
Robo-advisors should shift to B2B model: Cerulli

By Editorial Staff *Thu, Sep 17, 2015*

"Cerulli projects eRIAs will need to grow approximately 50%-60% per year for the next six years and gather approximately \$35 billion in AUM to remain a standalone direct channel for consumer business," said Cerulli analyst Frederick Pickering.

Electronic registered investment advisors (eRIAs) in the United States will need to grow aggressively to compensate their venture capital investors after six years, according to the latest research from global analytics firm Cerulli Associates.

"eRIAs have gathered significant assets during the past several years," said Frederick Pickering, research analyst at Cerulli, in a release. "Although the technology of the eRIA space has allowed them to scale at a much faster rate than existing traditional financial advisors, they will still need to reach end clients.

"Cerulli has constructed several scenarios that approximate the annual growth rate necessary for eRIAs to realize the multiples required for their venture capital and remain standalone direct-to-consumer businesses."

Through their research, Cerulli believes that eRIAs' ability to remain a standalone enterprise will be threatened due to commoditization of the eRIA model from traditional firms entering the space and massive fee compression.

"Cerulli projects eRIAs will need to grow approximately 50%-60% per year for the next six years and gather approximately \$35 billion in AUM to remain a standalone direct channel for consumer business," Pickering explains. "Given the threat of commoditization within the software-only eRIA business-to-consumers marketplace and the lack of an economic moat to charge a price premium, eRIAs should consider pivoting to a business-to-business model."

"The eRIA channel has created a business model that undercuts traditional advisory firms, but may lack the financial resources to compete if the business model becomes commoditized," Pickering continues. "New entrants from traditional advisory firms and start-ups threaten to commoditize the space, drive down fees, and eliminate any remaining premium in eRIA fee structures."

These findings and more are from the September 2015 issue of The Cerulli Edge - U.S. Edition, which explores innovation, analyzing the role of private equity, the viability of the eRIA model, and how product developers are focusing on international and global

strategies.

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