Is Cold Calling Dead?

"Dead and buried," recruiter Danny Sarch says. Others give cold calling a place beside more modern tactics.

By Jeff Berman | June 11, 2021

The widely reported recent decision (https://www.thinkadvisor.com/2021/05/24/merrill-to-bar-trainees-from-cold-calling-report/) by Merrill Lynch Wealth Management to bar its 3,000 advisor trainees from making cold calls as part of the firm's new training program is perhaps the surest sign yet that if cold calling isn't already dead, it's getting there, according to industry experts interviewed by ThinkAdvisor.

Merrill trainees will be asked to rely on internal referrals and LinkedIn messages instead, according to a report in the The Wall Street Journal (https://www.wsj.com/articles/bank-of-americas-merrill-lynch-to-ban-trainee-brokers-from-making-cold-calls-11621850400).

The development followed Merrill's move last summer to end cold calling in response to outreach-related violations, according to Business Insider (https://www.businessinsider.com/merrill-lynch-pauses-adviser-trainee-prospective-client-outreach-after-violations-2020-8), which obtained a copy of an internal memo written by Jennifer MacPhee, who later retired from her role as head of Merrill's training program.

The firm didn't respond to a request for comment on why it decided to bar cold calling now. But Merrill President Andy Sieg said during a call with analysts in April, "We are leaning much more heavily on leads and referrals from the broader company. There is also an opportunity to be much more modern in terms of the way we are reaching out to prospective clients."

The trainees are expected to get more referrals from the bank's base of 66 million retail clients, people familiar with the matter told the Journal.

JPMorgan Chase, Morgan Stanley, UBS and Wells Fargo all either declined to comment or didn't respond to requests for comment about their companies' cold calling policies.

Speculating on why the firms were reluctant to speak publicly about the subject, Timothy Welsh, president, CEO and founder of Nexus Strategy, told ThinkAdvisor: "It's the whole image that they're trying to cultivate" of their brokers and advisors "being professional."

This "whole elevation of the role of the broker/advisor is really important to them because they know that they're losing market share to RIAs… who are professional, who don't cold call, who hold themselves to a higher standard [and] are fiduciaries," said Welsh, who was vice president of marketing at Merrill Lynch from 1992-1999.

The wirehouses, in particular, "know that they've got an image problem and so this is just one more" negative the firms have to deal with, "beyond the fraud and the Ponzi schemes and the fines" that are widely reported on a regular basis about brokers, he said.

The wirehouses also have a "turnover problem," he said. As they try to recruit people to join them, cold calling is likely a turnoff to at least some candidates who don't want to just be salespeople making phone calls to sell products, he explained.

The 'First Death Knell'

The "first death knell" for cold calling was online trading, which gave investors the ability to make trades on their own, Welsh said.

Merrill's decision to bar cold calling likely won't hurt it because cold calling generates only a "very tiny amount" of business, he noted.

Although he was reluctant to call cold calling dead, he told ThinkAdvisor: "It's definitely on the way out."

The success rate for cold calling has always been relatively low and there are also better ways now to find new clients, including searching on LinkedIn, advertising a webinar and sending targeted invitations to prospective clients, he explained. Many people don't even want to use phones anymore, he added.

However, he predicted it will be "tough to police" whether trainees or anybody else at Merrill are making cold calls — unless those receiving unwanted calls complain about them, especially if they turn out to be phone numbers on the National Do Not Call Registry.

Merrill terminated two broker-dealer representatives who violated the firm's Do Not Call List policy late last year, according to the Financial Industry Regulatory Authority's BrokerCheck website.

The Pandemic Served as 'Rocket Fuel'

"What I personally think is going on here is just what we've been seeing for years and 2020 really just put rocket fuel on," said Samantha Russell, chief evangelist at FMG Suite and chief marketing and business development officer at Twenty Over Ten. "Cold calling has worked less and less effectively every year that the Internet has been around."

People look to the internet to solve their problems and to research products and services before buying, she noted. "We do this for everything, whether it's hiring a plumber or at what hotel are we going to stay when we go on vacation," she said. "Financial advice is no different."

People can also screen their calls now with caller ID and block telemarketing calls, and "you can put your number on the Do Not Call list," she said.

"From a cost-per-lead basis, it's very expensive and not that rewarding," she told ThinkAdvisor.

However, she wouldn't declare cold calling dead, either. "I think we're still a long ways off from it being completely extinct," she said. "I think what is changing though is, rather than having just a list of people that you have no knowledge [of] and they have none of you, we're going to see a lot more methods [including] what we call a warm leads list."

That list can include people who have seen information about an advisor online and fill out a form to get more information about something, she noted.

"That person doesn't necessarily have to know you in order for that call to take place," Russell said. "But it gives you much more of an in and makes it much more compelling for somebody to … listen to what you have to say than just calling somebody straight cold."

Advisors can also generate leads with the help of LinkedIn, which she said “a lot of financial advisors” find to “be the most successful platform” of all the social media networks for them.

“Anything you’re doing completely cold in 2021 is not going to be that effective unless you have some way to direct [people] to a place” where you are providing information of interest to them and show them you are an expert in providing financial advice, she explained.

Dead and Buried?

“Cold calling, by and large, is already dead and buried and Merrill Lynch was the first one to attend the shiva,” Danny Sarch, president of Leitner Sarch Consultants, told ThinkAdvisor.

However, Sarch conceded there could be developments in the future that change this. For now, however, “what is the return on investment” for cold calling at any firm? he asked rhetorically.

Very few people are going to accept a cold call from an advisor and say, “You’re a charming person. Let me send you $100,000,” he added. “We’re in a different world than when businesses were built that way.”

Merrill wants to take advantage of its relationship with parent Bank of America’s banking business, and cross-referrals can be generated between the two divisions, he noted. Merrill trainees can also meet clients by working out of bank branches, he said.

It is hard for trainees to get new clients even through referrals, as more experienced advisors do, because “what 55-year-old is going to say to the 25-year-old, ‘yes, you’re the person I want to manage my money!’”

That is why teams are so important, and that is also something that Merrill is focused on, he pointed out.

The Declining Power of Brokerage Brands

Executive recruiter Mark Elzweig agreed that Merrill is “seeking to leverage its relationships with existing bank customers to grow its retail business.”

And, like the other experts, Elzweig agreed that “warm calls or the use of LinkedIn or other social media platforms make more sense” for advisor trainees than cold calls. “I think that there’s a broad based recognition in the industry that new accounts are developed more effectively by niche marketing and social media than by random cold calls,” he told ThinkAdvisor.

“Years ago, newbie advisors built their businesses by pounding out calls to leads on Dun & Bradstreet cards or getting hold of a reverse directory and blitzing residents in a fancy building,” he said. However, the problem is the “power of a major brokerage firm’s name alone is not enough to open accounts that way anymore,” he said.

Like Russell, he predicted that cold calling would linger in the industry to some degree. “There will always be talented salespeople who can garner new accounts via cold calling but it’s much tougher now,” he said.

But “I think that, going forward, there will be very few people who can build a business based upon strictly cold calling,” Elzweig said.

A Potential ‘Downside’

Just because cold calling has become increasingly less effective over the years, however, doesn’t mean that all firms are so quick to officially kill it off.

“I don’t think there’s a big push to stop cold calling at most firms,” according to Andy Tasnady, managing partner of Tasnady Associates. “The whole industry is 100% commission-based, so I don’t see most firms limiting cold calling formally at all.”

Merrill is, meanwhile, “somewhat unique” because it has a “large formal training program, [whereas] most firms don’t have any training program or, if they do, it’s very ad hoc [and] not centrally managed,” he explained.

Merrill is also unique because it has a large bank associated with it so it can “afford to tap that as a source for referrals, so that’s their strategic advantage and its strategic focus,” he said.

For Merrill, the elimination of cold calls is “yet another step in their development of just trying to become more professional and more focused on leveraging” the BofA relationship, he said.

Like Elzweig, Tasnady noted that Merrill is also heavily reliant on advisor teams, calling that an “easier path for new trainees to become successful.”

Merrill has also “been a leader in many types of evolutions historically for a very long time,” including its emphasis on teams, fee-based relationships with clients being more important than trading, phone-based service centers and more, he added.

It is a big enough firm to test different approaches and, “if it doesn’t work for some reason, maybe they will reconsider,” he said. “But my guess is, given the size and the work they’ve done to improve the referral flow between Bank of America and Merrill, they probably feel comfortable that this is not going to impact their ability to make their advisor trainees successful.”

There is a risk, however, for new advisors and brokers. “The downside is being successful at cold calling, I think, can be a very effective training process for salespeople,” according to Tasnady.

But his prediction is that, “as more and more people do shift to more effective forms of contacting,” cold calling will continue to fade away.

(Image: Adobe Stock)
