Why millennials gravitate to new brands in online investing

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Abstract

Companies like Fidelity, eTrade, Charles Schwab, Saxo Bank and Vanguard have dominated the do it yourself online trading platforms since the mid-1990s. What made these platforms so popular is twofold: lower cost of commissions and accessibility. In recent years, there has been an influx of new competitors into this space. In particular, millennial traders are gravitating to more modern platforms on the market like Robinhood, Acorns and Stash, which provide even lower commissions, more functionality and interactivity. As accessibility, ease and no-fee stock trading are no longer differentiators, but rather barriers to entry, brands need to move beyond functionality. This paper examines how brands need to understand and research what makes a millennial loyal to a financial institution.

Keywords

millennials, investing, trading platforms, advertising, emotional branding, fintech

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INTRODUCTION

Before the internet, trading stocks without a financial adviser was a challenging endeavour. Investing research was often conducted at the library. To trade stocks, investors would need to call a broker. This tedious process was also not cheap — commissions could be over 0.25 per cent per dollar of share.[1]

The internet has revolutionised the way consumers invest. Since the 1990s, the internet has put a considerable amount of power into the consumers' hands when it comes to trading. It provides a large amount of information about a company's finances that can be updated instantaneously. The internet also allows consumers to create their online accounts and trade without any assistance from another person. Companies like Fidelity, eTrade, Charles Schwab, Saxo Bank and Vanguard have dominated the do it yourself (DIY) online trading platforms since the mid-1990s. DIY investing allowed consumers to no longer rely on a financial adviser, who often required hefty fees and a long-term commitment.[2] As a result, more people are actively trading than ever before. Share volume on the New York Stock Exchange is at its highest. Also, commissions for these trades are at their lowest.[3]

What made these platforms so popular is twofold: lower cost of commissions and accessibility. As a result, online trading platforms used these attributes to help support their unique selling proposition. Low fees and ease became the central marketing message for most DIY platforms, given that this was a new concept. For example, in 2009, eTrade's commercials introduced various babies discussing investing to demonstrate that anyone can trade with its platform regardless of their investing experience.[4] The issue with these benefits is that they are functional, and as a result, can be duplicated by other players. Without an emotional connection to a brand, new investors will look for the platform with the best functionality and price per trade.

In the last ten years, the financial services industry has seen the rise of technology companies joining this sector to improve the processes of traditional financial methods; these companies are dubbed 'fintech'. As a result, the ease access and cost of commissions has no longer ensured the dominance for traditional players like eTrade. In recent years, new fintech companies have created competitors in this space. In particular, millennial traders are gravitating to more modern platforms on the market like Robinhood, Acorns and Stash, which offer even lower commissions, more functionality and interactivity. These platforms duplicated the benefits of online trading platforms like Saxo Bank and eTrade and made them functionally better. As a result, the features that initially differentiated them in the 1990s are no longer unique.

The rise of this type of fintech company has contributed to a change in the customer experience and expectations when it comes to investing online. For example, Robinhood, which launched just six years ago, became popular because it was the first online investing platform that offered commission-free trading. The platform also provided a simple user experience. Today, the site has over six million accounts and a business valuation of US$7.6bn.[5] Another new and popular online investing platform is Acorns. The app-based company, which was founded in 2013, allows users to save money and invest. Today, it has a business valuation of US$860m and 3.4 million users.[6]

eToro, an online platform that trades stocks, cryptocurrencies and exchange-traded funds with popularity in Spain, Italy and much of Europe, entered the United States in 2019. The platform focused on providing the latest technology and functionality to allow investors to view and copy top traders' portfolios and a more comprehensive news feed that includes social media.[7]

Guy Hirsch, the US managing director of eToro, states, 'At eToro, we see that the millennial investor seeks mobile-first platforms, instant gratification, and connected experience. That connectedness extends the sense of belonging that they feel in the platforms from where they arrived to eToro and to where they'll be browsing after leaving our app. If it feels familiar, inviting and enjoyable, then we'll earn their engagement even if this is about a serious topic such as investing. Having said that, the industry still has a long way to go in understanding how to serve the millennial investor'.[8]

Millennials are driving the demand for this new type of fintech platform. Why? The millennial mindset is very different from that of prior generations. This generation is more demanding for the latest technology; they also have a higher distrust of the corporate establishment.

Brands such as TD Ameritrade and Charles Schwab do not hold the clout they do with older generations. Unlike their predecessors, millennials grew up with technologies such as social media and smartphones. The millennials' experiences with technology have shaped their current relationship and demands that they want with brands. For comparison, when Baby Boomers were growing up, the handheld calculator was a significant invention in the 1960s. For Generation X, the personal computer was starting to become popular in the 1980s.

For millennials, technology is a part of their lives, and they do not remember a time when it was not available. When Facebook was created in 2004, the oldest millennial was just 22 years old, and the youngest was eight years old; therefore, it is not surprising that 86 per cent of this cohort uses social media. Significantly, fewer Gen Xers use this medium (75 per cent).[9] When growing up, the median age for a parent providing their child a mobile phone was just 12 years.[10] As a result, this generation adopts technologies quicker than its predecessors, and when it comes to investing, they expect the online functionality to meet their technology standards. Given that DIY trading became readily available before millennials became adults, almost a third of this generation started investing before turning 21 years old.[11]

With the combination of technology and social media, it is easy for younger generations to continually be online to search for all types of information. The word FOMO (fear of missing out) was popularised in 2013 to describe this generation's attitude towards information. This generation is continuously gathering as much information as possible because they worry that they might miss out on what their contemporaries are doing. They are regularly reading other people's status to see what they are doing and 'bragging about' (eg from vacation posts, eating at restaurants to their political viewpoints).[12] Figure 1 shows the frequency of "FOMO" entered as a search term in Google. The chart shows how popularity has grown since 2013.

Being constantly online and accessing readily available technology leads to a generation that expects an investing platform to have the latest technology. Brands that

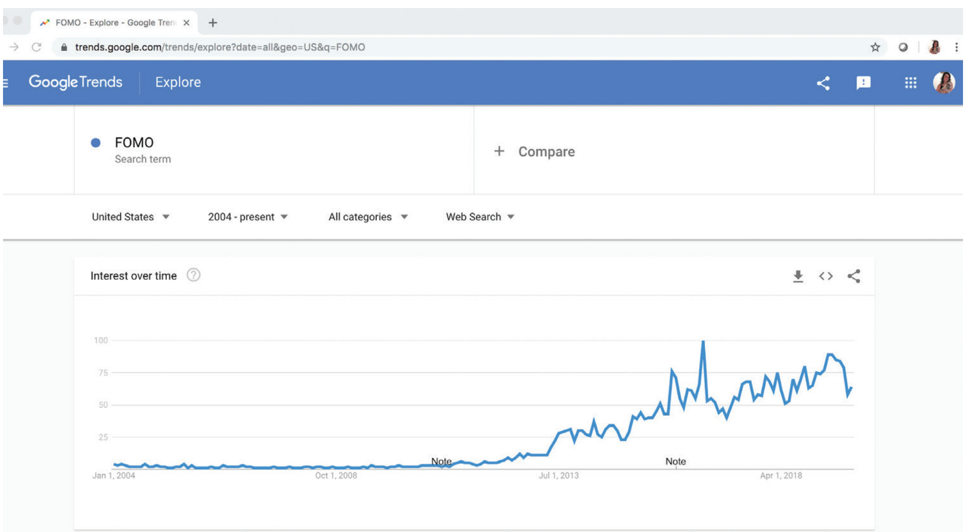

Figure 1 Frequency of people searching "FOMO" in Google from 2004 to 2020.

are not nimble and do not adapt quickly to the newest features, technologies and currencies may be seen as laggards among millennials.

This cohort also grew up in the age of the Great Recession; many graduated from college during this period. In 2012, over half of recent college graduates were unemployed and underemployed due to the economic conditions.[13] The instability of the Great Recession has led to lower real incomes and accumulation of assets compared with that of previous generations at their age.[14] As a result, millennials have negative perceptions of traditional commercial enterprises. A quarter do not trust corporate executives, and only 37 per cent believe that business leaders are making a positive impact.[15] Brands need to understand how this experience influences millennials' preferences. Companies that position themselves as 'not' the bigger and more established institute may garner more intrigue from this audience.

Investment goals are also different compared with those of previous generations. Baby Boomers' and Generation X's main financial goals when they were 27 years old were to purchase a home and pay off bills; however, for millennials at that age who invest, objectives are different. They want first to save to live comfortably in retirement, and second, they want to have money to travel. Purchasing a home is not a priority for this age group; they are much more likely to prefer experiences like traveling.[16]

The millennial investor is hungry for the newest and latest features when it comes to fintech. Compared with Gen Xers and Baby Boomers, they are more than twice as likely to be interested in investing platforms that offer a mobile verification, gamification to learn about investing, computer-generated recommendation, software that enables tracking of investments and incorporates social media.[17]

As a result of all these factors, millennials are looking at alternative ways to invest their money. Traditional methods of trading are not necessarily the only way. Compared with Generation X, millennials are three times more likely to invest in cryptocurrency. Also, almost a tenth state that it is their preferred asset to invest in long term.[18] They want the newest technologies and are more willing to try newer investment methods. Online traders who were born in 1980 or later are 8 per cent more likely to own cryptocurrency.[19] Approximately half of the millennials who trade online have more trust in crypto exchanges than the stock market.[20]

By 2018, traditional DIY investment platforms began to see the newer fintech platforms impacting market share. During this period, Robinhood surpassed its traditional competitors. Robinhood had over 4 million investors registered on the platform, beating out traditional DIY sites like eTrade, which only had 3.7 million users.[21] Brands such as Charles Schwab and eTrade have felt the impact of Robinhood's vast and quick growth. A key reason for Robinhood's success is that the brand provided commission-free trading. The traditional DIY platforms offered lower commissions compared with that of a broker. In October 2019, Charles Schwab, eTrade and TDAmeritrade replicated Robinhood's model by going commission free.[22] As a result, trading online has become a simple price play.

The traditional DIY platforms are also late in the game regarding crypto trading. Initially thought of as a fad, today, a fifth of online traders are investing in this currency.[23] Many of the newer platforms, such as Coinbase and eToro, have capabilities to trade and hold several types of cryptocurrencies. Only now are traditional platforms permitting crypto trades, and often, the selection of coins is limited. As a result, these big firms are simply duplicating features resulting in being a follower of these trends versus being part of them. If DIY investing platforms are looking to attract millennials, they need to stay ahead of the curve when it comes to the nontraditional asset. As with new technologies, millennials are looking for options that differ from their predecessors.

Those who invest in new currencies are most likely to not see traditional platforms as innovative, given their limitations. As tokenisation and other unique assets become a reality, conventional investing platforms will fall further behind if they follow other fintech companies. The cautious approach in the long term may hurt attracting the millennial investor.

As accessibility, ease and no-fee stock trading are no longer differentiators, but rather barriers to entry, brands need to move beyond functionality. Traditional DIY investment platforms and fintech players need to position themselves beyond cost and ease. The race to the best functionality and offerings has its limitations. Eventually, the race for the top investment technologies, new financial offerings and free commissions will become an even level field.

Still today, many of these platforms have not yet risen to the occasion regarding differentiation. Advertising by financial investing platforms remains focused on accessibility, ease and cost. For example, the eTrade current advertising campaign still promotes ease; however, the baby in the commercials have now been replaced by canines. The 2019 commercial states, 'Set your investing in cruise control. And make eTrade first mate'.[24]

Now that larger DIY trading platforms have improved functionality, ease of use and are also trade commission free, there is not much of a difference between platforms for millennials. Robinhood, who once was seen as an innovator, has now become just a standard trading platform. In an analysis of paid search in Q3, 2019, Robinhood's messaging focused on ease and cost. The paid search included messaging such as 'No Manual Required' and 'Trade Crypto Commission-Free'.[25] Can Robinhood remain steps ahead of the competition when it comes to functionality and cost, or will the platform create an emotional connection with its investors? If neither of these scenarios occurs, the platform may no longer gain the same traction it has seen in the past.

Brands need to understand and research what makes a millennial loyal to a financial institution. As outlined, companies can no longer solely focus on accessibility and low-cost trades. Furthermore, it is not realistic to consistently invent new ways of investing (eg technology and alternative to investments). That said, traditional players cannot stay on the sidelines when it comes to more original disruptors in the marketplace, as millennials seek convenience above all else. How can they provide benefits beyond the latest technology and commission-free trade? This means that this sector needs to move beyond a function unique selling point to more of an emotional difference.

CONCLUSION

As older generations begin to divest, millennials are a key target that DIY investing platforms need to attract. The generation makes up approximately a quarter of the world's population, outnumbering the Baby Boomers almost 30 years ago.[26] Millennials are a key target to market to remain a leading investing platform. The traditional online platforms need branding that focuses beyond functionality and price to remain competitive. It is essential to evaluate millennials' experiences growing up to attract a more emotional connection.

As marketers are looking at the latest generations, such as Generation Z and Alpha, it is important not to ignore this core population. Even though millennials have been a trending buzzword since 2013, the oldest millennial is only 39 years old[27]; therefore, they are not retiring for at least 26 years. These financial companies must conduct market research consistently to stay ahead of the trends and truly understand the needs of millennials (beyond price and functionality).

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