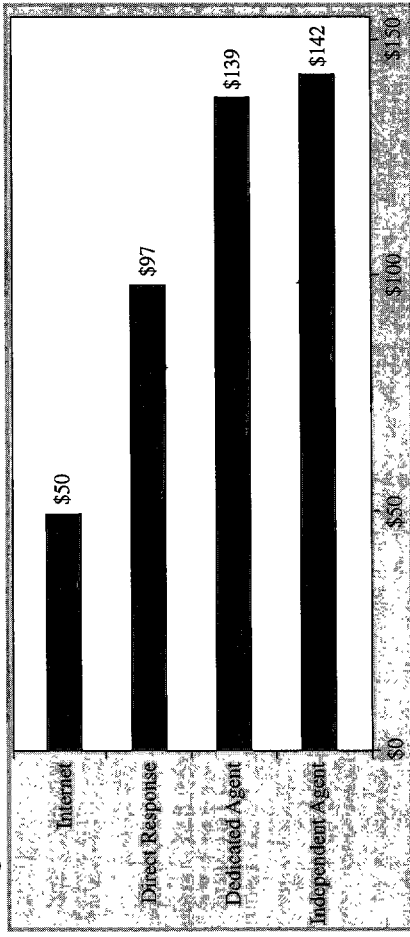
²¹“Hitting the Open Road: Statistical Study of Passenger Auto Insurance,” *Best Review—Property-Casualty Insurance Edition*, October 1997.

²²Personal line insurance refers to insurance sold to consumers.

²³U.S. Internet and Financial Services Equity Research Team, “The Internet and Financial Services,” *Morgan Stanley Dean Witter Equity Research*, August 1999.

EXHIBIT 3Insurance
Costs by
Channel, 1999

Average Cost to Generate \$100 in Insurance Policy Revenues

Source: Adapted from Booz-Allen Hamilton Insurance Industry Study, 1998, as reported in *Salomon Smith Barney Research Report*, October 24, 1999.

Projected Insurance Distribution Channel Shifts

Channel	1998	2003	1998	2003
	Property/Casualty		Life/Health	
Dedicated agents	56.5%	48.8%	45.0%	40.1%
Independent agents	27.0%	23.3%	35.5%	31.9%
Direct response	9.8%	10.0%	2.8%	3.9%
Banks	2.8%	8.1%	9.2%	14.9%
Internet	0.9%	7.3%	0.5%	2.9%
Other	3.0%	2.5%	7.0%	6.3%

Source: Data Monitor Research. As reported in *Salomon Smith Barney Research* by R. Zandi, M. L. Vetto, and Z. Bokhari on InsWeb, October 14, 1999.

insurance. But unlike other financial services sectors, such as investing, the insurance industry was slow to take advantage of the Internet (see Exhibit 4).

Despite the slow start, many analysts predicted that the online insurance industry represented significant market potential. Firms that had established an online presence early were best positioned to benefit from the rapid growth.

Online Insurance Business Models

The financial services business has long been about gathering customers and their assets—

note the well-documented success of American Express with credit cards; Merrill Lynch with its Cash Management Account; Fidelity with mutual funds for the masses; and Schwab with discount and now online brokers. [Today] a handful of Internet companies are deftly gathering customers and their assets.

—Mary Meeker, 1999²⁴

As Aldrich contemplated the insurance industry in the 21st century, five generic online business models had begun to play an important role: horizontal portals, vertical portals, aggregators,

²⁴Ibid.

Sector Breakdown of Insurance Industry Revenues

Industry Sector	1998 Market Size (Premium Revenues)	Industry Subsector Market Size (Premiums)
Property and casualty	\$281.5 billion	Commercial lines = 48% Consumer auto = 42% Homeowners/renters = 10%
Life and health	\$453 billion	Annuities = 50.6% Consumer life = 21.9% Accident and health = 19.6% Group life = 5.4% Credit life = 0.4% Industrial = 0.1% Other = 2.1%

Source: A. M. Best, 1998 (as reported in Salomon Smith Barney Research Report on InsWeb, October 14, 1999).

U.S. Online Financial Services Revenues

Industry Subsector	1998 (\$ millions)	2003E (\$ millions)
Consumer banking	\$24,000	\$235,000
Brokerage	2,500	32,000
Insurance		
Home	3	335
Term life	38	601
Auto	114	3,198
Mortgage	75,000	147,200
Credit card	100	3,500

Source of data on banking, brokerage, mortgage, and credit card: U.S. Internet and Financial Services Equity Research Team, "The Internet and Financial Services," *Morgan Stanley Dean Witter Equity Research*, August 1999. Source of data on the insurance industry: B. D. Temkin, B. Doyle, L. Valentine, "Insurers Wake Up the Net," *Forrester*, October 1998.**Traditional Brands Drive Traffic; Marketplaces Satisfy**

Traditional Insurance Companies	Total Score	Reach Index	Satisfaction Index	Value Index
GEICO	2.02	2.27	1.02	0.88
Allstate	1.68	1.77	1.04	0.93
State Farm	1.46	1.51	0.99	0.97
MetLife	1.24	0.84	1.02	1.47
Progressive	1.05	1.26	1.01	0.83
Marketplaces	Total Score	Reach Index	Satisfaction Index	Value Index
Insweb	0.82	1.01	0.93	0.85
Free insurance quotes	0.77	0.73	0.98	1.07
Quotesmith.com	0.65	0.63	0.91	1.10
QuickenInsurance	0.52	0.50	1.04	1.00

Reach index = breadth of site reach.

Satisfaction index = customers' satisfaction with online experience.

Value index = dollar value of the online business.

Source: Adapted from Kenneth Clemmer et al., "Insurance's Researched Future," *Forrester Research*, March 2000.

(continued)

EXHIBIT 4 Forrester Online Insurance Forecast (All household [HH] and dollar values in millions) (continued)

	1999	2000E	2001E	2002E	2003E	2004E
Auto						
Number researched HH	8.0	12.8	18.8	25.3	30.3	34.2
Dollar value researched	\$8,102	\$12,936	\$18,942	\$25,417	\$30,222	\$33,882
Number bought HH	0.6	1.2	2.4	4.8	9.2	11.9
Dollar value bought	\$633	\$1,180	\$2,471	\$4,794	\$9,121	\$11,834
Percent of total market	0.5	1.0%	2.1%	4.1%	7.9%	10.2%
Homeowners						
Number researched HH	2.3	4.3	5.3	6.5	8.7	10.2
Dollar value researched	\$1,081	\$2,044	\$2,557	\$3,155	\$4,219	\$4,955
Number bought HH	0.6	1.0	1.2	1.4	1.9	2.4
Dollar value bought	\$277	\$474	\$573	\$679	\$946	\$1,163
Percent of total market	1.1%	1.8%	2.2%	2.6%	3.6%	4.5%
Renters						
Number researched HH	0.8	1.2	1.5	1.8	2.0	2.3
Dollar value researched	\$166	\$242	\$314	\$359	\$399	\$466
Number bought HH	0.2	0.2	0.3	0.3	0.4	0.5
Dollar value bought	\$35	\$47	\$68	\$68	\$79	\$106
Percent of total market	1.2%	1.6%	2.3%	2.3%	2.7%	3.7%
Term life						
Number researched HH	1.2	1.9	2.5	3.3	3.5	3.8
Dollar value researched	\$429	\$706	\$934	\$1,207	\$1,300	\$1,379
Number bought HH	0.3	0.46	0.5	0.7	0.7	0.8
Dollar value bought	\$87	\$203	\$269	\$348	\$375	\$410
Percent of total market	1.7%	2.8%	3.7	4.8%	5.2%	5.7%
Total						
Dollar value researched	\$9,778	\$15,928	\$22,746	\$30,138	\$36,141	\$40,682
Dollar value bought	\$1,069	\$1,905	\$3,371	\$5,889	\$10,520	\$13,513
Researched/bought ratio	9.1	8.4	6.7	5.1	3.4	3.0
Percent of total market	0.7%	1.2%	2.2%	3.8	6.9%	8.9

Numbers may not total due to rounding.
 Source: Adapted from Kenneth Clemmer et al., "Insurance's Researched Future," *Forrester Research*, March 2000.

marketplaces, and online insurance carriers.²⁵ In addition to online industry players, there were also offline players, including offline agent-based insurance carriers and offline direct re-

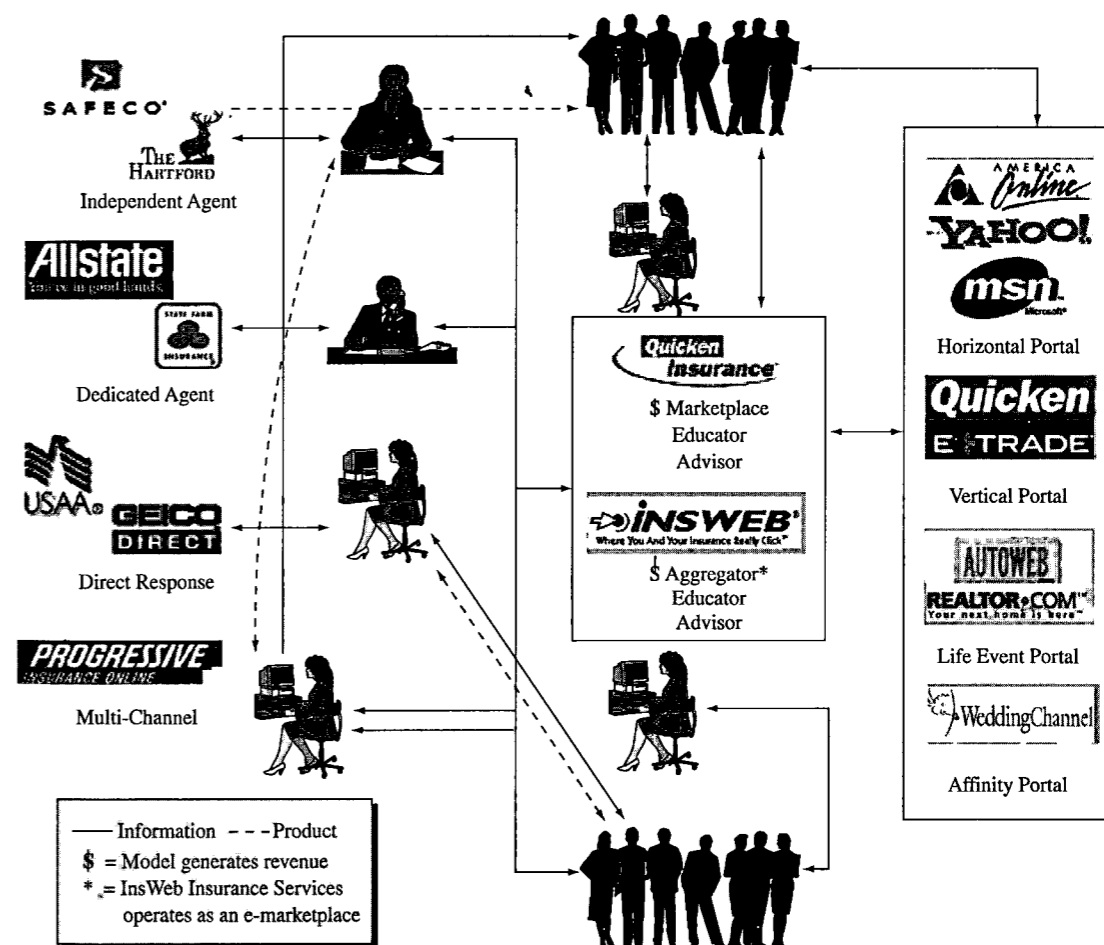
²⁵See L. M. Applegate, "Crafting Networked Business Models," *Building Businesses in a Networked Economy*, (HBS Publishing) (No. 802-057).

sponse carriers. (See Exhibit 5 for a summary of the online insurance industry.)

QuickenInsurance Business Model

In early 2000, QuickenInsurance, which operated as an independent online insurance agent, was licensed to sell life insurance in all 50 states and automobile insurance in 37 states. (See Exhibit 6 for

EXHIBIT 5 Online Insurance Industry, 2000



Source: Casewriter's original exhibit.

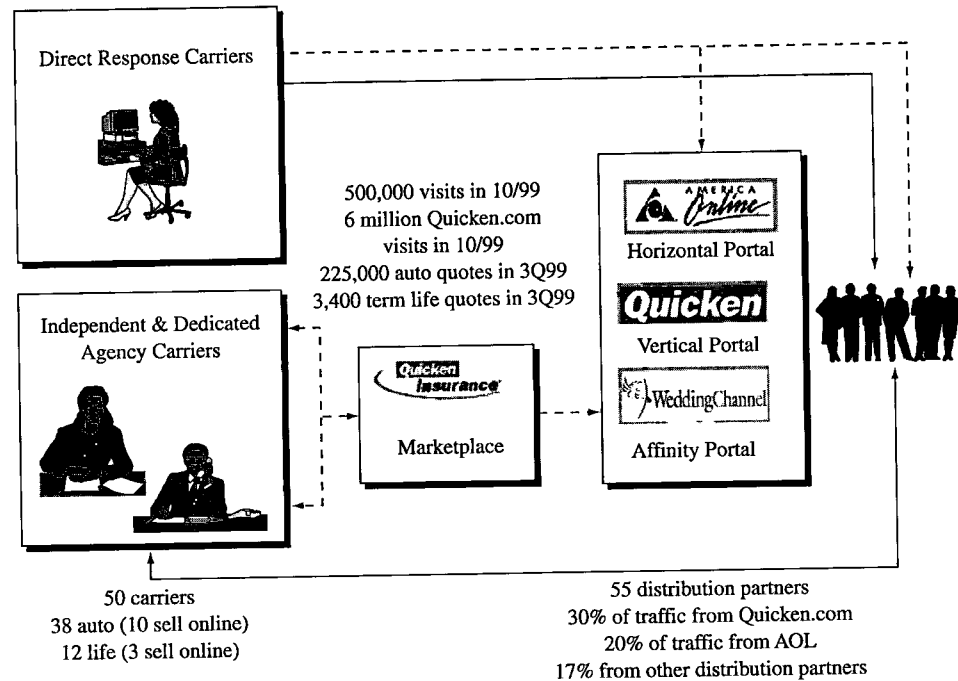
an overview of the QuickenInsurance business model.) By summer 2000, QuickenInsurance had established relationships with 50 carriers—38 for automobile insurance and 12 for term life. Of these relationships, 13 carriers allowed QuickenInsurance to sell policies online—10 for auto and 3 for term life. The company brought traffic to its site through vertical financial services portals (such as Quicken.com), horizontal portals (such as AOL.com), affinity portals, and word of mouth.²⁶

In 2000, QuickenInsurance sold automobile and term life insurance and, in partnership with Quotemsmith, provided quotes for medical and dental insurance. In addition, QuickenInsurance provided links to local agents selling disability insurance, annuities, small business insurance, and long-term care insurance. QuickenInsurance also provided

²⁶In 2000, QuickenInsurance had agreements with 55 distribution partners.

EXHIBIT 6
QuickenInsurance Business Model (Fall 2000)

Source: Casewriter.



— Information - - - Product

QuickenInsurance's major costs included

- Product development and carrier implementation (51 FTE^a in 1999)
- Marketing and sales (26 FTE^a in 1999); its partnership with Intuit greatly reduced the cost of attracting traffic to its site

Revenues were generated by

- Charging insurance carriers a commission for referrals that resulted in sales
- Charging some agents commissions on offline sales referred to the agents
- Charging carriers an up-front fee for installation and integration of the QuickenInsurance software and yearly fees for software maintenance
- QuickenInsurance's service was free to consumer

QuickenInsurance offered unique value to the insurance carrier by

- Offering carriers the opportunity to reach a much larger base of consumers
- Educating consumers and generating leads
- Streamlining the quoting and application process at the carrier end
- Providing 30-70% cost savings
- Enabling carriers to move online in less time (2-3 months vs. years) and at less cost (\$200,000 vs. millions of dollars)
- Providing cost savings to offset industry price erosion, estimated at 10% in 1999
- Providing value-added information on customer buying behavior and competitor pricing
- Increasing the number of customers evaluating the carrier's products

QuickenInsurance offered unique value to the consumer by

- Providing access to information, advice, quotes, and price comparison
- Lowering cost to the consumer by eliminating the need for an agent (one customer quoted savings of \$4,000)
- Enabling customers to conveniently purchase insurance directly online 24 hours per day
- Streamlining the quoting and application process (in a test by an independent analyst, it took 4 minutes to receive 9 quotes)

^a Full-time employees

EXHIBIT 6 QuickenInsurance Business Model (Fall 2000) (continued)

Key Metrics	InsWeb	Progressive	GEICO	QuickenInsurance
Average # of quotes returned	2	3	1	8
Types of quotes offered	Instant/offline	Instant	Instant/offline	Instant/offline
Lowest # of quotes returned	0	2	0	0
Highest # of quotes returned	4	4	1	9
Average \$ disparity between high & low quotes	\$762	\$2,093	\$0	\$1,884
Available for online purchase	No	9 cases	No	7 cases
Low-cost provider	1 case	4 cases	0 cases	4 cases

Source: Salomon Smith Barney, 1999.

information, analytical tools, and tutorials across a broad range of insurance products and services. "While most insurance products were designed from the actuarial point of view, QuickenInsurance is designed from the customer's perspective," Aldrich stated.

Revenue Model

QuickenInsurance charged carriers a commission on each product sold. In addition, when carriers signed up to distribute insurance through QuickenInsurance, they paid an up-front development and implementation fee to cover the cost of integrating the QuickenInsurance transaction systems and databases with those of the carrier. The amount charged depended on the level of integration required. In return for hosting each participating carrier's website, QuickenInsurance charged carriers an additional annual maintenance fee. QuickenInsurance also generated revenue from referrals to agents. Aldrich explained:

While some consumers are happy to buy online, some still want to talk with a person before they buy. If the question is simple, our customer support representatives—available 24 hours per day and 7 days per week—can answer it immediately. Today we offer a toll-free help line that is visible on every page of our site. In the future, we will open Web-enabled call centers so that customers and our service representa-

tives can work together online to ask questions and fill out applications. But even with this interactive telephone support, we believe some people will still want to talk to an insurance agent face to face. To support those customers, we have developed relationships with local agents that sell our carriers' insurance products. We provide them with links to a special extranet that ties the agent directly to our transaction systems. When a customer fills out an application but wants to speak to an agent, we can send the application to them and our software keeps track of whether the customer goes on to purchase the policy. If they do, we get a portion of the commission.

Cost Model

In 2000, QuickenInsurance's major cost driver was the cost of hiring and retaining the technical talent required to develop the company's Web-based insurance service and the custom-designed technical infrastructure needed to integrate it with participating carriers. "It often takes a team of technical specialists two to three months to bring a new carrier online," an account manager commented. "Today we have 80 people, with 37 devoted to product development and 14 to technical operations," Aldrich explained. "If you factor out our personnel costs, our budget is fairly lean. We leverage Intuit's data centers, call centers, marketing staff, budget, and relationships."

In 2000, Intuit operated two call centers—one in Fredricksburg, Virginia, and one in Tucson, Arizona. In each call center, total staff averaged 1,500 during peak times. QuickenInsurance's dedicated customer service representatives (CSRs) in Intuit's Fredricksburg call center handled approximately 500 telephone and e-mail requests per month.

Aldrich's decision to join forces with Intuit also enabled his firm to dramatically reduce the cost of driving traffic to the QuickenInsurance site. "Quicken.com has brand and reach on its own," Aldrich explained. "Over 30 percent of our traffic comes directly from the Quicken site, and we don't have to pay for it. In addition, because of Intuit's brand and customer base, our relationship with AOL provides very favorable terms."

In 2000, agreements with online partners—for example, vertical and horizontal portals that directed traffic to a destination site—typically required a company to share a portion of the revenues generated by customers who came to the site via the partners' links. Many large portals—such as AOL and Yahoo!—also charged their partners a fixed fee. These revenue-sharing agreements and fees were significant for firms that did business with the largest horizontal portals. For example, in summer 1999, DrKoop.com announced an \$89 million, four-year deal with AOL to be the exclusive partner on AOL's Health Web Center.²⁷ In 2000, DrKoop.com was one of over 750 firms that declared bankruptcy between January 2000 and January 2002.²⁸

InsWeb's Business Model

Until late 1999, InsWeb operated as an online insurance aggregator; the company provided quotes, educated customers, and generated leads for its 36 insurance carrier partners—automobile, term life, individual health, and homeowners/renters insurance—but did not sell policies online. (See Exhibit 7 for an overview of the InsWeb business

²⁷A. Sacharow, "Dr. Koop Shortchanged for the Long Haul," *Jupiter Research Report*, July 12, 1999.

²⁸Webmergers.com (www.webmergers.com).

model.) In 2000, 69 percent of annual revenues were generated by automobile insurance quotes. With the launch of its online and Web-enabled call center insurance agency, InsWeb Insurance Services, InsWeb evolved its business model from an aggregator to a marketplace.²⁹

Revenue Model

As an online aggregator, InsWeb could not collect fees for policies sold. Instead, the company received referral fees on every "qualified" lead. "While quotes . . . are provided free to consumers," the company's annual report stated, "insurance company partners pay fees [on] qualified leads." Qualified leads were produced in two ways:

- Insurance companies that offered consumers instant online quotes were charged for a qualified lead when a consumer requested insurance coverage based on a specific quote.
- Insurance companies that provided e-mail or offline quotes were charged for a qualified lead when the consumer clicked to request the quote itself.

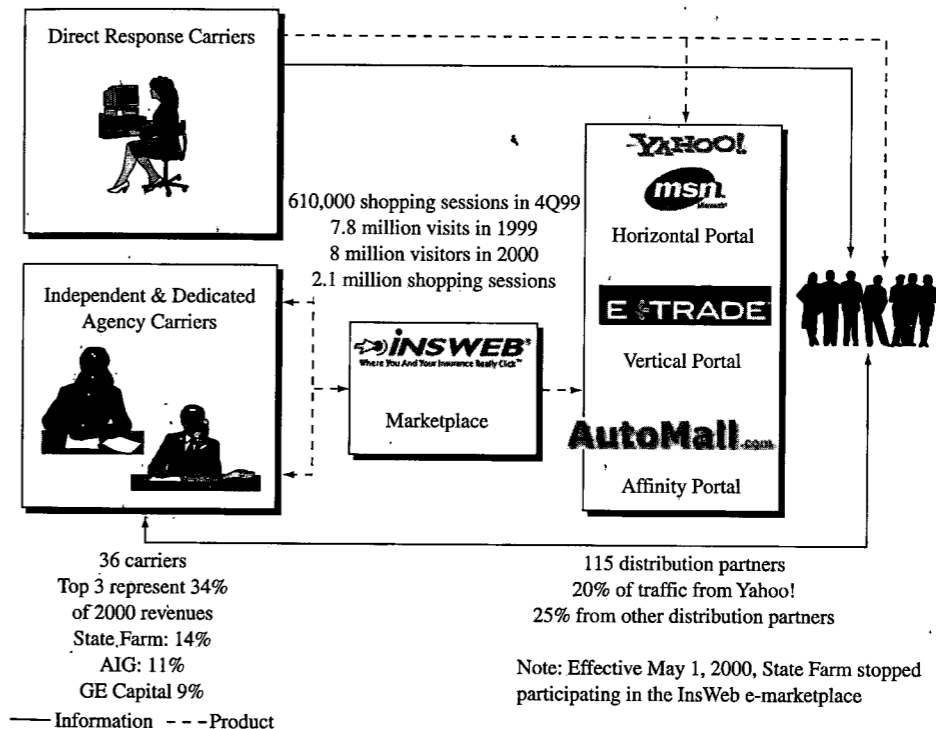
In either case, referral fees were paid whether or not the consumer actually purchased an insurance policy from the insurance company, and revenue from transaction fees was recognized when the qualified lead was delivered to the insurance company.

With the launch of insurance services, the company also began collecting transaction fees for the sale of online insurance policies and service fees from carriers that outsourced online insurance policy underwriting and fulfillment services to InsWeb.

Like QuickenInsurance, InsWeb also charged insurance company partners integration and maintenance fees. Integration of an insurance carrier into the InsWeb marketplace typically took three to six months and used 160 to 2,000

²⁹An online aggregator enables customers to shop—but not purchase—online. An online marketplace enables online shopping and purchasing.

EXHIBIT 7 InsWeb Business Model (Fall 2000)*



InsWeb's major costs included

- Marketing and sales, including online and offline advertising and fees paid to other portals
- Product development and carrier system implementation and integration with the InsWeb service: Integration of an insurance carrier into the InsWeb marketplace typically took 3-6 months (and used 160-2,000 person hours of effort)
- Building and operating call centers and data centers

Revenues were generated through

- Referral fees on every "qualified" lead to each insurance carrier (or "click-throughs" to insurance carriers' sites), whether or not the lead results in an actual purchase
- Advertising
- Software integration and maintenance fees charged to each partner/carrier

*The 1999 annual report states that, in late 1999, InsWeb began selling insurance through its affiliates.

(continued)

person-hours of effort. InsWeb's main data center was located in the company's Redwood City, California, corporate headquarters; a backup data center was located in Irvine, California.

To generate traffic to its site, InsWeb entered into over 115 distribution agreements with portals, including Yahoo!, E*Trade, Snap.com, and

LookSmart.com.³⁰ In 1999, these online relationships generated approximately 45 percent of InsWeb's traffic. Each relationship was typically one year in length, could be terminated with one to three months' notice, and was not automatically

³⁰ Zandy and Vetto, op. cit.

EXHIBIT 7 InsWeb Financial Data (in thousands) (continued)

	1995 (1)	1996	1997	1998	1999	2000
Consolidated Statement of Operations Data						
Revenues						
Transaction fees	\$—	\$7	\$116	\$3,151	\$19,138	\$19,561
Development and maintenance fees		199	551	789	2,673	3,598
Other revenues		42	83	370	29	51
Total revenues	—	248	750	4,310	21,840	23,210
Operating expenses						
Product development	774	2,900	3,210	10,077	8,871	8,690
Sales and marketing	552	2,010	3,167	8,954	33,477	38,248
General and administrative	670	2,730	3,259	6,640	13,474	21,179
Amortization of stock-based compensation	—	—	470	540	1,272	912
Amortization of intangible assets	—	—	—	—	3,129	1,150
Total operating expenses	2,025	7,640	10,106	26,211	60,223	76,764
Loss from operations	(2,025)	(7,392)	(9,356)	(21,901)	(38,383)	(53,554)
Other income (expense), net	—	—	—	600	(166)	56
Interest income (expense), net	(6)	122	293	(1,189)	2,348	4,286
Net loss	\$(2,031)	\$(7,270)	\$(9,063)	\$(22,490)	\$(36,201)	\$(50,847)
Net loss per share basic and diluted	\$(667.07)	\$(0.56)	\$(0.62)	\$(1.52)	\$(1.52)	\$(1.40)
	1995 (1)	1996	1997	1998	1999	2000
Consolidated Balance Sheet Data						
Cash and equivalents	\$6	\$6,807	\$2,360	\$8,337	\$25,689	\$34,795
Short-term investments	—	—	—	—	64,063	26,331
Working capital (deficit)	(1,564)	6,739	2,040	5,497	91,361	51,657
Total assets	423	9,353	5,140	49,357	118,281	73,008
Long-term debt	—	—	—	2,089	1,464	1,312
Total stockholders' equity (deficit)	(1,184)	7,476	3,062	19,582	111,185	63,884

Source: Insweb 10-K, filed April 4, 2001.

renewable. Approximately 20 percent of InsWeb's traffic was generated from its relationship with Yahoo! Under the terms of the agreement, InsWeb paid Yahoo! a fixed fee plus approximately \$.10 for each referral. As of June 30, 1999, Salomon Smith Barney analysts reported: "InsWeb paid Yahoo! fixed fees totaling \$4.7 million and referral fees totaling \$139,000. InsWeb was obligated to pay additional fees totaling \$4.8 million through June 2000." In return, InsWeb was the exclusive merchant within Yahoo!'s Insurance Center.

Evolution of Quicken.com as a Vertical Portal

In 1983, Intuit founders Scott Cook and Tom Proulx embarked on a quest to revolutionize the way individuals and small businesses managed their finances. A decade later, Intuit had emerged as the worldwide leader in the market for personal and small business finance software; its Quicken (personal finance), QuickBooks (small business accounting), and TurboTax software accounted for 70 percent or more market share in their respective markets.

Intuit executives were quick to recognize the potential opportunities and threats presented by the commercialization of the Internet, the World Wide Web (WWW), and user-friendly browser software. They believed these technologies could be used to deliver new products and services and to dramatically expand the company's customer base and the range of products and services delivered. While the market opportunity for its traditional software business was estimated as \$300 million in 2002, the market opportunity for its online businesses was estimated to exceed \$202 billion.³¹ To exploit this opportunity, Quicken.com was launched in 1996.

Initially, Quicken.com operated as an information aggregator through which consumers could access financial services news and information

from a number of different information providers. Quicken.com added value by synthesizing the content, categorizing it for easy search and retrieval, packaging it, and then distributing it over the Internet to a rapidly growing network of consumers. In an effort to expand its customer base, Quicken.com executives decided not to charge consumers a subscription fee for its service, but instead generated revenues through advertising. The more consumers visited Quicken.com, the more the company learned about what those consumers wanted and the more valuable the site became to advertisers.

Between 1996 and 1998, six focused distributors were launched under the Quicken.com umbrella brand. The business models adopted by the six focused distributors within the Quicken.com vertical portal are described below.

QuickenRetirement and *QuickenInvestment* were aggregators. Consumers could access information but could not invest online. Revenues were generated primarily from sponsors that were charged advertising and referral fees.

QuickenInsurance, *QuickenLoan*, and *QuickenBanking* were marketplaces where consumers could purchase insurance, apply for and receive loans, and pay bills online. Revenues came primarily from suppliers that were charged a commission on each transaction. Suppliers were also charged development, consulting, and maintenance fees for system integration. Advertising and referral fees provided additional revenues.

QuickenTurboTax enabled consumers to access information, tutorials, and advice; prepare tax returns; and file online. With the launch of QuickenTurboTax, Intuit evolved its traditional packaged software business model to become an application service provider (ASP)³² but did not

³²An application service provider (ASP) provides online access to business software applications. Rather than buy a software package or build custom software and then run it on a personal computer or in a company's data center, an organization rents, leases, or provides a service fee to access software that is hosted on the service provider's computers.

³¹Intuit annual report, 2000.

EXHIBIT 8
Intuit's
Consumer
Business Model

Marketplaces	Aggregators	Retailers	Software Firms
<p>Quicken.com Revenue Model in 2000</p> <ul style="list-style-type: none"> • Slotting fees & referral fees (distribution agreements) • Transaction fees (marketplaces) • Slotting fees & transaction fees (retailers) <p>Quicken.com Cost Model in 2000</p> <ul style="list-style-type: none"> • Website development, implementation, & maintenance • Sales & marketing • Slotting fees & referral fees paid to portals • Online & offline advertising • Call center operations • Data processing & network operations & hosting • Administration & management • Physical infrastructures 		<p>Intuit Profit Model in 2000</p> <ul style="list-style-type: none"> • Intuit revenues = \$1.1 billion, up from \$567 million in 1996 • Online revenues were \$294 million in 2000, up 108% from 1999 • 75% of Internet businesses were profitable • Pro forma net income = \$134.2 million, up 35% from \$99.6 million in 1999 • Earnings per share = \$0.64, up from \$0.50 in 1999 • Market value = \$2.1 billion with \$1.15 billion in cash and short-term investments 	

eliminate it. In early 2001, consumers could use the online tax software to prepare their taxes for free but paid a service fee of \$9.95 to \$19.95 to file online. In comparison, the cost of the Quicken TurboTax packaged software was \$39.95 plus \$5.95 for shipping. Intuit saved money by shifting to the hosted online software model, and it passed these savings to the customer. Within one year of its launch in 1999, QuickenTurboTax for the Web had captured 80 percent market share.

A second vertical portal, Quicken.com for Small Business was launched in 1999. This portal provided a wide range of online services (including payroll, bookkeeping, invoicing, and purchasing) to Intuit's installed base of over 2 million small business users of its packaged software, QuickBooks. Many of these businesses adopted the ASP business model, and by summer 2000 Quicken.com for Small Business had over 5 mil-

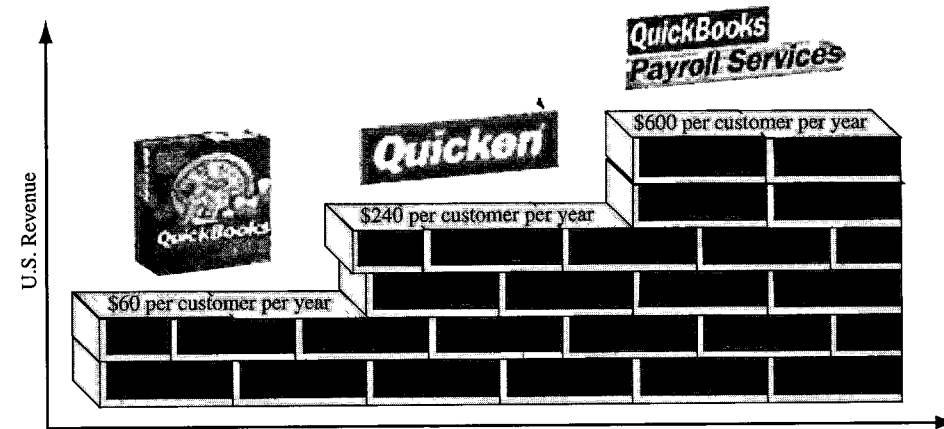
lion users worldwide and use of its QuickBooks software package had increased to 3 million.

During 2000, Intuit earned almost \$300 million from its online businesses, and the majority of these businesses were profitable. Exhibit 8 provides an overview of Intuit's consumer business models in summer 2000.³³

Each Intuit online business leveraged a common infrastructure to generate multiple streams of revenues while also building knowledge assets and strengthening the brand not just for Intuit but also for its customers, suppliers, and business partners (see Exhibit 9). Because the Internet and its associated technologies offered a common, standardized interface for linking business communities inside and outside the

³³In November 2000, InsWeb acquired selected assets of QuickenInsurance and became the exclusive provider of insurance services on Quicken.com.

EXHIBIT 9
Leveraging the
Intuit Digital
Business
Infrastructure



organization, Intuit's networked business infrastructure provided a modular platform upon which individual businesses could be integrated and built. The marginal cost of adding a new business to the infrastructure was low, and the revenue potential increased dramatically. Over time, new businesses could be built, launched, and grown to scale in months, dramatically increasing the company's agility and innovation potential while dramatically decreasing the risk.

Intuit's Internal Value Network Extends to its Business Community

The Quicken.com and Quicken.com for Small Business vertical portals did not stop at the door of the organization. Instead, these two vertical portals and the individual online businesses within them united a network of suppliers, partners, and customers. Indeed, America Online was a key member of the Quicken.com value network, and as such, AOL's success increased the success of Quicken.com (see Exhibit 10).

Founded in 1985 as Quantum Computer Services, the AOL.com online information service was launched in 1989 as a proprietary news, information, communication, and entertainment service. From the beginning, AOL also served as a network services provider, giving away its con-

tent and community services while charging per-minute network access fees.

In summer 1995, AOL had approximately 500,000 members in the United States, had revenues of \$344.3 million, and was losing money. Losses continued as the company shifted from a proprietary to an Internet infrastructure and as it shifted its revenue model to a flat monthly fee. During 1997, the company lost almost \$500 million, and many doubted that it would survive its painful evolution to an Internet business model. But survive it did, and by summer 2000 AOL had over 23 million members worldwide (approximately 35 percent of total worldwide Internet users), revenues of almost \$7 billion, profits of almost \$2 billion, and over \$1.5 billion in cash. The completion of the merger with Time Warner in January 2001 was expected to generate an additional \$1 billion in equity cash flow to investors by the end of 2001.³⁴

Even before the merger with Time Warner, AOL had evolved a complex business model. To most consumers, it was a horizontal portal that enabled free access to the Internet and its World Wide Web of businesses, information, and services anywhere and anytime. Revenues for this component of the business model were collected

³⁴AOL Time Warner annual report, 2000.

EXHIBIT 10
AOL Business Model, 2000

<p>21 Vertical Portals</p> <p><i>Examples:</i></p> <ul style="list-style-type: none"> Quicken.com HomeStore.com CBS HealthWatch AutoTrader.com iVillage.com government guide Careers by Monster.com 	<p>Focused Distributors</p> <p><i>Retailer:</i></p> <ul style="list-style-type: none"> Shop@AOL <p><i>Exchange:</i></p> <ul style="list-style-type: none"> Auctions+ Collectibles eBay uBid <p><i>Marketplaces</i></p> <ul style="list-style-type: none"> Moviefone 	<p>Focused Distributors</p> <p><i>Aggregators:</i></p> <ul style="list-style-type: none"> Mapquest.com Spinner.com Winamp.com Shoutcast.com <p>digitality</p>	<p>Software Firms</p> <p><i>Personal and Business Software:</i></p> <ul style="list-style-type: none"> Netscape iPlanet Plug-Ins Winamp Player Spinner Player 								
<table border="1" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>CompuServe</p> <ul style="list-style-type: none"> Technical infrastructure and know-how Web/browser interface, search, and messaging capabilities Online transaction and customer service capabilities Software development know-how </td> <td style="width: 50%; vertical-align: top;"> <p>AOLAnywhere</p> <ul style="list-style-type: none"> New venture development and alliance/partnership know-how Brand awareness and loyalty Over 28+M loyal customers Robust online business partner and distribution network </td> </tr> <tr> <td colspan="2" style="text-align: center;"> <p>AOL.COM</p> </td> </tr> <tr> <td colspan="2" style="text-align: center;"> <p>Netbusiness</p> </td> </tr> <tr> <td colspan="2"> <p>Revenue Model in 2000</p> <ul style="list-style-type: none"> Subscription fees = \$4.8 billion, up from \$3 billion in 1999 Advertising and commerce fees = \$2.4 billion, up from \$1 billion in 1999 Software licensing, sales, and service fees = \$557 million, down from \$610 million in 1999 <p>Cost Model in 2000</p> <ul style="list-style-type: none"> Operations = \$3.9 billion, up from \$3.3 billion in 1999 Sales and marketing = \$1.9 billion, up from \$1.4 billion in 1999 Includes advertising expenses of \$829 million, up from \$575 million in 1999 Property and equipment = \$1 billion, up from \$895 million in 1999 Administration = \$408 million </td> </tr> </table>				<p>CompuServe</p> <ul style="list-style-type: none"> Technical infrastructure and know-how Web/browser interface, search, and messaging capabilities Online transaction and customer service capabilities Software development know-how 	<p>AOLAnywhere</p> <ul style="list-style-type: none"> New venture development and alliance/partnership know-how Brand awareness and loyalty Over 28+M loyal customers Robust online business partner and distribution network 	<p>AOL.COM</p>		<p>Netbusiness</p>		<p>Revenue Model in 2000</p> <ul style="list-style-type: none"> Subscription fees = \$4.8 billion, up from \$3 billion in 1999 Advertising and commerce fees = \$2.4 billion, up from \$1 billion in 1999 Software licensing, sales, and service fees = \$557 million, down from \$610 million in 1999 <p>Cost Model in 2000</p> <ul style="list-style-type: none"> Operations = \$3.9 billion, up from \$3.3 billion in 1999 Sales and marketing = \$1.9 billion, up from \$1.4 billion in 1999 Includes advertising expenses of \$829 million, up from \$575 million in 1999 Property and equipment = \$1 billion, up from \$895 million in 1999 Administration = \$408 million 	
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from advertisers and sponsors. For example, Intuit paid AOL \$16.2 million in 1998 to become the exclusive provider of personal and small business financial services within AOL's Finance Web Center. It also paid a "click-through" fee every time an AOL customer accessed its Quicken.com and Quicken.com for Small Business vertical portals through AOL. Finally, AOL received a percentage of every transaction conducted on Quicken.com by AOL customers. In early 2001, Quicken.com was one of 23 vertical portal Web centers offered through AOL, and

AOL commanded 20 to 25 percent of worldwide online advertising revenues.

In addition to providing a gateway to content and services, AOL's business model also reflected its roots as a proprietary network services provider. With the launch of its Internet service in the mid-1990s, it quickly became the leading Internet service provider (ISP). In this role, it developed and maintained the network infrastructure and services that enabled individuals to access the Internet across telephone ("dial-up") or high-speed ("broadband") networks. The merger of

EXHIBIT 11
Time Warner Business Model, 2000

<p>Publishing and Entertainment</p> <p>SPORTS ILLUSTRATED</p> <p>TIME</p> <p>86 magazine titles, 8 book publishers + e-book, 39 worldwide news bureaus</p> <p>SUNSET BOOKS</p>	<p>Entertainment</p> <p>RETNO</p> <p>7,000 feature films, 32,000 TV titles, 13,500 animated titles, 1 million+ music copyrights</p> <p>Cable Networks</p> <p>CNN</p>	<p>Software Firm</p> <p>Netscape</p> <p>iPlanet</p>	<p>Vertical Portals</p> <p>Quicken.com</p> <p>CBS HealthWatch</p> <p>HomeStore.com</p> <p>22 additional Vertical Portals</p>	<p>Aggregators/Community</p> <p>digitality</p> <p>icq</p> <p>MAPQUEST.COM</p> <p>MOVIEFONE</p>
<p>TIME WARNER CABLE</p> <p>Horizontal Portal ISP</p> <p>Broadband Network Services Provider</p> <ul style="list-style-type: none"> Technical infrastructure and operating know-how Content, media, and broadcasting know-how New venture development and partnership know-how Consumer online/offline brands touches consumers over 2.5 billion times/month <p>Infrastructure</p> <p>Digital Business</p> <ul style="list-style-type: none"> Strong supplier and partner online/offline network AOL has over 28 million paid subscribers averaging over 70 min./day online Together AOL Time Warner has over 130 million paid subscribers 				

AOL with Time Warner on January 10, 2001, created the complex online/offline media conglomerate shown in Exhibit 11.³⁵

Winning in the Race to Click and Close

Only a small number of companies will be big winners in the online market... We believe the vertical portal will become the most powerful long-term distribution model by offering the consumer superior value through

choice, convenience, and low prices... A few aggregators may survive, despite our belief that many of them will be displaced by vertical portals... [Producers] will continue to partner with vertical portals to provide best-in-breed products at low cost... We generally envision higher valuations for vertical portals than we would for [producers].³⁶

— Morgan Stanley Dean Witter, 1999

³⁶The Internet and Financial Services," Morgan Dean Witter Equity Research, August 1999. Using Morgan Stanley Dean Witter's (MSDW) generic business models, InsWeb was classified as an aggregator, while Quicken.com was a leading financial services portal. Allstate and State Farm were classified using the term producers in the quote used in the case.

³⁵Data on the AOL Time Warner business model are from *The AOL Time Warner 2001 Fact Book*, available online at www.aoltime Warner.com.

As the world stood at the gateway to a new millennium, the financial services industry was reeling from the one-two-three punch of technology, deregulation, and global consolidation. The opportunities for adding value and shifting the balance of power were enormous. Those prepared to take advantage of these opportunities stood to gain a significant market position.

In mid-2000, as Aldrich surveyed the rapidly changing business landscape, he wondered how to address the many issues which demanded his immediate attention. The following issues were uppermost in his mind as he transitioned from general manager of QuickenInsurance to general manager of Quicken.com.

1. What advice should he give Steve Bruce concerning how to handle QuickenInsurance's slow penetration in the auto insurance industry?
2. How should he address the actions taken by AOL.com to restrict Quicken.com customers in their use of MyProfile?
3. How should he respond to the actions of established players like Citigroup that were launching direct-to-consumer integrated vertical portals and were also available as a competing financial services vertical portal on AOL.com?
4. Finally, as the price of technology stocks dropped, how should he allocate the scarce resources to the multiple initiatives and projects that the company could pursue? What were the key opportunities and threats that needed to be addressed immediately?