Robinhood Business Model

Idea In Short

The Robinhood business model operates an online brokerage that offers commission-free trading by allowing users to buy and sell assets such as stocks, exchange-traded funds [ETFs], options and even cryptocurrencies. This fintech company provides a mobile phone application and the users can also check on their financials through the company's website or smartwatch apps.

Origin

Robinhood is a trading company based in the United States. They offer trading in stocks, ETF's, options, and cryptocurrencies with no commission. This model has become increasingly popular for the average consumer. Robinhood was founded in 2013 by Vlad Tenev and Baiju Bhatt.

Robinhood markets itself as a brokerage that is accessible to all and does not require any fees to make trades. This makes the brokerage both affordable and accessible to the average American. Robinhood provides a zero-commission trading experience, meaning that there are no trade commissions charged on individual stocks, ETFs, options and cryptocurrencies.

All a user needs to do is to defer to the Robinhood app. You can download it on the App or Google Play store. Once you are logged in and register an account, you will be able to trade with one click. Furthermore, Robinhood provides its users with instant deposits for all account holders. This means that you can link your bank account or credit card to your account and deposit the funds.

Key features

A key feature of Robinhood is the fact that it does not charge any monthly fees, which

means that you can invest an unlimited number of stocks with Robinhood. According to Robinhood, they generate their revenue from ;

- Rebates from market makers and trading venues
- Robinhood Gold
- Stock loan
- Income generated from cash
- Cash Management

Rebates from market makers and trading venues

When users buy or sell stocks, ETFs, and options, Robinhood sends the order to market makers or exchanges. Market makers offer rebates to brokerages while ensuring better prices for users.

Robinhood's algorithm seeks to send the order to the market maker most likely to give the best execution and a small portion to an exchange. Under proper exchange fee schedules, the fintech pays the exchange when it takes liquidity, and gets paid when provides liquidity.

The same occurs to Robinhood Crypto, which receives volume rebates from trading venues, that provide competitive prices.

Robinhood Gold

The user pays $5 a month to have access to Morningstar research reports, NASDAQ Level II Market Data, bigger instant deposits, and margin investing. When investing on margin, if the customer uses more than $1,000 of margin, they will pay 2.5% yearly interest on the settled margin amount above $1,000.

Stock loan

Robinhood earns money from lending margin securities to counterparties.

Income generated from cash

Robinhood earns income on uninvested cash that isn't swept to the Cash Management network of program banks, by depositing this cash in interest-bearing bank accounts.

Cash Management

Robinhood offers a debit card in connection with a brokerage account provided through Robinhood Financial LLC, a member of SIPC and FINRA. Sutton Bank, which issues the card pursuant to a license by Mastercard, receives an interchange fee that is passed to Robinhood. The fintech also receives fees from program banks for sweeping funds to them.

How Does Robinhood Work

Robinhood's goal is to democratize the financial markets. The company is focused on creating a space where everyone can access and benefit from financial services without the hidden fees and restrictions that keep many people out. Robinhood provides people of all backgrounds and income levels with the power to invest in financial markets, one of the most important building blocks of our society, without breaking the bank. Robinhood is a disruptive technology company that aims to help people save on trading costs in an industry where people are routinely charged $10- $20 per trade.

business model

Through Robinhood's mobile app, the company has access to new investors that will ultimately shift financial markets. The millennial demographic typically does not invest in the stock market due to high costs associated with commission fees and other related expenses. Robinhood has already reached 13 million users (in 2020) and facilitated transactions worth hundreds of billions. These numbers are growing at a rapid pace and show no signs of slowing down. Robinhood's business model is relatively simple. The company earns revenue from interest on uninvested funds and from margin lending. It also earns revenue from payment for order flow, which is the fee that Robinhood earns every time an order is placed on an exchange. Robinhood earns by charging a flat fee per transaction, but it does not earn additional revenue through hidden fees or commissions. As a result, all of the company's revenue is transparent.

Robinhood has not set out to make a profit on its own. In fact, the company charges no fees for users who maintain a minimum balance of $0. This model allows Robinhood to earn revenue from other sources, including interest in funds and order flow payment. Robinhood makes money by borrowing from users who keep large amounts of cash on their accounts for extended periods of time. This gives Robinhood free capital that it can then lend to other

customers at a higher interest rate. As a result, Robinhood earns money from margin loans and from the interest generated by its uninvested cash.

The company also earns revenue from payment for order flow, which is the fee that Robinhood earns every time an order is placed on an exchange. The majority of these fees are returned to users in the form of commission-free trading. Robinhood is a strong believer in upholding the traditional values that it has always held firm. The company considers its responsibility to be a leader in introducing new ideas that are effortless and innovative. This could be through how it has designed and marketed its services, how the company intends on using its technology, or through various other outlets.

How Does Robinhood Make Money?

Robinhood Markets is a low-cost brokerage that provides commission-free trading through its website and mobile app. Payments for order flow, a normal but contentious activity in which a broker receives compensation and other benefits for directing orders to various parties for trade execution, produce substantial revenue for the business.

This income is referred to by Robinhood as rebates from market makers and trading venues. Although rewards for small retail trades are marginal, a business that directs billions of dollars in trades to market makers will collect large sums.

Robinhood Revenue

According to independent analysts, payments for order flow provided an estimated $69 million in revenue for Robinhood in 2018, a 227 percent increase over the previous year. They accounted for more than 40% of total revenue. Robinhood received nearly $180 million in compensation for order flow in the second quarter of 2020.

In the 2020 financial year, Robinhood reported $682 million in payment-for-order-flow sales, a 514 percent raise over the previous year. Robinhood announced 13 million active users in May 2020, but the number is expected to rise.

Robinhood was valued at $20 billion prior to its IPO, but secondary shares have increased the company's valuation to $40 billion.

Summary

Robinhood is a stockbroker which promotes affordability and accessibility of stocks to the general public. Their mobile app is geared towards a younger demographic who have increasingly turned away from traditional retail brokerages. The entrance of Robinhood into the online investing industry in 2019 has shaken the market, even making some of the biggest players — such as Charles Schwab and E*Trade — drop their fees for good. The company's rise has been based on some key factors, especially permitting users to trade for free, in a so simple way that enables them to start right away. The brand has great opportunities yet to grow furthermore in the market, it just needs to ensure accurate compliance with regulatory frameworks to reduce risks.