

Tea and sympathy

Online services for the mass affluent was the craze of 2001. But it forgot that wealthy clients want more attention than a computer can provide. By **Justin Basini**.

DESPITE THE HYPE and furore of the past few years, and the huge expected growth in the market, retail online brokers really are a passive lot. If you read the press cuttings and review the developments the patterns are simple. When the markets are up everything is great; when the markets are down everything is a disaster. No surprise then, that in these bearish times most retail online brokers are playing a waiting game: waiting for the time when customer confidence returns and people start trading again. It's as if the race has been stopped at the halfway stage, because the track has run out and construction hasn't started on the rest of it!

Where is the innovation? Where is the real thinking about the needs that people have now, in these difficult times? The broking business needs to proactively anticipate and exceed the needs of their customers. It needs to think less about the downside and more about the opportunity which difficult times present. Customers are worried, and where there is fear there are great opportunities for businesses to resolve these worries and make money in the process.

There is a massive opportunity to grow the market by thinking differently and positively. In the UK the market is especially immature, with only 300,000 people trading online, while 12 million own shares. But the market for retail broking in Europe is also over-served for the numbers of investors. In the UK, at the height of the hype, there were 40 online brokers all competing for the 300,000 investors!

The market downturn will lead to a beneficial consolidation, with some players going out of business and others being involved in M&A. Even in Germany, the biggest market in Europe, the leading online broker, Consors, is in difficulty and up for sale. Consolidation, after the initial pain, will be good for all. Customers will get a better deal and the economics of the brokerage business will improve.

The winners will fall into two camps. The first group will be those that manage to use economies of scale as a competitive advantage, and hence aggregate order-flow from different services or from different markets. The aggregation of order-flow gives benefits because then the large fixed-cost investments needed to establish and maintain the required infrastructure can be justified by the volume of trades going through the system.

The second camp will be those that manage to acquire significant assets from the wealthy and mass affluent. These wealth management services gain advantage through the significant economic benefits, which assets under management directly provide.

The order-flow aggregators will probably end up being part of the big European investment banks. From an investment banking point of view getting access to retail order-flow is useful additional volume going down already-established and reliable infrastructure. The economics of servicing and developing this infrastructure look much better the more you can utilize the systems.

The wealth managers have a harder job. Wealthy individuals, including the mass affluent, want personal service which is, of course, expensive to provide. Today, the untapped asset pool is held within the savings accounts and investment portfolios of wealthy individuals. Create, Inscape and MLHSBC were new businesses set up to attract this type of money.

While financial services firms were launching these new brands, the industry fooled itself into believing that assets could be acquired by channels such as the telephone and internet, with the advantage that these were cheap to run. Seemingly a perfect business model. But people failed to understand that if you have money to invest and are, or aspire to be, wealthy, then you want to be treated like an important person, taken for lunch or at least share a cup of tea with an advisor.

Wealth management services must get the right blend of channels, be they remote - such as telephone or Internet - or direct with an advisor, while maintaining a manageable cost-base. Those services that manage to crack this not inconsiderable challenge will better meet the needs of the mass affluent, acquire their assets and create a viable business. The key to meeting the challenge will be to understand deeply the needs of customers and proactively meet these needs.

To remain profitable while providing more expensive direct channels, the wealth managers will most likely have to co-operate with the flow aggregators and benefit from the associated lower transaction costs. This co-operation will create businesses that leverage economies of scale and meet customer needs. Growing any market requires deep customer understanding and a passion for serving those needs better than competitors, not just a reliance on any upturn which is inevitably, just around the corner. ■

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