How to Read the Mind of a Referrer

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We talk a lot about referrals. Should we ask for them? How and when to ask? I want to explore referrals from a different angle – from the mind of the referrer – to shed light on the psychology to inform your approach.

Referrals are the most significant driver of new growth, as confirmed in InvestmentNews 2020 Price & Profitability Study.

Advisors who figure out the art of the referral will be very successful at asset gathering. One advisor I know has $80 million in new assets at late stages in their pipeline from referrals they have received over just the past six months. They have grown their $1 billion business almost exclusively from client and professional referrals.

Once an advisor figures out how to consistently get referrals, they keep flowing in like magic.

In my role as a growth consultant, I work with financial advisors and am often asked by friends and people in my network for referrals. Of course, I have a short-list of advisors I know and trust, but I don't always share the same names.

When making a professional referral, these are the things a referee considers:

The referee's personality, is there a personality fit?

1. What does the referee want and need? Can the advisor and firm address their specific needs?
2. What is the investor's expectations of service, investment outcomes, cost, etc.? Does the service model(s) make sense – is it too much, too little or just right? Is the investment approach appropriate? Are the advisor's fee structure and cost inline?
3. Is an introduction going to be mutually beneficial? Is this investor within the advisor's ideal client profile?

If I don't think there will be a personality fit, it's a non-starter. This is an important point. I won't nor will most people will make a referral if they don't have a high level of confidence that the two parties will hit it off. Suppose the investor doesn't become a client. It's no big deal, as long as they aren't offended by the experience.

Here are my three rules of referrals:

1. A referral cannot threaten an existing relationship. It must be low-risk to the referee and referrer's relationship.

As a financial advisor, if you give your clients, professional partners, or network any reason to question your level of service, expertise or trustworthiness, they will not refer new business to you.

Relationships, especially close ones, are our most valuable assets and social capital.

Threatening a relationship is not worth the risk.

So why do people refer?

We make referrals when we are point-blank asked to or less often, when we see an opportunity to add value. Proactively making a referral is rare because the social-capital risk is high. Social capital is the perceived value of our connections and influence, it's a representation of our standing or value within our community and society. The more connections and influence, the higher the social capital you have. We care (a lot) about our social capital and avoid damaging it. One way we build social capital is by helping others in our network in ways they value.

Making a great referral adds social capital to you and the referee, it's a win-win. Our brain likes win-wins.

If you can't make a great referral or don't know if someone wants a referral then you likely won't recommend anyone because it's too much social risk.

2. Referees need to know who and when to refer.

When someone asks directly for a financial advisor referral, there is a clear need.

However, when you're the advisor and looking for referrals, you can't control who and when investors are looking for help. Your clients' will not make a referral simply because you want them to. Directly asking for a referral is awkward and non-effective – you're putting someone on the spot, and no one likes being put on the spot. Don't passively include an invite to refer on a business card, email signature, or website. That is indirectly putting someone on the spot.

Advisors must be planting referral seeds all the time. So when a need arises, your army of referees is ready.

You plant a referral seed by communicating who and how you serve. Clear and concise value messaging is powerful and should be used everywhere and all the time – on your website, in marketing, and in conversations. Your audience needs to see and hear messages at least seven or more times before it resonates. Repetition and simplicity are key.

Who is your ideal client (the three key components of an effective Ideal Client Profile)? What are their needs, and how do you help solve them? What do you value and stand for? These are the things to amplify to attract introductions.

Suppose I know that a financial advisor I trust and respect works with business owners and specializes in tax planning. When I have an opportunity to help a friend who is a business owner with a tax issue, I know exactly who to send them to.

You empower your clients, network, and professional partners by providing a clear picture of who, and how you help.

A referer needs to spot situations where your solutions and benefits will add value.

Do your clients have clarity of who you best serve and what issues you specifically help solve?

3. Reduce the friction and discomfort as much as possible.

Make it easy for a prospect to get to know with a great website and bio. A strong digital presence makes it easy for referrers to pass your name along. They simply need to provide your name, email, and website.

Most early decision-making and research happen online.

Let's say you know a client who wants to refer you but is struggling to ask for permission. You can say, "A number of clients have made an introduction by sending an email that includes three of us. If it's ok with you, I can provide sample language?" Or, "Here's a link to my calendar, have them schedule time and let them know I'm looking forward to meeting them. I'll let you know how it goes."

Back to social capital, a refer doesn't want to threaten their relationship with the referee or with you. No one wants to send you a referral that you don't want. Again, we seek win-win situations. More often than not, referees don't have an intimate understanding of their friend or family's financial situation. What if they don't have the assets you think they have? What if the prospect values something you can't provide?

Many advisors don't know what to do when they get a "bad" referral. They usually just take it and regret it!

Avoid "bad" referrals by communicating who you serve and setting expectations on the process to give yourself an out if it's not a good fit.

Setting clear expectations on what the initial conversation and qualifying process looks like helps to derisk the chances of hurting the relationship with your client.

For example, "I'd love an introduction. The first step is a 30-minute conversation to learn more about the prospect. If we determine that I'm not the right fit, that's ok. I will provide them with additional references, other advisors that I know and trust."

Be prepared to deal with a "bad" referral by having other advisors or services to refer them to. Your bad fit may be another advisor’s dream client. Every investor deserves to be valued and well served. If you can’t provide that, please do them a favor and refer them to someone who can.

With this information in mind, reflect on your current approach. Are you putting people on the spot? Do your clients know who and how to refer you? Are you making it easy for them?

Start planting referral seeds. You can’t predict when a need will arise, but you can help your clients and professional partners know when and how to confidently share your name.

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