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Interview with Scott Cook
Intuit

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Interviewer: Amy Blitz, HBS Director of Media
Development for Entrepreneurial Management

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SCOTT COOK

The Early Years

I grew up in Los Angeles, in a suburb. My dad was in the heavy equipment business. He tried to start a couple of businesses when I was growing up. In fact, I spent part of my childhood screwing together pipes and tanks for one of the businesses that he started. You know when an airplane crashes and trucks roll up and spray it full of stuff to put the fire out? He was making tanks that held the chemicals that would go on the trucks to spray the airplanes when they crashed. He wasn't an engineer, but he was in the industry of heavy equipment and I guess this appeared to him to be a market need.

I went to public elementary and high schools. I went to college locally in L.A., thinking that I'd become an economist. I actually got to work as an economist. I did an economic research project as an undergraduate, which is kind of a rare thing to do. It was a project that had some government money. That got me a job with the state government in the field of economics, and I quickly discovered that there was no way I wanted to be an economist. That was a dull life. And the people were dull. They spend all their time studying stuff. And what we were doing didn't make a difference. The guys who seemed to me to make a difference were the guys who ran the agencies, who had managerial responsibility, not responsibilities tied to specialized knowledge. So that really changed my career ambitions.

By my last year in college I'd fulfilled all of my economics and math requirements for my dual major in Econ and Math. So I started taking business classes. At the same time, I was running the campus Ski Club, which I kind of got into by accident. It was basically a little business, only I couldn't keep the profits. Running the club was a lot more fun than economics. It was bankrupt when I took it over, and I turned it into the largest campus organization at the school and the largest Ski Club in the state, and I did that in a year. Running the club was a lot more fun than economics, so I switched directions and decided to get an MBA instead of getting an advanced Econ degree. That led me to HBS.

The HBS Experience

I think for me HBS was primarily a door opener. Because of the Harvard MBA, I got a job at Procter & Gamble. I never would have gotten that coming out of college. I went to a mid-ranked school in L.A. I never would have gotten to Procter & Gamble because they don't even recruit there. Because of the Harvard MBA, I met classmates who later went into consulting, so I was also able to get a job at one of the high-end consulting firms–Bain & Company. That door never would have been open to me without HBS.

The two experiences at Procter & Gamble and Bain & Company were essential background for starting Intuit. The time at Procter & Gamble was really the formative business experience for me because I did not work before getting an MBA. I went right from undergraduate school to HBS, so for me Proctor & Gamble was the formative experience. Intuit would not be here without the experience I got at Procter & Gamble,

and we would not have succeeded without it. Similarly, the fundamental concepts about strategy that we've used to guide huge changes in the company were things I learned at Bain & Company. We would not have been able to manage the strategic change that we've been through in this very frothy, changing world without the strategic insights I got at Bain & Company.

It's interesting that there was a group of students at HBS, as I was starting Intuit, that were starting a personal finance software company with pretty much the same objective that I had. Unlike me, they got funding first from finance professors at the school and then from venture capitalists. Unlike me, they could bring out a line of products as a result, and they could have a booth at Comdex, which I couldn't possibly afford. Yet their business went nowhere and collapsed quickly, whereas ours did pretty well. I think a good reason for that is that I'd learned a set of fundamental principles about how you approach a consumer business from Procter & Gamble, a company that really knows this stuff well. And I applied those principles to what I did at Intuit, and those principles were amazingly useful.

Finding the Opportunity

At Intuit, I applied a set of principles that really worked in an industry where no one had applied them before. That gave us a major competitive advantage over firms that either had no principles or were trying to apply principles from industrial products, which is pretty much what software was before 1981. The principles we applied were simple things like usability testing.

In fact, during development it's now standard practice to show the software to users and have them use it. Then their feedback guides the refinement of the user interface. Nobody did that before we arrived in the industry. In terms of having consumer products, like the products Procter & Gamble makes, you always do that. In fact, no one copied us for five years because it was so unusual. Now it's standard practice. It's one of the reasons why we had such an "ease-of-use" advantage over our competitors. Our competitors didn't know how bad their products were because they never bothered to watch customers actually use them.

Software before Intuit, before 1982 or 1983, was largely sold to people in corporations, especially in the mid- to late-1980s. In corporations, you're told what to use, so ease-of-use isn't all that important. Features are important; ease-of-use is less so. You can see that today in software systems from companies like SAP and others like them, all of which are monstrously hard to use, but it doesn't matter. You're told to use it. It's your job. But if you're trying to get people at home to do stuff, you need an entirely different mentality and an entirely different paradigm. Very much like with other consumer products, the consumer has to want to use it. That's the school of thinking I grew up in at Procter & Gamble. All I did was apply Procter & Gamble techniques to an industry where they were sorely needed.

One of the things I learned at Procter & Gamble was the particular mindset of how you find a big opportunity. In their view, you find something first, that everybody does and, second, where there's a problem that most people face. People won't pay you for a solution unless there's a problem. Then third, you find something where you can develop a technological advantage in solving that problem so that you have some degree of an edge over competitors.

I'd programmed computers as a kid, and I was intrigued with how to apply them to solve the problems of real people. When I started programming, which was in the mid-1960s, computers were only used by guys in white coats in computer centers. So I'd toy with ideas. Then with the Procter background, I started toying with different ideas, and thinking about how I could apply computers. For example, I thought of various types of online grocery shopping and things, but the technology couldn't deliver a good enough solution to do that.

Then one day, my wife complained about doing the bills, because she pays the bills in our household. It struck me, "Hmmm, here's something that everybody does, where there may be a problem"–at least my wife thinks there's a problem–"and where the technology"–in this case the personal computer–"is pretty good."

PCs are capable of addressing the kinds of things that are done in finance because computers are particularly good at things having to do with numbers and calculations and data storage, particularly where there's repetition involved. And what is managing a checkbook, for example? Numbers, calculation, data storage, and a lot of repetition from the same bills month after month. So it struck me that there was this fit between a potential problem to be solved and a technology that could do a good job solving it. This was all theory, and it was my initial insight to the market opportunity.

The next step was to see whether or not my wife was typical, whether her feelings were typical of the broad audience, or whether she was odd. So I got the phone books out and started dialing households at random to do the basic customer research that you do to understand how people approach finances. I asked them: What do they like? What do they not like? What do they do? What don't they do? What would they like changed? Then, to get more numbers, I hired my sister in-law for help so that we could reach more people and get more statistical significance.

What the research showed is that my wife is not unusual. We found that she is like most people, who do a fairly limited set of things in their finances, and their biggest objective is to eliminate the time and work involved. People wanted to do the stuff, but in as little time and with as little hassle as possible.

The next step was to ask, "OK, how well is this solved by other people?" because we were not the first with this idea. There were roughly twenty-five companies making personal finance software to run on PCs by 1982. So I bought the market leader. Now having an understanding of what I thought people wanted–something drop-dead easy

that solves the problem–I tried the leading software and there was no way it was easy. It was exceedingly difficult, torturously hard.

There were some other companies that were also launching similar products. I went and interviewed them and found out that they thought the solution for customers was features. The more features, the better. That's what they thought people wanted–features, features, features. So they were planning to beat the existing market leader by having more and more features.

Never did the concept of fast and easy enter their vocabulary. This led to a quandary for me because these products sold reasonably well, but they didn't deliver what my market research said people wanted. So I thought that, most likely, the market research was wrong, because market research is an art as much as a science. It can't always be trusted. In any case, I had this conflict I couldn't resolve.

I then went out and called people in computer stores and in computer magazines. I wanted to find people who were computer savvy. And I asked them about their experience. The first question was, "Have you tried any personal finance software?" Sixty-five percent of them said yes. These are people in the computer industry in 1982. The next question was, "Do you use that personal finance software?" Four percent said yes. Sixty-five percent tried it; four percent used it. This shows you have a product problem. You've got them in the door, they've tried it, and they've walked out. When you ask them, "Why? Why did you quit?" the overwhelming reason was, "Oh, it was too hard, too slow, took too much time."

Here I had the answer. The existing products did not, in fact, deliver the speed and ease that people needed to automate their finances–not even for computer aficionados. Now we had the direction, the strategy for Quicken, which was to make it drop-dead easy for people who didn't know computers so that they could automate their finances and get the work done faster than they could by hand.

This was a paradigm shift. The paradigm in software had been more features, more features, more features. That was success. VisiCalc, 1,2,3, etc. What we wanted to do was very different. Our market research was saying fewer features. In fact, we launched with about one-fourth as many features as the existing product, but we paid massive attention to speed and ease-of-use.

It was a dramatically different paradigm than the whole software industry was in and that brought with it special problems. One was that–though I was convinced we were right and our research suggested we were right–no one believed me. But we were right. In fact, for every business we have been in, our main competition is not another computerized solution. Our main competition is the pencil–because that is what most people are using. You've got to beat the pencil for people to switch. In the early days, our competitors hadn't done that. People tried the computer and then gave up and went back to the pencil. This is not a radical thought. This, again, is straight out of Procter &

Gamble. The traditional way was the biggest competitor in almost all cases. For example, Pampers' big competitor for twenty years was not other disposable diapers; it was cloth diapers.

The pencil is a tough competitor. You should never underestimate the power of habit and such a simple device like the pencil. It's low-cost, usually free, easy to use, needs no manual, can't crash, you won't lose data, and it's entirely portable. This is a very tough competitor to beat. So our focus was to be so good that people would voluntarily leave the pencil, whether it be to adopt Quicken to do their finances, TurboTax to do their taxes, or, later, QuickBooks to do their accounting. The pencil was the competitor we had to displace. If our alternative was hard to use, people wouldn't get very far with it because they already knew how to use the pencil. When the alternative is very hard, you're dead.

I think the greatest new business victories, the greatest entrepreneurship victories, come around paradigm shifts, around a new paradigm that the existing world doesn't get. That's where some of the biggest wins have been–with Steve Jobs and Apple computer, the guys at Adobe, Microsoft and their view that the operating system was more important than the hardware, Sun and their view that the network was the computer, or eBay and their view that you could put together this market where they didn't stock or ship the products…all they did was create a kind of open bazaar and everybody else filled it up with products and buyers.

Funding the Venture

The big home runs are, very often, totally new paradigms. They're great if it doesn't kill you. The problem with a brand new paradigm is that nobody believes it because everyone's locked in the old paradigm. That was certainly the case for us at Intuit. We had a fundamentally new paradigm and the investment community, venture capitalists, all turned us down.

I had been working out of an office at Bain & Company, which was at 3000 Sandhill Road. That's the world headquarters of venture capital. That one building complex has more VCs in it than any country besides the U.S. It's in just one building complex. I knew some of these guys. Some of them were classmates from school. Even so, we pitched twenty-five venture capital firms and wound up with nothing.

In 1983, venture capitalists were throwing money at software companies, particularly in late 1982, early 1983. By 1984, they'd lost their shirt in a lot of software companies, some of which never launched their products. These companies had sucked $6 million of VC money and never launched. By 1984, when we were looking for money, a lot of the VCs had concluded that they didn't understand software. I think it's logical not to invest in things you don't understand.

Another issue was that we were a consumer company. A lot of the money we were raising was for advertising. VCs traditionally backed industrial companies selling to

corporations, so they didn't budget for advertising. VCs didn't feel comfortable with a company like ours, with our customers, the consumer customer with advertising as a major expenditure. I think that's pretty reasonable. If you're not comfortable with it, don't invest in it.

Another issue was that we did not have the management dream team. None of us had ever done this before. I was a twenty-eight-year-old former fat salesman from Procter & Gamble—Crisco shortening being the last business I managed there. My co-founder, whom I hired to do the engineering, was still a college student. He hadn't graduated yet, so he'd never worked full time. His right-hand man in programming was a high school student. This was not, let's say, an experienced management team in the software industry.

Plus, we were pursuing a proposition that most venture capitalists and most of the experts at the time said would fail. First, would people ever buy computers for the home? Most people doubted it. Second, if people did buy computers for the home, would they ever try to put their finances on a computer? Most people doubted it. Third, if people were willing to put their finances on a computer, would they buy a "de-featured" product when the whole industry believed that having the most features was how you won in software? That's a lot of hurdles to get an investor over, and I failed in being able to do that. So we struggled. We had real trouble.

I think this period of time from here breaks into two phases. The first phase was when we were developing and initially launching the product. The second was the desperation period after that. What kept me going in the earlier phase is that I really thought we had a better solution than the alternatives. We all thought we had the best solution. We understood the customer better than the competitors did. We had a different way of viewing the world that was right and we wanted this solution to get its time in the market because we thought people would snap it up. Then came the desperation period, when customers didn't snap it up. We had no money and we couldn't back it. To avoid going bankrupt, we had to stop spending money entirely. We stopped paying salaries and we returned all of the rented furniture and computers. Of the seven of us at the time, three left to get jobs that actually paid salaries. Four stayed with no pay. That was a long and desperate period.

At that point, what kept me going was just fear that I didn't know how I'd ever pay back the money that I'd sunk into this through a regular 9-to-5 job. I didn't have VC investments of two to three million dollars. Instead, I'd borrowed money from my parents' retirement savings. We'd also gotten $151,000 from two wealthy guys who were both friends of one of the guys in the company. And I felt I'd have to pay all of that back. Plus, we'd run up typical working capital from lawyers' bills and all of this stuff. I would have had to work a decade to pay back all the bills and debt that had been run up and I couldn't see a way to do that, so I kept going. I didn't see how else, financially, to get out from underneath this problem.

Building the Organization False Summit

In hiking, there's a thing called a false summit. Well, we had a false summit. Eventually, by the fall of 1985, we started being able to sell banks on buying the Quicken software from us, and then selling it to their customers. After six months of trying and failing, I began to sell to some banks. I began to close a bank a month. So we started getting revenue. With that we started paying off the debts and paying salaries. It looked great for a period of about six months.

That was the false summit, because about March it became clear to me that we now had ten banks and essentially none had been able to successfully sell Quicken to their customers. We could get the banks to buy Quicken from us, but they couldn't sell it to their customers. I realized that banks were not companies that market products. It's just not what they're good at. It's not important for them, so they were terrible at selling Quicken to their customers.

As a result, we had a revenue source that I could see was going to disappear. I couldn't ethically go to a new bank and say, "Hey, this is going to work," when I could see that at least nine out of ten of my existing customers had failed to sell it. And the one that hadn't failed to sell Quicken to its customers had done only so-so. All of a sudden I had an ethical problem. I couldn't go out and sell this anymore because I didn't think it was going to work for the customers I was selling to. So we still didn't have a business.

Marketing Strategies

In my view, our source of revenue had disappeared, so that led us to re-tool the business in 1986 to go to retail. We decided that we had better things to do than run a microscopic company. We were either going to market this dramatically and raise its sales through retail stores where people bought software–not through banks–or we were going to die trying and go on and do something else.

We took all of the money we'd saved and put it into direct response ads. An HBS classmate taught me how to write the ads–an HBS classmate who went to Procter & Gamble and learned how to do direct marketing there. He taught me how to write direct ads because I couldn't afford an ad agency. We also cut the cost of the product in half. We cut our cost of goods sold. We got distribution channels set up, and we went out in the fall of 1986 with an ad campaign that, fortunately, worked. If it hadn't, we wouldn't be here today.

Direct response advertising brought in customers who ordered directly from us. It even got retailers to stock the product because customers started going into the stores saying, "Hey, I want this thing." The stores said, "Well, I don't have it, I have brand X." The customer would said, "No, I want this thing right here in this ad." So Egghead picked it up. At the time, they were the only chain of software stores. Finally, the business got rolling and from there, there was no looking back.

Then we spent years just catching up with the growth and the volume. We went from starvation to dealing with gluttony.

Managing Growth

The key thing we achieved from 1986, when the business started taking off, through 1991 was superior execution compared to our competitors. Our superior execution was based on a different paradigm of how you approach the business– that is, a consumer business sold through retail.

I applied what I had learned from Procter & Gamble about how to manage a retail store channel, particularly a channel made of chain stores. We knew how to do that but our competitors just didn't. Chain stores were new in the software industry, but they were old in the grocery industry. So we just executed much better than our competitors did at retail. We better executed in terms of packaging and retail displays. We better executed in software design because of usability testing and a bunch of other concepts that I brought from Procter & Gamble. We better executed in advertising. We produced testable ads that worked. The competitors didn't do that. They blew tons of money on ads that never worked. They didn't know because they were not scientific about their marketing.

We also figured out–or just believed in our guts–that great customer service is important for building word-of-mouth recognition, and that word-of-mouth is the single largest reason products like ours sell. So we really worked the customer service angle. Now a focus on customer service was a novel idea for me. I did not bring that from anywhere else. I just felt that it was our duty to give people great service and that, if we did that, the bonus might be that people would tell their friends about our products. Back then…shoot, still today…a lot of technology companies give terrible technical support. If you've got a question, it's hard to get through. And if you do get through, it's hard to get a good answer from someone who doesn't treat you like you're dumb.

Well, I had no interest at all in that level of service, so we created a culture of trying to deliver awesome technical support and customer service. We're not always perfect. In fact, we're not nearly as good as I'd like us to be. But I guess compared to a bunch of others we are a lot better. Anyhow, we were able to generate tremendous word-of-mouth prestige regarding the software design and quality of service.

Word-of-mouth marketing is what causes a business to really take off. You hear a lot about marketing, but the most important part of marketing is the part you don't pay for– word-of-mouth, friends telling friends. That's been the biggest source of customers for us. It has also been the biggest source of customers for Amazon and eBay, whose boards I sit on. The real power of growing a business lies in word-of mouth kinds of marketing.

Competing with Microsoft

In the 1990s, Microsoft entered the market as a direct competitor of ours in personal finance. I've got to give Microsoft credit for being entirely ethical on how they handled their market entry. We'd been talking with them. They came to us saying, "Let's work together." Discussions dragged on for months. Finally, a Microsoft executive I knew called and said, "We've decided to do it on our own without trying to do it together with you, and I just though you should know that. Next year, we'll launch a direct competitor to Quicken."

He didn't have to make that call. But, as soon as he did, we immediately made dealing with the news our number one priority. We had no Windows engineers in the company. At that time, Windows was not a consumer platform. We immediately made adaptation to Windows the highest priority in the company.

Thanks go to the heroic efforts of teams of people here…just wonderful entrepreneurial efforts from people like Eric Dunn, a gifted engineering manager and brilliant businessman. He took over the development for Windows. He put a team together and had a "never say die" attitude. His team worked nights, days, and weekends to produce a better product on Windows than Microsoft, who invented Windows–and in a shorter time!

When it came time to launch our Windows product, our marketing team, led by Mary Baker, came up with a brilliant scorched-earth marketing plan. It was far more aggressive than anything I would have done. But the marketing team was absolutely right. We launched our product after Microsoft. They beat us to the market because they had a big six-month head start on development. Still, we launched a month after they did, and we creamed them. Their market share dropped, and we got 78 percent of retail sales. We still hold that today.

Our experience going up against Microsoft really showed that if you create a culture of great entrepreneurs, there's no limit to what you can achieve, even when you're competing directly, head-to-head, in the backyard of the most powerful company in the world. You can win if you've got great entrepreneurs focused on the goal.

Creating An Entrepreneurial Culture

Part of creating an entrepreneurial culture is to teach people how to be entrepreneurs in a reproducible fashion. You have to teach them how to do one-on-one interviews with customers so that they figure out what customers really want. You have to teach them how to look for the overlaps between what customers really want and what the technology can do well. And then you teach them how to analyze whether or not the economics are good.

You also have to teach about durable competitive advantage because it doesn't do any good to create a business if 100 other people can do the same as you. You'll never make

a dime. You need to find a way to build not only a business, but also a durable competitive advantage so that you can profit from your business. There are certain drivers of durable competitive advantage. It's important for an entrepreneur to know those drivers and know how to find them, so education is one piece of creating an entrepreneurial culture.

Second, you have to model the behaviors that allow entrepreneurs to be great. In other words, if you have a command-and-control type of organization where you tell everybody what to do, good entrepreneurs will leave. You have to create an environment where you're as likely to be wrong as they are, and if somebody comes up with a better idea, you'll say, "Yeah, that's a better idea." You have to create a place where you're learning from your people as much as they're learning from you, because your people are a lot closer to the business than you are. Your people are a lot closer to the customer than you are. You've got to set up an environment where the really entrepreneurial people see that they can flourish. They can figure out something different from what the boss wants and it will win the day. You've got to cheer for people who criticize your ideas and come up with better ones.

A third part of creating an entrepreneurial culture is to celebrate failure. It's very hard to be an entrepreneur inside a company if you feel you're going to get crucified for failing, because there's risk in being an entrepreneur. If you've tried ten things, five will fail. Besides, if you wait too long so that you can do enough research to be sure an idea will work, you're probably going to be too late.

So you've got to create an environment where people know it's okay to fail and, that way, they'll try a lot more. They'll think outside the box. They're willing to think differently because they know that if it doesn't work, they won't be scorched and they'll still have a career.

At times, like when we've closed out a business, we've had something like a celebration of what we've learned. We celebrate what we now know that we did not know before because it will help us make much better decisions in the future. We celebrate those people who fail and everyone around them knows that they produced value. It wasn't the value we *intended*, but it's okay as long as we learn from it.

In one of the businesses we launched last December, the marketing person was someone who had failed on her prior assignment. She had worked on a project where we were trying to set up a business for lending to small businesses on a very low-tech basis. We developed, launched, and got ten financial institutions to back it, but we couldn't get the volume to make the business fly. But then last December, working out of our Boston office, which is one of our most entrepreneurial operations, the same person and her team succeeded at launching a whole new business called QuickBase. It's a revolutionary product and is off to a huge start.

I find that people who are real entrepreneurs want to be entrepreneurial no matter what. For them, being entrepreneurial, with the resources of a big company behind them, and making it succeed is more than enough reward. Of course, we'll also do *ad hoc* stuff, in terms of stock and money, to help provide incentives, but we don't have a formal program. The biggest thing a company can do for people to succeed is to give them the opportunity, resources, and training. That's all that great people need.

I also find that it's important to look for great "athletes." I don't mean people with experience in a particular "sport" as much as I mean an overall great "athlete." In other words, I look not so much for people with expertise in a particular subject as for people who get passionate about what they do, are analytical, achievement oriented, persuasive, communicate well, and want to get stuff done. I look for a core set of personal talents. When you get people with this set of talents and put them in the right environment, they'll learn and grow and, often, they'll turn into great entrepreneurs. If you're recruiting for experience…putting checks in boxes next to lists of what they've been done...that's not really as useful as looking into the core set of talents someone possesses.

Expanding the Business

I think an interesting piece to cover, because it points to some of the essential facts about innovation and entrepreneurship, is the development of our second product. I think two points are important. First, surprises are one of the best sources to find great ideas, and second, paradigm shifts are some of the biggest upsides.

The surprise was that we found a bunch of businesses using Quicken. We didn't expect that. In fact, we ignored it. It made no sense. Businesses should be using accounting software. Quicken was designed for home use. We ignored its use in businesses for years. It didn't make sense. Why would 48 percent of the users be businesses on a home product? Finally, we paid attention to it.

We did one-on-one probing interviews. We actually went and talked to those businesses and asked them, "Why are you using this? How did you compare it to the alternatives? Why did you pick this alternative compared to others?" From these interviews came a fundamental insight about how small businesses think and work. That insight is this: The vast majority of small businesses don't use debit and credit accounting in their businesses. The stuff you learn in accounting class and that CPAs learn, small businesses do not use it. They do not understand it and they don't want to. They're not accountants. They're people.

Now that flies in the face of what you're taught in business school and what accountants believe. All accounting software companies had followed the normal paradigm. We believed it, too. Businesses should use accounting software. But we were dragged to the truth by our customers. So then we said, well, what would happen if we actually built a product that would do business bookkeeping, but with no accounting? We launched that product in 1992. It was called QuickBooks.

The QuickBooks story illustrates the real value of marketing. The real value of marketing isn't the advertising, the packaging, and all that stuff. It's the fundamental customer insight that matters. We blew all the marketing stuff. We used an unknown brand name. We had terrible ads–the worst we'd ever run. We paid for a huge color ad in the biggest trade journal in the world and we got just four responses. We had bugs in the product. We had terrible tech support. We had a terrible launch. This was a disaster.

We had terrible execution, but it didn't matter. The insight was much more important. And at the end of the first month, we outsold the market leader two to one. We went from launch to being twice as big as Coca Cola in one month, not because of the marketing launch, but because the fundamental customer insight was right. It was such a different view of the world that the accounting software companies, who were our competitors, didn't copy us for five years. Our insight was foreign to them. They thought we were wrong because they'd never bothered to really do probing interviews with the customers.

We became the market leader in the first month. Now QuickBooks is far larger– three to four times bigger–than our Quicken business. It's the largest business in the company, all because of a surprise and a fundamental new paradigm rooted in a customer insight.

Going Public

By 1993 we had two successful businesses that were both market leaders: Quicken and QuickBooks. We went public. That was *not* a major change for the company. Most financing events are, but if you're focused on financing events, you're focused on the wrong thing, because customers don't care about your financing.

It was hard to decide to go public because I liked being private. I liked us being able to do what we wanted to do. Even so, we'd already been running the company as if we were public–with quarterly reports and all that stuff–just so we had everything ready. Then we finally had a good business reason to go public, which was that we wanted to start making some acquisitions. It's easier to make acquisitions with a public currency than private. Anyway, because of how we already managed our internal reporting, going public was not a major change for us.

Whether you're public or private, you need to be thinking at least two to three years out. You also need to be planning on a quarterly basis. Markets reward that. They don't reward companies who have a good quarter or two and then go splat.

Microsoft, Round Two

So that brings us to the whole Microsoft episode. Talk about unintended consequences.

Our goal had been to protect our business and whip Microsoft, but it wound up making them want to buy us. We never expected that. It started in the spring of 1994. Microsoft had just settled its first go-around with the Department of Justice, and within days Bill e-mailed me, saying, "Hi, this *really is* Bill Gates, and I'd like to talk about our companies together." This was a stunner, because we were archrivals as competitors.

We talked on the phone and he said he really wanted to talk about acquiring our company. I said, "Well, I don't think that's a very good idea, but I'd be glad to talk about other ways we might collaborate." He said, "Well, I'll talk about those things, but I'm really interested in acquiring the company."

We met a few times. Initially, I was not very interested. In fact, he wrote a lengthy memo indicating the various arguments why it was a good idea for me to sell, but I thought they were bad ideas. Over time, however, there were certain people on our team who were very interested in the idea, because we had some problems we hadn't figured out how to solve.

One was that we wanted to take what we were doing global, but we were really operating in only three countries at that point–the U.S., the U.K., and Canada. We were a tiny company and Microsoft was in every country that mattered.

We also wanted to integrate a lot of what we were doing with the banking industry, but the banking industry likes working with big, established companies. We were a little pipsqueak. It looked like going with Microsoft would be a shortcut that could save us years in building the relationships with hundreds of banks worldwide to bring about part of our vision, which was automating finances and making it all happen with just a click.

Microsoft offered two great strengths that were two great weaknesses for us, and central to our vision of going global and automating finances. The heft Microsoft would lend, and Bill's continued interest, persuaded me that joining Microsoft was the right thing to do because it could help us get to where we wanted. Bill promised that we would run all the finance stuff, so Microsoft would close down their finance stuff, ship what's left of it to California, and we'd run it all. That was good.

In October of 1994 we agreed and announced the acquisition of Intuit by Microsoft. We had Bill down here at our headquarters. We did a satellite broadcast so that we could simultaneously release the news to our multiple facilities. There were gasps from the audience. My wife listened on the telephone in her car and she cried.

I'm not sure that I totally understand all the reasons for the shock and negativity. Bill had already announced that Microsoft was going to unload its product and sell to another company, and that we were the product he wanted to own. We were the people he wanted to lead this. I thought it was a great victory for us–a great victory against the company that had slain so many others.

I guess that entrepreneurial streak in our culture causes people to want to succeed on their own. I think having an enemy out there was a powerful motivation. But we had more than enough enemies. I thought the biggest enemy had always been our penetration of households. At that point, we probably had six million out of a hundred million households in the United States, of which probably thirty to thirty five million had PCs. So you could say we were only 18 percent of the way there. We had a lot of hills to go conquer.

I still can't put my finger on why there was a sense of sadness among my people. We worked hard over the intervening months to help them understand how great this was going to be and how it would help us achieve elements of our vision in areas where we had some real barriers.

Then, about eight months later, in April of 1995, the Department of Justice sued to block the merger after an investigation. The following month, in May of 1995, Microsoft decided to throw in the towel. The process of fighting the suit against the Department of Justice would take years and they thought that they might wind up losing and then wind up with nothing, because we were still remaining independent of Microsoft and our product was gaining share while their product was starting to really lose.

It was interesting. When we announced the breakup, which was on a Friday afternoon, cheers went up in some of our buildings, particularly in the building where the Quicken organization was going to be most affected and most benefited. Cheers went up when the deal was nixed, so that shows I wasn't very successful in convincing people how great this was going to be.

Initially, I was sad at the outcome because we'd really embraced the connection to Microsoft. Now, in hindsight, I feel a lot like…well…there's great truth in country music at times. Garth Brooks sings a song about a guy who, in high school, fell in love with a girl and prayed to God, "Oh, God, please make her fall in love with me, and I'll be happy ever after." But it was never so. Years later, he runs into this old flame at a high school reunion or something. By then, he's been married, has kids, all that, and he sees what his life could have been like. He says, "Thank God for unanswered prayers." That's how I feel about the Microsoft deal. Our prayers on that one weren't answered, but the world has turned out so much better than I could have expected.

It turns out that the best thing we could have done to make inroads with the banking industry was to have Microsoft want to buy us and then have it blocked. Suddenly, all the banks knew who we were and figured out that we must have something really important. I never figured that the failed deal would be a great strategy, but it turned out to work beautifully for us. It helped us solve the issue of how to get banks to pay attention to us. Now TurboTax is being distributed by 850 banks in the United States. That's an immense number. And mutual fund companies and brokers actively promote it. Some of them give it away for free to their customers. They pay us, but give it free to

their customers. They load it on their home page. They're running ads. We really caught the attention of banks because we have some great stuff. But before 1994, we did not have their attention.

Handing over the Reins

By late 1993, I'd concluded I was not the right guy to be the CEO of the company anymore. I'd been the CEO for a decade, but our company was suddenly getting a lot larger because we were acquiring ChipSoft, the leader in the tax software industry. That was an immediate growth of about two-thirds in the size of the company. Plus, we were now multidivisional.

I have a set of talents, but I've got a set of weaknesses as well. I could see that my weaknesses were holding back the company. We were not going to develop into being the best we could be when my weaknesses were constraining us. I didn't want that. It wasn't the best fit for me, for our executive team, or the company.

I wanted to find somebody who had a complementary set of skills so I wouldn't be holding us back. I'm more of an inventor and proselytizer and sometimes strategist. At this point, there was a lot more to run. We were a company of well over a thousand people. There were a lot of well-running operations in the company that were handling the people side of the business very well. They were providing the kind of care and attention that great people need, like coaching and training that strengthens and develops people's skills. I wanted to find someone who was gifted at developing an organization and its developing people.

We hired a big headhunter. He was a flop. Then John Dorr, one of our board members and a classmate from HBS, mentioned a guy named Bill Campbell who had worked in another of John's companies. He said, "I think Bill would be a great fit for you and your needs at Intuit." When I first talked to Bill it didn't click. Later I talked to him again and he started growing on me. We took a walk through Palo Alto and the neighborhood around his house one day. It started clicking more and more. Boy, it was one of the best decisions I ever made. Things became much better for me. Much better. Bill's talents offset mine beautifully. And it was much better for our team and our company. Why not the best?

But it was not as easy it sounds. I'm short-handing it. Emotionally it was hard. Intellectually it was easy, because I could see that we could do better with a better day-to-day leader than I could be. Of course, it's tough for the company founder to step aside–heartstrings and all that–but I have to say the decision was great. Hiring Bill was one of the best things I ever did. I wish I'd done it earlier.

The Internet

In 1995 we were a desktop software company. We made desktop software. We based our future on being able to connect up to banks through a proprietary communications

system because banks did not want to have anything to do with the Internet. So we built a proprietary bill-payment system.

We launched the proprietary system in fall of 1995. By summer of 1996, two things became clear. First, the Internet would make proprietary communications systems obsolete, no matter what the banks thought. Second, we were not very good at running the service business we had gotten into, that is, running this proprietary bill payment system. It became clear we needed to sell off the system before it became valueless, so by the end of 1996 we sold it to another company. And when we did, we sold off what we had been telling people was our future.

It also became clear that the Internet was going to have a major effect on finance because, ultimately, unlike books and cars, finance is all about bits. Financial products are not physical products. No one ever reads the insurance policy. Financial products are all about promises to pay. They're all things that are small bags of bits–a mutual fund, a bank loan, a stock purchase–they're all things that are basically electronic. Think of the manufacturing factory for a bank, an insurance company, or a mutual fund company. Their factory is their data center. They don't have a factory; it's the computers. This is where they make their product.

We were convinced that the Internet would have an immense effect on finance, if only people knew how to use the Internet for finance. Unfortunately, we had no Internet experience in the company, but we needed a new strategy and it needed to take us to a place dramatically different from where we were. We also needed to get there and get to market rapidly. Otherwise we feared it would be too late.

We ran a strategy project and made a major strategy shift. Sixty-five people from our company worked for four months figuring out all the things we should do. We hired a consulting company and had them teach us how to collect information, have lots of debates, and develop a new strategy. We debated things like: Where is the Internet going to be strong? Where is it going to be weak? What's going to work? What's not going to work? Where are the opportunities? What can we do?

We had huge debates and lots of dissension. Some of our people thought the Internet was the future but others said, "No, screw this Internet thing. Nobody's using it. Who knows if they ever will? On the other hand, our desktop software has millions of real customers with real needs right now, and they're paying us money. Why would we spend money on a pipe dream like the Internet when we could focus on our customers today?" That was just one example of the diversity and passionate support for different views.

I learned that it takes three things to move a successful company into an entirely new strategy and establish the company in an entirely new business. And you have to execute the change with enough vigor to win. The ranks of companies who have done this are pretty slim, by the way. Shifting strategy is a very hard thing to do. And the

more successful your business is, the more impossible it gets to change radically. In our case, we had 70 percent or better market share for each of our products and they were highly successful. We had a real challenge.

These are the three things it takes for a successful company to accomplish a shift in strategy:

• First, you need a compelling vision of how the world can be different and different *only* if you follow the new direction. There's got to be a real big upside, something really compelling, that you can get people excited about. Even a compelling vision will take you only part way. You'll still have a lot of people convinced that the current, or old, strategy is the right way.

• Second, you need direct involvement from the CEO. Only leadership from the top can make a major strategy change in the company happen. You cannot delegate to others. It's got to be led, defended, and protected by the people at the top. Pushed and led. Otherwise, the existing antibodies within the corporation will treat the new thing as an infection and try to kill it.

• Third, it really helps to have a crisis. If you don't have a crisis, invent one.

Fortunately, we didn't have to invent a crisis because in 1996, for the first time in our ten-year history, the Quicken business stopped growing and turned into a money loser. Initially, we thought the problems were executional, not strategic. But I took full advantage of the situation to say, "We don't know how much more legs we have in this business. We've got great legs in tax, we've got great legs in the QuickBooks business, but Quicken is the core–what the company was founded on– and we don't know why we're failing. We've got to do something different."

I really leaped upon the Quicken market challenge as the crisis we would use to motivate change. As I said, we were lucky that we didn't have to invent a crisis. It turns out the crisis was totally unrelated to the Internet. It also wasn't a problem in execution. We improved the execution the next year on six dimensions and had better results, but still not a dramatic change. We were shocked when the problem didn't go away by itself that first year. The crisis with Quicken had more to do with market saturation and the fact that we hadn't come up with compelling new features or functions that intrigued people. Eventually, we fixed that by making the product more compelling. The Quicken business has roughly doubled in size since then and is nicely profiting, so we turned the Quicken crisis around.

But as part of revitalizing the Quicken business, we also used the sense of crisis to develop a new Internet-based strategy and to motivate change. The first, core part of the strategy was to launch multiple experiments because we did not know what was going to work and we wanted to find out for ourselves. The second part of the strategy was to put the most emphasis on giving customers things they could not have before because those things became enabled for the first time by the Internet. Our feeling was that *that*

was where the Internet could provide its greatest value–by enabling customers to solve problems they could not solve before. For example, we did origination of home mortgages. You can't do that with desktop software because mortgage rates can change every fifteen minutes. You can only originate home loans when you have a ubiquitous communicating system that allows anyone to see the up-to-date rates.

So our primary focus was on features and functions people couldn't have before the Internet, like an automatically up-to-date portfolio that is always available from anywhere. Another example is that until the Internet came along to handle communications work, people didn't have a payroll working in an automated low cost electronic system. We weren't primarily focused on porting all our current products onto the Internet, just Quicken. Addressing other products would come in a later phase of the strategy.

The third part of the strategy was basic entrepreneurship. I found great entrepreneurs either through acquisition or within my company, and I spurred them to lead new efforts. I had decided, "We're not going to lead our people through a bureaucracy. We're going to lead them by finding and backing great entrepreneurs." Sometimes this part of the strategy worked; sometimes it didn't. One of our tenets is, "Try more things than you know are going to work. Don't wait until you're sure that it's going to work, because by then it's too late." So, for this third part of the strategy, we did a collection of things, including acquisitions. We acquired an insurance unit, a mutual fund unit and, later, mortgage and payroll units.

Acquisitions

The acquisitions were helpful in two ways. First, we acquired entrepreneurs in each case. Second, the acquisitions brought in a team who knew much more about the Internet than we did. In other words, the acquisitions were a way to rapidly move up the learning curve. The key thing about acquisitions is to make them succeed by keeping the people that are important to making the business work. We have a mixed track record in handling acquisitions, but in general, we've been pretty successful. In fact, the bigger the acquisition, the more successful we've been, which is the reverse of what usually happens.

Our biggest acquisitions have all been rollicking successes and are now major, profitable units within our company. In 1993, we acquired the ChipSoft Company, which was the leader in tax software. Today the largest profit contributor at Intuit is our tax operation, which, essentially, we acquired when we bought ChipSoft. We also succeeded at keeping most of the management team. Today, seven years later, a lot of our top executives are ex-ChipSoft executives. Lacerte, which is another tax company that we bought in 1998, was an even larger acquisition and is the single highest profit-producing division of the whole company.

We also bought a mortgage origination company in Michigan in the beginning of 2000. That was difficult for a while because we bought them and then shut down their offices so we could focus solely on Internet mortgage origination. Today we are the largest mortgage originator on the Net, and that business remains profitable while it's growing. I don't believe any other competing, stand-alone mortgage originator on the Web is profitable. I think we're the only one.

One of our first Internet investments was to acquire a company with an insurance marketplace that brings together buyers and insurance companies. The buyers can pick the best deal offered by the insurance companies. We thought this business clearly addressed a problem that needed to be solved. Most people don't shop for their insurance–auto insurance, especially–yet there's generally enough competition that if you do shop for your auto insurance, you get about a 43 percent reduction in your auto insurance price. That's big. You can save hundreds of dollars a year that way.

Well, we worked at this insurance marketplace from late 1995 until late 2000, but we could never make the business grow appreciably. We were miles away from making it profitable, so we sold the business to another company that specializes in just insurance Web sites. We now own 20 percent of that other company, but we're no longer actively managing it because we could not make it work to our own satisfaction.

So everything we tried did not succeed. We also tried things in the bill presentment area that did not succeed. We have a good set of failures as well as successes.

Difficult Decisions

I'd say the hardest decisions were about where to place our bets. Which of the many finance businesses on the Internet were the right ones for us to enter? Fifty different choices. It's very hard to estimate what will be a great business in three to five years. Once you actually have a track record in a business and the track record is not good, it's easy to make a decision. That's what happened when we tried the online insurance marketplace business. We should have sold it eighteen months earlier, but there was organizational commitment to keep trying. Our team is very dedicated and that's great. I love that. But in the end, we had a track record to help us make a decision, so it was not very hard.

The hardest decision is always what bets to place in advance of the market being there. I think there are no secrets. It's an art. I think a fundamental understanding of microeconomics–the kind of central strategy stuff that you learn at a company and that we teach here–is very important.

I also think that a fundamental understanding of network effects is very important. Network effects were not a factor in any of our businesses before the Internet. But now, as you can see from eBay, from AOL chat, from the Microsoft operating system business, network effects are a fundamental characteristic of certain technology businesses. When network effects are possible, it is the most important thing in the

world to follow, to understand, and to make happen. We've done a special study of network effects here and we teach our people to ask: What is network effect? What are the specific types of network effects that are highly valuable? How do you recognize them? What are the examples? What are the characteristics it takes to produce one?

So understanding microeconomics and network effects are some of the fundamental concepts that are helpful for predicting which markets will be great to enter and which will not.

Summary Reflections

Success is spending your time doing what you love. People who are great and happy get to do that. People who don't get to do that…oh, what a sadness that is.

Beyond that, we have a phrase around here: "Family first." There's really nothing where the company should come ahead of your family. Family first. Meet your kids. Meet your spouse. Visit your parents. Family first. That's the most important thing. It's the classic thing that not even very successful entrepreneurs say on their deathbeds, "Gosh, I wish I'd spent more time in the office. I wish I'd really worked on that memo more." What they wish they'd done is spent more time with their kids and their family. Family first.

Another notion I've promoted at Intuit was the root of a talk that Ben Shapiro gave at the end of the class I took from him. Ben recently retired from HBS. He's one of the most brilliant people I've ever had a chance to know. At the end of our sales management class, he gave a lecture on the last day–probably the only lecture he gave– having nothing to do with sales management. Instead it was about doing it right. He says, "Of all people, *you* can choose. You'll have lots of opportunities, lots of choices. You don't have to settle for something that's not right, not ethical, not done for the right reasons. Instead, choose to do it right."

I think what he said has a lot to do with building a great company. I don't think much of entrepreneurs who just invent a flash in the pan, or something that's hot this year and self-extinguishes the next. The entrepreneurship that matters changes the world and produces something enduring. The business created is not only a success in the early days, it also produces enduring value for customers, shareholders and, especially, to the people in the company.

To succeed for generations, to be like Procter & Gamble, which has been a success for 150 years, takes a company that is really rooted in the values that mark its culture because nothing else lasts as long. Products become obsolete. The initial products and executives go away. The initial customers go away. The initial brands usually change. The only things that endure are the culture and values of the company. Creating something that's valuable and enduring is really wonderful. It happens when you build the right values from the beginning.

Once there was a magazine that was doing a story on how small companies have to cut the corners, ethically, to compete against the big companies. The premise was that small companies feel they have to shade the truth and fib to customers and all that because it's hard competing with the big companies. The magazine asked me to comment on this premise, and I said, "You won't like my answer. It's not going to help you with your article because I totally disagree. I'm sorry, but I just believe you're wrong. I can't help you with your article." This was back when we were a tiny little company, scraping for every piece of press we could get, so I was sad not to be included. But it's what I believed.

The magazine called back three to five days later and said, "You now, that was such a good thought, we'd like to feature you in a sidebar to this article." At Stanford Business School, they still pass out this article because it talks about how I believe that if you build a company with a culture where people think that chiseling is how you win, that's like building a house on quicksand.

You want to teach people that you win in business by doing things right, by treating customers right, by being honest and straight. That's how you win. It's an important component. It's our values. Integrity comes first. If you teach a company to win the right way and people grow in that culture, they don't grow by chiseling and cheating. And the company will create enduring value.