“What were the motivating factors behind the addition of TD EasyTrade to TD Bank’s product line?”

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Introduction

The Toronto-Dominion bank, often abbreviated to TD bank, is a full-service commercial bank founded in 1855 as the Bank of Toronto. Throughout the decades, TD has grown and expanded to become the largest bank in Canada by customers, serving over a third of the Canadian population, as well as being the largest by assets under management (AUM) and market capitalization.[4]

Objective and methodology

Recently in Canadian retail investing, there has been a shift towards low and no cost brokerages, such as National Bank, Wealthsimple, and Questrade.[3] These targeted Millennials and members of generation Z, who typically prefer a no-frills investing service over the traditional $10 per trade brokerages, which has been the industry standard in Canada, notably offered by TD DirectInvest and the other big five banks in Canada (TD, BMO, RBC, CIBC, and Scotiabank).[2] In response to this, in 2022 TD launched a low fee do-it-yourself (DIY) investment service known as TD Easy Trade, which not only featured no fee investing, but also lessons and guides for clients. Obviously, this was a monumental change that required significant amounts of planning. This investigation will determine the reasons for this decision, by integrating the key concept of change. The Ansoff matrix and Porters Generic Strategies are the tools that will be used to answer the research question, but there will also be other analysis involved to determine the real-world viability of these tools.

Research and analysis

Ansoff Matrix

In 2019, National Bank and Desjardins, two smaller regional banks in Canada, switched their platforms to zero fee trading. These were a big change from their original trading platforms, since those had low or no fees.[3] These moves can be seen as market development under the Ansoff matrix, as those banks already had an established presence with the type of clientele that would prefer low fee trading. This is due to their nature as a second-tier bank, who thus offer more attractive rates than the big five. This new platform should not be classified as product development since they improved their original product and cut down on costs, rather than developing a new product. On the contrary, it can be argued that Easy Trade, TD's own foray into no fee trading, is classified as related diversification under the Ansoff matrix. This is due to the massive change and culture shift that had to happen for it to work. TD, as one of the big five banks of Canada, had more of a focus towards the upper-middle class of investors, who were also typically of the older generations. With Easy Trade, they moved into a new target market, the younger generations, as evidenced by a quote from their annual report stating that "…TD Easy Trade app, designed to make investing simpler for new and emerging investors…" (2022 TD Annual report). They are also targeting lower-income investors for which trading would be inaccessible under the old fee structure. While this target market happens to encompass the younger generation who are starting to save at the beginning of their careers, it also includes other lower-income investors. Lastly, it should also be considered a new product, as the product that they launched was a no-frills trading platform with learning opportunities and guides. This is significantly different from their original "product", which was their trading platform offered $10 per trade investing, and that had high level research and technical analysis available for clients. Thus, this would be considered diversification under the Ansoff matrix, and it would be considered related diversification as it is still in the same industry. As diversification is the highest risk category in the matrix, it is apparent that TD felt that no cost brokerages were enough of a threat to their bottom line that they had to rapidly adapt to the changing industry conditions, despite their risk policy. By nature as a "too big to fail" bank, TD did not take many financial risks with its capital, which was in line with it's corporate culture. Easy Trade was considered as one of its higher risk projects that they spent considerable amounts of capital on. As well as the highest risk category, it is also the highest reward category. This means that it offered the most growth potential by going into an untapped market.

Porter’s generic strategies

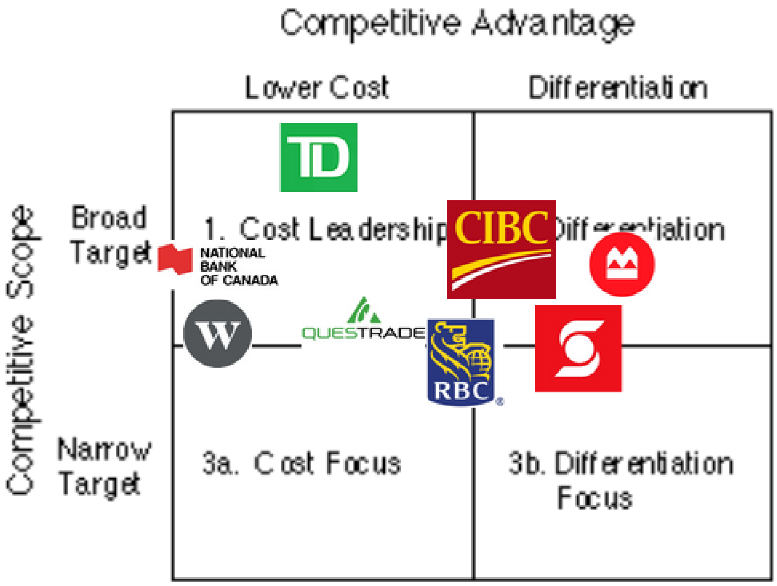

Figure 1 Porters Generic Growth strategies (Own work)

In this Porters Growth Strategies matrix, we can see that TD aimed to become a relative cost leader through Easy Trade. Its location in the matrix was determined by the fact that it offers fifty free trades a year, which is cheaper than its competitors, yet still more expensive than National and Wealthsimple, who offer unlimited free trading. Also, Questrade and wealthsimple are both targeting exclusively a younger audience, which would be considered a narrower target. National Bank, whilst being in a position of cost leadership, does not have the ethos or credibility that the big five banks do, thus decreasing their target market, since credit is a key component of the bank’s product. The other big five banks have a large potential market, especially prior to the advent of low fee brokerages, where they could have been considered an oligopoly. However, low-cost trading ate into their potential target market. There was a divide in the retail investing market, with the older generations being serviced by the big five banks and the younger generation being serviced by low-cost brokerages. Obviously, there was an opportunity and TD took advantage of it. The placements were approximate, yet TD must have a broader target than all the other banks, since the others would be missing one of the two target markets.

Using solely BMT to evaluate a company’s potential for success does not paint an accurate picture of the future. There have been many examples in the past of companies having “the” product which would have been successful but then giving up on it, such as Yahoo, Eastman Kodak, and many more. This does not appear to be the case with TD, as they have repeatedly shown their commitment to Easy Trade and its growth, as evidenced by this quote from TD CEO Bharat Masrani, "Our investments in technology, products, people, and new capabilities enabled us to meet the needs of our customers and clients through a period of rapid change." (TD annual report, 2022).

One way that TD is aspiring to grow Easy Trade is outlined in their annual report, where they say they want "to build on TD Direct Investing's commitment to client education by introducing more learning pathways and increasing our content library through collaboration with Canadian investing social influencers." (TD annual report, 2022). This statement, as well as the fact that they mention their top priority for the then-near future was to grow their "market leadership position" and to improve customer functionalities valued by the customers themselves. They also want to double the types of online accounts available to be opened. All this shows the level of TD's commitment to changing and adapting with Easy Trade and relying on it as a cornerstone in the future.

Profitability ratios

The only ratio that is really relevant to this research question is the return on common equity (ROCE), as that would show how much the company invested in it relative to its returns.

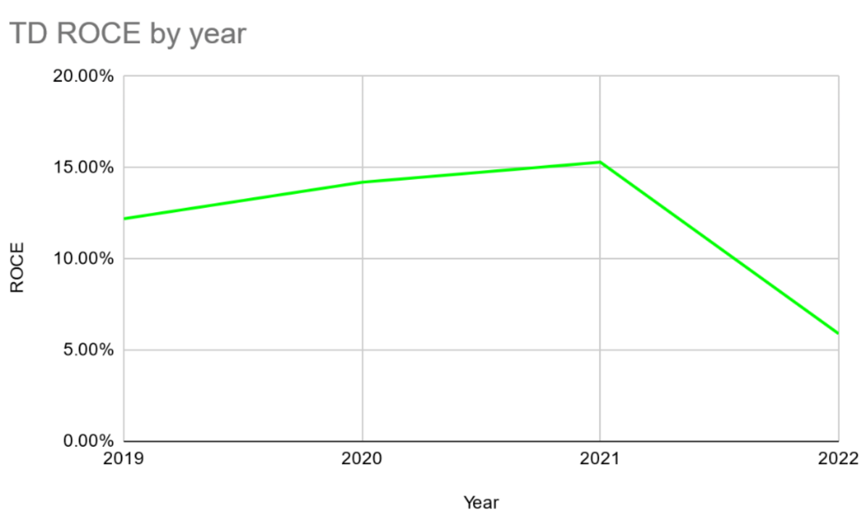

Figure 2 TD's ROCE year by year graph (Own work)

In 2022, there was a large drop in ROCE that was not matched by industry competitors. This can be explained by the fact that TD was preparing two acquisitions, First Horizons and Cowen, as well as the investment in Easy Trade.

Stakeholder analysis

When making such a momentous change and shift in corporate culture as in TD's case, there must be a stakeholder analysis involved. There are three main stakeholders when considering TD's market share: prospective clients, current clients, and competitors. Prospective clients are the stakeholder group that TD is aiming to please the most with this change, as they are the reason they made this shift to begin with. The launch of another no cost brokerage can only be a good thing for the prospective clients, as that increases the level of competition and gives them another option. The next logical stakeholder are their current clients. TD risks alienating its current clientele with these moves, especially as it must now spread its resources more thinly. However, culturally, Canadians have long had an aversion to switching banks, needing a drastic catalyst in order to do so. This can be both an advantage to TD, as this lowers the risk of losing their current clientele, but it also makes it harder for them to grow. The last stakeholder directly involved is its competitors. TD is enjoying a pseudo first mover advantage, as the first large bank to jump. This growth will not be sustained over the long run, especially as other banks and brokerages adapt as well.

Conclusion

In conclusion, TD launched Easy Trade to take advantage of their unique resources and an opportunity in the market. As mentioned, TD's current market share consists of Canadians that are less willing to switch brokerages are the ones that they already have. This helps, as the ones that are more likely to switch are the ones that they do not yet have as clients, which puts them in an advantageous position for growth. Also, it is evident that TD recognizes this opportunity, as they are leading industry in spending, which will give them the best possible opportunity to grow in the future. TD Easy Trade was a smart innovation that allowed for growth in a yet untapped market. There was extraordinarily little downside risk involved, so it can be said with confidence that Easy Trade will have a positive impact on TD's market share. By taking the risk and changing to the current market conditions, TD has set itself up to be in a position of market leadership soon. They should remain one of, if not the, leading no cost brokerage in the future, however only time will tell the truthful answer to the research question.

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