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Friedrich Bruck

Robinhood

## Introduction

Robinhood is a public trading financial technology (Fintech) firm. It was founded in 2013 in the Silicon Valley municipality of Menlo Park, California. Robinhood allows users to trade securities like stocks, stock options, and exchange-traded funds (ETFs). Its entrepreneurs Baiju Bhatt and Vladimir Tenev Bhatt realized that major Wall Street brokerage would pay almost nothing to execute trades while charging commission for every purchase and sell.

Most Robinhood revenues come through its compensation known as “payment for order flow” (PFOF), which is paid by Market Makers to incentivize Robinhood to send traders to them. It is stated that Robinhood has generated between 60-80 percent of revenue through PFOFs. The remainder would be earned from loan interest and subscriptions.

Robinhood has led the rise of a novel investing culture driven by online communities. The firm primarily targets retail investors, particularly younger and entry-level users, by emphasizing accessibility, ease of use, and low barriers to market participation. In 2024, Robinhood launched a version of its application in the United Kingdom, bringing features of its U.S. platform to an international market, including access to margin trading.

## SWOT

**Strengths:** Robinhood shows their flexibility to change because they have incorporated new ways to use AI-based tools, Robinhood Cortex, their AI model, produces information about market conditions and provides usage of data science in real-time. These developments demonstrate that Robinhood maintains its capacity for innovating by utilizing technology-based innovations, thereby allowing them to compete in the changing environment of Fintech. Then in 2023, Robinhood established a foothold in the United Kingdom by launching its Market Development strategy. Allowing Robinhood to expand beyond North America by providing access to the US-listed stocks and ADRs without having to pay a foreign exchange fee. Additionally, the modern and accessible brand of Robinhood has built great equity by employing a consumer-involvement methodology, creating a platform for young investors to invest; increasing the number of Funded Accounts and Assets on the platform.

**Weakness:** Robinhood's weakness actually lies in the simplicity of their product. When compared to full-service financial platforms, Robinhood's ability to retain users with complex financial needs is very limited. Their brokerage accounts, IRA's and cash management services are designed for self-directed trading and lack the advisory, planning tools, and portfolio management features provided by competitors. This results in Robinhood acting more as a transactional platform than a wealth management solution, which limits its appeal to long-term and higher-net-worth investors. Robinhood's reliance on transaction-based revenue from payment for order flow limits flexibility within the marketing mix and exposes the firm to declines in revenue when trading activity is low. Additionally, it creates potential conflicts of interest between revenue generation and advantageous order pricing for users. Combined with ongoing lack of brand trust/ reliability due to past platform disruptions, the firm is subject to a lot of regulatory and reputational risk, differentiating it negatively from established competitors.

**Opportunities:** Robinhood is well positioned to take advantage of the rise of retail investing, as even more young investors gravitate towards the opportunity the market represents, and the convenience of Robinhood. This growth in inexperienced traders is an avenue for long-term engagement through accessible investing guidance and an intuitive platform while further lowering the barrier to market participation. To add to this, the growing availability and popularity of fractional share investing aligns with Robinhood's platform, further enabling entry-level investors to participate in a previously less accessible market. The firm can leverage this trend to continue to attract young, lower-net-worth investors that may find traditional brokers less accessible. Additionally, the adoption of cryptocurrencies offers a diversified revenue stream beyond stock and options trading, while appealing to the same target, digitally focused users. Meanwhile, as traditional financial institutions increase their stakes in retail-oriented fintech platforms, Robinhood has the opportunity to expand its offerings and pursue strategic partnerships to enhance the firm past its current self-directed trading orientation.

**Threats:** Robinhood once held an advantage over the market because it offered commission-free trades. As new brokerages have entered the market, the commission-free advantage has now become common among all brokerages in the industry. The rise of cryptocurrency trading companies is further increasing competitive pressures, as many traders now prefer to use a platform that specializes in digital assets. As these companies expand their

offerings and try to attract customers with low prices and/or the best trading experience, Robinhood will continue to face pressure on pricing and margins. Moreover, Robinhood operates in a highly regulated industry, and any change in regulation can ultimately affect revenue. Additionally, Robinhood may incur expenses for additional compliance due to increasing regulation changes, which would also have a negative effect on the company's profits and its brand image.

### **Strategic Insights:**

Robinhood should continue to cater to their user base and attract new demographics to their app. The company could create more features aimed at first-time investors, like tutorials or guides, and notifications aimed at informing investors. These tools could create new opportunities by making the platform even more approachable for its target market while increasing customer retention.

However, the environment that Robinhood operates in comes with flaws that threaten Robinhood's business model. Traders in the current environment are starting to look for companies that specialize in trading special assets such as Cryptocurrency. While this does threaten Robinhood, an even bigger threat to Robinhood would be the regulations that affect the market. Robinhood could incur extra expenses just to continue operating or may get fined if they violate any regulations. Additionally, this regulation could affect Robinhood's revenue generation from payment for order flow, which could reduce profits if not managed creatively or without diversification.

The best opportunity for Robinhood to seize is to develop and cater towards young and inexperienced investors. On this note, Robinhood has incorporated the use of AI to help investors, a tool that most of Robinhood's target market is familiar with. If they continue to develop and perfect their AI models, it may make the difference for users who need help analyzing the market or making investing decisions. By combining AI guidance with its easy to use interface, Robinhood can provide greater value to their customers, helping them feel more confident in their investments and reducing mistakes that could harm them or the company financially, ensuring Robinhood's reputation and revenue is protected.

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