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Merrill Lynch Becomes Advisory Firm

Merrill Lynch appears to be transforming itself from a wirehouse to a gigantic financial planning firm, even though there's no talk of a new master plan. The firm is phasing out the "stockbroker" concept, at least for public consumption, and replacing it with "adviser." Merrill is using a blunt mix of rewards, punishments and intensive training to get there. It's even bringing in outside help to achieve its goals.

When Merrill decided it wanted more of a financial planning firm model for its Wealth Management group, it engaged a former financial planner to help make the changes. Mark Magnacca, president and chief motivational officer of the Insight Development Group in Hopkinton, Mass., has a broker-dealer and financial planning background, but now does training and consulting.

Did Merrill actually want its people to seem less like salespeople and more like advisers? "No, not *seem*, but *be*," stresses Magnacca. "To become an advisory-based, not transaction-based, business."

He did this at Merrill Lynch, and other firms, through three 90-minute seminars plus follow-up as needed. In "The Product Is You," the first seminar, participants learned "the importance of the impression you leave in the mind of your prospects and clients," according to course material. "Advisers sell themselves," said Magnacca. Participants wrote an autobiography and learned how to use letters of recommendation from their clients to their target market prospects.

In "The Elevator Speech" (part 2), "participants learned the importance of being able to quickly and succinctly communicate what they do in a compelling way so they can market themselves more effectively." And in "Fish Where the Fish Are," participants discovered how best to use databases to target ideal clients.

The result was a new way of approaching clients, said Douglas R. Dubiel, vice president and senior financial advisor at Merrill Lynch Wealth Management in Rockland, Mass. "The program helped us specifically target our audience." It also helped individual members of the group focus better on specific tasks. "We're now able to approach clients with a balanced agenda. We know it's not about the product, it's about the solutions." Basically, he said, he can now make more effective use of his team.

Not everyone wears all hats now; each one specializes for the good of the clients, who include top executives and wealthy families. Heavily marketing oriented and reinforced with Merrill Lynch's vast resources, the Wealth Management group is looking very formidable.

Meanwhile, at the end of the October, Merrill Lynch made changes in broker compensation that seem confusing, and even contradictory, but appear destined to slough off the low-end investor. Basically, brokers who handle bigger trades will get disproportionately bigger commissions; they will be discouraged from handling small trades.

The New York Times said this was "a subtly different signal to brokers who over the last few years had been encouraged to shift their customers to paying annual fees for the management of their assets rather than paying commissions on transactions." Dow Jones News Service took a different angle, saying the new plan *especially* rewards brokers "who steer clients to fee-based products." It further noted that changes were made to help brokers focus more on financial planning for the wealthy and less on small transactions for the middle market.

"There should be and will continue to be a mix of fee and commission service," clarifies Merrill Lynch spokesperson Eddie Reeves, who spoke with *Financial Planning*. "But we will have a greater emphasis on fee-based compensation. It puts our financial advisers and their clients on the same side of the table."

However the name and compensation issue plays out, Merrill Lynch continues to roll along, even in tough times, according to an October presentation made by James Gorman, a Merrill Lynch executive vice president, and president of its U.S. Private Client Group. His group, with $1.2 trillion in client assets, had $6.6 billion total revenue in the first nine months of 2001, 48% of which was fee-based, and included 14,500 employees nationwide whom he referred to as "financial advisers."

—Richard J. Koreto

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