WRITTEN CONSULTING CASE ASSIGNMENT

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TO: Simon Lejeune, Senior Director, Acquisition, Wealthsimple (WS)

FROM: Naunidh Singh

DATE: June 27, 2024

SUBJECT: Wealth simple case analysis and recommendation.

**Recommendation**: Leverage Wealthsimple's Cash App to Offer Advanced Trading Courses and TMX Trading Software, Enhancing Gen Z Engagement and Financial Literacy**.**

Wealthsimple offers a range of products, but Generation Z requires a risk-free environment to encourage investment. According to a McKinsey survey, Gen Z is more risk-averse when it comes to investing (Is Gen Z up for a Little Game of Risk?, n.d.). They start investing young and need an experience that works, given their short attention span (Why Gen Z Is Native Fintech and How It Behaves on These Platforms, n.d.). This presents an opportunity for Wealthsimple to engage Generation Z by leveraging its Cash app and offering advanced trading courses in short video lectures. These courses will incur minimal additional costs as Wealthsimple is already focused on educational content for Gen Z. Integrated with the TMX Trading software, which Wealthsimple highly recommends (Best Stock Market Simulators in Canada | Wealthsimple, n.d.), this setup will provide a superior risk-free environment for users to practice trading. Upon opening a Cash account, students will gain free access to these resources. Competitors like Interactive Brokers and WeBull Trading have proven this strategy successful (refer to Exhibit A for a company valuation analysis). This approach provides valuable financial education and ensures the lowest customer acquisition cost (CAC) possible (refer to Exhibit B for objectives met).

**Decision Criteria:**

1. Enhancing Gen Z financial literacy
2. Reduced customer acquisition cost
3. Create large engagement that acquires students for a positive payback.

**Enhancing Gen Z Financial Literacy with Online Courses and TMX Paper Trading Software.**

According to McKinsey, thousands of digital creators claim to help Gen Z make better financial decisions. However, many of these "finfluencers" are paid to promote financial services that may not work for everyone, leading to misinformation and presents an opportunity for companies to provide trusted financial content(*Gen Z Personal Finance*, n.d.). Offering advanced trading courses, coupled with TMX Trading software, will address this need. The integrated TMX Trading software allows users to practice trading in a risk-free environment, bridging the gap between theoretical knowledge and real-world application. This setup enables traders to try out new features, order types, and test trading strategies in a simulated environment, fostering a deeper understanding and capability in financial decision-making.

**Leveraging the Cash App to Reduce Customer Acquisition Costs.**

Based on the SWOT analysis, Wealthsimple's established user base and low CAC on the Cash app present a significant advantage (refer to Exhibit C for SWOT analysis). By leveraging the Cash app, students who open a Cash account will gain access to valuable resources, including advanced trading courses and TMX Trading software. This integration combines low customer acquisition costs (CAC) with the added value of educational tools, enhancing conversion rates and making the acquisition process more efficient and cost-effective. Identifying the Cash app as the optimal starting point for new users further lowers CAC (refer to Exhibit D for a detailed CAC Comparison and Explanation).

**Offering Advanced Trading Courses and TMX Trading Software to Attract Gen Z in Large Numbers for a Positive Payback.**

A recent study suggests that Generation Z tends to avoid choices that involve higher risks, often opting for lower-risk alternatives(Iswari & Budiyono, 2024). Additionally, according to Wealthsimple, 43% of Gen Z are afraid they won't make enough money. By providing a risk-free environment, Wealthsimple can attract Generation Z in large numbers. Leveraging the Cash App to offer advanced trading courses and TMX Trading software can significantly increase engagement by providing value-added services that cater to both novice and experienced users. These courses, combined with the practical experience offered by TMX Trading software, will help alleviate financial anxieties by equipping users with the knowledge and tools they need to make informed decisions. This approach encourages users to stay within the Wealthsimple ecosystem and drives the adoption of multiple Wealthsimple products such as Trade, Invest, and Crypto. Engaged users are more likely to explore and utilize additional Wealthsimple offerings, increasing overall product usage and ensuring a positive payback (refer to Exhibit F, for an estimation of positive payback in terms of profits).

**Implementation plan**

The implementation of the proposed recommendation will be carried out in three phases. In the initial phase, the project scope and objectives will be defined, a project team will be formed, a detailed project plan will be developed, and necessary approvals and budget will be secured. The medium-term phase will focus on designing and developing the courses and software, launching a pilot program in select universities, developing a marketing strategy, and collecting and analyzing pilot feedback. In the long-term phase, the program will be rolled out nationwide, continuous monitoring and support will be provided, content and software will be regularly evaluated and updated, and efforts will be made to promote cross-selling of Wealthsimple products, ensuring a smooth and efficient implementation, leading to enhanced engagement with Generation Z and a positive payback (refer to Exhibit G for detailed Gantt chart).

**Risks and Contingency Plan**

Our recommendation involves four major risks, thoroughly discussed in Exhibit H. The first is the potential failure of the partnership with TMX. If this occurs, Wealthsimple can partner with other reputable trading software providers to ensure service continuity. The second risk is the poor quality of advanced trading courses, as contingency if issues persist, developing and maintaining a small in-house team to improve and update course content is a contingency plan. The third risk involves the poor quality of paper trading software, especially since the existing TMX trading software does not reflect real-time data. Necessary enhancements should be made and tested continually. Lastly, low user adoption and engagement is a risk. If engagement remains low, utilizing pilot testing feedback and Wealthsimple’s existing referral programs can serve as contingencies.

Exhibit A (Wealth simple and competitors, value analysis) (*PitchBook Profile - Wealthsimple*, n.d.)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Wealthsimple** | **Interactive Brokers** | **Webull** |
| **Description** | Developer of a financial advisory and trading platform intended to assist users in achieving financial freedom by providing products and advice that are accessible and affordable. | Operator of a brokerage firm offering online trading solutions for traders, investors and advisors, with direct global access to stocks, options, futures, currencies, bonds and funds. | Developer of financial analytics and investment platform committed to synergizing technology with finance. |
| **Primary Industry** | Brokerage | Brokerage | Financial Software |
| **HQ Location** | Toronto, Canada | Greenwich, CT | Saint Petersburg, FL |
| **Employees** | 1,000 | 2022 | 2,951 | 2024 | 846 | 2024 |
| **Total Raised** | $875.63M | $1.20B | $351.68M |
| **Post Valuation** | $4.00B | 03-May-2021 | $1.21B ᴱ | 04-May-2007 | $3.60B | 17-Feb-2021 |

Exhibit B (Recommendation is complete)

|  |  |
| --- | --- |
| **MEETING OBJECTIVES FOR W.S.** | |
| FOCUSES GENZ | YES |
| HELPS GEN Z BETTER USE FINANCIAL TOOLS | YES |
| DEIFFERENTIATES W.S. | YES |
| LET'S EVERYONE IN | YES |
| EASY TO USE | YES |
| COST LESS | YES |
| TALK LIKE HUMAN | YES |
| TRANSPARENT | YES |
| CREATES TRUST | YES |
| LOCK IN CUSTOMERS | YES |
| POSITIVE PAYBACK | YES |
| ENHANCES CROSS SELLING OPPORTUNITIES | YES |
| LOW CAC | YES |
| COST EFFICIENT FOR W.S. AND USERS | YES |

Exhibit C (SWOT)

|  |  |  |  |
| --- | --- | --- | --- |
| **Strengths** | **Weaknesses** | **Opportunities** | **Threats** |
| **Established Brand and User-Base**  **Comprehensive Product Offering**  **User-Friendly Platform**  **Low Customer Acquisition cost through cash app** | **High Dependence on ICT Suppliers**  **Limited Differentiation** | **Growing Fintech Market**:  **Cross-Selling Potential**: | **Intense Competitive Rivalry**  **Regulatory Challenges**  **Risk of Substitution**: |

Exhibit D (Customer Acquisition Cost Comparison)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| |  | | --- | | **Acquisition Channel** |  |  | | --- | |  | | **Current CAC (per client)** | | **Expected CAC** | | --- |  |  | | --- | |  | |
| |  | | --- | | Paid Digital Channels |  |  | | --- | |  | | $200 | $100 (Advanced courses and TMX Trading software reduce the need for costly marketing campaigns.) |
| |  | | --- | | Referrals |  |  | | --- | |  | | $50 | |  | | --- | |  |   $30 (Advanced courses and TMX Trading software reduce the need for costly marketing campaigns). |
| |  | | --- | | On-the-Ground Strategies |  |  | | --- | |  | | $20 | $15(On-ground events featuring advanced courses and TMX Trading software lower client acquisition costs) |
| |  | | --- | | Organic Customer Acquisition |  |  | | --- | |  | | $0 | $0 |
| |  | | --- | | Blended Cost |  |  | | --- | |  | | $125 | $60(Blended cost drops) |

Exhibit E (Five Forces)

|  |  |
| --- | --- |
| **FORCE** | **Impact on Wealthsimple** |
| Supplier power | **High**: fintechs and banks depend heavily on ICT infrastructure provided by a few large suppliers like IBM or Microsoft(*Canada - Retail Savings & Investments*, n.d.). |
| Threat of new entrants | **Low**: High capital requirements, strong brand loyalty, and extensive infrastructure and the need for economies of scale and high trust levels further reduces the threat of new entrants(*Canada - Retail Savings & Investments*, n.d.). |
| Threat ofsubstitues | **Moderate**: There are numerous alternatives such as life insurance, pension schemes, real estate, and alternative investments(*Canada - Retail Savings & Investments*, n.d.). |
| Rivalry among existing players | **High: Market dominated by the** presence of the Big Five (Royal Bank of Canada, Scotiabank, Bank of Montreal, Canadian Imperial Bank of Commerce, and Toronto Dominion) and numerous alternative providers intensifies competition(*Canada - Retail Savings & Investments*, n.d.). |
| Buyer Power | **Moderate**: Individual consumers have limited power. However, the large number of potential customers and low switching costs for some products increase buyer power(*Canada - Retail Savings & Investments*, n.d.). |

Exhibit F (Positive Payback)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| |  | | --- | | **Key Assumptions** |  |  | | --- | |  | | **Details** | **Amount (per year)** |
| |  | | --- | | Account Management Fees |  |  | | --- | |  | | |  | | --- | | 0.5% for accounts up to $100,000, 0.4% for accounts above $100,000(*Wealthsimple*, n.d.) |  |  | | --- | |  | |  |
| |  | | --- | | Currency Conversion Fees (USD accounts) |  |  | | --- | |  | | |  | | --- | | 1.5% on CAD and USD conversions(*Wealthsimple*, n.d.) |  |  | | --- | |  | | - |
| |  | | --- | | User Acquisition Estimates |  |  | | --- | |  | | |  | | --- | | Assumption:150,000 new users per year (5% of existing 3 million users), 20,000 referral users per year |  |  | | --- | |  | | - |
| |  | | --- | | Average Portfolio Size |  |  | | --- | |  | | |  | | --- | | Assumption: $10,000 |  |  | | --- | |  | | - |
| |  | | --- | | Percentage of Users Converting Currency |  |  | | --- | |  | | |  | | --- | | Assumption: 30% |  |  | | --- | |  | | - |
| |  | | --- | | Average Conversion Amount |  |  | | --- | |  | | |  | | --- | | Assumption: $1,000 |  |  | | --- | |  | | - |
| |  | | --- | | Percentage of Users Subscribing to Premium Services |  |  | | --- | |  | | |  | | --- | | Assumption:10% |  |  | | --- | |  | | - |
| |  | | --- | | Premium Service Fee |  |  | | --- | |  | | $10/month(*Wealthsimple*, n.d.) | - |
| **Revenue Projections** | - | - |
| |  | | --- | | Account Management Fee Revenue (New Users) |  |  | | --- | |  | | 150,000 users \* $10,000 \* 0.5% | |  | | --- | | $7,500,000 | |
| Account Management Fee Revenue (Referral Users) | 20,000 users \* $10,000 \* 0.5% | $1,000,000 |
| Currency Conversion Fee Revenue | |  |  |  | | --- | --- | --- | | |  | | --- | | 51,000 users \* $1,000 \* 1.5% |  |  | | --- | |  | |  |  | | --- | |  | | $765,000 |
| |  | | --- | | Premium Services Revenue | | 17,000 users \* $10 \* 12 | $2,040,000 |
| |  | | --- | | Total Projected Revenue | | $7,500,000 + $1,000,000 + $765,000 + $2,040,000 | $11,305,000 |
| Cost Projections |  | - |
| Customer Acquisition Costs | 150,000 users \* $60(new cost) | $9,000,000 |
| Development and Maintenance Costs | Estimated: $500,000 per year | |  | | --- | | $500,000 | |
| |  | | --- | | **Total Costs** | | $9,000,000 + $500,000 | $9,500,000 |
| **Net Positive payback/profit** | Total Projected Revenue - Total Costs= $11,305,000 - $9,500,000 | 9,500,000 |

**Note:** The above calculations provide an estimated revenue, which could be significantly higher, excluding potential crypto investment customers.

**.**

Exhibit G (Gantt Chart)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Initial Phase**  **(< 1 MONTH)** | **Medium-Term Phase**  **(1 – 3 MONTHS)** | **Long-Term**  **(> 3 MONTHS)** |
| **Define Project Scope and Objectives** |  |  |  |
| **Form Project Team** |  |  |  |
| **Develop Detailed Project Plan** |  |  |  |
| **Secure Necessary Approvals and Budget** |  |  |  |
| **Design and Develop Courses and Software** |  |  |  |
| **Partner with TMX Trading** |  |  |  |
| **Conduct Pilot Testing for Courses** |  |  |  |
| **Marketing Strategy Development** |  |  |  |
| **Pilot Program Launch** |  |  |  |
| **Collect and Analyze Pilot Feedback** |  |  |  |
| **Revise Courses and Software Based on Feedback** |  |  |  |
| **Nationwide Rollout** |  |  |  |
| **Monitor and Support Program** |  |  |  |
| **Evaluate and Update Content** |  |  |  |
| **Promote Cross-Selling of Wealthsimple Products** |  |  |  |

Exhibit H (Risks,Mitigation, Contingnecy and Heat Map)

High

**Impact**

Low

High

Low

**Likelihood**

|  |  |  |
| --- | --- | --- |
| Risks | Mitigation | Contingency |
| 1. Failure of Partnership with TMX | Conduct thorough due diligence before finalizing the partnership. Ensure clear contractual agreements to specify roles, responsibilities, and expectations. Maintain regular communication with TMX to address any issues promptly. | Partner with other reputable trading software providers, have a backup plan for integrating another trading software quickly to minimize disruption. |
| 2. Poor Quality of Advanced Trading Courses | Involve industry experts in the development of the courses. Gather extensive user feedback during pilot testing phases. Regularly update the content based on feedback to ensure it remains relevant and effective. | Develop and maintain a small in-house team dedicated to continuously improving and updating course content. This team can create custom content tailored to users' needs and ensure the courses remain up to date with market trends. |
| 3. Poor Quality of Paper Trading Software | Conduct thorough testing of the paper trading software before full rollout. Focus on user experience and interface design. Establish a feedback loop to quickly identify and address any issues users encounter. | Make the required enhancements based on user feedback. Implement a "ship it then fix it" approach to deploy updates quickly. Continuously monitor the software's performance and user satisfaction, making iterative improvements as needed. |
| 4. Low User Adoption and Engagement | Implement targeted marketing campaigns to raise awareness and interest. Ensure the user interface is friendly and intuitive. Establish a continuous feedback loop to understand user preferences and barriers to adoption. | Use pilot testing feedback to refine the offerings. Leverage Wealthsimple’s existing referral programs to encourage current users to invite friends and family to boost user engagement and adoption rates. |

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