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TradeRepublic: A Case Study on Crisis Management and Internationalization Strategies

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ABSTRACT

Title: TradeRepublic: A Case Study on Crisis Management and Internationalization Strategies

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The last decade has been challenging for traditional savers, as interest rates have been meager, making it almost impossible to benefit from compound interest on regular savings accounts. At the same time, poverty among pensioners in Europe has been increasing. Amid the Covid-19 pandemic, so-called neobrokers emerged and disrupted the broker industry by offering the average person simplified and affordable access to capital markets. This case study focuses on TradeRepublic, a German-based neobroker that has recently expanded its business operations to multiple European countries. This case study intends to broaden knowledge on adaptive strategies in crisis by analyzing the firm's response to challenging situations. It provides a basis for the application of management frameworks from the field of entrepreneurship, organizational behavior, and strategic management. The key events being analyzed are the scandal surrounding the Gamestop short squeeze in 2021 and TradeRepublic's internationalization strategy, concluding in possible causes for an underwhelming performance in southern European countries, especially Portugal. Julian Collin, the Chief of Staff at TradeRepublic, has kindly provided the information for this case study. The main findings regarding the Gamestop incident highlight the importance of procedural fairness when communicating difficult news. In terms of international performance, it has been found that cultural dissimilarities might negatively affect TradeRepublic's performance in Portugal and that economic factors, particularly a lower income level, are likely the primary cause for underperformance in Portugal.

Keywords: Fintech, Internationalization, Procedural fairness, Dynamic capabilities, Uppsala model, CAGE, Hofstede, Value Proposition Canvas

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SUMÁRIO

Título: TradeRepublic: Um Estudo de Caso em Gestão de Crises e Estratégias de Internacionalização

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A última década foi um desafio para os aforradores, porque as taxas de juro baixaram, impossibilitando beneficiar de juros compostos em poupanças. Simultaneamente, a pobreza nos reformados europeus aumentou. Durante a pandemia do Covid-19, surgiram os chamados neobrokers, que perturbaram o sector de corretagem, simplificando o acesso a baixo custo do cidadão comum aos mercados de capitais. Este estudo de caso centra-se na TradeRepublic, um neobroker sediado na Alemanha que recentemente expandiu as suas operações para vários países europeus. Pretende-se alargar o conhecimento sobre estratégias adaptativas de crise, analisando a resposta da empresa a situações desafiantes. Fornece-se uma base para a aplicação de quadros de gestão no domínio do empreendedorismo, do comportamento organizacional e da gestão estratégica. Os principais eventos analisados são o escândalo em torno do short squeeze da Gamestop em 2021 e a estratégia de internacionalização da TradeRepublic, concluindo com possíveis causas para um desempenho pouco satisfatório nos países do sul da Europa, especialmente em Portugal. Julian Collin, Chefe de Equipa da TradeRepublic, forneceu gentilmente as informações para este estudo. As principais conclusões relativas ao incidente da Gamestop destacam a importância da justiça processual na comunicação de notícias difíceis. Em termos de desempenho internacional, verificou-se que as dissemelhanças culturais podem afetar negativamente o desempenho da TradeRepublic em Portugal e que os fatores económicos, em particular um menor nível de rendimento, são provavelmente a principal causa do fraco desempenho.

Palavras-chave: Fintech, Internacionalização, Justiça processual, Capacidades dinâmicas, Modelo de Uppsala, CAGE, Hofstede, Value Proposition Canvas

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GLOSSARY

LIST OF ABBREVIATIONS

B2B – Business to Business

B2C – Business to Consumer

BMC – Business Model Canvas

Crypto – Cryptocurrency

ETF – Exchange Traded Fund

GDP – Gross Domestic Product

HR – Human Resources

IT – Information Technology

NFT – Non-Fungible Token

PFOF – Pay for Order Flow

RBV – Resource-Based View

VC – Venture Capital

VPC – Value Proposition Canvas

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I. INTRODUCTION

Within the last 15 years, the world has been shaken by global crises twice, the financial crisis in 2008 and, most recently by, the Covid-19 pandemic. Both events have had significant economic impacts and led to an enormous eradication of wealth (Li et al., 2022). Without making many headlines, another concerning development has been unfolding amidst those global events. According to the “2021 Pension Adequacy Report” of the European Commission, 18% of people aged 65 and above in the European Union are at risk of poverty, highlighting that this rate goes up to 50% in some European countries. An increasing life expectancy combined with an aging population puts public pension funds under pressure and suggests private retirement plans are necessary to close the pension gap (Kallestrup-Lamp et al., 2022). The term “pension gap” refers to the difference between the income people have in retirement and the income they need to live comfortably (Antolin & Whitehouse, 2009). However, several factors, particularly low interest rates, complicated adequate private retirement savings during the last years and made regular saving accounts less attractive. Over the last decade, interest rates in both Germany and across Europe have experienced significant lows, occasionally even becoming negative (European Central Bank, 2023; appendix: Figure 3). Low-interest rates convey a problem for long-term savers who seek to prepare for retirement, as they cannot profit from compound interest (Matthes, 2014). Lian et al. (2016) found that individuals tend to seek investments that offer a higher return in times of low-interest rates. However, access to capital markets has been difficult for the average person, as conventional brokers charge high service fees and require a rather complicated and time-consuming registration process. These factors facilitated the recent emergence of so-called neobrokers, firms that offer easy and cheap digital access to capital markets.

This master’s dissertation, in the format of a case study, centers around TradeRepublic, the first and, to date, largest neobroker in Germany. The information the case is based on has been provided by Julian Collin. As of May 2023, Collin serves as Chief of Staff at TradeRepublic and is responsible for various strategic topics, including their ongoing internationalization campaign in Europe. Before joining TradeRepublic in October 2020, Collin was part of the investment team of Creandum, a venture capital firm that led the initial funding in TradeRepublic during their Series A round in 2019.

Rather than focusing on one particular crisis, the author explains how the company benefited from the extraordinary circumstances during the Covid-19 pandemic and examines TradeRepublic's strategic response to various challenging situations. The primary purpose of this dissertation is to provide a real-world case study that is suitable to be used as in-class teaching material. The theoretical framework of the thesis integrates concepts from the fields of entrepreneurship, organizational behavior, strategic management, and internationalization, which are supposed to be applied by students in the discussion section.

The incentive for choosing this topic is anchored in two distinct aspects. First, the case of TradeRepublic is well-suited to convey management theories from various relevant fields to students. Secondly, the worrying trend of increasing poverty among pensioners serves as an alarming signal, and it should raise awareness among students to not solely rely on public pension systems and encourage them to start private long-term savings early on.

II. LITERATURE REVIEW

This section provides a profound overview of theoretical concepts and frameworks necessary to work with the case successfully. It must be highlighted that all theories are relevant and applicable to the case. While some theories are explicitly explained in the sections they apply to, some others are outlined without further elaboration. This approach is designed to motivate students to decipher these theories independently in the discussion section.

2.1 Resource-based view / Dynamic capabilities

In strategic management, the Resource-Based View (RBV) is a crucial theoretical framework that examines competitive advantage's internal causes. It emphasizes the role of a firm's resources and capabilities as the central factors to its performance and competitive advantage (Barney, 1991). These resources include physical assets, such as machines and real estate, and intangible assets, such as a strong brand image or customer trust (Wernerfelt, 1984). Barney (1991) states that if these resources are valuable, rare, inimitable, and not substitutable (VRIN), they can contribute to a firm's ability to outperform its competitors. This leads to the understanding that unique resources, which are challenging to replicate, can become the foundation of a firm's strategy, distinguishing it in the marketplace (Peteraf, 1993).

Additionally, the dynamic capabilities perspective, introduced by Teece et al. (1997), is another approach that focuses on a firm's capacity to adapt, combine, and reconfigure its resources in response to changing market conditions. This perspective proposes that organizations with robust dynamic capabilities can more effectively handle external challenges and exploit emerging opportunities, enabling them to sustain a competitive advantage. The dynamic capabilities framework complements the RBV by highlighting the importance of a company's abilities to sense and seize opportunities, make decisions that are both well-timed and aligned with market needs, and adapt and reorganize their resources and capabilities to maintain their competitive position in a changing business environment. This includes identifying the right moment when a product is ready for the market, and the market is ready for the product (Teece et al., 1997).

2.2 Strategic responses to the crisis

Wenzel et al. (2020) proposed a summary of four main strategies which organizations can use when facing a crisis: retrenchment, persevering, innovation, and exit. “retrenchment” involves cutting resources and focusing only on the core business operations to improve efficiency and thus enabling the company to survive during challenging times. This strategy is beneficial during short economic downturns but may lead to losing a competitive advantage if not executed properly. De Figueiredo et al. (2019) showed in their study that this strategy could lower synergy effects and lead to a loss of economies of scale and the ability to dynamically allocate resources within a company.

“Persevering,” on the other hand, describes maintaining the status quo, keeping the existing structure and strategy during the crisis. This approach works when the crisis is temporary, and the organization's core resources and competencies are not heavily affected by the crisis. However, Teece (2018) argues that a preservation strategy might lead to a lack of adaptability in the long run, as it may hinder organizations from successfully adjusting to business environment changes.

Whereas the first two strategies focus on damage control, the “innovation” strategy takes a different route and directs attention to new possibilities. Wenzel et al. (2020) describe innovating “*as the realization of strategic renewal in response to the crisis*”. Tidd & Bessant (2020) refer to innovation as adopting new technologies, creating new products, or changing business models to disrupt existing markets. This strategy is often employed when organizations face disruptive forces, such as technological advancements or changing consumer preferences (Christensen, 2013).

The last strategy proposed by Wenzel et al. (2020) is the "exit" strategy, this approach refers to a company that decides to leave a market or to cut out certain parts of its business operations. This choice is often made when staying in a market outweighs the possible benefits, for example if operating costs are higher than the expected revenues (Harrigan, 1988). If a company decides to exit a market it is usually because of constant issues and negative market outlooks. Reasons for that could be for example poor performance in a market, strong competitors or changes in the industry landscape, which make their business model obsolete (Hitt et al., 2016). Porter (1980) highlights that exiting a market can also be a chance for companies to refocus their business activities and allocate their resources to more profitable areas or business units. However, exiting is usually the last option when other strategies like retrenchment, persevering, or innovation have not led to the desired outcome (Hitt et al., 2016).

This case study focuses primarily on the possibility of an “exit” strategy.

2.3 Procedural Fairness

Some of the first ideas about the importance of fair decision-making go back to ancient Greece and have their origins in the works of Aristotle (Irwin, 1989).

Procedural fairness, or process fairness, is a significant coin about organizational behavior and communication strategies. The main idea is that it's not about if the decision-making is actually fair, it instead is about whether people believe it's fair (Thibaut & Walker, 1975).

Thibaut and Walker's research (1975) helps us understand what makes people consider a process and decision fair. They found that including individuals in decision-making increases their perception of fairness. Moreover, they highlight the importance of treating everyone equally and ensuring the process is unbiased and based on correct information. Especially interesting are Lind and Tyler's (2013) findings that individuals are more likely to accept decisions if they believe that the process to get to a decision was fair, even if they disagree with the outcome. Furthermore, Greenberg and Folger (1983) highlight the importance of being transparent about the reasons behind decisions and communicating those decisions quickly and clearly. This aligns with Tyler and Blader's research (2003) that procedural fairness is not just about the fairness of the processes themselves but also about how these procedures are communicated and executed. They argue that when people feel they are being treated with respect, they are more likely to consider the procedures as fair and, as a result, to trust and cooperate with an organization.

2.3 Value Proposition Canvas

A strategic tool that helps businesses to map out the complex relationship between customer needs and the value a product or service offers is the Value Proposition Canvas (VPC) which Alexander Osterwalder developed. It consists of two main components: the Customer Profile and the Value Map (see appendix: Figure 4). By examining customer jobs, pains, and gains, including their emotional aspects, businesses can develop value propositions to adapt effectively to their target customer (Osterwalder et al., 2015).

The customer profile outlines the customer's jobs, pains, and gains. The term "jobs" refers to the tasks customers want to accomplish with the product and the needs they wish to satisfy. "Pains" are the obstacles, negative emotions, or risks customers experience when completing

the job. In contrast, "gains" are the positive outcomes that customers want to achieve (Osterwalder et al., 2015).

On the other hand, the value map outlines the products and services a business offers, the pain relievers, and the gain creators. The "products and services" are what a company offers to help customers complete their jobs. "Pain relievers" are how these products and services alleviate customer pains, while "gain creators" are how they create customer gains (Osterwalder et al., 2015).

This approach is rooted in the customer-centric perspective, which contends that understanding and addressing customer needs is crucial to business success (Zott & Amit, 2010).

2.4 Business Model Canvas

The Business Model Canvas, introduced by Alexander Osterwalder and Yves Pigneur (2010), is a visual tool for developing new and evaluating existing business models. It contains nine building blocks and will be used in the case to explain TradeRepublic's business model. It is important to note that the BMC suggests utilizing the template (see appendix: Figure 5) to visualize the connection between the nine building blocks. As this would interrupt the reading flow, the author provides the information in text format.

Customer Segments: The target groups that the company aims to attract. These individuals are expected to become customers and generate revenue for the company (Osterwalder & Pigneur, 2010).

Value Propositions: These represent the unique solutions a business offers to address the needs of identified customer segments. They encompass the range of products or services that deliver value to customers and solve their problems (Osterwalder & Pigneur, 2010).

Channels: These refer to the mechanisms and ways a company delivers its value propositions to its customers (Osterwalder & Pigneur, 2010).

Key Partnerships: This term encompasses the network of suppliers and partners that facilitate and support the functioning of the business model (Osterwalder & Pigneur, 2010).

Key Resources: These are all assets, tangible as well as intangible, that are indispensable for the effective functioning of the business model (Osterwalder & Pigneur, 2010).

Key Activities involve critical operations or tasks that a company must undertake to ensure its successful business activities (Osterwalder & Pigneur, 2010).

Customer Relationships: This term describes how the company interacts with its customers and maintains a business relationship with them (Osterwalder & Pigneur, 2010).

Revenue Streams: This block refers to all means by which a company generates revenue. It includes payments from providing the value proposition to customers and all other earnings, which could, for example, result from partnership arrangements (Osterwalder & Pigneur, 2010).

Cost Structure: This element comprises all the costs associated with the execution and maintenance of the business model (Osterwalder & Pigneur, 2010).

2.5 Cage Framework

The CAGE Framework was developed by Pankaj Ghemawat in 2001 and is an acronym for Cultural, Administrative, Geographic, and Economic dimensions. It is used to analyze the differences between countries and their respective effects on international business activities. The framework is beneficial in assessing the potential opportunities and challenges companies face when entering foreign markets (Ghemawat, 2001).

- Cultural: This aspect includes factors such as language, religion, social norms, and values. The cultural element significantly impacts consumer preferences, management, and communication styles (Ghemawat, 2001).
- Administrative: This dimension refers to different government systems (e.g., democracy vs. autocracy), regulations, policies, and public structures. Administrative differences can influence market entry and make growing business activities abroad considerably more complex (Ghemawat, 2001).
- Geographic: Geographic distance is not limited to physical distance but also includes factors such as climate, resources, and time zones. These elements can affect transportation costs, supply chain management, and the availability of skilled labor (Ghemawat, 2001).
- Economic: This economic aspect focuses on the variations in economic systems, income level, and development stage of the countries (e.g., industrialized country vs. developing country). Economic differences can impact market potential, purchasing power, and the competitive environment. One way to measure economic distance is by comparing the

GDP per capita between countries (Ghemawat, 2001). GDP per capita is also an indicator of the income level in a country. However, Mankiw (2011) highlights that this approach has some limitations, as it does not consider how income is distributed among the population.

An important concept associated with the CAGE framework is psychic distance, which refers to perceived differences between the home and foreign countries (Johanson & Vahlne, 1977).

When considering entering a foreign market, psychic distance is crucial in a company's decision-making process. A higher psychic distance may lead to increased reluctance for a firm to enter a foreign market, suggesting the need for more adaptation and understanding of local market conditions and preferences. On the other hand, a lower psychic distance can encourage a company to pursue opportunities in a foreign market, as it implies less adjustment and more familiarity with the market environment (Evans & Mavondo, 2002).

2.6 Hofstede Dimensions

Arguably the most recognized framework to measure and compare the cultural differences between countries was developed by Geert Hofstede in 1980. Hofstede's cultural dimensions theory is based on six dimensions and helps to understand how cultural values influence behavior, communication, and management styles across countries and regions (Hofstede et al., 2010).

“Power Distance” speaks to how much a society accepts and expects disparity in power among its citizens. The dimension of “Individualism versus Collectivism” measures whether personal or group interests take precedence in society. Hofstede's dimension of “Masculinity versus Femininity” differentiates societies based on a preference for assertiveness and competitiveness or a leaning toward care and cooperation. “Uncertainty Avoidance”, another dimension, evaluates how comfortable a society is with uncertainty and ambiguity, indicating their tolerance for unstructured situations. The balance between “Long-term and Short-term Orientation” is assessed in another dimension, examining how much a society values long-term planning and perseverance in contrast to focusing on immediate accomplishments and instant gratification. Lastly, the dimension of “Indulgence versus Restraint” underlines the degree to which a society either permits or restricts the pursuit of desires and enjoyment of life (Hofstede et al., 2010).

Hofstede's cultural dimensions can be used as a tool to measure and quantify the cultural distance between countries. By comparing the values of different countries on these dimensions, it is possible to gain insights into the cultural similarities and differences between markets, which can then influence international business strategies and decisions (Hofstede et al., 2010). The upcoming section on internationalization will delve deeper into how Hofstede's dimensions impact investment behavior. Including prior literature in the case section aims to improve the coherence of the reading experience and make the section more graspable.

2.7 Uppsala Model

The Uppsala Model is a framework that explains how firms can gradually expand their business activities to international markets. Proposed by Johanson and Vahlne (1977), the model suggests that companies evolve through increasing stages of internationalization, building on the experimental knowledge and experiences gained from previous international business activities.

One of the central ideas in the Uppsala Model, and the one this case study centers around, is psychic distance. According to the model, companies should first focus on markets with low psychic distance, meaning countries that are more similar to their home country. This approach is beneficial as it allows companies to use their existing knowledge to minimize risks and establish a stronger foundation for further expansion (Johanson & Vahlne, 2009).

III. Case Study

3.1 Introduction

TradeRepublic's story begins in 2015 in Munich (Germany) as part of Comdirect Bank's startup incubator. Since then, the goal has been to provide everyone with easy and affordable access to capital markets, intending to counteract the growing pension gap. Despite starting operations only in January 2019, the fintech had successfully accrued over 2 million users and expanded to 17 European countries by the end of 2022. TradeRepublic's rapid business growth was significantly facilitated by one external factor, the Covid-19 pandemic. While most firms around the globe faced challenging times and significant losses during the pandemic (Bartik et al., 2020), TradeRepublic experienced growth. The government-imposed lockdowns, a response to the pandemic, actually acted as an accelerator for the company's expansion. With lockdown measures forcing individuals to stay at home, many began exploring new hobbies and interests, including investing (see appendix: Figure 6) The study has found that 32% of Millennials (born between 1981 and 1996) increased their investment activity due to Covid-19. Additionally, Mannweiler (2022) highlights a survey among TradeRepublic users, conveying two very interesting findings: 70% of TradeRepublic customers are younger than 35 years old, and 47% answered that they traded for the first time using the TradeRepublic platform. As interest rates have remained low and stock markets collapsed in response to the COVID-19 crisis, this scenario presented a unique opportunity for first-time investors to enter the market, purchasing stocks at perceived low prices.

Despite their extraordinary success, the company has faced multiple challenging situations. This study describes those key events that transpired around the company in recent years and provides the grounds to elaborate on them using well-recognized management theories and frameworks.

The following chapter explores TradeRepublic's business model and long-term strategy. Subsequent sections focus on the firm's communication strategy during the GameStop incident and the timely launch of a feature for trading cryptocurrencies. Finally, the primary attention of the case is concentrated on TradeRepublic's internationalization campaign in Europe and the causes for distinct performance among foreign countries.

3.2 Understanding the brokerage landscape

Examining the roles of market makers and issuers in the financial industry is crucial to gain a deeper understanding of the platform's operations.

Market makers are essential components of the financial market ecosystem. They act as intermediaries, facilitating smooth trading experiences for investors by offering buying and selling prices for various financial assets (Bloomenthal, 2023). By providing both purchase and sale prices, market makers contribute to market liquidity. This enables investors to carry out transactions without searching for a counterparty. Market makers maintain a stock of financial instruments and buy from or sell to investors based on the current market demand. The bid price is the maximum amount a market maker is prepared to pay to buy an asset, while the ask price represents the minimum amount they are willing to accept when selling. The gap between these two prices, known as the spread, is the primary source by which market makers generate revenue (Bloomenthal, 2023).

Issuers refer to corporations, governments, or other entities that create and offer financial securities to raise funds (Hayes, 2020). Issuers supply the financial products, e.g., stocks, derivatives, and ETFs, which users can trade on TradeRepublic's platform. Trade Republic, conversely, operates as an intermediary, enabling investors to access and trade those financial products.

3.3 Business Model

This section aims to provide a simple and understandable overview of TradeRepublic's business model using the building blocks of the Business Model Canvas framework.

Customer Segment

The platform primarily appeals to tech-affine individual investors who prefer managing their investments on their own via smartphone or computer. Trade Republic's user-friendly interface and cost-effective trading options attract both first-time and experienced investors who seek easy access to capital markets.

Value Propositions

Trade Republic sets itself apart from competitors through several distinguishing features:

Competitive pricing model: A fixed fee of €1 per trade, with no account management or deposit fees, ensures cost advantages compared to traditional brokers. Additionally, saving plans are free of charge.

Intuitive interface: The mobile app has a clean and minimalist design, allowing users to easily execute trades and manage their portfolios without being discouraged by complexity.

Diverse investment options: Users can invest in stocks (~8600), ETFs (~1800), derivatives (~10000+), and cryptocurrencies (~50) while also participating in savings plans (~4900) and benefiting from fractional investing (Trade Republic, n.d.).

Educational resources: Market updates, podcasts, and personalized news feeds provide users with relevant information and assist in making informed investment decisions.

Channels

The company operates through its mobile app and desktop version, available for iOS and Android devices. Users can create an account and begin trading immediately after downloading the app from the App Store or Google Play. There are no physical branches of TradeRepublic.

Key Partnerships

TradeRepublic collaborates with several key partners to ensure smooth operations for its customers.

Banks: Solaris SE, Deutsche Bank, Citibank, and J.P. Morgan SE act as service providers and handle account and custody management on behalf of Trade Republic. Customers' assets of up to €100.000 are protected by statutory deposit insurance.

Market maker: Lang & Schwarz acts as Trade Republic's market maker and executes more than 99% of the trades initiated on the TradeRepublic platform.

Issuer: iShares, Xtrackers, and Lyxor provide the financial products for TradeRepublic and offer commission-free trading for selected ETFs on the platform.

Key Resources

The following encapsulates the most vital tangible and intangible key resources.

Technological infrastructure: The mobile app and backend systems ensure efficient trading services.

Regulatory compliance: Licenses and certifications, including a German banking license and European passporting rights, permit Trade Republic to operate as an investment platform in any other country within the European economic area and enable the company to expand to international markets.

Human capital: Employees can be seen as the company's backbone, skilled technical engineers, financial experts, and customer support representatives develop, maintain, and promote the platform. The company frequently hires top talents from successful companies in disruptive markets to help keep the leading position in the German neobroker market.

Reputation and Trust: Trust is arguably the most essential intangible resource TradeRepublic relies on. As customers deposit their savings with the company, a good reputation and trustworthiness are crucial to build and maintain a loyal customer base. This resource refers directly to the resource-based view and is an essential VRIN resource.

Key Activities

Developing and maintaining the platform: Continuous app and backend systems improvement supports a satisfying user experience and new features. Some features are not available in every country yet and need adaptations before launching in foreign markets such as crypto trading and automated tax deduction.

Marketing and user acquisition: Promotion of the platform increases brand awareness and attracts new users. This is particularly relevant in new markets, where the company also works on partnering with influencers to strengthen their visibility on social media.

Providing customer support: Assisting users if they experience issues or have questions about the products and services.

Customer Relationship Management

Customer relationship efforts are manageable, as TradeRepublic has no physical branches and does not interact with customers face-to-face; the primary connection here is the customer support team. Recently the company started working to strengthen its social media appearance in cooperation with influencers to be more approachable.

Revenue Streams

Understanding how TradeRepublic generates revenues is essential to work with the case properly, as this part significantly affects the companies' long-term business strategy. Effectively there are three main revenue streams:

Service fee: Users pay a service fee of €1 for every trade they make. The amount of the trade is irrelevant, the fee remains €1.

Contracts with issuers: TradeRepublic partners with certain issuers and offers their financial products (e.g., ETFs) on the platform. The issuers pay a fee to put their products into customer focus.

Pay for order flow (PFOF): PFOF is the revenue generator of utmost importance. Market makers generate their revenues with the spread of bid and ask prices, as explained in the previous section. TradeRepublic routes their trades to the market maker Lang&Schwarz, which on the other hand, pays a commission fee back to TradeRepublic for initializing the transaction. According to Collin, this commission fee is, on average, significantly larger than the service fee charged to customers. As this might seem like an incentive to route trades to market makers that offer larger spreads and thus have worse consumer conditions, a recent study by Meyer et al. (2021) found that PFOF does not harm investors.

Cost Structure

Platform development and maintenance: Expenses related to app development, backend systems (e.g., servers), and other technological infrastructure.

Regulatory compliance: Costs associated with obtaining and maintaining licenses and certifications, as well as legal assistance.

Human capital: All costs associated with salaries and benefits for employees.

Marketing campaigns: Advertising and promotional expenses to attract new users and increase brand awareness.

The cost aspect, specifically costs associated with the expansion to foreign markets, will be further explained in the section about internationalization.

3.4 Long-term strategy

TradeRepublic's strategic approach is anchored in four fundamental principles: Trustworthiness, Reputation, User Loyalty, and an effective Partner Network. The primary aim is to accumulate as many long-term users as possible. Given that TradeRepublic generates revenue from each transaction, it is vital for the business to both expand its user base and encourage consistent trading activity among its users.

Two crucial aspects of this strategy—Reputation and Trustworthiness—are intrinsically linked. A strong reputation can increase the probability of acquiring new users, enhancing the platform's trustworthiness (Keller, 2001). The common understanding is that if existing customers, including friends, use and recommend the platform, it must be trustworthy.

Further, a strong emphasis on fostering user loyalty contributes to a steady revenue stream. This focus ensures the generation of regular income with relatively little additional effort. The core of TradeRepublic's strategy is the continuous growth of its user base and the retention of long-term customers who provide consistent revenue and are less likely to switch to competitors due to the associated inconvenience. As part of this strategy, the company encourages long-term investments by offering saving plans for free.

3.5 Gamestop short squeeze

In January 2021, the GameStop short squeeze made headlines as individual investors on the Reddit forum WallStreetBets grouped together to buy shares of the struggling companies Gamestop, AMC, and Blackberry. GameStop, a brick-and-mortar video game retailer, faced difficulties due to the growing preference for digital game distribution. This caused its share price to decline, prompting hedge funds to bet against the company through short selling. However, individual investors on the subreddit “WallStreetBets” noticed the high short interest in GameStop and began buying shares, which led to a massive increase in the stock price (see appendix: Figure 7). Consequently, short sellers were forced to buy back shares at higher prices, resulting in significant losses for hedge funds. Within a few days buying these stocks became such a hype that it attracted retail investors all around the globe (Umar et al., 2021).

As excitement surrounding GameStop, AMC, Blackberry, and some other stocks continued to grow, Trade Republic restricted trading of these stocks on the evening of the 28th of January 2021. It was no longer possible to buy shares of those companies. Instead, customers were shown a message in their app (Schulte, 2021): *"Due to the risks associated with extreme price*

volatility, we are temporarily blocking GameStop, AMC Entertainment, BlackBerry, Nokia, Express Inc., and Bed Bath & Beyond from further purchases. Existing options may continue to be reduced or sold".

Investors were outraged, as buying the stock was part of their strategy to drive prices further up. Especially unfortunate was the phrasing "*because of the associated risks to you*" in the first statement, which seemed to indicate an intention to protect users against their will. This made customers believe TradeRepublic was trying to manipulate the market and had sided with hedge funds (Münster, 2021).

The imposed trading restrictions had an unfavorable effect on TradeRepublic's reputation. Users voiced their frustration and disappointment, raising concerns about the platform's long-term credibility and independence. Consequently, App ratings on the Apple App Store and Google Play Store plummeted as users vented their frustrations through ten thousand negative reviews within a few hours.

Collin mentions that he remembers the night from Thursday (January 28th) to Friday (January 29th) as one of the most challenging since joining the company. He and the whole senior management team spent all night in the Berlin office, trying to figure out how to deal with that exceptional situation, as everybody was worried about the negative press and potential reputational damage.

According to Collin, the reason for the imposed trading restriction has been an overload of the technical infrastructure caused by an enormous number of orders during the hype. The market maker "Lang & Schwarz Exchange" couldn't guarantee timely execution of orders anymore, posing a considerable risk for investors who wanted to sell in this highly volatile market environment. To ensure that technical delays would not affect sellers, there had to be a restriction on incoming orders.

TradeRepublic users who checked their emails on Friday morning found an email trying to explain the reasoning behind the trading restrictions as well as a notification that trading resumed to normal (Schulte, 2021): "*We have lifted this restriction. We expressly apologize for the temporary restriction of your freedom to trade.*" [...] "*In order to ensure trading stability for the majority of the market, we have decided to stop accepting buy orders of certain stocks for the time being.*"

However, users affected by the trading restrictions were not satisfied, and ratings kept dropping further over the weekend. Bafin, the “Federal Financial Supervisory Authority” in Germany, received over 4000 complaints about TradeRepublic and started investigating potential market manipulation (Münster, 2021).

On February 3rd, six days after initially imposing trading restrictions, TradeRepublic sent a message apologizing to its customers. Some excerpts read as follows (Münster, 2021): *"We did not do a good job here. [...] The first communication to our customers was not good. We didn't separate enough between explanation (technical risks) and education (volatile stock risks). [...] We took this decision to ensure operations for our customers. There were concerns that there could have been rapid drops in the prices of stocks such as GameStop or AMC in the wake of particularly high volatility. In that case, technical delays would have resulted in potentially heavy losses."*

TradeRepublic's communication strategy during the Gamestop short squeeze crisis was criticized for lacking transparency and timeliness. The company's initial communication failed to provide a clear and comprehensive explanation of why the trading restrictions were necessary. This lack of clear and transparent communication resulted in frustration among users, who felt inadequately informed about the situation. Collin states that, even though there was great concern within the management team that this incident could negatively affect the company, TradeRepublic continued its rapid growth during the following months. After two months, the Bafin complaints were dropped, and the whole event seemed forgotten. When asked what his takeaway from the situation is, Collin says, *"It appears there is no such thing as bad press"*.

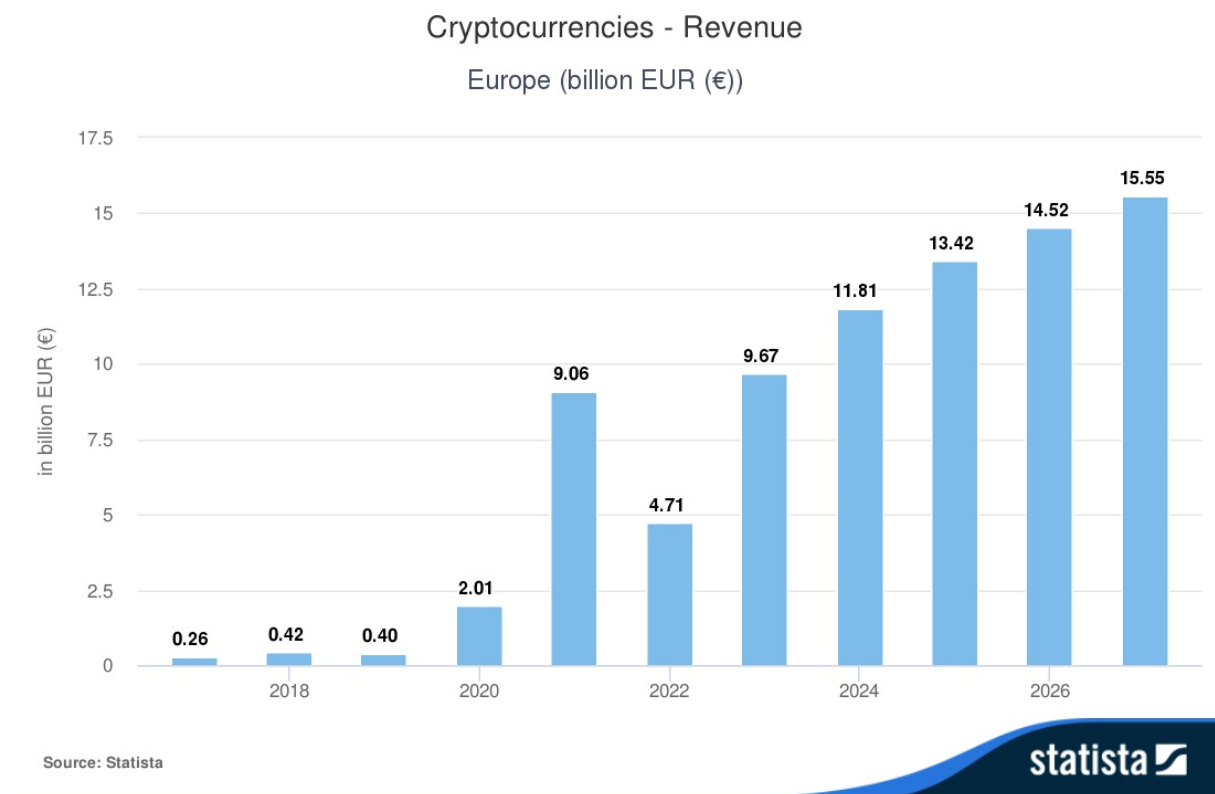
The author wants to highlight his belief that, even if the communication had adhered to the principles of process fairness, it is improbable that all customers would have accepted the trading restrictions without any protest.

3.6 Implementation of cryptocurrency trading

During the last few years, Bitcoin and cryptocurrencies have shaken the financial world. Digital currencies have become a popular asset class, and the projected market size suggests that the market will keep growing strongly. A recent study by Statista (2023a) estimates the total market for revenues in the European crypto sector to be approximately €9.6 billion. The data includes only revenues generated by crypto exchanges and neobrokers, while NFTs, B2B Trading

platforms, and Web 3.0 services are out of scope. Furthermore, the market is expected to grow at an annual growth rate of approximately 12.6%, projecting a total amount of €15.55 billion in 2027. For comparison, the total market size in 2017 was only €0.26 billion, which implies a real growth of 3600% within the period from 2017 to 2023.

Figure 1: Revenue of Cryptocurrency transactions of crypto exchanges and digital brokers in Europe (Statista, 2023a)



Given that information, it is unsurprising that the management board of TradeRepublic decided to include crypto trading on their platform. The crypto update launched in May 2021 in Germany, and customers could initially trade four of the leading cryptocurrencies (Bitcoin, Ethereum, Bitcoin Cash, and Litecoin). Particularly interesting is that the idea of including a crypto feature on the platform was not new. According to Collin, plans to launch crypto trading have already been around for several years before the actual launch. Even a crypto expert has been hired significantly before the start of the project. Collin highlights that they were optimistic that crypto would become relevant and that they needed to be ready when that time came. However, he also stated that in a hypergrowth environment, one key factor for success

is prioritizing the right projects at the right time and allocating the available resources to create maximum value for the company. Here it is essential to mention that the early-on hired crypto expert is also a highly skilled software engineer who was able to contribute to other projects as well. Until 2021, the crypto feature was not among the company's most prioritized projects, although that was about to change. As the price and trading volume of Bitcoin and other cryptocurrencies began to skyrocket (see appendix: Figure 8) in early 2021, implementing crypto trading became a primary focus. With plans made long beforehand and an experienced crypto engineer already within the company, the implementation and launch of the new crypto feature were completed within a few months. Today, in May 2023, the platform offers over 50 crypto coins and continuously expands its portfolio. Although the new feature caused excitement among many users during the first weeks of operating, crypto trades still make up only a small proportion of trades executed on TradeRepublic, mentions Collin. This approach can be directly related to the dynamic capabilities perspective. The executives at TradeRepublic sensed an opportunity in the crypto market and reconfigured their resources, in this case, the engineering team, to cater to those changing market demands. The decision was well timed, as the product launched when market demand for crypto trading was high and increasing. However, it is important to note that the crypto feature is only available in some countries, yet.

3.7 VC Investments

The beginning of 2021 has been a turbulent time for the decision-makers at TradeRepublic. While the Gamestop incident in January caused negative headlines and a temporary decrease in reputation, the headlines in May 2021 are of a different nature. This time the mood at the headquarters in Berlin is extraordinarily good. The company, around Co-founder and CEO Christian Hecker, has just secured an enormous Series C funding of \$900 million led by renowned U.S. venture capital firm Sequoia Capital, which increased the company's valuation from \$600 million to \$5.3 billion within just one year (Lunden, 2021). The funding followed a previous Series A round in 2019 (\$12 million) and a Series B round in 2020 (\$75 million), which had already attracted prominent VCs, including Creandum, Project A Ventures, Accel, and Founders Fund.

This large Series C plus an additional investment of the Ontario Teachers' Pension Plan in 2022 (\$250 million) paved the way for an ambitious internationalization strategy across Europe. According to Collin, most of the funding is being used to expand to new international markets and to enhance the existing product landscape with new features.

3.8 International expansion

The first launch in a foreign market occurred in the neighboring country Austria in November 2020. After securing significant funds in the beforementioned Series B round in April 2020, TradeRepublic started expanding its business operations to nearby European countries. Demand for a low-cost neobroker in Austria seemed to be high, as more than 10.000 future customers joined a waiting list to be among the first to be able to utilize the new trading platform. To ensure a smooth launch and not risk overloading internal capacities TradeRepublic activated user accounts gradually and not all at once. However, the high observed demand in Austria seemed to be promising regarding entering more foreign markets. Within three months, in January 2021, TradeRepublic also launched in France, beginning what will become an expansion to most European countries in the future. While the company already counted 150.000 users within the first year after launching in Germany in 2019, the customer base kept growing even more rapidly the year after. In May 2021 TradeRepublic already had more than 1 million registered users in Germany, Austria, and France, confirms Collin.

As of today, May 2023, TradeRepublic is active in all 17 European countries which have the “Euro” currency, except for the three countries “Croatia”, “Cyprus,” and “Malta.”

According to Collin, Switzerland and the United Kingdom would be promising markets to expand to, as both have a very high-income level and a population that is highly willing to invest in digital financial instruments. However, as both countries use a different currency and are not part of the European Union, expanding operations to those countries seems to be complicated. Aside from regulatory differences, Collin mentions the necessity to implement a multi-currency set-up on the trading platform, which would require a lot of time and resources.

3.8.1 Preparing a launch

According to Collin, venturing into foreign markets poses certain difficulties and requires adequate preparation beforehand. He explains several factors to consider and measures to be taken before launching in a new market.

As an example of preparation, the author uses the case of the Portuguese launch to simplify. To begin, the app that was initially only available in German needs to be translated into the local language, Portuguese. Furthermore, the customer service team needs to be staffed with employees who speak the language fluently. As the customer service team is centralized in Berlin, it's necessary to hire Portuguese speakers in Germany. Additionally, a Country Manager

will be hired, who is familiar with the respective market situations. As Portugal is a relatively small market, the Country Manager of Spain is also responsible for the Portuguese market for now. Here it is essential to mention that some smaller countries, with less market potential, are bundled into areas where one Country Manager overlooks several markets. At the same time, other Country Managers are only responsible for one more extensive market. In addition to adapting the language and hiring the right people, it is crucial to get to know the domestic market and the products, in our case, financial instruments (e.g., Stocks, ETFs), which are popular among the domestic population. To do so, TradeRepublic representatives consult market makers and analyze the respective market situation to ensure to include relevant stocks in the portfolio. For example, EDP Renováveis (ELI: EDPR) might not be relevant to investors from Germany but could be very relevant for Portuguese investors. This approach is in line with Grinblatt and Keloharju's research (2001), which found that investors are more likely to invest in stocks of geographically close firms that speak the same native language as the investor.

3.8.2 Expansion costs

Once the preparation is done and the platform has launched in the new market, the additional cost of operating in a country is relatively low. According to Collin, operating costs consist of IT infrastructure (operating and maintaining servers), HR (Customer Service and Country Manager), and costs associated with legal and compliance. Overall, the cost of preparing, launching, and operating in a new market amount to *“only a few hundred thousand euros per year.”*

3.8.3 International performance comparison

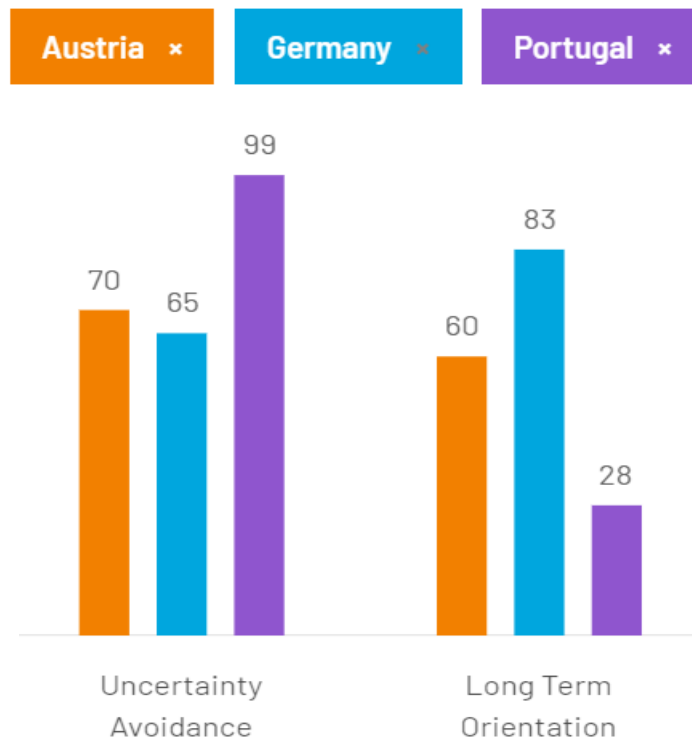
Six months have passed since TradeRepublic started operating in eleven additional countries, including Portugal, in October 2022. While the launch in Spain and Italy already happened 18 months ago, one matter became particularly noticeable by the end of 2021. Collin states that while some countries, such as Austria and France, have performed extraordinarily well shortly after market entry, the southern European countries, especially Portugal and Spain, tend to perform below expectations. According to Collin, one reason for this situation could be a difference in investment culture among countries. While ETF investments in central European countries have spiked in recent years (Bhojraj et al., 2020), the investment culture in southern European countries appears more conservative. Instead of trading stocks and ETFs digitally,

retail investors in Portugal, Spain, and Italy tend to invest more in traditional bonds and actively managed funds at their local brick-and-mortar banks. The report “Global Retail Banking 2022: Sustainability and Good Sense” by the renowned consulting firm BCG supports this theory by highlighting that especially consumers in Portugal, Spain, and Italy trust traditional banks more than their digital competitors.

Prior research has suggested a relationship between cross-cultural values, measured by Hofstede’s dimensions, and individual investment behavior in the respective countries. Dutta and Mukherjee (2015) found a robust negative correlation between Hofstede’s dimension of “Uncertainty Avoidance” and stock market development in a country. Particularly interesting for this case is also the study of Howlett et al. (2008) which shows that “Long-term Orientation” strongly affects consumers’ likelihood to set up a saving plan in preparation for retirement. Even though there is additional research that suggests a positive correlation between “Individualism” and trading volume (Chui et al., 2010), this case is going to focus on “Uncertainty Avoidance” and “Long-term Orientation.” At this point, it is necessary to recall the section about the business model explanation, to realize that it is more profitable for TradeRepublic to maintain long-lasting relationships with customers who frequently execute investments in saving plans rather than having customers who might trade extensively in the beginning but are less consistent in the long run.

Comparing Hofstede’s cultural dimensions between Germany, Austria, and Portugal displays some thought-provoking insights.

Figure 2: Comparison of Hofstede dimensions “Uncertainty Avoidance” and “Long-term orientation” (created on Hofstede Insights)



The figure shows the respective values of Austria, Germany, and Portugal on the dimensions of “Uncertainty Avoidance” and “Long-term Orientation” and was created with Hofstede’s country comparison tool “Hofstede Insights”. It is particularly noticeable that Germany (65) and Austria (70) have very similar values on “Uncertainty Avoidance”, whereas Portugal reaches almost the maximum with 99 out of 100 points. On the other hand, contrary to “Uncertainty Avoidance” Portugal has a very low value (28) on “Long-term Orientation” compared to Germany (83) and Austria (60). Portugal’s description on Hofstede Insights further highlights a relationship between this dimension and expectancy to engage in saving for retirement: *“They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results.”*

Similar values were found for Spain, which also has a relatively high value (86) on “Uncertainty Avoidance” and a lower value (48) on “Long-term Orientation”. Given the findings of the beforementioned studies, those cultural differences could be one explanation for the comparably disappointing performance of TradeRepublic in southern European countries so far.

A recent study by Statista (2023b) analyzed the revenues generated by online brokers and digital trading platforms, such as TradeRepublic, which focus on retail investors across European countries. Brokers that solely offer B2B services and revenues generated by cryptocurrencies are out of scope.

Table 1: Revenue of neobrokers and digital trading platforms in Europe (Statista, 2023b)

REVENUE in million EUR (€)											
	2017	2018	2019	2020	2021	2022	2023*	2024*	2025*	2026*	2027*
Austria	4,1	6,6	10,0	13,2	15,9	15,4	17,2	18,0	18,5	19,0	19,4
France	24,4	38,9	59,3	78,8	95,1	92,5	104,1	109,5	113,6	117,2	120,4
Germany	36,1	57,8	87,7	115,7	138,1	132,6	147,2	152,8	156,7	159,9	162,6
Italy	12,0	20,3	31,2	42,5	53,0	52,9	60,5	64,1	66,6	68,4	70,0
Portugal	1,3	2,3	3,5	4,7	5,9	6,0	6,8	7,3	7,6	7,8	8,0
Spain	11,0	17,9	27,8	37,7	46,2	45,6	51,9	55,0	57,5	59,6	61,5
Sources	Statista										
Most recent	04/01/2023										

Even though Collin highlights that, based on his knowledge, those numbers cannot be entirely accurate, he confirms that they are a suitable approach to display the market development in the respective countries.

The following table by Eurostat (2022) shows the GDP per capita and individual consumption numbers across the European nations. The numbers are a percentage in relation to the European average (e.g., the number “120” for Germany in GDP in 2021 shows that Germany’s GDP per capita was 120% of that of the European average, indicating it was 20% more than the average). “EA19” is the average of all countries in the euro area, meaning the countries which use the “Euro” as their currency.

Table 2: GDP per capita, consumption per capita and price level indices in Europe (Eurostat, 2022)

Volume indices per capita, 2019-2021, (EU=100)

	Gross domestic product			Actual individual consumption		
	2019	2020	2021	2019	2020	2021
Luxembourg	251	261	268	146	141	144
Ireland	189	205	219	94	88	88
Denmark	126	133	133	115	120	119
Netherlands	127	130	130	113	115	115
Sweden	119	122	123	109	111	111
Austria	126	125	123	117	116	117
Belgium	118	119	120	114	114	116
Germany	121	123	120	122	124	120
Finland	109	114	112	111	114	112
EA19	106	105	105	106	105	104
France	106	104	104	109	110	111
Malta	103	97	100	86	82	83
Italy	97	94	95	100	97	98
Czechia	93	93	92	85	85	85
Cyprus	93	90	91	97	97	95
Slovenia	89	89	90	83	82	85
Lithuania	84	88	89	93	95	97
Estonia	82	86	89	76	79	80
Spain	91	83	83	91	84	85
Poland	73	76	77	80	83	84
Portugal	79	76	75	86	84	84
Hungary	73	75	75	67	70	70
Romania	70	73	74	78	81	84
Latvia	69	72	72	71	73	76
Croatia	67	65	70	67	68	72
Slovakia	71	72	69	70	72	71
Greece	66	62	64	77	74	75
Bulgaria	53	55	57	58	60	65
Norway	147	142	167	128	127	126
Switzerland	153	154	155	123	122	119
Iceland	126	119	119	114	119	119
Türkiye	59	61	63	65	66	69
Montenegro	50	45	48	60	59	60
Serbia	41	43	44	49	51	53
North Macedonia	38	38	42	43	43	51
Albania	30	31	32	38	39	39
Bosnia and Herzegovina	32	33	33	41	41	41

Note: countries are sorted according to their 2021 volume index per capita for GDP.

Source: Eurostat (online data code: prc_ppp_ind)



Important to note: The specifics of the tables and numbers presented are intentionally left unexplained at this point. This choice is designed to stimulate critical thinking and detailed analysis on the part of the student in the discussion section of the case.

IV. Teaching Notes

This upcoming chapter of the dissertation is designed to serve as a resource for instructors who wish to use this case study in their classrooms. This section will provide a synopsis of the case, articulate the learning objectives, propose potential assignment questions, and elaborate on possible solutions. The material from the case should enable students to apply their theoretical knowledge to real-world scenarios. As this case is quite extensive, it is not suitable to be solved in class. Instead, it is intended to be a written take-home assignment. However, instructors could dedicate one class to summarize and discuss the results and compare different approaches students might have used to answer the questions.

Please bear in mind that both instructors and students may interpret the concepts differently or apply diverse perspectives to the case. Hence, instructors could use the base of the case but change the theoretical focus and applicable frameworks of assignment questions and solutions.

4.1 Synopsis

TradeRepublic is a German neobroker that recently expanded its business operations to 17 European countries. The company offers affordable and simple access to capital markets, enabling everybody with a smartphone or computer to participate in stock trading. In times of prevailing low interest rates and the restrictions imposed during Covid-19, the company's business model quickly gained traction and attracted over 2 million users. While revenues in most foreign countries exceed expectations, the performance in some southern European countries, mainly Portugal and Spain, is rather disappointing.

This case study examines TradeRepublic's business model and long-term strategy and seeks to elaborate on two key events the company faced and still faces. The first being the scandal surrounding the Gamestop short squeeze in 2021, which made headlines because the company imposed trading restrictions on specific stocks. Secondly TradeRepublic's expansion to foreign markets including an analysis of possible factors causing the distinct performance among countries.

4.2 Target audience

This case study is primarily intended for graduate students in business administration who specialize in strategy, consulting, or entrepreneurship. Additionally, the case study could also be relevant to participants in executive programs or students in the field of international relations. It is important to note that prerequisite knowledge in management and economic-related topics is essential for this case because basic terms and concepts will not be explicitly explained.

4.3 Teaching objectives

After a thorough analysis of the presented case, students should be able to expand their knowledge in areas such as strategic management, organizational behavior, and entrepreneurship. These theoretical foundations are supposed to enable and encourage students to apply the relevant frameworks to real business situations. In particular, students should be able to:

1. Apply the Value Proposition Canvas framework, identifying customer jobs, pains, and gains by extracting relevant information from the text.
2. Understand how the concept of process fairness is applicable to real-world communication strategies during a crisis.
3. Analyze a company's internationalization strategy using the Uppsala model and being able to differentiate between cultural and economic causes for business performance in foreign markets.
4. Engage in critical reasoning and provide structured and logical argumentation for recommending a business strategy.

4.4 Suggested assignment questions

The compilation of questions presented below doesn't aim to confine the case only to those proposed dimensions. These questions and the corresponding responses are limited to the author's perspective on the case. Depending on the focus of the class, instructors are encouraged to reshape the questions to suit their specific objectives better. For example, the case could be reshaped to delve deeper into the topics of dynamic capabilities and resource-based view. The author provided a brief explanation of how those concepts could be applied to the company's situation, but chose not to include them in the question section to prevent an excessive number

of focus areas. Should an instructor wish to emphasize other concepts, the possibility to do so certainly exists. The recommended questions are intended to be answered in the given order, as the author deliberately arranged them in this way. Some questions depend on the outcomes of the preceding ones, and students can refer to their findings by answering them in order.

1. Use the Value Proposition Canvas to analyze how TradeRepublic's products and services catered to customer demands during the breakthrough in the Covid-19 era. Include short explanations and make sure to consider not only the functional aspects but also emotional factors.
2. Assess how TradeRepublic communicated the trading restrictions during the GameStop incident. What could they have done differently to potentially achieve a more favorable perception among their customers?
3. Analyze TradeRepublic's initial internationalization strategy and elaborate on possible causes for the relatively poor performance in Portugal.
4. Given the information in the case, what measures could TradeRepublic take regarding their business operations in Portugal. Examine two scenarios and focus your recommendation on the cost aspect.

4.5 Discussion

1. This question is supposed to reflect the student's capabilities to extract information from a text. The intention for students to answer this question first is to increase familiarity with TradeRepublic's customer strategy and products and services before answering the more challenging and complex questions. Given the need for detailed answers, the author has chosen to provide the suggested solutions in a text format rather than using a VPC template.

Customer Jobs

Easy access to capital markets: The platform simplifies access to capital markets, making investment processes straightforward and transparent.

Ability to invest in assets to counter low-interest rates: In a low-interest-rate environment, customers seek alternatives to traditional savings options. They want an opportunity to invest in diversified assets to maintain or increase their wealth.

Gratification by trading anywhere, anytime: Most customers value convenience and flexibility. The ability to trade anytime, anywhere, and on any device is a significant advantage that resonates with them.

Customer Pains:

Low interest rates on saving accounts: Recent years have been challenging for savers due to low or even negative interest rates. Customers are looking for alternatives to generate returns and avoid the erosion of their savings due to inflation.

Complicated broker accounts: Traditional brokers often have complex user interfaces, which makes them less appealing to the average investor. Customers prefer a simplified and cost-effective approach to investing.

High fees at conventional brokers: High trade fees can eat into investment returns. Customers want affordable trading options to increase their overall returns.

High perceived effort to open a depot at a regular bank or broker: Traditional banks and brokers often have lengthy and complicated processes for opening investment accounts, which can be stressful and annoying for potential investors.

Customer Gains

Simple registration from home: The convenience of setting up an account from home removes the necessity to be physically present and makes the sign-up process much more comfortable and attractive.

Less cost compared to regular brokers: Lower trading costs mean customers can keep more of their returns, providing a significant advantage over conventional brokers.

Access to a wide range of financial assets: A diversified range of investment options, including stocks, ETFs, derivatives, and crypto, allows customers to adjust their investment strategy to their risk tolerance and financial goals.

Products & Services

Cheap and straightforward online brokerage platform: The platform removes the barriers of traditional brokerage services by offering a cost-effective and intuitive online service accessible to everyone with a smartphone or computer.

Exclusive products and free saving plans: Providing unique investment opportunities like exclusive ETFs and free saving plans allows customers to set up a long-term saving strategy without any additional costs.

Pain Relievers

Online registration: The ability to register online eliminates the need for physical bank visits. This feature was particularly relevant during the COVID-19 pandemic, where social distancing and lockdowns complicated physical interactions.

Easy access to capital markets: By removing barriers to investing, the platform makes capital markets more accessible to the average person.

Free account and meager trading costs: The platform's cheap pricing model alleviates the pain of high trading fees associated with conventional brokers.

Gain Creators

Simple user design: The platform's easy-to-use interface helps even beginners and individuals, who are not tech-affine, to explore the financial markets.

No hidden costs: A fixed fee structure ensures that customers can predict their trading costs, regardless of their trading volumes, providing peace of mind and transparency.

Creating an opportunity to invest: The platform provides access to various financial assets. It allows customers to generate higher returns than on a traditional savings account.

2. This question is designed to be a short question focusing on the aspects of process fairness when communicating difficult news.

An unfortunate series of events caused the Gamestop incident. To ensure the proper functioning of the trading platform, TradeRepublic had to temporarily restrict trades of certain stocks, a measure that was not well-received by customers who were affected by this decision. However, it was even more regrettable how TradeRepublic communicated this decision to its customers.

Students should refer to the section about process fairness and mention that one of the most significant issues about TradeRepublic's initial communication was a lack of transparency. Without an explanation, customers could not understand that there was a rational reason for the imposed trading restrictions. Additionally, they could highlight that TradeRepublic's first statement - "*because of the associated risks to you*" - was framed in a misleading way, which caused customers to perceive the actions as even more unfair and suspicious. When the company finally sent out an official apology,

including an explanation, after six days, many customers had already vented their anger by rating the app negatively. Hence, students should mention at some point in their answers the importance of communicating the reasons for actions in a timely manner.

As the author stated earlier, it is likely that the incident would have still attracted negative attention, even if TradeRepublic had regarded all principles of process fairness. However, several aspects could have been handled in a more favorable manner. First, they should have focused their initial statement on the reasons why this measure was necessary. It would have been better if the statement had provided a clear and empathetic explanation of the technical difficulties encountered and the risks associated with the platform's malfunctioning. Ideally, this explanation would have reached the customers before the trading restrictions were put into place, or at least, shortly after the measures were implemented. Furthermore, it would have been better to officially apologize within one or two days after the incident and use this apology to explain in detail why those actions were necessary. Such an approach might have allowed customers to comprehend the situation more clearly and feel more respected in the decision-making process.

3. This question is supposed to encourage students to demonstrate their critical thinking capabilities by applying the Uppsala Model, Cage Framework, and Hofstede dimensions to a real-world scenario.

Students are expected to describe that TradeRepublic followed the Uppsala model during its initial expansion, referring to the first international launch in Austria. The Uppsala model suggests that companies begin their internationalization in countries with a low psychic distance, meaning countries similar to the country of origin (Johanson & Vahlne, 1977). Austria is a democratic, neighboring country (geographical proximity), which speaks the same native language, has a similar income level (Table 2), and has similar values on both beforementioned Hofstede dimensions (Figure 2). Additionally, students should highlight that the second launch, in France, followed the same approach. France is, like Austria, a democratic country in direct geographical proximity. Although France speaks another language, the nations are similar in economic terms (Table 2).

The second part of the question aims for students to demonstrate their ability to comprehend information and relate it to potential causes. First, students are expected to refer to the explanations in the case and to elaborate on the cultural differences between Germany and Portugal, which could be a reason for the performance dissimilarity between the countries. The section about the Hofstede dimensions explicitly highlights Portugal's values on the dimensions of "Uncertainty Avoidance" and "Long-term Orientation" and their possible negative influence on investment culture in Portugal. It is particularly important that students mention that individuals living in countries with a low value on "Long-term Orientation" are less likely to set up a saving plan, referring to the importance of frequent, recurring trades for TradeRepublic's revenue stream. Connecting those factors shows if students could fully grasp an essential part of the business model. Additionally, students should recall the information about trust in the financial sector being an issue, especially in southern European countries, highlighting that this aspect possibly further hinders the adoption of digital trading services.

As for now, students have mainly summarized and categorized information that has been presented in the case. The next part of the expected answer is about engaging in critical thinking and highlighting different perspectives on the causes.

Students should refer to the tables (1 and 2) and question if the beforementioned cultural factors are the sole reason for the weak performance in Portugal. Table (1) displays generated revenues of digital trading companies in some European countries, including Germany and Portugal, during recent years. At first sight, the numbers suggest that the relative growth rate among the countries has been similar and that also Portugal experienced formidable growth from 2017 to 2022, which would question the significant relevance of cultural factors. It is important to note that the author knows that this approach is flawed and does not convey accurate results, due to various limitations. First, comparing growth per capita, assuming a population of 84,3 million (Statistisches Bundesamt, 2023) and 10,3 million (Instituto Nacional de Estatística, 2021) for Germany and Portugal, respectively yields an absolute growth in revenue per capita of €1,14 in Germany and only €0,46 in Portugal, relativizing the initial impression of similar market growth. Furthermore, TradeRepublic has been active in Germany since 2019, revolutionizing easy access to financial markets, whereas the launch in Portugal happened only six months ago, in October 2022. Thus, it could be argued that this factor stimulated market growth in Germany but was unavailable in Portugal at that

time. However, it is not expected of students to elaborate on that but it could be a possibility to earn an extra point if they do.

By including Table (1), the author intends to enable students to visually grasp the enormous differences in total market size and conclude that economic aspects, rather than cultural differences, could be a plausible approach to explain the heterogeneous performance among countries. In their conclusion, students are expected to refer to the CAGE framework and the concept of economic distance to support their line of argumentation further. To do so, students should mention that Portugal has little market potential because of a relatively small population size (~10m.) paired with a low-income level, compared to Germany and other European countries (Table 2). Thus, this hints that even if the Portuguese population is willing to establish saving plans, they have fewer funds available. Furthermore, students could state that Portugal's GDP per capita was only 75% of the European average in 2022 (Table 2), highlighting that those differences in GDP per capita are a way to discover economic distance.

In essence, this question pertains to understanding that, although cultural factors may influence TradeRepublic's performance in Portugal, the predominant aspect is likely of economic nature.

4. This question prompts an analysis of TradeRepublic's cost structure in foreign markets, encouraging students to notice relevant details within the case provided. The aim is to focus on sections discussing the strategies proposed by Wenzel et al. (2020) and the part relating to TradeRepublic's operating costs. It is designed to stimulate critical reading and extract relevant information from the case.

The section about TradeRepublic's internationalization contains detailed information about which costs occur prior to and throughout maintaining business operations in a foreign market. Students should realize the distinct nature of the expenses and emphasize that all costs which arise in preparation for entering a foreign market are sunk costs after the company has started its business activities. Conversely, Collin stated that the actual costs associated with maintaining business operations, including HR-Services, IT-Management, and legal counseling, are relatively low. Referring to this information, students should mention that TradeRepublic can even be profitable in

countries with low market potential, as operating costs to maintain business operations are low. Therefore, they should determine that TradeRepublic has the potential to sustain its presence in the Portuguese market, adopting a preservation strategy as long as the market remains profitable, even if profits are slim.

The second scenario could examine a possible exit strategy in case the operating costs outweigh generated revenues and business activities in Portugal remain unprofitable. Students should highlight that an attempt to innovate products and services would be associated with additional costs and would probably not produce the desired outcome, given the limited market potential in Portugal. In this case, students should refer to an exit as a viable strategy and conclude that this would enable TradeRepublic to allocate those resources to more promising markets or projects.

V. CONCLUSIONS AND LIMITATIONS

This dissertation, in case study format, examines the German fintech TradeRepublic and its journey to become one of the leaders in the European neobroker market. The author covers key events, such as the Gamestop short squeeze and the ongoing international expansion to European countries and examines them from a managerial perspective. By providing a basis for applying management theories and frameworks to real-world scenarios, this case is expected to be a valuable resource to teach concepts from distinct management fields. The key takeaways emphasize that TradeRepublic's business model of offering a cheap and user-friendly platform for trading attracts a considerable number of young adults and encourages them to participate in capital markets. It appears the fintech has removed existing barriers, such as complicated registration processes and considerably high trading fees, which have been associated with traditional brokers. Regarding the Gamestop short squeeze in 2021, the case highlights the importance of procedural fairness when communicating decisions. TradeRepublic should have emphasized communicating their reasons for imposing trading restrictions more transparently and promptly. While this situation explicitly focuses on B2C communication, the author also wants to highlight the importance of procedural fairness within organizations. The concept is as relevant for decision-making processes within firms and when communicating among colleagues.

In terms of TradeRepublic's internationalization strategy, it becomes evident that the firm followed the principles of the Uppsala model and first expanded to countries with a low psychic distance, namely Austria and France. The relatively poor performance in Portugal is examined by analyzing cultural and economic dissimilarities. Based on the principal findings, it appears that cultural factors play a role in the development of the stock market and the willingness to engage in long-term saving. However, the primary cause is probably of economic nature, stemming from a smaller market potential caused by lower income levels and smaller population size.

It is essential to highlight some limitations to this case study, namely the lack of exact data. As TradeRepublic does not disclose numbers to the public, the numbers, in this case, are based on data from public resources. Even though the author has been assured that the data is suitable to be used as an approximation and conveys the market situation, the actual circumstances could be slightly different. Additionally, the European Central Bank (2023) has just announced in

May 2023 to increase interest rates further, the case does not take the increasing interest rate environment and potential consequences for TradeRepublic into account.

Analyzing the impact of high-interest rates on the business model and performance of neobrokers could be an exciting topic for further research. Additionally, the case provides a basis to examine further the reasons for the cultural differences related to stock trading. Another case study could focus on possible measures to increase stock market participation in Portugal. Ultimately, future research could aim to analyze whether the emergence of neobrokers positively impacts the pension gap in Europe.

VI. REFERENCES

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VII. APPENDICES

Figure 3: Long-term interest rates in Germany (European Central Bank, 2023)

Data Chart

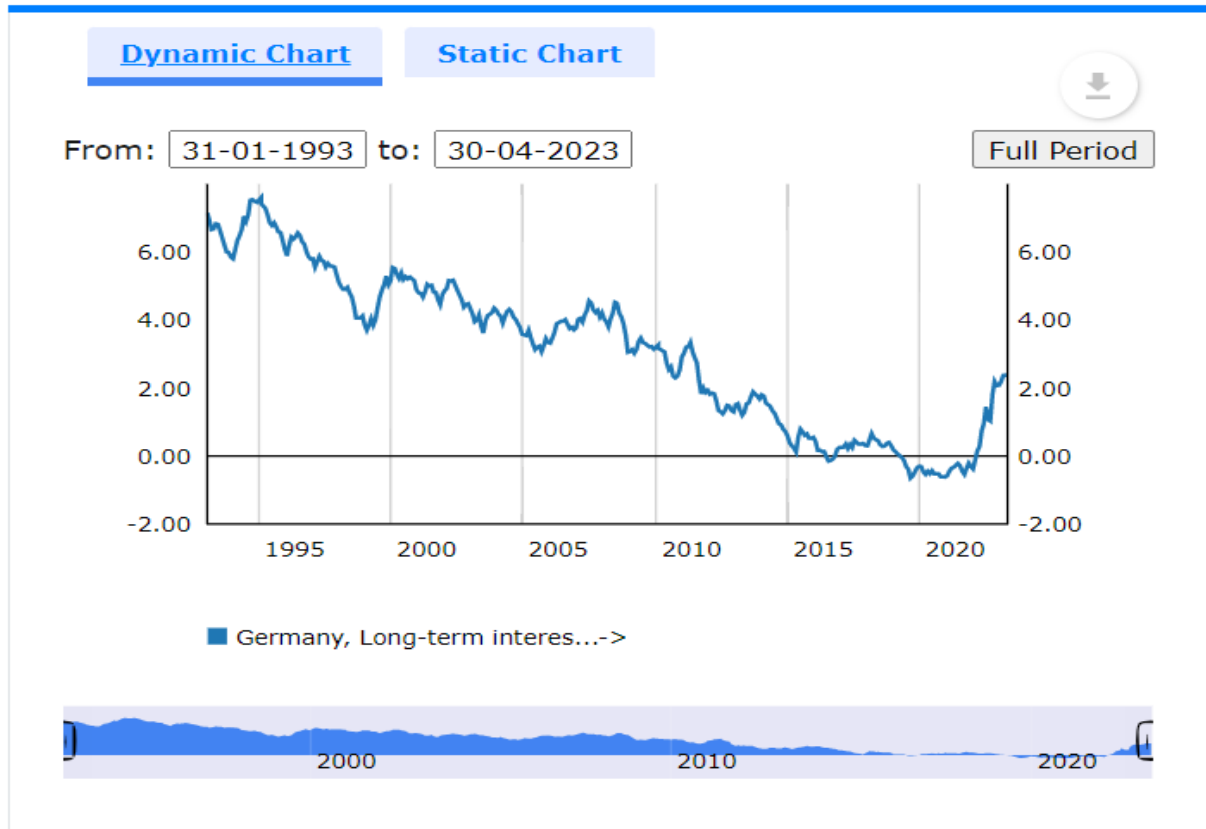


Figure 4: Template of the Value Proposition Canvas (Strategyzer, n.d.)

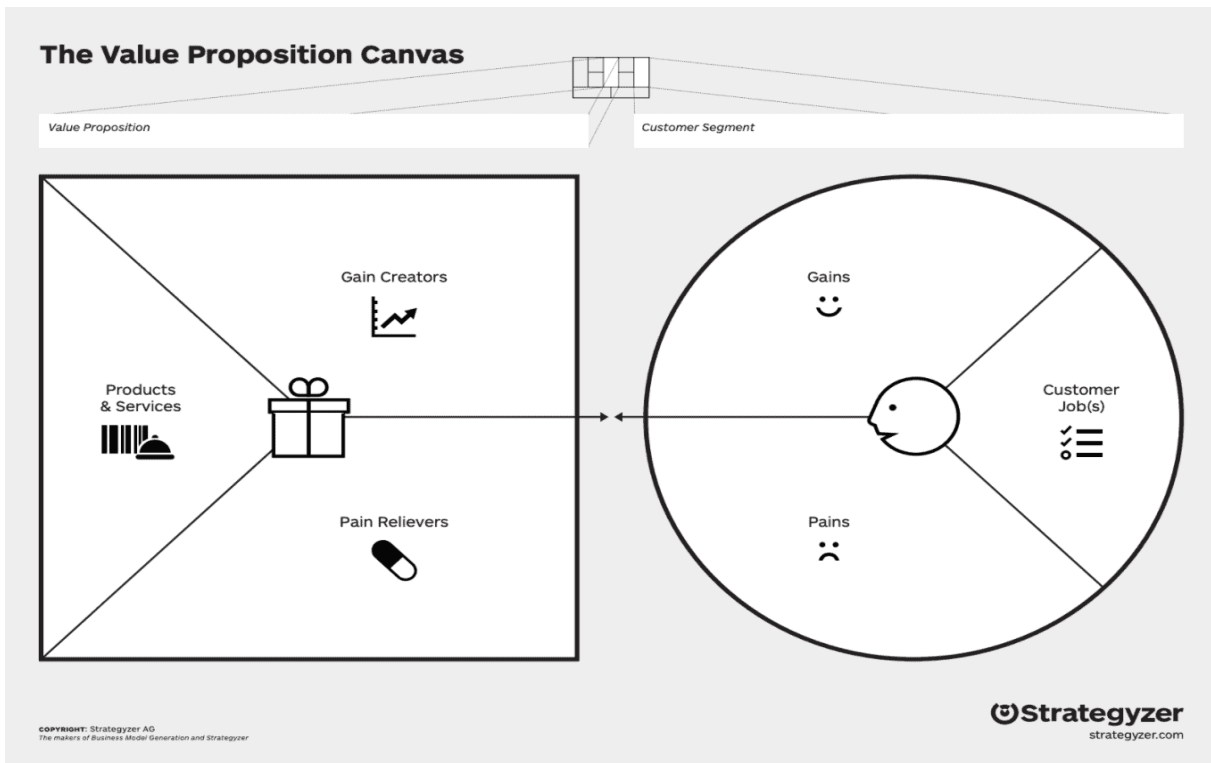


Figure 5: Template of the Business Model Canvas (Strategyzer, n.d.-a)



Figure 6: Changes in investment behavior due to Covid-19 (Statista, 2022)

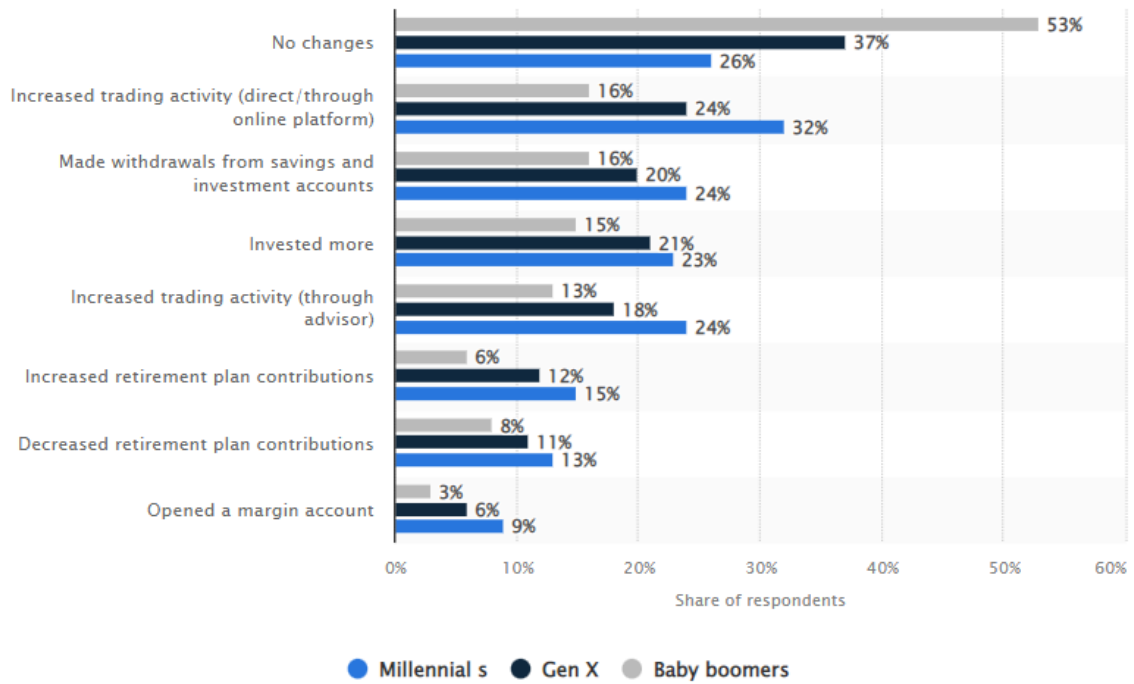


Figure 7: Price development of Gamestock shares (Chirileasa, 2021)



Figure 8: Price development of Bitcoin (Statista, 2023c)

Bitcoin (BTC) price per day from Apr 2013 - May 25, 2023 (in U.S. dollars)

