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Malcolm Baldrige National Quality Award 1997 Recipient Merrill Lynch Credit Corporation

When Merrill Lynch Credit Corporation (MLCC) first began operations in 1981, its singular focus was providing financing to customers by offering a new, highly innovative credit product -- home equity credit lines. Today, powered by intimate knowledge of its customers' needs and a systematic, data-driven approach to performance excellence, MLCC offers a diverse line of credit products and services. MLCC strives to enable its clients to manage their liabilities to optimize their entire financial port-folio. Building client net worth and total balance sheet management over the client's financial life cycle is the dominating business strategy to assure that MLCC not only survives the accelerating consolidation in the financial services industry but also significantly increases its market share. At the heart of MLCC's aggressive strategy is the conviction that quality service is not a goal -- it is an imperative to achieving growth objectives.

The Business

A wholly owned subsidiary of Merrill Lynch & Company, MLCC offers real estate and securities-based consumer credit products -- including home financing, personal credit, investment financing, and commercial real-estate financing -- to primarily affluent individuals. About 90 percent of its approximately 830 employees, known as partners, are located in MLCC's Jacksonville, Fla., headquarters. The company's field representatives, the Mortgage & Credit Specialists, are MLCC's primary sales force. These partners market all MLCC products through the nationwide network of over 14,000 Merrill Lynch Financial Consultants.

Led by Michael Johnston, chairman and chief executive officer, MLCC will originate over \$4 billion in loans for 1997 and has a servicing portfolio of nearly \$10 billion. MLCC also has been a leading force in creating new vehicles for managing liabilities. For instance, by enabling investors to pledge stocks and bonds as collateral against home financing, personal loans, and investment financing, MLCC offers its clients a way to borrow without liquidating those assets. The investment portfolio remains intact and continues working for the client.

With a host of competitors -- including major banks and investment firms -- MLCC distinguishes itself with a comprehensive line of innovative products. MLCC's senior managers set the direction and tone while seeking future opportunities for the company through a systematic Business Planning Process (BPP), quarterly meetings with all partners, Monthly Management Reviews to evaluate overall performance, regular training, and continuous interaction with partners at all levels. Leaders are expected to serve as role models in every respect, with a premium placed on involvement with community and industry organizations.

'Data-Rich' Systems

'Data-Rich' aptly describes MLCC's management-by-fact approach. Relying heavily on a continuous flow of information, the company's BPP -- "championed" by MLCC president and chief operating officer Kevin O'Hanlon -- encompasses both long- and short-term plans. Its longer term, strategic planning component is a continuous process; the Business Development Department constantly adapts this plan to business factors and information about trends in the mortgage, credit, and financial services industries. Company strengths and weaknesses as well as opportunities and threats are identified. Monthly and quarterly information about MLCC's performance in eight core processes and 10 support processes needed to generate and complete a transaction are factored into this plan -- as are customer characteristics and market data.

As part of the BPP, every July senior managers translate the strategic imperatives into the company's Critical Few Objectives, key performance measures for those CFOs, and specific targets for the next one and three years. (For example, a CFO to increase process productivity with an aim of increasing shareholder value is measured by the number of days to approve applications, with specific, ambitious, and measurable goals.) In turn, these CFOs provide the basis for determining partner performance management plans. By involving all of the firm's partners in providing information for the business planning process, and in regular refinements and progress reviews, MLCC ensures that its plans are fact-based and linked to individual goals and objectives.

Voice of the Client

MLCC segments its market into several categories of current and potential customers, stratified by their asset levels and age. Working with its parent company, MLCC uses in-depth research to target and deliver appropriate products and services. Its "Voice of the Client" process spells out customer satisfaction drivers for each client segment and for each of its credit categories. These priority requirements provide the basis for aligning the company's processes and work groups, and for identifying indicators and key performance measures for each of its eight core processes. In turn, each of those indicators are tracked and used to identify and put in place improvements in areas having the greatest impact on customer needs and satisfaction.

Information about the customer is truly paramount for MLCC. To ensure that its market research is always current, MLCC continuously evaluates and improves its data on what its clients need and what they might want in the future.

The client data come from an array of sources, ranging from surveys of clients and Financial Consultants in the field to written or telephone feedback, internal audits, syndicated research, and benchmarking studies. Satisfaction levels of competitors' clients also are used in analyzing client needs. Customer complaints are analyzed in depth, reviewed monthly, and reported back to MLCC regions to identify any sudden changes and to share lessons learned. Negative trends and recurring problems trigger process improvement teams to develop countermeasures and to prevent recurrences. Clients receive acknowledgment of any complaint within two business days, and resolution is arrived at in no more than five business days.

Empowered Partners

MLCC considers partner empowerment critical to its success. Partners are encouraged to take initiative and responsibility, especially in being flexible, responding rapidly to customer needs, and in individual development. An example: MLCC partners received an average of 74 hours of training in 1996, nearly twice that of benchmarked companies. The company strives to be the employer of choice in a tight labor market. Alternative work arrangements are one element in an approach that is clearly working: partner satisfaction with the company's recognition programs improved from 42 percent in 1994 to 70 percent in 1996. And in an industry that typically has not put technology at the forefront, MLCC is placing far greater emphasis on technology approaches to enable partners to meet the ever increasing expectations of clients and the company's financial consultants.

Results

MLCC has impressive results to show that its focus on quality management and performance excellence is a wise investment. Net income rose 100 percent from 1994 to 1996 and exceeds the industry's average. Return on equity increased approximately 74 percent and its return on assets improved approximately 36 percent in that same period. Key indicators for loan delinquency rates and writeoffs compare favorably with the rest of the industry and are clearly improving -- as are the firm's total loan originations, market share in originations, wholesale volume as a percentage of first mortgages, and size of servicing portfolio.

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