MERRILL LYNCH’S BIG SHIFT IN INCENTIVE COMPENSATION

Earlier this year, it was reported that Merrill Lynch would back away from the traditional imperative in the wealth industry of growth through recruiting. Instead, it would make more substantial investments in advisor performance – including more training, practice support and new technology. Merrill Lynch has always been an innovator and leader and this significant shift towards a stronger Sales Performance Management posture signals an important strategy for the future in the wealth management industry.

Read also: Merrill Lynch refocuses on performance culture.

Now, the other shoe has dropped – this time in the form of a substantial change in how Merrill will compensate financial advisors in the new year. This makes perfect sense in the context of Merrill’s evolving strategy that is focused on driving growth through enhancing the scale and performance of the existing roster of advisors. It’s akin to same store performance metric in the retail sector, in this case, it’s about ‘same practice performance’. It also clearly signals that Merrill is a home for growth and performance focused advisors.

Merrill has lead the industry in compensation innovation for decades. Since the late 1990s, they have been striving to better align their advisor incentive compensation with their corporate strategy. Annually, they review their incentive compensation plans in order to adjust, test and iterate.

But this year, something is different. When we take this in the context of other changes in their focus, we can see the clear emergence of a strong bias to investment in advisor performance over other growth investments. And the focus is on growing the business through the acquisition of the right customers.

The new approach to incentive compensation features a strong emphasis on supporting, focusing and rewarding growth. Let me break it down to its component parts:

- The design includes both rewards and penalties for achievement (or a lack of). The embrace of this dynamic, and this broadly applied, should be taken as an indicator of the future for Merrill Incentive Compensation.
- It includes both revenue-driven (commonly called production-based) and non-revenue driven (metrics-based) aspects. This is not new, but it does involve a different approach to measurement and, I believe, signals an increased comfort with non-revenue driven metrics as important tools in aligning incentive compensation with strategic business objectives.
- It focuses on customers as a unit of measure, rather than assets or revenues exclusively. This is a welcome change. Though not a new invention, the shift to customers versus assets or revenues is a strong signal. As Merrill gains traction with customer metrics in incentive compensation, they will enable increasingly more powerful focus and leverage, ultimately supporting niche marketing, customer success and other dimensions.
- The incentives are not exclusively end-of-year focused. In fact, there is opportunity for monthly benefits for advisors who perform well on certain metrics. Regular reward (or penalty) aligns better with how most humans learn and are encouraged. We form habits through repetition. This design reinforces progression.
- It extends the ‘financial footprint focus’ (assets and liabilities) introduced in previous years.
- There is more deferred incentives and a bit less cash. Given the reduced emphasis on recruiting and the aging advisor population, increases in retention efforts should not be a surprise.
- Family referrals (meaning across Bank of America) remain a priority, although some adjustments reduce the penalty for not referring. Merrill becomes further embedded into Bank of America each year. It’s always an interesting challenge encouraging advisors who have had a largely open product shelf to focus on product

options from a single supplier. This reduction in penalty for not referring makes sense in the pursuit of a more customer first, dare we say, ‘best interest’, environment.

Finally, we note that Merrill is making some significant changes to help with advisor retirement and customer retention by substantial enhancement to the existing Client Transition Program. A clear indication that the aging demographics of the advisor population are becoming an increasingly acute concern for future business performance.

Overall, Merrill Lynch is moving in the right direction, making smart, strategically aligned incentive compensation the foundation of their sales performance management program and increasing the likelihood of strong future corporate performance.