FINANCE

So Obvious it's Disruption: How Will the Financial Industry Respond to Ellevest?

by Rachel Parisi

The American financial industry has been trenchantly male since its inauguration. How will the industry respond to newcomer Ellevest, which touts itself as an investment platform by and for women?

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A Pebble in a Pond

The Department of Labor's Bureau of Labor Statistics concluded that women's income was 82% of men's income in 2016. Notably, that statistic reflects only full-time wage earners. The impact is even starker when considering the number of women who work less than full-time or perhaps not at all in order to raise children. Another alarming statistic presented in a recent study: only 12% of women are "very confident" that they will be able to fully retire with a comfortable standard of living. These numbers leave a need to be fulfilled and that is where Ellevest, a fintech investment platform and industry disruptor, comes in.

Ellevest focuses its platform on women investors. Interestingly, it appears to be first to the party when it comes to the idea of exclusively focusing on empowering women investors. Its platform's algorithms build portfolios that take into account realities such as the longer lifespan of women and women's unique career arcs with their corresponding salary variations. Ellevest's platform is not only progressive, it's potentially lucrative. A study by the Center of Talent Innovation counts $5 trillion in investable assets controlled solely by women and another $6 trillion controlled jointly.

Caught in the Ripples

Ellevest enters a crowded field of competition. The company has identified a (very large) niche market that has been underserved in a dramatic and measurable way. That makes it a force to be reckoned with and landed it at number 24 on CNBC's list of 2018's 50 Disruptors. But what does Ellevest's status as a disruptor mean to the entrenched players of the male-dominated financial industry?

Disruptive technology is an obstacle faced in virtually every industry. The gender-specific investment platform pioneered by Ellevest is a prime example. How then should those companies that are disrupted by Ellevest respond? An article entitled "Responding to a Potentially-Disruptive Technology: How Big Pharma Embraced Biotechnology," published by the California Management Review posits that there are three steps involved: "sensing as a means of building awareness, responding as a means of building capability, and scaling as a means of building commitment."

Ellevest, and movements such as #metoo, have already done the first step for the competitors: building awareness or sensing. While the increased awareness "saves" industry competitors a step, it also puts them in a position of appearing to be last to the party or jumping on the bandwagon. In any event, it would seem that competitors to Ellevest should be at the responding step and ready to build capability. Ellevest's algorithms could certainly be replicated; after all, life expectancy statistics and salary arcs for women are hardly proprietary information. However, industry players have been slow to embrace a platform like Ellevest. While Wells Fargo has a women-centric campaign called "Building on Strengths: Invest Like a Woman," the campaign is limited to awareness of women's investment power. There is no focus on a process or capability that uses women's life expectancy or salary arcs to recommend investments. In order to be successful, industry competitors are going to have to go beyond the awareness step and take some concrete action to win women investors.

Even after responding by building capacity, Ellevest competitors will have to overcome step three: scaling as a means to build commitment. The study authors note that scaling involves, in part, "overcoming internal resistance." This will be the challenge for the firmly entrenched, male-dominated financial industry.

The California Management Review article also identified an "early mover advantage." As the name suggests, those that take early action to address competitive threats emerging from a disruptor end up performing better than those who are slow to the draw. Early movers responding to Ellevest will have a better opportunity to avoid the bandwagon label by acting quickly to offer the same type of focus on women. The longer competitors wait, the less genuine their commitment to women's financial success will seem. By getting to that focus first, Ellevest is operating from an advantageous, but not unbeatable, position.

The lack of early movers in this sector is intriguing but not unheard of. Fintech has been historically ripe with disruptors. Take the mobile payment sector, for example. While mobile payment pioneer PayPal has been a leader from the start, Apple Pay did not come onto the scene until

1. Even with the late start, Apple Pay and many other players in this field have been successful. With an earlier start, however, Apple Pay and others would have had a better chance to chip into PayPal's now dominant "go-to" position in the enormously profitable mobile payments market. Only time will tell if eventual Ellevest competitors will be able to make such inroads.

Keeping the Ripples Flowing in the Right Direction

So how best to “deal with” Ellevest’s disruption? First, the disruption can be looked at not as a business threat or obstacle, but as a wake-up call. The door has, at last and at least partly, been opened to the concept that women have their own money to invest and are a valuable consumer segment in a gigantic industry. There is more than enough room for other platforms to get on board and start addressing women’s specific investment challenges and positioning. Not all disruptor stories end with a “if you can’t beat ‘em, join ‘em” message, but this one does. Not only is Ellevest a company to watch, it is a company to learn from.

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Rachel Parisi writes in the finance, insurance, and employee benefits fields. She is a practicing attorney in the Cincinnati area and in her former life was a missile combat crew commander for the United States Air Force (think Wargames).