Wachovia must blend cultures, retain brokers

By Jerri Stroud
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Getting the merger agreement hammered out may have been the easiest part of melding Wachovia Corp. and A.G. Edwards Inc.

The hard part, say management experts, is blending the companies' cultures and retaining employees, despite the leaders of both companies emphasizing their compatibility.

Wachovia and A.G. Edwards announced plans to merge late last month. The $6.8 billion deal would produce the nation's second-largest brokerage firm, with 15,000 brokers. Wachovia plans to make St. Louis the headquarters of its securities business, but it will carry Wachovia's name.

Management experts like Todd Zenger, a management professor at Washington University's Olin School of Business, say the merger raises more questions than answers.

"It's very easy to articulate the cost savings, the economies of scale" that will result from combining two companies into a larger one, Zenger said. "It's just very, very difficult to manage the culture dynamic" of bringing together two companies with different compensation structures, divergent histories and distinct business processes, Zenger said.

The first difference is in their histories.

A.G. Edwards is purely a brokerage firm. The company traces its beginnings to 1887 in St. Louis. Its founder, Albert Gallatin Edwards, was assistant treasury secretary to President Abraham Lincoln near the end of the Civil War. Members of the Edwards family led the company until 2001.

Wachovia is the product of a relatively recent bank merger — the joining of First Union Corp. and Wachovia Corp. in 2001. Although each bank has a long history, they entered the brokerage business through a series of six acquisitions, beginning in 1998 when First Union acquired Wheat First Securities in Richmond, Va.

"Culture is the 900-pound gorilla in this situation," said Jerry Newman, a professor at the

University at Buffalo School of Management.

If Edwards' employees think their company's conservative style is threatened by a more aggressive culture, they won't want to stay on, Newman said. Wachovia will need to minimize the differences and provide financial incentives to keep Edwards' best people.

In a brokerage firm like Edwards, financial advisers are the company's most valuable asset because they're the ones who generate commissions and other fees that produce the bulk of the company's revenue. Brokers who leave often take their clients — and fees — with them.

"Investors are more loyal to their individual financial advisers than to the firm," said Jennifer Patenaude, market strategy analyst with Cogent Research of Cambridge, Mass. "It's imperative that (the companies) minimize disruptions" of their broker networks.

Cogent Research, a market research company, recently completed a study of 4,000 U.S. households with at least $100,000 each in investable assets. The study included customer ratings of both Wachovia and A.G. Edwards.

Both companies ranked among the top five firms in three categories: range of services offered, retirement and income planning, and quality of personalized service, Patenaude said. A.G. Edwards also ranked in the top five on fees and on recent portfolio returns.

"They both have relatively strong brand equity," Patenaude said. A.G. Edwards had better brand awareness among affluent customers and longer client relationships, on average. Clients and brokers need to be assured that service isn't going to be disrupted in the merger, she said.

Tony Mattera, a spokesman for Wachovia Securities, agreed that convincing Edwards' brokers to stay with the company is Wachovia's primary goal.

Daniel Ludeman, the Wachovia executive who will run the combined companies, flew to St. Louis on May 31, when the deal was announced. The companies had conference calls for the brokers that day, and Ludeman will embark soon on a 40-city tour of Edwards' 742 branch offices.

"He'll be spending time with (brokers) and listening to them," Mattera said. "Our culture is centered on the financial consultants. The guys who run this place were financial consultants, and they will be out there making the case" to Edwards' brokers over the next few weeks.

"It's our job to show them that we're the best place for them to do business," Mattera said.

Ludeman grew up in Virginia and came out of Wheat First. He's taken the company through several mergers, including a joint venture with Prudential Securities in 2003.

Each variation of the firm has been run out of Richmond, Va. This time, Ludeman and the headquarters will move to St. Louis when the deal is completed, probably in the fall.

Wachovia also is preparing retention packages for the Edwards brokers, Mattera said. The packages are usually structured as loans that can be forgiven if a broker stays with the company for a period that could vary from three to six years. Amounts are based on brokers' revenue production for the 12 months preceding the merger.

Wachovia also will put together teams of its own and Edwards' employees, who will review every aspect of the two companies and choose the best parts of each, Mattera said.

"We have done six mergers in five years," Mattera said. "It was never the case of imposing the acquirer's values."

Newman, the professor from Buffalo, said Wachovia is doing many of the things it needs to do to retain Edwards' personnel. But it won't be easy.

"The reality is that they're going to lose people," he said.

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