

Three Steps to a Referral Conversation that Works Today

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July 14, 2009

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The combination of the recession and the summer holidays makes it an ideal time to talk to clients about referrals.

When I recently said this at a conference, I received this email from one successful financial advisor: “The last thing I’d do right now is talk to clients about referrals. Given their portfolios, I’m struggling to maintain a positive tone in meetings with clients and asking for referrals would really be pushing my luck.”



Along the same lines, during a recent roundtable with advisors, one participant said: “If I raised the issue of referrals with clients right now, they’d think I was nuts.”

This attitude is understandable, but ignores an opportunity to plant low-key referral seeds with clients now that we’re into the laid-back summer season

Remember that there are two kinds of referral requests – proactive referral requests and reactive referral requests. Proactive requests are initiated by financial advisors when talking to clients – what we traditionally associate with referrals. Reactive referral requests don’t come from you but from your clients’ friends or family members, asking if they have an advisor they can recommend.

Even if you don’t feel comfortable making flat-out requests for referrals, you still want to position yourself to be the beneficiary should one of your clients’ friends ask for a recommendation.

The reason is quite simple – this summer, things are different in many households. If consumer spending remains low, this summer’s vacations will be more modest and closer to home. Fewer people will be bragging about the returns on their investments. And clients will almost certainly be having more conversations about their financial advisors, and in particular who has “been there” for them since last fall.



I've spent a lot of time talking to investors since this crisis began. Clients whose advisors have fallen down on the job are considering their alternatives and chatting with friends and family, and this will lead to a significant opportunity for savvy advisors to pick up referrals. Referrals initiated by someone looking for an introduction to an advisor doing a good job for a friend have always been an important driver of referrals, but this will be especially true this summer. In some instances, your clients will be asked outright how they feel about the job you've done and if they are comfortable recommending you.

You can do three things to make these referrals happen:

Step One: Deliver proactive advice to position yourself for reactive referrals

To take maximum advantage of this opportunity, you first have to ensure that clients feel they're getting proactive advice, especially given the volatile markets since September. One of the most common complaints by investors is that their advisors have been too passive in the last while.

It's critical that you let clients know the alternatives you've considered for their investments. For clients in mutual funds or managed accounts, let them know what the managers of these funds have been doing in terms of performance relative to benchmarks, sector allocations, and other key strategic decisions.

Depending what they currently own, now may also be the time to raise opportunities in corporate bonds (which yield 300 basis points above Treasury bonds) or blue-chip household names with dividend yields of 4% or more.

Remember that you need to be the first to go to clients with these kinds of ideas, before they read or hear about them elsewhere. If you were planning to raise a topic such as corporate bonds in a meeting, if your clients come in with an article from the newspaper in one hand, you risk being seen as reactive to their questions.

Step Two: Get feedback on how clients feel

The second step is to get a temperature reading on how your clients feel – not about their investment performance, but about the advice you're providing and the quality of your communication – something you can actually control.

The trick is asking in a way that gives you an accurate reading. Asking clients if you've done a good job of communicating over the past will often get you a "sure" – a response that's not all that helpful in getting a sense of where you really stand. Similarly, asking clients after a meeting how they feel about portfolios that have been repositioned will often get you a "fine" – again, not terribly useful.



Instead, ask clients to give you a report card from 1 to 10 at the conclusion of a meeting (or if that's not possible, in a phone call). One way to do this is to say:

"I wonder if I could take a minute to get some feedback on the communication you've received from me over the past while. How would you rate the contact you've got from me on a scale from 1 to 10, if 1 is inadequate and 10 is exceptional?"

Or after you've met to revise a client's portfolio, say "Now that we've made these changes, how comfortable do you feel with your portfolio on a scale from 1 to 10, with 1 being very uncomfortable and 10 being completely comfortable."

Few clients will give you a score under 5, but some who feel a little uncertain might give you a 5, 6 or 7, thinking that's a passing grade. In reality, if the response is 7 or below, then you need to follow up with: "Tell me, what kind of changes you would like to see in the communication you get from me over the next while?"

On the other hand, if you get an 8, 9 or 10, you can move on to plant the seed for referrals.

Step Three: Plant the seed for referrals

One low-key way to introduce the subject of referrals is to say: "Recently, some newspapers have reported about investors who haven't heard from their advisors over the past while and are looking to move their accounts as a result. Should you be talking to a friend or colleague who is considering making a change, I hope you'll remember that I do have capacity to bring new clients on board in the period ahead."

You could leave it there or, to increase the odds of success, take the conversation further:

- "If you are talking to someone who is unhappy where they are, perhaps you could suggest that the three of us get together for a coffee."
- "Recently, I've identified the three traits shared by the clients with whom I have the best and most helpful working relationships. I wonder if I can spend two minutes going over these with you, should someone you're talking to be a fit for this profile."
- "I am always happy to sit down with anyone you introduce and give them an hour of my time to talk about their situation and perhaps suggest an alternative approach for them to consider."



- “Please ask if it would be okay to send them a copy of my most recent newsletter. Just drop me an email or give me a call with their name and address.”
- “You’ve told me you found the articles I’ve been sending you of value. If they’re interested, send me a note with your friend’s name and email address and I’d be happy to add them to the distribution list for those articles.”
- “You and I have talked about the luncheon workshops for clients I am hosting this summer at which I’ll be discussing how the economy is affecting the outlook for stocks going forward. Many people find that a comfortable way to get a feel for my approach. If you know someone who might be interested, give me a call or drop me an email and I’d be pleased to send them an invitation. Or perhaps they might want to come along to the lunch you’re attending in early August.”

If this idea appeals to you, glance at the recent [article](#) on turning low cost client lunches into prospecting events

No magic formula brings in droves of referrals. By using this three step process, however, you will take maximum advantage of referral opportunities this summer in a way that is comfortable for you and for your clients.

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