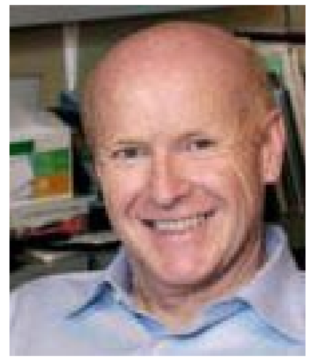
Why You Aren't Getting Referrals – And What to Do About It

By Dan Richards
November 30, 2010

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.



When it comes to attracting new clients, every advisor knows that nothing beats referrals from satisfied clients.

And the statistics bear this out:

A U.S. study by Cerulli Associates, for example, indicated that over half of investors who selected a new financial advisor in 2009 did so on the basis of a referral.

Common referral mistakes

Despite their desire for new clients, many advisors hold fundamental misconceptions about what it takes to get quality referrals. As a result, they either don't talk about referrals at all or do so ineffectively.

The biggest reason for the reluctance to ask for referrals is that many of the methods that advisors hear about put both them and their clients under pressure or position the advisor as a needy supplicant.

To the extent they do raise the topic of referrals, many advisors do it in the wrong way with the wrong goal, focusing on "asking for referrals" rather than "having referral conversations."

And the biggest mistake of all – a remarkable number of advisors' entire approach to referrals is rooted in their own agenda, rather than today's client reality.

The ingredients of an effective referral strategy

Advisors are not entirely to blame for this. Part of the problem is that an astonishing amount of the advice on referrals you read in articles and hear in speeches is simply wrong, reflecting outdated old-school thinking.

There's possibly no other issue on which advisors get more bad advice than the subject of referrals – not only will much of it not help you, some of that advice will actually undermine your positioning and relationship with clients.

This week and next, I'm going to cover 15 common fallacies about referrals – and the realities that you need to understand if you're going to maximize the number of quality referrals you get in 2011.

Misconception 1: You need to make referrals happen

Referrals don't happen on their own – you have to make them happen. For a referral to take place, you need to take the initiative in talking to clients about people they know.

In fact:

A substantial number of referrals aren't initiated by your clients. Instead, someone they know asks them if they have an advisor they could recommend. These are "reactive" referrals – all your client has to do is respond.

These are the best kinds of referrals – no pressure on your client, with a prospect who's ready to move.

Because their friend has initiated this, the satisfaction threshold for clients to make a referral here is lower than for referrals that advisors initiate. As long as you've done a good job and they're reasonably happy, all that it normally takes for the referral to happen is for clients know that you're open for business.

So that's the first step – in a professional, low key fashion, let the people you work with know that on a selective basis you're taking on new clients .

More on how to do that below.

Misconception 2: It takes satisfied clients to provide referrals

Your goal should be to have clients who are satisfied

In fact:

Research commissioned in 2009 by Vanguard and conducted by the research firm Advisor Impact demonstrated that for clients to initiate referrals, they have to be more than satisfied – they have to be engaged.

Among the keys to engaged clients are a discussion of clients' full financial needs, a written plan and strong, ongoing communication – as well as a connection between advisors and clients that goes beyond a mere business relationship.

At one time, satisfaction with an advisor was good enough … but not today.

Misconception 3: Always be business-like

You should operate on a purely professional basis, no differently than an accountant or lawyer… getting into "soft" issues undermines your image of professionalism

In fact:

There's an old expression that "clients don't care how much you know until they know how much you care."

Unquestionably, there are some clients who have a "just business" mindset … some time-pressed CEO's and entrepreneurs or super analytical engineers and accountants, for whom it's all about the numbers.

Research shows that these clients are in the small minority. Even if you've succeeded in "engaging" clients, most people want to feel good about their advisor, and have the sense that you're motivated by more than the revenue they generate.

Of course, efforts to show you care are only effective if they are delivered on a foundation of strong value and solid service.

But once you're delivering that value and service, to maximize the relationship with many clients, you have to do more – and take the relationship to a personal level.

One of my recent columns talked about an advisor whose clients rave about her because she regularly sends them funny, upbeat books about key events in their lives. And it's not about the cost – she's in the bottom 10% of top producers in her firm on the amount spent on client recognition, but in the top 10% on client loyalty and share of assets. The reason these books work is because they're personal, unexpected and tap into positive moments in clients' lives.

In general, the feedback on this idea from advisors was very positive … although I did hear from one dissenting advisor, who wrote "*I have a CFA and came into this business to be a professional, not a concierge at the Four Seasons."*

Life is all about choices – and if staying detached from personal aspects of client lives is your choice, that's a legitimate decision. But remember that if you ignore the emotional aspect of relationships, for many clients you are putting an upper limit on their level of attachment. You're kidding yourself if you don't think that has an impact on their tendency to provide referrals.

Misconception 4: Clients feel an obligation to provide referrals

If you've done a good job, clients want to help you out and in fact will feel an obligation to reciprocate with referrals.

In fact:

Today, most clients take the view that the reward for your doing a good job is that they'll stay a client – and feel no obligation whatsoever to refer people they know to you. Yes, they'll pass your name along to friends who ask, but they're unlikely to take the initiative on this.

Remember, the reason that clients provide referrals is to help their friends, not their advisor. As a result, phrases like *"I'd like to ask a favo,r"* or *"Please don't keep me a secret,"* are unlikely to be successful.

Misconception 5: First ask if clients are happy

Before raising referrals, you should ask clients if they're happy – you want to avoid asking clients for referrals if they're not satisfied themselves and if someone says they're happy, they'll feel greater obligation to refer you to friends

In fact:

Don't bring up referrals with someone who's dissatisfied. But here's the problem with asking clients if they're happy in the lead-up to a conversation about referrals.

Imagine that you and some friends have been out for a dinner that, while not a disaster, was average at best – average food, average atmosphere, average service, average value. Everyone comments that they wouldn't be in a hurry to return.

At the end of the meal, the owner comes over to your table and asks if you enjoyed your dinner.

The vast majority of us will say "*Very much" or "Absolutely."*

It's not that we're consciously trying to deprive someone who's got his life savings invested in this restaurant of desperately needed feedback – it's just that most of us hate conflict and it's easier to say dinner was fine and walk away. Plus, we're not sure if he really wants our feedback or is just going through the motions, and was told at restaurant school he should ask patrons at the end of their meal if they enjoyed it.

Now picture a situation where during a meeting you say to a client:

"Tell me, are you happy with the job I'm doing for you?"

Even if they're not terribly happy, very few clients will say so. Most will say they're happy and move on.

So if you want to get a handle on how clients feel, you need to ask the question differently, in a way that they can answer honestly while still feeling comfortable.

Suppose you say to a client:

"I wonder if I could get some feedback from you.

On a scale from 1 to 10, how comfortable are you with the level of risk in your portfolio – with 1 being not at all comfortable and 10 being very comfortable?"

Few clients want to create conflict … so even if they're not terribly comfortable, most will rank you with a 5 or perhaps a 6, thinking that's a passing grade.

Meanwhile, we know that nothing less than an 8 out of 10 is acceptable … anything below an 8 on issues like communication, service, responsiveness or being on track against their long term goals is a red flag that means you have work to do before you introduce the topic of referrals.

It's not that you shouldn't check for feedback … but you need to ask in a way that's going to give you honest answers.

Misconception 6: Talk about referrals last

It's best to ask for referrals as part of a spontaneous chat at the conclusion of a meeting.

In fact:

When meeting with clients, it's clear that their needs have to be dealt with first … the challenge is doing that while still bringing up referrals in an effective fashion.

One difficulty is that to the extent referrals are mentioned at all, they're often left to a passing request at the very end of the meeting, as clients are putting their coats on and are on the way out the door.

To be effective, referral conversations need to be incorporated into the body of a meeting. By far the best way to achieve this is by adding a discussion item when setting up the agenda for an upcoming meeting.

Here's how you might add referrals to a meeting agenda … and in the process let clients know you're open for business, so you get those reactive referrals I talked about earlier:

"In addition to addressing the questions you're raised and the other things we'll be discussing, there's one final thing I'd like to talk about when we meet a week from Friday.

In the next quarter, I have capacity for six new clients.

At the end of our meeting, I'd like to spend three minutes talking about the profile of clients I've found I can help the most, in the event you're chatting with someone considering making a change who might be a candidate for one of those spots."

Let's be clear. Your goal here is not to "*ask for referrals"* – rather it's to initiate a short conversation about your approach and the kinds of people who would benefit from working with you … the next step is to bring up a comfortable way for clients to introduce you to people they know.

Misconception 7: Aim to get meetings

Your goal should be to get meetings with your clients' friends and family.

In fact:

The biggest obstacle to clients providing referrals comes down to one word – and that word is "risk."

For many clients, asking friends to meet with you entails a great deal of risk. They're worried that this may result in friends being put under pressure, that suggesting that friends meet with you is a stronger endorsement than they're comfortable with, or that if things don't work out, their friendship may be jeopardized.

The best way to overcome this is to change what you ask for to something that is more comfortable and less risky for clients to provide.

That doesn't mean there aren't instances where prospects have indicated they're ready to make a move, in which the appropriate goal is to set up an immediate meeting.

But those aren't the norm. Generally, your objective should be low-key introductions, not high-stress meetings.

Let's suppose you're doing a good job of supplementing face-to-face and telephone conversations with other forms of communication – whether it be regular newsletters or articles, quarterly conference calls, or invitations to luncheon roundtables or evening updates.

Now you have the opportunity to demonstrate patience and focus on providing real value to your clients' friends by saying something like:

“*While the main reason that I email clients the monthly articles you’ve been getting from the New York Times, Fortune and similar publications is to keep you up to date, I’ve also found them a comfortable way for potential new clients to get to know me.”*

“Feel free to forward the emails you get to people you know who might find them of value.”

“And should your friends wish to receive these emails themselves, either they or you can send me a quick email and we’ll be pleased to add them to the list.”

And depending on how comfortable you feel with this client, you could go on to say:

“You’ve mentioned your colleague at work Mary Smith as someone I should get to know at some point. Do you think she’d be interested in receiving these articles?”

So those are some initial misconceptions that stand in the way of referrals. I’ll be covering the balance in my column next week …

In the meantime, if you aren’t happy with the quantity and quality of client referrals you’ve been receiving, consider picking one of the seven issues I’ve outlined above and focus on addressing it in the coming week.

It’s not that the other six aren’t important or might not help you increase referrals, but we change the way we learned to walk … one step at a time. So pick one to focus on … and make that your priority.

Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries and to reach him, go to www.strategicimperatives.ca*.*