Pre-Class Discovery Handout: Robo-Advisor Business Models

Activity 1: Business Model Canvas Detective

Scenario: Pick ONE robo-advisor you have opened an account with, read in depth, or seen advertised repeatedly (for example Betterment, Wealthfront, Nutmeg, Scalable Capital, or Schwab Intelligent Portfolios). Fill in the canvas below by investigating how that robo actually works. Focus on the mechanics of value creation, not the marketing copy.

Canvas Element	Your Analysis
Value Proposition *What friction does this robo remove that a traditional advisor tolerates?*	
Customer Segments *Who is the core saver segment; who is the secondary one?*	
Channels *How does the robo reach and serve savers — directly, through an employer, or through an incumbent partner?*	
Revenue Streams *What kinds of revenue does the robo collect (not amounts)?*	
Key Resources *Which resources are software-side, and which are licence- or custody-side?*	

Q1: What single friction is this robo's core wedge, and does the friction remain valuable if an incumbent broker copies the feature in a software release?

Q2: Does this robo serve savers directly, through employers or broker partners, or through a white-label arrangement? Why does the answer matter for which canvas blocks it actually controls?

Q3: If this robo disappeared tomorrow, what would its savers lose that an incumbent broker could not reproduce in a single product update?

Activity 2: Unbundling Map

Scenario: Traditional wealth management bundles many services — advice, portfolio construction, custody, planning, tax treatment, and credit against investments — under one roof. Robo-advisors cherry-pick pieces of that bundle. Match each robo on the left to the primary wedge service it launched with (not its present-day catalogue).

Robo-Advisor		Launch Wedge Service
Betterment	____	Automated allocation with tax-aware rebalancing
Wealthfront	____	Software-first portfolio management for retail savers
Nutmeg	____	App-only portfolios bypassing the UK adviser channel
Scalable Capital	____	Algorithmic portfolios under a pan-European execution model
Schwab Intelligent Portfolios	____	In-house robo inside a large United States brokerage ecosystem

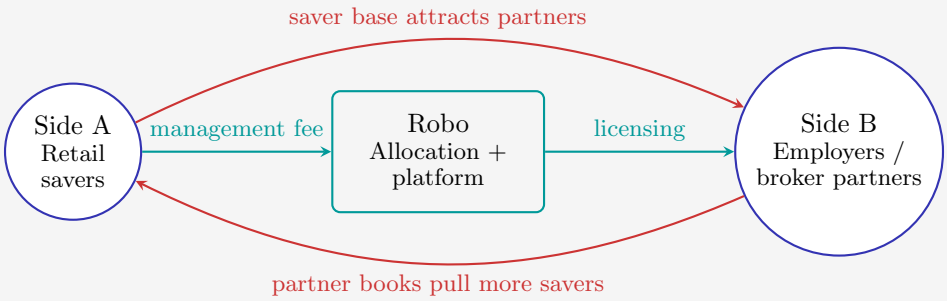
Q1: For each robo, describe in one sentence the friction the wedge service removes for the saver.

Q2: Which of these robos has most aggressively added adjacent products after the wedge? In what ordering did it add them?

Q3: Why might a robo that launches with one wedge service eventually feel pressure to offer many — and what does it risk by doing so?

Activity 3: The Platform Puzzle

Scenario: A robo-advisor that scales through partners is not a classic two-sided platform, yet it exhibits cross-side effects. On one side are retail savers generating management-fee revenue and behavioural data; on the other are partner channels — employers running retirement plans, banks distributing wealth products, or brokers licensing the allocation engine. Neither side finds the robo's offering compelling without the other.



Q1: Why does a robo with more retail savers become more attractive to partner channels, and vice versa? Name the specific cross-side mechanism.

Q2: Which side should a new robo attract first, and why? How does the answer differ from a payment network's answer?

Q3: Once a robo reaches critical mass on both sides, what specifically makes it hard for a later entrant with the same allocation engine to catch up?

Solutions

Activity 1: Business Model Canvas Detective

A1: Model answer for Betterment: The core wedge is automated goal-based allocation with tax-aware rebalancing. The friction is real because manual portfolio maintenance requires time and discipline that most retail savers do not have, and traditional advisors charge many multiples of the robo's fee for broadly equivalent mechanical work. The friction remains valuable as long as the robo's engine keeps tax-lot-level awareness, glide-path automation, and cross-account optimisation that a stand-alone brokerage app cannot easily match.

A2: Betterment serves savers through three parallel channels: a direct-to-consumer app, employer-plan (401(k)) partnerships, and a licensed advisor-technology offering for registered investment advisors. The answer matters because each channel controls a different subset of canvas blocks. Direct-to-consumer lets Betterment keep the Channels and Customer Relationships blocks; employer-plan partnerships move both into the employer's benefit platform; advisor-technology licensing moves both into the advisor's brand.

A3: Savers would lose the tax-aware rebalancing engine, goal-based path projection, and the low all-in cost that incumbents typically match only on one dimension at a time. An incumbent broker could copy each feature individually, but matching all three while maintaining the robo's thin-fee price point requires subsidy from an adjacent book (such as cash sweep) that not every broker has in the right form.

Canvas elements (Betterment):

- **Value Proposition:** automated, goal-based allocation with tax-aware rebalancing and glide-path automation at a fraction of traditional advisor cost.
- **Customer Segments:** primary — United States retail savers accumulating retirement and taxable investment balances; secondary — employers and registered investment advisors licensing the engine.
- **Channels:** the Betterment app and web site, employer-plan integrations, and a licensed advisor-technology platform.
- **Revenue Streams:** fee on assets under management, tiered premium plans, employer-plan fees, and licensing revenue from advisor-technology deployments.
- **Key Resources:** the allocation engine and tax-aware rebalancing logic, custodian relationships, compliance and supervisory infrastructure, and the product engineering team.

Activity 2: Unbundling Map

A1: Betterment removes the friction of manual tax-aware rebalancing and multi-account coordination that traditional advisors charge many multiples of the robo fee to perform. Wealthfront removes the friction of discretionary portfolio management for the software-first saver who wants planning tools without a human adviser. Nutmeg removes the friction of adviser-led distribution inside the United Kingdom by delivering discretionary portfolios through an app. Scalable Capital removes the friction of pan-European retail portfolio access by packaging algorithmic allocation under a light-touch execution framework. Schwab Intelligent Portfolios removes the friction of paying for allocation inside the brokerage ecosystem by subsidising the allocation fee through adjacent cash-sweep economics.

A2: Wealthfront has most aggressively rebundled. It launched with automated portfolio management, added cash management and high-yield savings, followed with goal tracking and path-projection tools, and subsequently introduced lines of credit against the investment balance. The sequence illustrates Christensen's unbundling-to-rebundling cycle applied to the custody side: custody-adjacent products build stickiness first; planning-adjacent products reinforce the software story; credit-adjacent products extract more revenue per saver without forcing withdrawal from the book.

A3: A full-product robo captures more revenue per saver and becomes harder to displace once cash management and credit adjacencies are routed through the same login. It risks, however, that each new product consumes compliance, custody, and product-engineering capacity, moving the robo closer to operating like a broker or a bank without the scale that either enjoys. If the robo imports broker-style cost structure faster than it builds broker-style scale, the thin-fee promise collapses on both sides — savers leave when the fee rises, and partners leave when the product footprint conflicts with theirs.

Activity 3: The Platform Puzzle

A1: This is a **cross-side network effect** specific to the partner-channel robo. More retail savers generate more management-fee revenue and more behavioural data, which makes the robo more attractive to employers (better plan outcomes for participants) and to broker partners (richer allocation engine with proven adoption). Simultaneously, more partner channels expand the robo's reach into saver populations it could not afford to acquire directly, which enlarges the saver base and feeds back into partner attractiveness.

A2: A robo typically attracts the **partner side first**, because each partnership converts a large chunk of savers at once through channels the partner already owns. Direct-to-consumer acquisition is prohibitively expensive at a thin fee, so attempting to seed savers first starves the robo before it can approach a credible partner. This differs from a payment network: payment networks seed the merchant side first because consumers have no place to transact otherwise, whereas the robo has no immediate consumer-use problem — it has an acquisition-cost problem, which partners solve more efficiently than advertising.

A3: A mature partner-channel robo accumulates a **structural moat** made of three layers: engine complexity (every new partner integration enriches the allocation engine in ways that cannot be copied from a specification), regulatory infrastructure (the suitability-monitoring, product-governance, and reporting machinery built to serve many partners becomes itself a barrier), and partner trust (each additional partner references earlier partnerships). A later entrant must rebuild all three simultaneously. Matching the allocation engine alone is insufficient, which is why most thin-fee entrants now license incumbent engines rather than build their own.

