Bank of America Merrill Lynch[1] is the investment banking and wealth management division of Bank of America. With over 15,000 brokers and $2.2 trillion in client assets it is the world's largest brokerage.[2] Formerly known as **Merrill Lynch & Co., Inc.**, prior to 2009 the firm was publicly owned and traded on the New York Stock Exchange under the ticker symbol **MER**. The firm was involved in several of the major financial scandals of the last 20 years, including those centred on Enron and financial derivatives, resulting in many multi-million dollar fines. It ceased to exist as a separate entity in September 2008 at the height of the 2008 Financial Crisis, having been acquired by Bank of America.

This article describes both the historical Merrill Lynch and its ongoing operations as a subsidiary of the Bank of America. Merrill Lynch provides capital markets services, investment banking and advisory services, wealth management, asset management, insurance, banking and related financial services worldwide. Merrill Lynch is headquartered in New York City, and occupies the entire 34 stories of the Four World Financial Center building in Manhattan.

Bank of America Merrill Lynch Type Subsidiary Industry Finance and Insurance Founded 1914 (as Charles E. Merrill & Co.) Founder(s) Charles E. Merrill
Edmund C. Lynch Headquarters New York City, U.S. Area served Worldwide Products Financial Services
Investment Banking
Investment management Employees

60,000 (*2008*)

15,100 (Financial Advisors *2010*) Parent Bank of America Website ML.com

History

[edit] Founding and early history

The company was founded on January 6, 1914, when Charles E. Merrill opened his Charles E. Merrill & Co. for business at 7 Wall Street in New York City. A few months later, Merrill's friend, Edmund C. Lynch, joined him, and in 1915 the name was officially changed to *Merrill, Lynch & Co.* At that time, the firm's name included a comma between *Merrill* and *Lynch*.[3] In 1916, Winthrop H. Smith joined the firm.

MERRILL, LYNCH & CO.

Merrill Lynch logo c. 1917

In its early history, Merrill, Lynch & Co. made several successful investments. In 1921, the company purchased Pathé Exchange, which later became RKO Pictures. In 1926, the firm made its most significant financial investment at the time, purchasing a controlling interest in Safeway, transforming the small grocery store into the country's third largest grocery store chain by the early 1930s.

In 1930, Charles Merrill led the firm through a major restructuring, spinning-off the company's retail brokerage business to E.A. Pierce & Co. to focus on investment banking.[4][5] Along with the business, Merrill also transferred the bulk of its employees, including Edmund C. Lynch and Winthrop H. Smith. Charles Merrill received a minority interest in E.A. Pierce in the transaction. Throughout the 1930s, E.A. Pierce remained the largest brokerage in the U.S. The firm, led by Edward A. Pierce, Edmund Lynch and Winthrop Smith would also prove one of the most innovative in the industry, introducing IBM machines into the business' record keeping. Additionally, by 1938, E.A. Pierce would control the largest wire network with a private network of over 23,000 miles of telegraph wires. These wires were typically used for trade execution.[6]

E. A. Pierce & Co.

E.A. Pierce & Co. (above) merged with Merrill Lynch in 1940. The following year Fenner & Beane (below) was acquired by the firm

FENNER & BEANE
GENERAL COMMISSION MERCHANTS

Despite its strong position in the market, E.A. Pierce was struggling financially in the 1930s and was thinly capitalized.[7] Following the death of Edmund C. Lynch in 1938, Winthrop Smith began discussions with Charles E. Merrill, who owned a minority interest in E.A. Pierce about a possible merger of the two firms. On April 1, 1940, Merrill Lynch, E.A. Pierce & Cassatt was formed when the two firms merged and also acquired Cassatt & Co., a Philadelphia-based brokerage firm in which both Merrill Lynch and E.A. Pierce held an interest.[7]

In 1940, the firm merged with Edward A. Pierce's E. A. Pierce & Co. and Cassatt & Co. and was briefly known as *Merrill Lynch, E. A. Pierce, and Cassatt.*[8] The company became the first on Wall Street to publish an annual fiscal report in 1941.

MERRILL LYNCH,
PIERCE, FENNER & SMITH INC

Merrill Lynch, Pierce, Fenner & Smith logo in use prior to the firm's 1974 rebranding that introduced the "bull" logo

The following year, in 1941, Merrill Lynch, E. A. Pierce and Cassatt merged with Fenner & Beane, a New Orleans-based investment bank and commodities company. Throughout the 1930s, Fenner & Beane was consistently the second largest securities firm in the U.S. The combined firm, which became the clear leader in securities brokerage in the U.S., was renamed *Merrill Lynch, Pierce, Fenner & Beane.*[9]

In 1952, the company changed its name to Merrill Lynch & Co. and was officially incorporated. On December 31, 1957, The New York Times referred to that name as "a sonorous bit of Americana" and said "After sixteen years of popularizing [it], Merrill Lynch, Pierce, Fenner, and Beane is going to change it—and thereby honor the man who has been largely responsible for making the name of a brokerage house part of an American saga," Winthrop H. Smith, who had been running the company since 1940. The merger made the company the largest securities firm in the world, with offices in over 98 cities and membership on 28 exchanges. At the start of the firm's fiscal year on March 1, 1958, the firm's name became 'Merrill Lynch, Pierce, Fenner & Smith' and the company became a Big Board member of the New York Stock Exchange.[10].

In 1964, Merrill Lynch acquired C. J. Devine & Co the leading dealer in U.S. Government Securities. The merger came together due to the death of Christopher J. Devine in May 1963.[11] The C. J. Devine & Co. partners, referred to as "The Devine Boys", formed Merrill Lynch Government Securities Inc., giving the firm a strong presence in the government securities market. The Government Securities business brought Merrill Lynch the needed leverage to establish many of the unique money market products and government bond mutual fund products, responsible for much of the firm's growth in the 1970s and 1980s.[12]

[edit] Rise to prominence

Merrill Lynch rose to prominence on the strength of its brokerage network (15,000+ as of 2006),[13] sometimes referred to as the "thundering herd", that allowed it to place securities it underwrote directly.[14] In contrast, many established Wall Street firms, such as Morgan Stanley, relied on groups of independent brokers for placement of the securities they underwrote.[15] Until as late as 1970, it was known as the "Catholic" firm of Wall Street.[16] The firm went public in 1971 and became a multinational corporation with over US $1.8 trillion in client assets, operating in more than 40 countries around the world. In 1977, the company introduced its Cash Management Account (CMA), which enabled customers to sweep all their cash into a money market mutual fund, and included check-writing capabilities and a credit card. Fortune magazine called it "the most important financial innovation in years."[17] In 1978, it significantly buttressed its securities underwriting business by acquiring White Weld & Co., a small but prestigious old-line investment bank. Merrill Lynch was well known for its Global Private Client services and its strong sales force.

On November 1, 2007, Merrill Lynch CEO Stanley O'Neal left the company, after being criticized for the way he handled the firm's risk management and the subprime mortgage crisis, which resulted in about US $2.24 billion in unexpected losses, and for discussing in public the possible merger with Wachovia banking corporation, without being authorized by the board to do so. He left Merrill Lynch with about US $161 million worth of stock options and retirement benefits.[18] John Thain, CEO of the New York Stock Exchange, succeeded him as CEO on December 1, 2007.

On January 17, 2008, Merrill Lynch reported a $9.83 billion fourth quarter loss incorporating a $16.7 billion write down of assets associated with subprime mortgages. On April 17, 2008, Merrill Lynch reported a net loss of $1.97 billion for the first quarter of 2008. [19] Merrill responded to its losses by raising capital through the sale of preferred shares, however experts suggest that such a strategy may pose a risk to the company's credit rating which could cause an increase to the company's borrowing costs.[20]

On January 22, 2009 John Thain resigned as CEO of the company after it was disclosed that he had rushed to pay out $3–4 billion dollars in fourth quarter bonuses to Merrill employees by the end of 2008, just prior to Bank of America's acquisition of the company became final.[21] Thain allegedly did not disclose the bonus payouts to Bank of America negotiators. Shortly thereafter, Bank of America asked the United States Treasury for an additional $20 billion in emergency capital, primarily in order to cover losses at its Merrill Lynch subsidiary.[22] Thain was also named as a co-defendant in a class-action lawsuit filed by shareholders against Bank of America and Merrill Lynch on January 22, 2009. The suit alleges that Bank of America CEO Ken Lewis, ex-Merrill Chief Financial Officer Nelson Chai, ex-Merrill Chief Accounting Officer Gary Carlinand, and Thain failed to warn shareholders of the magnitude of Merrill's losses prior to the Bank of America acquisition.

[edit] Orange County settlement

Merrill Lynch settled with Orange County, California, for a massive $400 million to settle accusations that it sold inappropriate and risky investments to former county treasurer Robert Citron. Citron lost $1.69 billion, which forced the county to file for bankruptcy in December 1994. The county sued a dozen or more securities companies, advisors and accountants, but Merrill settled without admitting liability in June 1998. The county was able to recover about $600 million in total, including the $400 million from Merrill.

[edit] Subprime mortgage crisis

Main article: 2007 subprime mortgage financial crisis

In November 2007, Merrill Lynch announced it would write-down $8.4 billion in losses associated with the national housing crisis and remove E. Stanley O'Neal as its chief executive.[23] O'Neal had earlier approached Wachovia bank for a merger, without prior Board approval, but the talks ended after O'Neal's dismissal.[23] In December 2007, the firm announced it would sell its commercial finance business to General Electric and sell off major shares of its stock to Temasek Holdings, a Singapore government investment group, in an effort to raise capital.[24] The deal raised over $6 billion.[24] In July 2008, the new CEO of Merrill Lynch, John Thain, announced $4.9 billion fourth quarter losses for the company from defaults and bad investments in the ongoing mortgage crisis.[25] In one year between July 2007 and July 2008, Merrill Lynch lost $19.2 billion, or $52 million daily.[25] The company's stock price had also declined significantly during that time.[25] Two weeks later, the company announced the sale of select hedge funds and securities in an effort to reduce their exposure to mortgage related investments.[26] Temasek Holdings agreed to purchase the funds and increase its investment in the company by $3.4 billion.[27]

Andrew Cuomo, New York Attorney General, threatened to sue Merrill Lynch in August 2008, over their misrepresentation of the risk on mortgage-backed securities.[28] A week earlier, Merrill Lynch had offered to buy back $12 billion in auction-rate debt and said they were surprised by the lawsuit.[28] Three days later, the company froze hiring and revealed that they had charged almost $30 billion in losses to their subsidiary in the United Kingdom, exempting them from taxes in that country.[29] On August 22, 2008, CEO John Thain announced an agreement with the Massachusetts Secretary of State to buy back all auction-rate securities from customers with less than $100 million in deposit with the firm, beginning in October 2008 and expanding in January 2009.[30] On September 5, 2008 Goldman Sachs downgraded Merrill Lynch's stock to "conviction sell" and warned of further losses from the company.[31] Bloomberg reported in September 2008 that Merrill Lynch had lost $51.8 billion in mortgage-backed securities as part of the subprime mortgage crisis.[31]

[edit] CDO controversies

Merrill Lynch, like many other banks, became heavily involved in the mortgage-based collateralized debt obligation (CDO) market in the early 2000s. According to an article in Credit magazine, Merrill's rise to be the leader of the CDO market began in 2003 when Christopher Ricciardi brought his CDO team from Credit Suisse First Boston to Merill.[32] In 2005 Merrill took out advertisements in the back of Derviatives Week magazine, touting the fact that it's Global Markets and Investing Group was the "#1 global underwriter of CDOs in 2004".[33] To provide a ready supply of mortgages for the CDOs, Merrill purchased First Franklin Financial Corp., one of the largest subprime lenders in the country, in December 2006.[34] Businessweek would later describe how between 2006 and 2007, Merrill was 'lead underwriter' on 136 CDOs, $93,000,000,000 worth. By the end of 2007, the value of these CDOs was collapsing, but Merill had held onto portions of them, creating billions of dollars in losses for the company.[35] In mid 2008 Merill sold a group of CDOs that had once been valued at $30.6 billion to Lone Star Funds for $1.7 billion in cash and a $5.1 billion loan.[36][37]

In April 2009, bond insurance company MBIA sued Merril Lynch for fraud and 5 other violations. These were related to the credit default swap "insurance" contracts Merill had bought from MBIA on 4 of Merrill's mortgage-based collateralized debt obligations. These were the "ML-Series" CDOs, Broderick CDO 2, Highridge ABS CDO I, Broderick CDO 3, and Newbury Street CDO. MBIA claimed (among other things) that Merrill defrauded MBIA about the quality of these CDOs, and that it was using the complicated nature of these particular CDOs (CDOs squared and cubed) to hide the problems it knew about in the securities that the CDOs were based on. However, in 2010 Justice Bernard Fried disallowed all but one of the charges: the claim by MBIA that Merril had committed breach of contract by promising the CDOs were worthy of an AAA rating when, it alleges, in reality they weren't. When the CDOs lost value, MBIA wound up owing Merill a large amount of money. Merrill disputed MBIA's claims.[38][39][40]

In 2009 Rabobank sued Merrill over a CDO named 'Norma'. Rabobank later claimed that its case against Merrill was very similar to the SEC's fraud charges against Goldman Sachs and its Abacaus CDOs. Rabobank alleged that a hedge fund named Magnetar Capital had chosen assets to go into Norma, and allegedly bet against them, but that Merrill had not informed Rabobank of this fact. Instead, Rabobank alleges that Merrill told it that NIR Group was selecting the assets. When the CDO value tanked, Rabobank was left owing Merrill a large amount of money. Merrill disputed the arguments of Rabobank, with a spokesman claiming "The two matters are unrelated and the claims today are not only unfounded but weren't included in the Rabobank lawsuit filed nearly a year ago".[41][42][43][44]

[edit] Sale to Bank of America

The Bank of America Merrill Lynch logo in use following the acquisition of Merrill by Bank of America. The "bull" logo, introduced in 1974, was restored in December 2009 as a concession to legacy Merrill employees who had been unhappy with the adoption of Bank of America branding[45]

Main article: Bank of America

Significant losses were attributed to the drop in value of its large and unhedged mortgage portfolio in the form of Collateralized Debt Obligations. Trading partners' loss of confidence in Merrill Lynch's solvency and ability to refinance short-term debt ultimately led to its sale.[46][47] During the week of September 8, 2008, Lehman Brothers came under severe liquidity pressures, with its survival in question. If Lehman Brothers failed, investors were afraid that the contagion could spread to the other surviving investment banks. [Lehman Brothers filed bankruptcy on September 15, 2008, after government officials could not find a merger partner for it.] On Sunday, September 14, 2008, Bank of America announced it was in talks to purchase Merrill Lynch for $38.25 billion in stock.[48] *The Wall Street Journal* reported later that day that Merrill Lynch was sold to Bank of America for 0.8595 shares of Bank of America common stock for each Merrill Lynch common share, or about US$50 billion or $29 per share.[49] This price represented a 70.1% premium over the September 12 closing price or a 38% premium over Merrill's book value of $21 a share,[50] but that also meant a discount of 61% from its September 2007 price.[51] Congressional testimony by Bank of America CEO Kenneth Lewis, as well as internal emails released by the House Oversight Committee, indicate that Bank of America was threatened with the firings of the management and board of Bank of America as well as damaging the relationship between the bank and federal regulators, if Bank of America did not go through with the acquisition of Merrill Lynch.[52][53][54]

In March 2009 it was reported that in 2008, Merrill Lynch received billions of dollars from its insurance arrangements with AIG, including $6.8bn from funds provided by the United States taxpayers to bail out AIG.[55][56]

[edit] Global Reach

Bank of America Merrill Lynch spans the Globe with divisions in United States, Europe, and Asia. The U.S. headquarters are located in New York, European headquarters are based in London, and Asia headquarters are based in Hong Kong.[57][58]

[edit] Regulatory actions

[edit] Analyst Research settlement

In 2002, Merrill Lynch settled for a fine of $100 million for publishing misleading research. As part of the agreement with the New York attorney general and other state securities regulators, Merrill Lynch agreed to increase research disclosure and work to decouple research from investment banking.[59]

A well known analyst at Merrill Lynch named Henry Blodget wrote in company e-mails in which Blodget gave assessments about stocks which conflicted with what was publicly published by Merrill. In 2003, he was charged with civil securities fraud by the U.S. Securities and Exchange Commission. He settled without admitting or denying the allegations and was subsequently barred from the securities industry for life. He paid a $2 million fine and $2 million disgorgement.

The CEO at that time, David Komansky, said, "I want...to publicly apologize to our clients, our shareholders, and our employees," for the company falling short of its professional standards in research.

[edit] Enron/Merrill Lynch Nigerian barge

In 2004 convictions of Merrill executives marked the only instance in the Enron investigation where the government criminally charged any officials from the banks and securities firms that allegedly helped the energy giant execute its accounting fraud. The case revolved around a 1999 transaction involving Merrill, Enron and the sale of some electricity-producing barges off the coast of Nigeria. The charges surrounded the 1999 sale of an interest in Nigerian energy barges by an Enron entity to Merrill Lynch was a sham that allowed Enron to illegally book about $12 million in pretax profit, when in fact there was no real sale and no real profit.

Four former Merrill top executives and two former midlevel Enron officials faced conspiracy and fraud charges. Merrill cut its own deal, firing bankers and agreeing to the outside oversight of its structured-finance transactions. It also settled civil fraud charges brought by the U.S. Securities and Exchange Commission, without admitting or denying fault.[60]

[edit] Discrimination charges

On June 26, 2007, the U.S. Equal Employment Opportunity Commission (EEOC) brought suit against Merrill Lynch,[61] alleging the firm discriminated against Dr. Majid Borumand because of his Iranian nationality and Islamic religion, with "reckless disregard" for his protected civil rights.[62] The EEOC law suit maintains that violations by members of the firm were intentional and committed with malice. In another case concerning mistreatment of another Iranian employee by Merrill Lynch on July 20, 2007, a NASD arbitration panel ordered Merrill Lynch to pay its former Iranian employee, Fariborz Zojaji, $1.6 million for firing him due to his Persian ethnicity.[63][64][65] Merrill Lynch's actions prompted reactions from both the National Iranian-American council, and the American-Arab Anti-Discrimination Committee.[66]

In its June 2008 issue, Diversity Inc. named Merrill Lynch one of the top 10 companies for lesbian, gay, bisexual, and transgendered employees, and the #7 top company in the US for diversity overall. In 2007, Merrill Lynch was named the #2 best company in the US for people with disabilities by Diversity Magazine.[67] As of June 5, 2008, Merrill Lynch has created the West Asian, Middle Eastern and North African (WAMENA) Professional Network to help support and provide additional resources for employees of diverse backgrounds. In May 2008, Merrill Lynch was named the #1 US company for "Diverse College Graduates" by Diversity Edge magazine, edging out Microsoft for the top spot on the rankings.[68]

New Jersey appeals court on August 13, 2008 rendered a ruling against Merrill Lynch in a discrimination law suit filed by a gay employee.[69]

[edit] Market timing settlement

In 2002 Merrill Lynch settled for 10 million civil penalty as a result of improper activities that took place out of the firm's Fort Lee New Jersey office. Three financial advisors, and a fourth who was involved to a lesser degree, placed 12,457 trades for a client Millennium Partners in at least 521 mutual funds and 63 mutual fund sub-accounts of at least 40 variable annuities. Millennium made profits in over half of the funds and fund sub-accounts. In those funds where Millennium made profits, its gains totaled about $60 million. Merrill Lynch failed to reasonably supervise these financial advisers, whose market timing siphoned short-term profits out of mutual funds and harmed long-term investors.[70]

[edit] 2008 bonus payments

Merrill Lynch arranged for payment of billions in bonuses in what appeared to be "special timing". These bonuses totaling $3.6 billion were one-third of the money they received from the feds' TARP bailout. In addition, the timing of these bonuses angered many American people because they were authorized before the bank was to be acquired by Bank of America. It is now a foregone conclusion that without the rescue by BOA, Merrill would have collapsed.[*citation needed*] In 2008, Merrill lost billions yet still paid out 3.6 billion in bonuses.

The Merrill bonuses were determined by Merrill's Compensation Committee at its meeting of December 8, 2008, shortly after BOA shareholders approved the merger but before financial results for the fourth quarter had been determined. This appeared to be a departure from normal company practice, since the type of bonus Merrill awarded was a performance bonus that, according to company policy, was supposed to reflect all four quarters of performance and was paid in January or later. In this case, however, the bonuses were awarded in December before fourth-quarter performance had been determined.

They were also very large relative to the TARP monies allocated to Merrill. The Merrill bonuses were the equivalent of 36.2% of TARP monies Treasury allocated to Merrill. Merrill employees had to have a salary of at least $300,000 and have attained the title of Vice President or higher to be eligible.[71][72]

[edit] Other difficulties

The bank was fined €2.75m in 2009 after it found that traders in London failed to appropriately value their positions in two incidents that lost the company $461m. It happened because Merrill failed to have in place "a well-defined and transparent line of supervisory responsibility" and there was "a failure to supervise the trader's activity and an inadequate month-end independent price verification process". Additionally "it was found that there was a failure to manage effectively market risk limits in respect of the trader's activities."[73][74][75]

Merrill was lambasted after saying that Anglo Irish Bank was "financially sound" after obtaining a fee of over $11 million. Days later the institution had to be nationalized at a cost of €5,500 for every man, woman and child in the country.[76][77]

[edit] Industry awards

In 2008, Merrill Lynch was crowned Deal of the year - Equity Market Deal of the year at the *2008 ALB SE Asia Law Awards*[78].

At the *2008 ALB China Law Awards*[78], Merrill Lynch was crowned Deal of the Year - Equity Market Deal of the Year, and was also awarded Deal of the Year - M&A Deal of the Year at the *2008 ALB Hong Kong Law Awards*.

[edit]

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Team: New Wireless
3/5/02 MAR 6930 – Section 004 Strategic Marketing Management

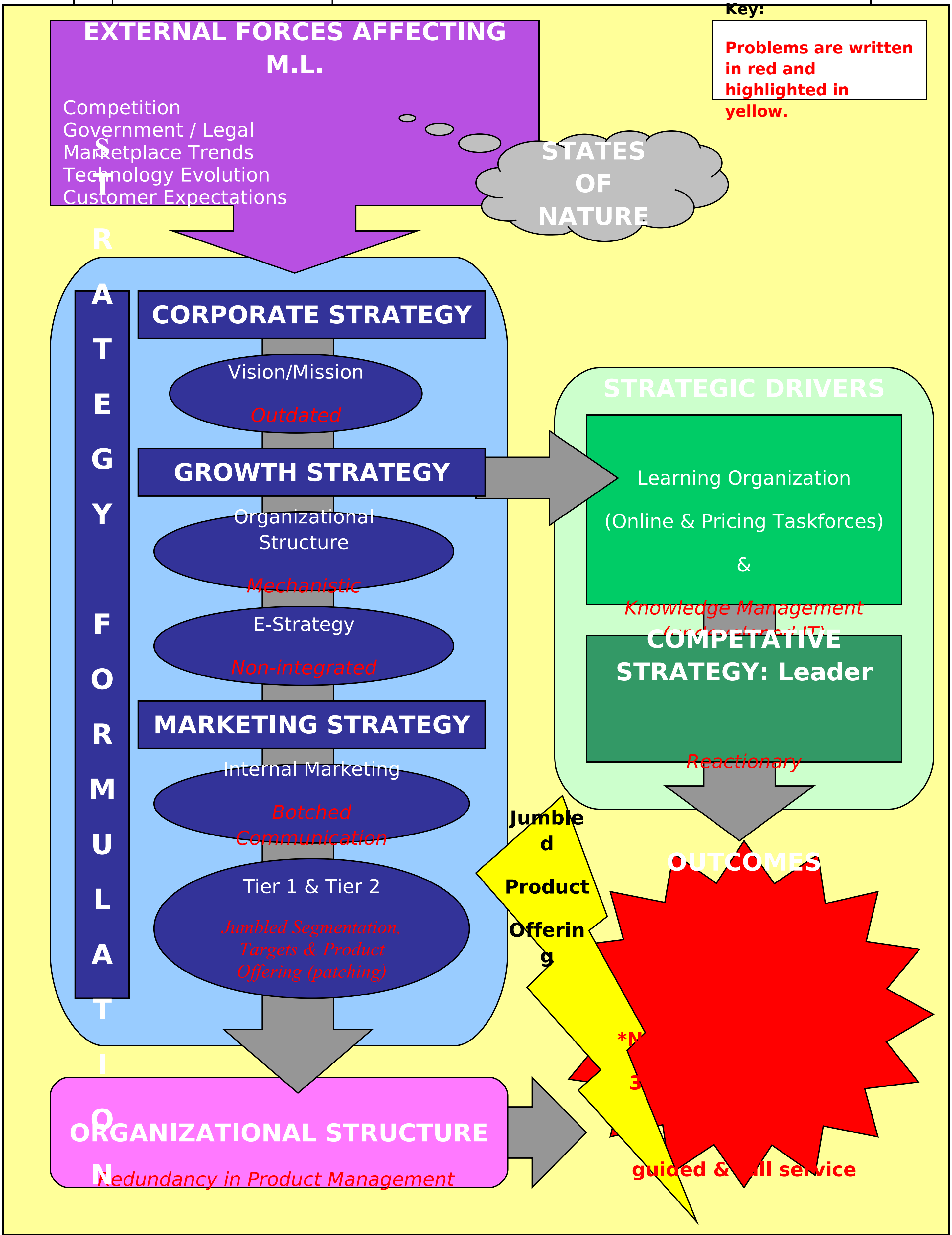
Merrill Lynch

Part I. STATEMENT OF THE PROBLEM

PROBLEMS

	Problem	Description
1.	Corporate Strategy	a. Vision/Mission – The current Vision/Mission is not aligned with the evolution of the marketplace. The lack of strategic focus inhibits objective/goal formulation and results in inefficient performance. Ill-defined competitive scope is caused by a lack of delineation between the scopes (products & applications, competence, and market-segment scope). b. Sustainable Competitive Advantage – Merrill Lynch reacted to the environment, violating their market leader position.
2.	Growth Strategy	a. Organizational structure – The mechanistic structure leads to an inefficient allocation of resources, which is due to a redundancy throughout the product departments. b. E-strategy – The E-strategy was designed as a separate component and not utilized as a tool to be integrated into the entire corporate technology structure.
3.	Marketing Strategy	a. Segmenting and Targeting – Over generalized segments created inaccurate customer targeting, combined with a too complex

		product structure/offering.



Part III. ANALYSIS

ALTERNATIVES

	Alternative	**Description**
1.	Back to the Basics	• Keep the Product Management organizational structure. • Provide only non-interactive information on Internet; for example, Merrill's renowned research. • Create a new Vision/Mission that focuses on the original core competency - the Financial Consultants relationships with the customer and the superior research available through Merrill - which supports their existing leadership position. • Clearly define the market segments, and then intensively target those customers or potential customers with the appropriate products. After the initial exchange and as the relationship develops, continuously offer other products that will be beneficial to the customer. • Simplify the product offering by reconfiguring the offering into a product/customer matrix. Meaning, at the top of the matrix have each service listed (Visa, FC advice, research, etc) and along the side list targeted customer groups. • Use TQM to develop and implement strategy, instead of process reengineering. TQM will enhance the ML teamwork environment and help with employee buy-in to changes.
2.	The 50/50 Vision	• Fully implement a matrix organization structure to alleviate redundancies and make best use of the scare resources. • Implement a hybrid E/traditional Financial Consultant Strategy, only utilizing the Internet for simple interactions (i.e. E-trading) and market analysis information. • Create a new Vision/Mission to efficiently manage the core competency of Financial Consultant relationships with the customer and the superior research available through Merrill, using E-strategy as a tool. • Clearly define the market segments, and then intensively target those customers or potential customers with the appropriate products. After the

		initial exchange and as the relationship develops, continuously offer other products that will be beneficial to the customer. • Simplify the product offering by reconfiguring the offering into a product/customer matrix. Meaning, at the top of the matrix have each service listed (Visa, FC advice, research, etc) and along the side list targeted customer groups. • Use TQM to develop and implement strategy, instead of process reengineering. TQM will enhance the ML teamwork environment and help with employee buy-in to changes.
3.	Pure-E	• Fully implement a matrix organization structure to alleviate redundancies and make best use of the scare resources. • Fully integrate technology/E-strategy throughout the corporation. • Create a new Vision/Mission to reflect the evolved core competency of full interaction utilizing E-strategy as a tool. • Clearly define market segments then intensively target those customers or potential customers with the appropriate products. After the initial exchange and as the relationship develops, continuously offer other products that will be beneficial to the customer. • Simplify the product offering by reconfiguring the offering into a product/customer matrix. Meaning, at the top of the matrix have each service listed (Visa, FC advice, research, etc) and along the side list targeted customer groups. • Use TQM to develop and implement strategy, instead of process reengineering. TQM will enhance the ML teamwork environment and help with employee buy-in to changes.

EVALUATION CRITERIA

	Evaluation Criteria	Justification
1.	Core Competency	Focuses on the strengths of the organization.
2.	Brand Equity	Supports customer preference and loyalty.

3.	Perceived Value-added	Alternative offers increased value to customer.
4.	Sustainable Competitive Advantage	Unmatched advantage over competitors.
5.	Profitability	Helps organization reach its profit goals.

RANKING ALTERNATIVES **(scale of High, Medium & Low)**

	Criteria	**Alt. 1**	**Alt. 2**	**Alt.3**
1.	Core Competency	H	H	L
2.	Brand Equity	M	H	M
3.	Perceived Value-added	M	H	M
4.	Sustainable Competitive Advantage	L	M	H
5.	Profitability	M	H	L

After evaluation of the criteria, Alternative 2 is the most promising for ML. It offers customers a combination of high tech and high touch – by continuing to emphasize their core competency (superior financial consultant information relationships). The restructuring of the organization and the implementation of TQM teams creates an atmosphere for creative and knowledgeable employees to develop new strategies to strengthen CRM. The simplification of the product offering into a matrix structure, will afford increased profitability and customer understanding (value-added). Alternative 2 allows ML to maintain its leadership position and provide the groundwork for future expansion of their E-strategy. Selecting Alternative 1 could hinder ML's future opportunities by not embracing the Internet as a key component, especially as the marketplace continues to evolve into a seamless operation. Alternative 3 is the direction of the future, but the immediate market demands are better met by ML not abandoning it's core competency of the FC relationship with

the customer – yet ML should continuously evolve to embrace this Alternative at the right time, with the right implementation.

Part IV. RECOMMENDATION AND IMPLEMENTATION

THE 50/50 VISION

	Implementation Steps	Description of Steps	Q1	Q2	Q3	Q4
1.	Vision/Mission	Redefine by re-evaluating the goals & objectives of the organization and emphasize the need to maintain the ML core competency.				
2.	Organization Structure	Reconstruct the organization to a matrix structure to better manage resources and eliminate overlap throughout the organization. Utilize a Knowledge Management system (integrated IT) to provide up-to-date information to managers for accurate decision-making.				
3.	Marketing Strategy: Internal	Develop functional teams to implement a TQM system. Putting a TQM system into practice will enhance employee relations and ensure employee support of new programs, as well as give				

		quality assurance to the customers.				
4.	Marketing Strategy: External	Determine precise market segments. Utilize the new TQM teams to research and develop a clear, targeted service offering – by way of a product/customer matrix.				
5.	Growth Strategy	Construct databases and an Internet interface to provide fee-based market analysis and an online trading component. Continue to promote the traditional Financial Consultant partnership with customers.				

Everyone's an exporter now...

Bank of America Merrill Lynch's ***Amit Jain*** *looks at the challenges US companies face increasing their exports and how those challenges can be overcome.*

Exports are an important catalyst for economic growth. Yet, in times of economic contraction, the actions necessary to increase exports – such as allocating liquidity and assuming risk – can contradict what companies view as mission critical to survival: that is to say, safeguarding liquidity and conservatively managing risk.

At times like this, of course, trade finance comes into its own, helping to resolve such dilemmas by minimising the impact to their liquidity and risk profile. In turn, the tools of trade finance can help support a broader economic recovery. But first, many companies – especially small and medium-sized enterprises (SMEs) – need to make the key commitment to increase their exports. To do that, they need to overcome the 'exports paradox'.

The savings paradox parallels the exports paradox

That may be an unfamiliar term, but it is similar to the Keynesian savings paradox, which suggests that what's good for the individual might be bad for the economy as a whole.

In the Keynesian savings paradox, an individual may succeed in saving more, but a collective attempt to save across a whole nation – based on a lack of economic confidence, for instance – will trigger lower demand and a decline in economic output. This creates a downward spiral that ultimately inhibits people's ability to save.

In the exports paradox, liquidity conservation, risk reduction and cost containment become the tools of survival during an economic crisis. Today, these have become an institutionalised discipline for many businesses. However, a commitment of liquidity and capital, risk assumption and a willingness to spend on regulatory compliance and other supply chain costs are essential to stimulating export-led growth – both for individual companies and the global economy.

This creates an ongoing tension for companies seeking to increase exports as a new source of growth. Trade solutions for financing, risk mitigation and process optimisation help relieve this tension by satisfying some of the challenges and concerns of individual companies, thereby supporting the conditions for export-led economic growth.

Global economic conditions align to support increased exports

Conditions are ripening around the globe for a continued and permanent shift towards more exports. According to a recent study by the Tower Group, at the height of the global financial crisis sluggish demand, depressed commodity prices, capital and liquidity constraints, and a sudden lack of availability of trade finance triggered a steep decline in global trade. Today the opposite dynamics – a resurgence in demand, increasing commodity prices and greater availability of credit, liquidity and trade finance – are coalescing to support a resurgence in global trade.

High demand coupled with a weak local currency

For a number of years, high consumer spending in the US bolstered domestic demand and provided the fuel for growth in emerging markets across the world. However, in recent years net exports have become the key driver of growth for many economies. In the US, this renewed emphasis on exports has been aided by a sharp decline in the value of the dollar against many other currencies.

According to the Peterson Institute for International Economics, a 1% decline in the US dollar's real effective exchange rate translates into a $20bn increase in US exports after two to three years. This, coupled with higher export growth, can help offset stagnant domestic demand.

In the emerging manufacturing hubs of Asia, there has been a rise in demand for raw materials, such as steel and raw cotton, which naturally benefits natural-resource-rich countries, such as Brazil, the US, Australia and Russia. These fast developing economies, in turn, are demanding finished products such as high-end consumer goods and electronics to meet the demand created by their strengthening local currencies, not to mention the prosperity generated by their strong growth in income and standards of living in recent years.

Increasing commodity prices
Commodity prices sky-rocketed in 2006-2007 on the back of a surge in global demand, but hit new lows when the global financial crisis struck in 2008-2009. More recently, commodities have trended upwards again. If sustained, and coupled with genuinely increasing demand, this will bolster the growth of global exports.

For example, the price of steel is expected to remain high for the foreseeable future. This will benefit the US (as well as major producers such as Russia), which is a big steel exporter. These factors – combined with the expected depreciation of the US dollar over the longer term – presents US commodity exporters with an opportunity for sustained growth.

The availability of credit, liquidity, and trade finance
Economic growth in many countries relies on trade, particularly in a globally inter-connected ecosystem of supply chains, characterised by the financial inter-dependency of their members. According to the Bureau of Economic Analysis, net exports accounted for approximately 1.9 points of the 5% GDP growth rate in the fourth quarter of 2009 for the US. This has been a recurring trend in recent quarters and elsewhere too.

Governments, of course, understand the link between GDP growth and exports, and are attempting to stimulate the export sectors of their economies. For example, the US government has a goal to double US exports within five years. The National Export Initiative (NEI) is a government strategy to promote exports through increased funding, focus and cabinet-level coordination. Naturally, a key focus is on emerging markets such as China, India and Brazil. The initiative pays special attention to supporting SMEs, including: providing education on overseas opportunities, connecting SMEs to new customers and advocating their interests, improving their access to credit, and enforcing international trade laws to support free and fair access to foreign markets.

Under the initiative, President Obama has called on the Export-Import Bank of the United States (US Exim) to increase financing available to SMEs by 50% – from $4bn to $6bn – over the next year. According to the International Trade Administration, $1bn in agricultural exports supports more than 9,000 jobs, creating an additional $1.4bn in economic activity. So far this programme has yielded positive results: in the first six months of 2010 US exports rose by 17.7% compared to the same period the previous year.

Similar government-led policy efforts are being replicated in other countries to support the growth of exports. Globally, a pledge by G20 members to provide $250bn in short-term trade finance through 2010 further underscores the linkage between trade finance and economic recovery.

A resurgence in global trade is in progress with a focus on exports
Consumer demand is expanding in high-growth markets – specifically, Brazil, Russia, India and China (aka the BRICs) and other emerging markets – and new trade corridors are developing.

At the same time, there has also been a shift away from unilateral trade flows. That is to say, from emerging markets exporting to the US and European Union, and a growth of intra-regional trade flows and trade between developing markets. For example, a number of Latin American countries have benefited from Asia's demand for commodities, while companies in China, India and other Asian countries have developed markets for their consumer goods in Latin America.

New trade lanes – reflecting the development of new trading partners – could more evenly distribute supply and demand among interconnected economies. Along with economic recovery, this could support the emergence of a fundamentally stronger global economy.

According to the World Trade Organization (WTO), for the first six months of 2010 world merchandise trade rose by about 25% compared to the same period in 2009. The WTO forecasts a rebound in global trade for 2010, with 9.5% growth over 2009. Exports from advanced economies are expected to increase by 7.5% in volume terms and in emerging economies are expected to increase by around 11%.

According to the World Trade 100 website, a trade survey of more than 5,000 SMEs in 17 global markets, three out of five respondents expect continued growth in trade volumes in 2010, a 17% increase from a similar survey in 2009. This reflects a stronger awareness among SMEs of trade as a growth opportunity.

Within the US and other advanced economies, such as those in Western Europe and Australia, a sluggish recovery with low domestic demand is causing many companies to seek new sources of growth. As a result, many businesses (including SMEs) expect to increase exports as a share of their business activities.

Yet challenges remain for many companies seeking to grow exports
Despite the ripening conditions for export-led growth, the reality of implementing an export growth strategy is complicated for many companies. Export growth requires a commitment of liquidity, risk assumption, and a willingness to spend on regulatory compliance requirements and other expenditures.

However, the market continues to focus on managing working capital metrics – such as lowering days sales outstanding (DSO) and days inventory outstanding (DIO), and extending days payable outstanding (DPO) – to optimise liquidity and safeguard its use. A heightened focus on risk remains, as does continued attention to cost-cutting and process efficiency.

Working capital
Liquidity – the lifeblood of daily operations – has become a priority for many companies amid tight credit during the financial crisis. The conservative use of liquidity and credit are now an institutionalised discipline. Working capital management has moved beyond the treasury function to become a priority across all organisational functions that drive cash efficiency.

However, export growth requires the use and availability of adequate liquidity. Global supply chains typically lengthen payment terms, thereby extending DSO. In the current economic climate, buyers want to extend payment terms to optimise working capital. Specific payment terms are used in certain industries or due to historical reasons. Changing them creates relationship risk. Trading partners may be unwilling to change terms as most terms either favour the buyer or the seller. Some buyers are seeking to unilaterally extend terms from 30 or 60 days to as much as 90 or 120 days, based on their strength in the relationship, thereby affecting cash flow for exporters.

Risks
Exporting, by nature, has a number of inherent risks due to the differing rules and regulations of different countries, currencies, languages and standards. The financial crisis amplified the focus on risk. Continued vigilance over counter-party risk has created extra tension with export growth, since doing business with buyers in countries around the world requires the assumption of risk on multiple levels, for example:

Payment default: A longer collection cycle – extended DSO – less familiarity with overseas counter-parties and a lack of access to information in some more opaque foreign markets increases the risk of late or non-payment. Beyond the balance sheet, this ties working capital optimisation to prudent risk taking. Greater uncertainty of payment timing impedes cash visibility, which affects cash flow forecasting accuracy. Greater uncertainty of payment requires risk mitigation to protect capital outlays and future cash flow.

Currency volatility: While a devalued US dollar or appropriate local currency creates momentum for exporters, selling into global markets creates currency risk. Currency fluctuations pose a challenge to future profit, since predictability is key to sound growth. Companies need to mitigate currency risk to protect profit.

Compliance: Exporting requires a much greater level of compliance with customs and other government regulations than selling domestically. This is compounded by the lack of transparency and consistent application of trade laws. Moreover, companies that fail to comply with local regulations or documentation sometimes risk legal penalties ranging from fines and confiscation of goods to denial of the right to trade with a country. The level of complexity creates high risk, especially for smaller companies that have not been involved in exports.

Cost-cutting and process efficiency
Regulatory compliance, extended payment terms, document discrepancy fee, counter-party due diligence – these are just some of the costs associated with exporting. As a result of the recession, organisations needed to increase process efficiency to reduce their costs and improve productivity – despite already thin staffing. Companies looking to increase exports need cost-effective, cost-saving solutions that increase efficiency around global trade and supply-chain processes.

Trade solutions address financing and help mitigate risk, increase efficiency and improve visibility
Bank-facilitated trade solutions for trade finance and risk mitigation help in resolving the conflict between a company's fiscally conservative stance and its export growth objective. Supporting them are technology-enabled solutions that help to streamline trade processes for greater transparency and cash flow visibility – in support of risk reduction and working capital optimisation, respectively – and cost-efficiency.

The spectrum of trade solutions ranges from short-term traditional trade instruments – such as letters of credit (LCs), documentary collections and open account – to more complex and tailored medium-to-long term structured trade financing solutions that include support from export credit agencies (ECAs) and multilateral development agencies.

Financing
Trade finance is generally more readily available than other forms of working capital financing, since banks consider it to be asset-linked, short term and self-liquidating.

Trade financing solutions range from plain vanilla LC discounting on presentation of compliant documents, to other traditional working capital financing solutions, and to pre- and post- shipment solutions, such as performance-based financing. This analyses the track record of a buyer-seller relationship based on analysis of historical trade flows to provide supplier financing.

In the past few years, supply chain financing – which is a collaborative form of financing that lowers the overall cost of working capital in the supply chain – has been available to the sellers as an avenue for financing non-LC related shipments. This involves balancing the working capital needs of sellers and buyers by reducing the funding costs for sellers while extending payment terms for buyers.

Risk mitigation
Opaque markets – which lack ready access to information for assessing the financial stability of counter-parties – present higher credit risks to exporters. Bank solutions can help mitigate the risks of payment default and delay. These include traditional commitment-to-pay services, such as letters of credit, which shift the risk from the buyer to the buyer's bank; letter of credit confirmations, which eliminate country and bank risk by shifting the commitment to pay to the exporter's local bank; and document purchase services, which eliminate documentary risk.

Streamlined processes
Technology continues to play an important role in providing visibility into and streamlining financial processes, including automating document preparation and exchange – from purchase orders and shipping documents to invoices. This solution set applies automation and process optimisation to trade processes – between the exporter, its bank, and its counter-parties – to increase efficiency. Automation improves accuracy – by eliminating manual touch points – speeds up processing, reduces costs and increases process transparency to reduce the risk of non-compliance and payment default, which in turn reduces DSO and improves cash flow forecasting for exporters.

Visibility
End-to-end process transparency, in turn, improves visibility of informational flows. All supply chain members gain access to data in the same format in real time. This enables the financial supply chain to more tightly integrate to the flow of physical goods, information, and cash. This strong linkage provides the seller with the opportunity to finance a transaction at various points in the supply chain while the goods and documents are still in movement. At the same, it gives the bank the comfort to finance as it is also able to see exactly where the goods and the documents are in the supply chain.

This, in addition, also facilitates a more precise view of cash flow, and supports better cash forecasting and the use of effective tools to unlock working capital trapped in the supply chain to improve working capital efficiency. This is the underlying premise for electronic document presentation and payment and supply chain financing solutions.

A strong banking provider has key differentiating characteristics
Embarking on an export growth strategy has its complexities. An organisation must choose the right strategic provider that supports an integrated approach to financing, risk mitigation and process optimisation that addresses its needs within the broader context of the supply chain. Such an integrated perspective and approach requires intellectual capital – experience and expertise in global solutions and local nuances – to each unique circumstance.

Attributes to expect from a banking provider include:

Global Coverage: An ideal provider knows counter-parties on both side of a transaction (buyers and sellers) and, from this position, can work to facilitate payment, mitigate risk, provide cost-effective financing, and resolve disputes that impede timely payment. This requires an ability to obtain business intelligence through on-the-ground staff located in a buyer’s country and all around the world.

Complementing this ability is an expansive network of correspondent banking relationships that enable the provider to extend reach beyond its physical footprint. Also vital are strong relationships with ECAs and multilateral agencies in regions across the globe.

Financial strength and stability: Of crucial importance are the size of a bank’s balance sheet, its global credit standing and its ability to assume credit risk – on behalf of the exporter, the buyer, and your buyer’s bank. A bank should exhibit a reasonable and appropriate country risk appetite to help mitigate supply chain risk.

Trusted advisor capacity: The ability to be a trusted advisor should span the range of trade scenarios – from simple, short-term transactions to complex structured trade financing solutions. A bank should be able to apply its intellectual capital to replicate best practices around the world. It takes decades of experience, knowledge and expertise to gain the necessary track record to serve in this capacity.

Growth in exports has microeconomic and macroeconomic benefits
Export growth in the US, Western Europe, Australia and other regions reflects a shift in the focus of globalisation, primarily for cost reduction – through the labour arbitrage associated with low-cost sourcing and offshoring – to the pursuit of higher growth markets as a driver of top-line growth. Export-driven economic recovery is good, not only for exporters, but importers as well, who benefit from renewed domestic growth.

It also, no doubt, reflects the beginning of a reversal in the long-standing role of the US, Western Europe, and other developed economies as net importers which, longer-term, could correct the balance of trade among nations. Like a balanced budget, a reduction of trade deficits could strengthen the global economy by more evenly distributing supply and demand among interconnected economies. This could increase economic stability and reduce the severity of global economic shocks over time.

The notion of exports driving growth is supported by favourable economic conditions and governmental policy changes. For an organisation implementing an export growth strategy, trade solutions exist today that address the internal issues of working capital, risk and efficiency. These micro and macro-economic factors combine to provide a timely opportunity for exports to lead the global economic recovery.

Amit Jain is Vice President of Global Trade and Supply Chain Product Management at Bank of America Merrill Lynch. HR Strategy – Myth or Reality?

Posted on 7 January, 2010 by Rick

That the HR function needs to become more strategic is a mantra I first heard over twenty years ago when I started working in HR. It's one that people must like, because they are still repeating it. Back then I wasn't even sure I knew what HR was let alone what strategic HRM or an HR strategy might look like. On the latter points, at least, I reckon a lot of HR professionals would not be much clearer today because truly strategic HR management and HR strategies worthy of the title are still scarce.

It is true that HR professionals tend to have more coherent plans for their own functions than they did even ten years ago. Many firms have embarked on Ulrich-inspired HR re-organisations which, if nothing else, have made them focus more clearly on what they are trying to do and made them more aware of the costs and benefits of doing it. But that is not the same as Strategic HRM or having and HR strategy. HR functions can be well-organised and have clear goals while still being almost completely transactional.

Even when HR professionals attempt to be strategic they all to often repeat that other time-worn cliché, that the HR Strategy should be aligned to the business strategy. And as soon as they say that they are sunk. These are the words of someone who has already relegated himself to the role of functionary or, at best, facilitator. Come on? When did you last hear a Finance director saying that the Finance strategy should be aligned with the business strategy? It just doesn't happen. Finance directors assume that they will be part of the team that formulates the business strategy and act accordingly.

As the CIPD says:

In the majority of organisations people are now the biggest asset. The knowledge, skills and abilities have to be deployed and used to the maximum effect if the organisation is to create value. The intangible value of an organisation which lies in the people it employs is gaining recognition by accountants and investors, and it is generally now accepted that this has implications for long term sustained performance.

It is therefore too simplistic to say that strategic human resource management stems from the business strategy. The two must be mutually informative. The way in which people are managed, motivated and deployed, and the availability of skills and knowledge will all shape the business strategy. It is now more common to find business strategies which are inextricably linked with and incorporated into strategic HRM, defining the management of all resources within the organisation.

In other words, looking at the capabilities and knowledge among your workforce should inform your business strategy as well as being driven by it. Therefore as well as saying, "We need to expand into this market; what sort of people will we need?" you also ask, "What skills, knowledge and relationships to our people have? What markets would that enable us to exploit?" Strategic HR is about seeing your human resources as one of the factors determining your business strategy, rather than as something which will have to respond to it.

Having said that, even where these sort of discussions do take place, HR professionals are often not present. As Mike Haffenden points out:

There are very few businesses that have managed to differentiate themselves from the competition by the quality of their HR management. The best example I have seen was Hewlett Packard in its halcyon years. Yet even here, human resource management was regarded as far too important to be left to the HR managers. What really made the company stand out was the quality of the people management, not the quality of the HR management. Indeed, there is a view that HR flourishes where there are weak people managers and a strong HR function that acts in an almost executive capacity. This can't be right!

As I have said before, there is evidence that CEOs are increasingly seeing the importance of strategic people management but that they are not necessarily looking to HR people to deliver it. Just because senior executives are starting to see the importance of managing human resources it doesn't mean that they will give Human Resource managers a seat at the top table. It might even be that the HR function never becomes strategic at all and that HR professionals are relegated to a support role while someone else does all the interesting stuff.

Part of the reason for this might be that HR directors often implement things that they think look clever and strategic but which are actually irrelevant to the business. Here, Mike is especially scathing:

There is a further rather large category of HR Directors who are the faddists bent on chasing best practice and the latest quick fix, regardless of the needs of the business. They exist in surprising numbers, and there are far too many of them.

If in doubt, check it out: try to determine which strategic imperative is underpinned by 360-degree feedback, development centres, neuro-linguistic programming or competency frameworks. Most of these initiatives are simply fashion fodder, and if your HR Director has implemeted some of them but cannot link any to a strategic imperative, then your Director belongs in this category. Ask customers to choose between the basic product without the HR fads, and the more expensive one created by managers who've had 360-degree feedback. It will elicit only one response.

What? HR people followers of useless fads and fashions? Who'd have thought it, eh?

HR strategy is like many other aspects of corporate management – when all is said and done there's a lot more said than done. HR strategy is, perhaps, not altogether a myth but there's a lot less reality than many HR professionals would have you believe.

If you would like to join what promises to be a lively discussion on this subject, Mike Haffenden is speaking at the Novotel in Hammersmith next Wednesday evening. The event is being organised by West London CIPD and you can book your place here. It's free to CIPD members and their guests.

I will, of course, be there but I promise not to say too much so don't let that put you off