Registered shareholders: How to manage the millennial challenge

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Synopsis:
The “Millennial Generation,” born in the 1980s and 1990s, is driving powerful changes across many industries. However, **Millennial investors who are registered shareholders—i.e., hold shares directly in their own name on the company register—are behind an unusual pattern of change; slow but steady attrition.** Each year, a company’s registered shareholder base gradually declines as older shareholders pass away, sell shares, or move their accounts to brokerage platforms. Millennial investors follow a different path in that they value the services provided by brokers (including online), where securities are held in street name. The trend is clear and inevitable. Adding to the challenge for issuers, Millennial Investors favor “baskets” (e.g., mutual funds or ETFs) as a means of achieving “one-click” diversification.

No company is immune from a shrinking registered shareholder base, and every public company must consider the impact and develop an action plan.

Two viable strategic options are to: 1) retain registered shareholders as long as possible, to leverage their loyalty to the company; or 2) accelerate attrition in the registered shareholder base to maximize service efficiency and reduce costs.

The best practices include: an in-depth analysis of the company’s shareholder base and corporate goals; and a plan for managing the registered shareholders, while continuing to deliver best-in-class service to those who remain.

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The millennial challenge

The “Millennial Generation,” born in the 1980s and 1990s, is driving powerful changes across many industries. Several technology companies have grown hugely successful by interpreting Millennials’ needs and tapping into their economic energy. For example, Millennials prefer to use cellular phones and mobile devices instead of landline (“hard-wire”) telephones, and they are driving a decline in landline phone penetration that some surveys have pegged at about 5% per year. Apple interpreted this trend and developed the iPhone to capture it, taking cell phone industry leadership and market share away from other companies.

Public companies should accept the fact that registered shares are similar to landline phones, at least for Millennials. As younger investors gradually overtake Baby Boomers and Generation X investors in numbers and influence, the attrition in registered shareholders will continue and perhaps accelerate.

Currently, we estimate that about 98% of all shares of U.S. public companies are held by institutions or retail brokerage accounts in "street name," leaving just 2% registered through transfer agents. Over approximately the next two decades, we can project that registered shares will fall below 1% as registered shareholders pass away, sell, or move their accounts to brokerage platforms. This slow attrition (arguably a generational transformation) will challenge public companies to rethink how they manage their shareholders, including a viable future strategy for working with the transfer agencies that remain.

Why, specifically, are younger people less likely to hold registered shares? Although detailed data is lacking, we believe the answers include:

- **Investment experience** – Surveys have shown that a majority of younger people now gain their first exposure to investments through workplace retirement plans, such as 401(k)s. Most 401(k) participants invest in packaged products (e.g., mutual funds) and have online access to consolidated account data and investment services. Retirement plans don't expose young investors to registered share ownership.
- **Company loyalty** – In general, younger investors lack the loyalty of prior generations to companies they own. They may focus on ticker symbols more than company identities and hold for shorter time frames in search of quicker profits. Even when young people invest in a company's shares and also consume its products, they are more likely to buy shares through brokerage firms than to own registered shares.
- **Lack of company promotion** – Many large companies do not even promote registered share ownership, in part because of its cost. Instead, they guide potential shareholders to purchase from just about any brokerage firm, including discount or online brokerage services. Industry sources estimate that a company's cost to serve each registered shareholders is up to 10 times the cost to handle each street-name account.

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- **Speed, convenience and consolidation** – Younger investors enjoy the trading speed, convenience and consolidated reporting offered by brokerage account platforms, especially online brokers. Both online and full-service brokerage firms are promoting consolidated reporting and portfolio analytics to capture client relationships and assets under management. Online brokers have committed huge resources to national advertising campaigns aimed at younger investors, such as E*Trade's "talking baby" campaign. Because there is no similar marketing effort behind registered shares, many younger investors don't even know it is an option.

Despite these realities, many public companies still have thousands of registered shareholders to serve. Although traditional tactics for proactively reducing their number—such as a reverse-forward share split—are not logistically easy to implement, new shareholder-friendly solutions are emerging.

Thus, the challenge created by a younger generation of investors will continue, and every public company should devise a response to it. **The best practices for responding to the Millennial Challenge include: 1) in-depth analysis of your company's shareholder base and corporate goals; and 2) a plan for managing the costs and complexities of inevitable attrition in registered shareholders.**

Evolution of transfer agency

When the U.S. stock market began functioning in the late 19th century, shareholders held paper certificates, which most companies registered through in-house units. As shareholder bases expanded in early 20th century, some