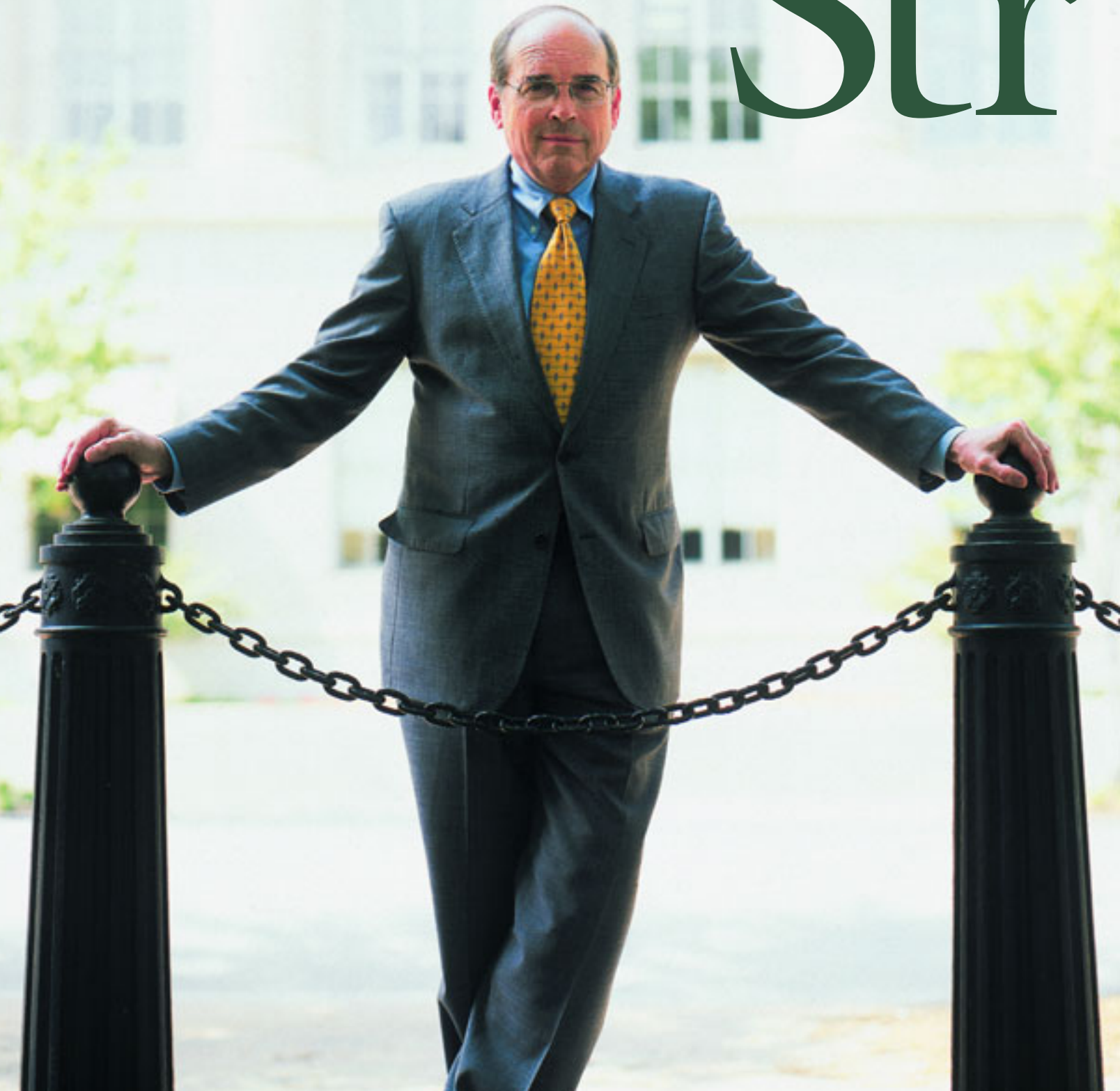


Investment Str



The investment company Edward Jones has been built on the concept of close, individual relationships between customers and consultants. Former managing partner **John Bachmann** believes that investing in customers and employees is a strategy that always yields high returns.

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John Bachmann is going back to his roots. The senior partner of Edward Jones recently stepped down from his position as managing partner of the investment firm and now is working alongside investment representatives in Ireland and the U.K. That's essentially how he started his long career with the company, working first as a college intern and then as an investment representative of a branch office. In 1980, he became managing partner of the firm, which is headquartered in St. Louis, Missouri.

Under Bachmann's leadership, Edward Jones has grown from 200 offices in 28 states to more than 9,000 offices in the United States, Canada, and the U.K. Even during this impressive growth spurt, the company remained true to its vision of serving individual customers while providing excellent career opportunities for employees. In June of 2002, Edward Jones tied for top spot in a survey on Investor Satisfaction with Full Service Brokerage Firms conducted by J.D. Power & Associates. In 2002 and 2003, *Fortune* magazine rated Edward Jones as No. 1 in its annual list of Best Companies to Work For.

In January 2004, Bachmann resigned his role of managing partner, although he continues his involvement with the firm and the community. He also remains committed to the company's basic tenet of serving individual investors through one-on-one relationships with knowledgeable consultants. He favors the Edward Jones policy of carrying only investment options that the firm approves of, even if this sometimes means not offering a product or service a customer might want. Offering all options would be "a department store mentality," he believes, whereas Edward Jones is more of a merchant. "We're informed buyers for the customer," he says.

In a recent interview, Bachmann—who has just been elected 2004-2005 chairman of the board of directors of the United States Chamber of Commerce—expresses his views on what business executives must do to connect with customers, retain employees, and educate themselves for the world of business.

by **Jonathan Schlereth**

photographs by Bob Severi

What key decisions did you make that enabled you to move steadily upward within the Edward Jones organization?

By far the most important decision was to get my MBA at Northwestern University, before the business school became Kellogg. My MBA provided a foundation. I had a classical, liberal arts undergraduate degree, and I needed the teachings

I could get in business education to give me a foundation on which to build.

The second important decision I made was to become an investment representative at Edward Jones. For seven years I actually did the core work that we ask others to do. I understand what the work is, and I understand how difficult it is.

The third key decision revolved around the way I structured the investment banking job function at Jones. As investment banking became more mathematical and complex, I brought other people on board who could do it better than I. I designed that position to get myself out of the way. It was a lonely experience and yet, looking back, I realize it created a level of trust with my predecessor that I couldn't have achieved any other way. I showed I wasn't territorial and was conscious of my own limitations.

The fourth step was becoming a partner and instituting a set of goals and strategies that became the basis for what the firm is today.

Can an investment representative who was just hired this morning follow a career path similar to yours and become a managing partner or a part of upper management in 30 years?

Let me put it to you this way. We have branch office administrators who assist the investment representatives in our 9,000-plus branches. Several of them are general partners in St. Louis. They have worked their way up through the organization; and because of their sheer ability they are now a part

of the senior management. I believe that speaks volumes.

I also can say that in recent years we've been fortunate enough to be highly ranked in *Fortune* magazine, which rates organizations on more than 70 different characteristics. Of the 100 companies considered the best places to work, we're one of the least political. We're very proud of that. We are seen as a place where people are going to be judged based on their performance, not on their potential or who they know.

Why do people like to work at Edward Jones?

Jones is a very demanding place. Oddly enough, high achievers want to be in a demanding environment; they don't want to be in a place that accommodates sloth and mediocrity.

We have spent an enormous amount of time thinking about knowledge workers and their needs. Knowledge workers need clear responsibilities that allow them to contribute to the success of an enterprise. We enable people to feel a real sense of achievement, because they know they're making a difference.

Another thing we've done is manage the business to minimize layoffs. We believe we are the only financial institution that has had no layoffs since January 1, 2000. The purpose of a layoff is to change the scale of the organization so it costs less to generate a dollar of revenue. Rather than shrink our headquarters, we froze employment at headquarters and aggressively grew our distribution system. At the end of 1999, we had 5,900 investment representatives and 3,000 people at headquarters. Today we have 9,300 people in the field and 3,900 at headquarters.

Other businesses have reduced their workforces by hundreds, even thousands, in the past four years.

How is your business model different from other organizations?

We're always making changes to the margin of the business model, because we have to respond to an external environment over which we have no control. But we have a huge advantage in that we're not publicly traded. We're not trapped with the demands of quarterly earnings. And we believe that even though it might cost us more in the short run to keep our team together, in the long run, the loyalty that it engenders in employees leverages itself in much higher profitability over the cycle.

Edward Jones spends about 3.8 percent of its payroll on training, which breaks down to around 146 hours per person. You also offer employees programs through several business schools. What do these training programs focus on?

Jones is a very demanding place. Oddly enough, high achievers want to be in a demanding environment; they don't want to be in a place that accommodates sloth and mediocrity.

These programs teach employees how we do business—how Jones' culture evolved and how it plays a part in what we do. We're also taking the basic MBA curriculum and tailoring it very specifically to our needs. For example, we have some programs at Harvard, where we work with professors who, within the very specific context of our industry, study competitive strategy. We also conduct a program at the Peter F. Drucker School of Graduate Management at Claremont Graduate University in California. It is completely tailored to Jones and deals with what we call "responsibility-based management." We have a program at the London Business School, where Jones employees go to gain a better understanding of our possible role in global markets.

One key issue at business schools today is increasing the numbers of women and minorities who enroll in school and enter the workforce. While 63 percent of Edward Jones' employees are female, only 6 percent are minorities. The first number is impressive, but is the company addressing the low number in terms of diversity?

We don't talk about diversity at Jones. Inclusion is the term we use. We aggressively seek out minorities, because we believe that our numbers are not where we need them to be or where we want them to be. We have made inclusion one of our strategies at the firm. Ours is not a business that has traditionally attracted minorities. We are going out and trying to correct that.

If business school students were doing a case study on the company, what would they learn about how Edward Jones maintains a client's trust?

We develop trust through face-to-face relationships, which means the customer is not an abstraction. The organization's basic structure is also a contributing factor. While most companies start with a product, we started with the individual investor. Furthermore, we knew we only wanted to serve the serious, long-term investor. Once we made that decision, we began aligning a set of activities toward the individual investor. This kind of strategy is pure Michael Porter.

The standards we have set for ourselves have a social



dimension. We help people plan for retirement, so there are certain products and services that we offer—and, more important, that we

choose not to offer. We don't sell stocks that are under \$4 a share; we don't sell options or commodities. We're not saying those are right or wrong. We're saying we've aligned a whole set of activities to serve one customer. Somehow people get a sense of who we are and who we aren't, and a certain percentage of the population relates to that.

Business schools have started focusing more intently on corporate governance in the wake of Enron, WorldCom, and other corporate disasters. What checks and balances has Edward Jones put in place to avoid such scandals?

In terms of our investment business, we're talking about very sophisticated computer programs that search out patterns of behavior that need to be monitored. We have built compliance into all of our regional meetings. We have a designated leader in each region who brings compliance issues and standards to those meetings. We bring groups to St. Louis several times a year to meet with experts, including the dean of the Washington University Law School, a leading authority on the Securities and Exchange Commission.

If someone wanted to behave badly, there is not much we could do about it on an individual basis. But we do use training. We use examples. When someone behaves badly, he is dealt with promptly. And that means dismissal of anyone, whether an entry-level person or a general partner. We've had to deal with both, and we've done it with equal speed. It doesn't take too many of those examples to show we have an equal standard at Jones. Showing that the standard is unyielding is also important.

You recently started doing business in Canada and the United Kingdom. What challenges did you face?

The challenge in Canada was simply learning for the first time about dealing with multiple currencies and a different regulatory regime, rather than a centralized Security and Exchange Commission such as we have in the United States. There were also some differences in tax laws, leading to different products and retirement models. But about 75 percent of the Canadian population lives close to the United States border, so we can

detect no difference in the investors' knowledge of markets and awareness.

The United Kingdom, on the other hand, presents a much more complex challenge, because the markets and the investors there are much more like those of the 1960s in the United States. For a long time, government owned many of the leading businesses, so there was no tradition of share ownership. Consequently, much more of our time has been spent educating people about how investments work. We're dealing with a different regulatory regime there, too, because they're combining all of the financial institutions under one umbrella.

To what other countries are you hoping to expand in the near future?

We'll probably go to Ireland next, because we're in Northern Ireland now. It gets us into the currency of the euro, but it uses London for clearing, so it is a half-step.

We wanted to be in the United Kingdom because it is the most developed of the European markets in terms of share ownership, and it is also in the European Community. Because of that we can, without going through a complete re-regulation, move to any country within the European Union. If, for each country, we had to go through what we went through for the United Kingdom, it would be a very lengthy and complicated process.

Within management education, there is some controversy about the "Americanization" of management schools. As you export your brand to Europe, do you find any resistance to an American business model?

My observation is that the American model is sweeping Europe. The purpose of the European Community—which has broken down barriers and simplified the movement of capital, labor, and materials across countries—is to improve productivity. Along with that, I think you're very rapidly seeing a movement to the U.S. model of finance in traditional European banks and businesses.

Companies don't want to be under the thumb of a financial institution, and they want to have more flexibility in financing the business; so they turn to the U.S. markets. As the population ages, more and more people will want to take responsibility for their own retirement, and those people will begin investing, often in the great companies in Europe. So there's more privatization on the continent, just as there was in the U.K.; and that will continue. Like it or not, there's going to be more of a U.S. model, which will increasingly be the language of business. A principal driver is the Internet.



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If a business school is trying to increase its leverage from a productivity standpoint, the Internet is a marvelous tool ... but the Internet is not and **cannot be a replacement** for students sitting in a classroom, interacting with others, and experiencing the professor skillfully leading a course.

In fact, you're known for using the Internet to develop customer relations. How has technology shaped your business in recent years?

The core of our business is the consulting relationship between the investment representative and the customer. We chose not to create a distribution channel that circumvents that relationship, so we said we weren't going to sell securities on the Internet, period. However, as a supporting tool to that relationship, we're going to use the Internet as extensively as we can. Therefore, clients can communicate with their representative on the Internet. They can look up credit card charges and their accounts at any time on the Internet. They can pay bills on the Internet. We have a full range of Internet services; we simply aren't going to compete with our core business theory.

We were cited in the *Harvard Business Review* because what we did started out as being very unpopular, and now it's considered a model for organizations.

Many business schools have also started relying heavily on online technology, either to deliver courses or encourage interaction among students. Do you have any advice for them?

If a business school is trying to increase its leverage from a productivity standpoint, the Internet is a marvelous tool. Teams can use the Internet to communicate with one another. Students can use the Internet to get an assignment to a professor or to look up information. Those are important services, and I think that schools should use them. But the Internet is not and cannot be a replacement for students sitting in a classroom, interacting with others, and experiencing the professor skillfully leading a course.

Are you opposed to business schools running programs completely online?

It depends upon the program. If the program is purely quantitative, and students can gather the material online,

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then that's fine. Howard Gardner, a Harvard professor who has studied learning styles, tells us that not everyone learns the same way. There are people who can take quantitative information, digest it, and understand it. Others need conversation; they need to see and experience new material in different ways. For those students, the Internet is not the total solution.


Let's talk about your role as top executive. You've been a board member of Fortune 500 companies, and in St. Louis, you have been a campaign chairman of United Way, a member of Civic Progress, and director of the Arts and Education Council. Why do you think it's important for you or any CEO to be deeply involved with philanthropic and civic organizations in your city?

The chief executive is in a position to lead and give voice to philanthropic ideas. Some executives take hold of this responsibility and, unfortunately, others do not. Artistic and educational organizations define the character and add texture to a community. The quality of life in a society is determined by the support we give our institutions. Without these organizations, the community would be greatly diminished.

In 2003, you stepped down from the position of managing partner. What are your short-term goals?

At the end of last year, I became a senior partner. I am spending about four months in London to work with our U.K. people in the field. We have a bright young team in the U.K., but we have extensive turnover there. Oddly enough, we have about the same number of investment representatives in the U.K. as we did in the U.S. when I became managing partner in 1980. So I am working there to help grow the U.K. office. I am also there to better understand the market that we serve and the challenges we face. I'm going to share my experiences in the field with the leadership in the U.K. and then come back to the U.S. and relate my findings.

At the end of the day, how would you like to be remembered? Did you achieve the goals that you set for Edward Jones 20-plus years ago?

I would like to be remembered as having made a contribution in an organization that gave our employees a sense of achievement and pride, that helped our customers reach their financial goals, that made a significant social impact, and that created a better quality of life for the community. 

Jonathan Schlereth is a free-lance writer based in St. Louis.