Driving Growth Through Client Referrals

Adviser Impact

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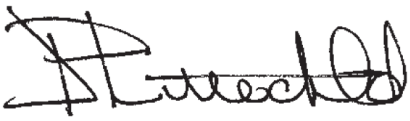
When it comes to growing your business, the single best source of insight is your clients. They know what works, what doesn't and why. This white paper is based on input from more than 600 clients of financial advisers across the country. It is about growth through the eyes of your clients. This is the second of three white papers made possible through the generous partnership of Vanguard Asset Management.

Referrals continue to be one of the best sources of opportunity for growth. I would suggest, however, that, as an industry, we have been collectively guilty of applying simplistic tactics to strategy that is ultimately very complex. Think, for a moment, about the meaning of a referral. It is a transfer of trust. It is a reflection of everything that you've done for your clients from the day they started to work with you until the day they make that referral. As such, referrals are complex and they are a reflection of the total client experience.

Given that complexity, it is difficult to see that a simple letter, script or campaign will succeed, and yet that is what is being taught at conferences and in training sessions across the country. Most advisers say they are not maximising the latent referral opportunity in their businesses and they're right. On the following pages you'll find insights and actions drawn from our ongoing research on client engagement—the Economics of Loyalty—that will help you implement a more effective referral strategy.

Simply stated, through the data, this white paper will argue that an effective client referral strategy starts with a foundation of engaged clients and that 'asking' simply doesn't work.



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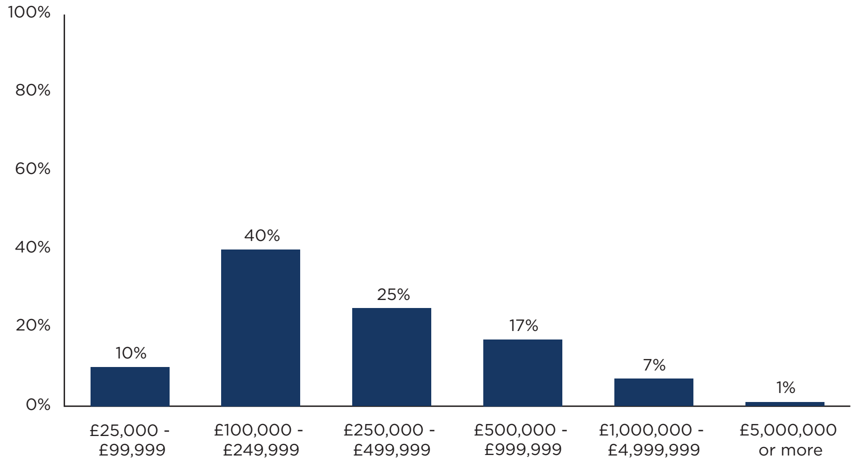
About Adviser Impact

The Economics of Loyalty research was conducted by Adviser Impact, a research and training firm dedicated entirely to helping advisers ignite more engaged and profitable client relationships. In addition to conducting client engagement research in the United Kingdom, Canada and the United States, Adviser Impact has surveyed more than 100,000 consumers on behalf of financial advisers through its Client Audit program. For more information on the company, you are welcome to visit www.adviserimpact.co.uk.

About the Participants

The Economics of Loyalty research was designed to engage your clients in a conversation, focusing on the consumers who are working with financial advisers—those who are best suited to help advisers understand what drives value. For context, the chart below shows the household investable assets of the participants. Additional demographic information is available in Appendix 1.



Q. What is the total value of your investable assets, excluding any property you own? (Include cash, bonds, insurance endowment savings plans, fixed interest, shares, pension funds, National Savings, alternative investments, etc.)

The Mystery of Referrals

Referrals are not only a source of opportunity for advisers, but a source of confusion. That confusion stems from a clear disconnect between satisfaction, loyalty and referral activity.

69% of clients gave their adviser an average satisfaction rating of 8/10 or higher.

84% of clients are somewhat or extremely likely to continue working with their adviser.

70% of clients are comfortable providing a referral.

→ 23% of clients provided a referral.

This disconnect is an ongoing source of frustration for many advisers. Why is it that clients who are not only satisfied and loyal but who are comfortable providing a referral simply do not take action? In order to understand this mystery, consumers were polled through the Economics of Loyalty to understand the referral experience. The data suggests that we have, quite simply, been going about things the wrong way. Mystery solved.

Based on the research, Adviser Impact created a model for referrals – the Anatomy of the Referral. It seeks to break the referral process down into its component parts so that advisers can understand and influence referral activity in a meaningful way. The Anatomy of the Referral looks at which clients are providing referrals, why they do it and when they do it.

Advisers must recognise what motivates clients to refer and ensure that their tactics are aligned with those motivations.

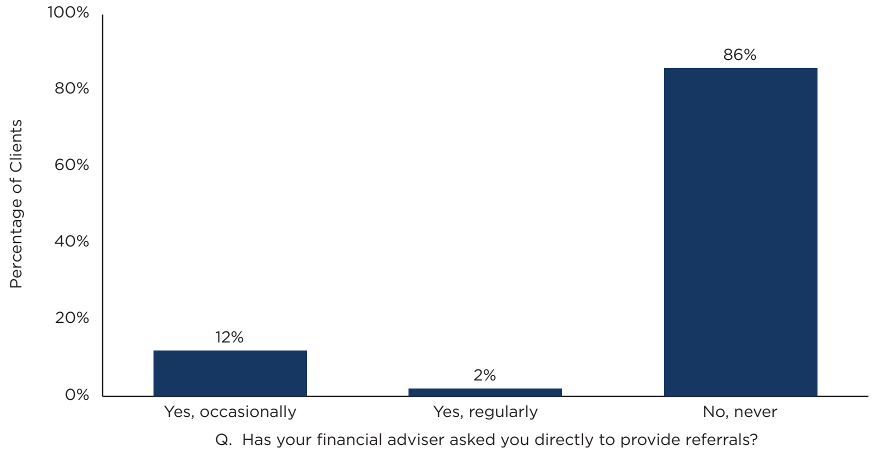
Who refers? → **Why** do they refer? → **When** do they refer?

To help you understand the mystery of referrals, it is illuminating to examine your own behaviour. Consider your responses to the following questions:

- Can you think of a professional with whom you work in your personal or business life that you believe provides outstanding service? (Most advisers say “yes” without hesitation.)
- If you were asked for a referral to that person right now, would you be comfortable providing his or her name? (Again, most advisers are more than happy to share the good experience.)
- Have you independently picked up the phone, called your friends or family, and told them about that individual? (It is rare for advisers to respond in the positive on this final question.)

Most advisers don’t understand how clients can be so satisfied and yet provide few, if any, referrals. We hope that if we deliver great service, just like that professional you thought of when asked above, that it will automatically translate into referrals. Yet at some level we must know that we don’t behave that way so there is no reason our clients should either.

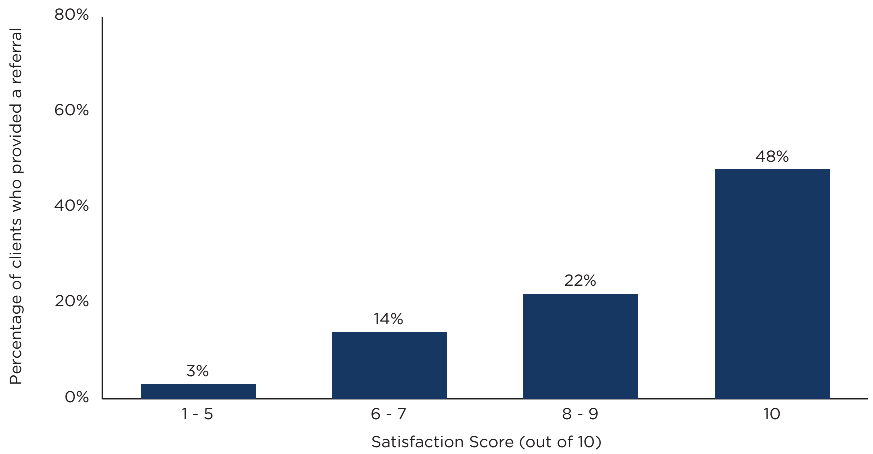
Perhaps, based on the above, we are creating an internal barrier to even asking for referrals. The research clearly shows that advisers are reticent to ask.



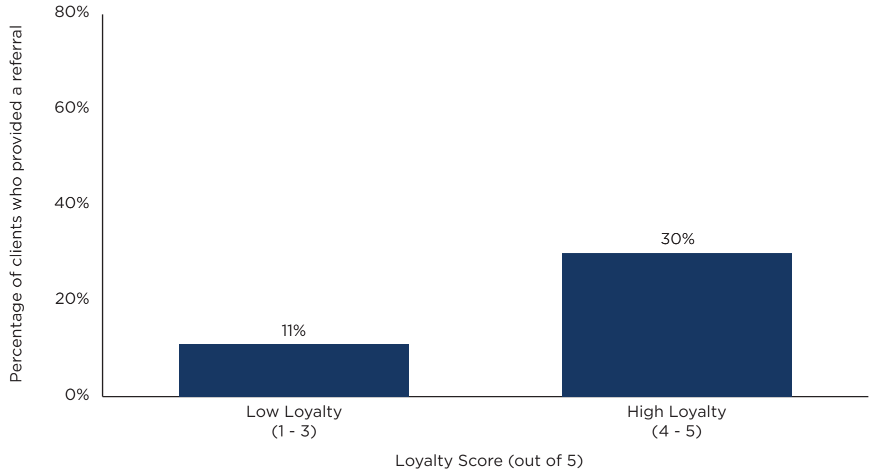
Anatomy of the Referral: **Who** is Referring?

While it is true that referrals are both mysterious and complex, they still represent a substantial opportunity for growth. And while nearly 70 percent of clients may be comfortable providing a referral, to tap into that potential, we must first understand those clients who are already taking action. If we can understand which clients are providing referrals, we can learn what is required to drive more referrals.

Traditional wisdom suggests that satisfied clients refer. If this is true, then we only need to understand what drives satisfaction and do more of it. The next graph, however, suggests that that is a faulty assumption. A portion—albeit a small portion—of clients with low satisfaction ratings still provided referrals. And even among those clients providing their adviser with the highest possible satisfaction rating, fewer than half provided a referral. While the percentage of completely satisfied clients providing a referral is higher than the average of 23 percent, the connection is not exact.



What about client loyalty? Many would assume that if we are loyal, we will refer because the experience must be sufficiently positive to keep us with our adviser. The results are clear: client loyalty is a poor indicator of referral activity.



The reason that loyalty and referrals are not strongly correlated is that a client may stay in a relationship for many reasons, only some of which relate to the quality of the experience. Among those who have considered changing but made no move to do so, 54 percent say it is because they don't know if they would do better with a different adviser.

There is no doubt that both satisfaction and loyalty are important to any client relationship and worth understanding and improving. However, neither explain nor drive referral activity. To understand referral activity we need to turn to client engagement.

A Higher Standard: Client Engagement

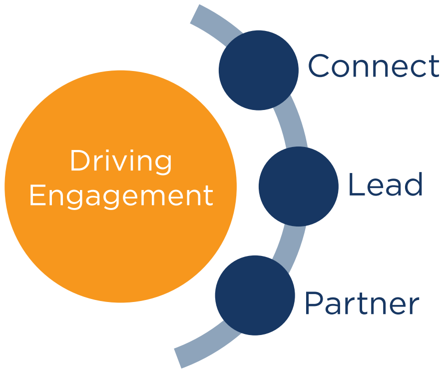
Engaged clients represent an adviser's deepest and most profitable relationships. They sit at the intersection of what is best for the client (because they are highly satisfied with the client experience) and what is best for the adviser (because they actively contribute to the growth of the business through referrals). As a result, they represent a new standard, something beyond satisfaction. In the context of this paper, they also provide a lens through which to view value, providing insights specific to those consumers who are the most enthusiastic about their advisery relationship.

Through a process called cluster analysis, we grouped consumers based on the strength of three factors: satisfaction, loyalty and referrals. The clusters, as you see on the next page, represent four categories of clients: Disgruntled, Complacent, Content and Engaged. The results speak for themselves. In order to create deeper client relationships and drive growth, we need to set client engagement as the standard because satisfaction and loyalty simply aren't enough.

Who refers? Engaged clients are not only the most satisfied and loyal, they also provide almost all of the referrals.

Cluster	Percentage of all respondents	Percentage providing a satisfaction rating of 8/10 or higher	Percentage providing a loyalty rating of 4 or 5 out of 5	Percentage who had provided a referral in last 12 months
Disgruntled	16%	16%	1%	4%
Complacent	30%	66%	98%	20%
Content	40%	76%	99%	0%
Engaged	15%	82%	100%	100%

A future whitepaper will focus on the key drivers of client engagement, best explained as meaningful communication, strong leadership, and true client partnership.



The Referral Opportunity

Now that we know that Engaged clients are providing the referrals, we can go further and identify two different opportunities referral opportunity in a typical advisery business.

The first opportunity is simple. Identify those clients who believe they have provided a referral, but it did not result in an actual introduction and offer to meet with that person. We might consider this the low-hanging fruit in any business as the client already believes they have provided a referral. The potential is substantial when we consider that many Engaged clients have provided more than one referral.

Let's look at an example of a business with 200 client households, which assumes 30 Engaged clients.

Number of referrals provided in the last 12 months	Percentage of Engaged clients	Total referrals provided
1	35%	11
2	41%	25
3	19%	17
4	2%	4
5+	2%	5
Total		62

This means that in a typical business, 62 referrals may already have been provided. On average, advisers report receiving referrals from four to five percent of clients. In this scenario, 54 referrals may have been made that never came to fruition simply due to lack of effective positioning or follow-up.

A simple example suggests that more than 50 referrals may have slipped through the cracks in a 12 month period.

The second opportunity is somewhat longer-term but holds as much opportunity. It involves engaging your Content clients to encourage them to provide more referrals. If you have 200 clients, about 80 are likely in the Content category. If only a handful of those provided a single referral, the return would be substantial.

Let's look at the potential return on the two strategies for our typical adviser with 200 clients.

Referrals provided but not introduced	One referral from each content client	Total referrals	Average assets per new client	Total potential assets
54	80	134	£ 200,000	£26,800,000

Even a modest conversion rate would net substantial new assets for any business.

Take Action

Client Feedback

The Economics of Loyalty data shows a clear connection between client feedback and client engagement. Soliciting client feedback is an important way to demonstrate commitment and to actively engage clients in an ongoing conversation. It also has the added benefit of helping you to identify referral opportunities on a client-by-client basis. The only way to determine which clients have provided referrals (if you have not met the person they referred) is to ask. It's as simple as that.

Consider the following questions asked as part of the Client Audit[1] client feedback programme:

- Have you provided a referral in the last 12 months?
- Would you provide a referral to your adviser?

The combination of those two questions—if you are able to isolate responses by client and execute a strong follow-up process—will uncover all of the latent referral potential in your business.

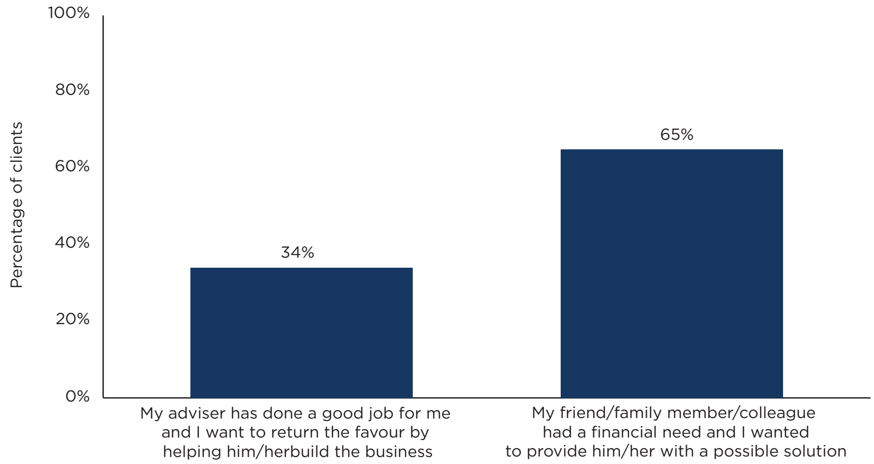
1. The Client Audit is Adviser Impact's client feedback programme for financial advisers. For information, go to www.adviserimpact.co.uk.

Anatomy of the Referral: **Why** do They Refer?

Now that we understand **who** is referring and the scope of the opportunity, we turn to the **why** and the **when**. The **why** is about motivation. Fundamentally, what is driving a client to provide a referral and what are the implications for your referral strategy?

Many advisors hope that clients will refer because they have provided good service or made an impact; they rely on reciprocity. As the next chart suggests, the reason clients refer may have very little to do with you and much more to do with their desire to help a friend or colleague. The reason they refer may have nothing to do with you as the next chart suggests.

Why do they refer? Clients refer to help their friends and family... not their financial adviser.



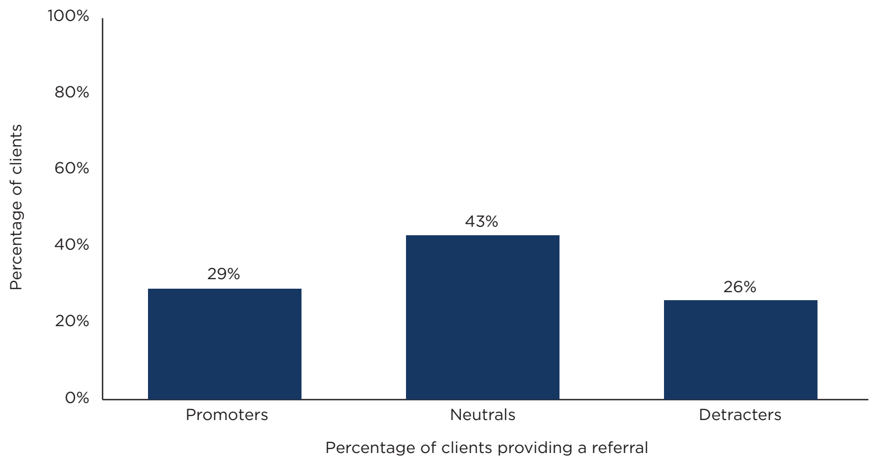
Q. Which of the following best describes the motivation behind providing a referral to your adviser?

Clients are twice as likely to provide a referral to help a friend than to help you. If this is the case, what are the implications? Referral tactics are often in direct contrast to this finding. If clients are motivated to refer in order to help a friend, then asking them to do you a favour that will help you grow your business will not likely be effective. Instead, positioning for referrals must clearly demonstrate if or how you can help your client's friend.

Anatomy of the Referral: **When** do They Refer?

It's not enough to understand the **who** and the **why** when it comes to referral strategy for a very simple reason: motivation and action aren't closely connected. We can see this in our personal lives (someone is motivated to help those less fortunate but does not give to charity) and in our professional lives. The information below clearly highlights the disconnect between being comfortable referring and doing something about it.

The chart below reflects a question associated with the Net Promoter Score[2] which asks clients if they are 'likely' to refer. Those who respond with a nine or 10 out of 10 are called Promoters. Only 29% of promoters actually provided a referral.

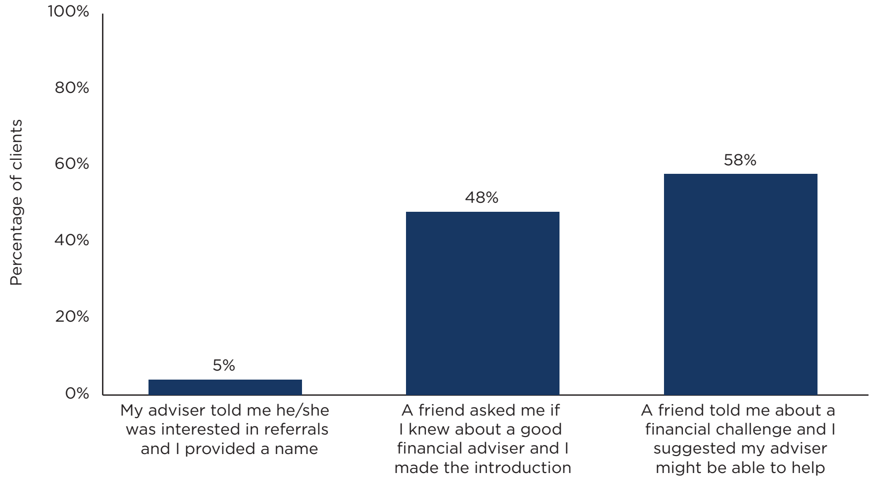


While Net Promoter Score examines "likelihood to refer", we can also look at "comfort" referring to reinforce this point. Earlier in this paper we noted that 67 percent of clients were "comfortable" providing a referral while only 23% had done so. The 33 percent who were not comfortable cited the following reasons:

Reason	Percentage of clients who are not comfortable providing a referral
I am not comfortable discussing financial issues with my friends/colleagues	55.8%
My adviser has a minimum asset level and I cannot know if others are above or below that minimum	11.7%
I cannot be sure that my friends/colleagues will receive the same high level of service that I have received	14.2%
I am not satisfied with the level of service that I receive	13.2%
Other	11.7%

2. NPS reference

Given the facts, it is not only critical to know why a client refers, but what triggers action. What turns a motivation into an actual referral? The results are surprising given what we have been taught about asking for referrals, but not when we consider that clients are ultimately trying to provide a meaningful solution to friends and family. The chart below examines the circumstances of the referral.



Q. What were the circumstances of providing the last referral?

In only five percent of the cases did a client refer because his or her adviser asked for a name, despite the fact that we are routinely taught that 'asking' will drive growth. By contrast, in just over half the cases a client was asked to recommend an adviser. And while you may appreciate that your clients will think of you, in that moment, this is not something you can control.

More interesting is the fact that nearly half of clients took action because a friend or family member was describing a financial challenge. In that moment, and motivated by a desire to help, they offered up the name of the adviser. They were motivated by the needs of others and they took action when that need was clearly articulated.

This tells us something very important about referrals. Over and above being motivated to help a friend, two things need to be in place before a client will make a referral:

- your client's friend must articulate a need for advice OR your client must recognise a need for advice; and
- your client must know that you can solve the friend's problem.

If a client is asked for the name of a financial adviser, it's a small step to providing your name. However, if your client is out for a meal with a friend, talking about their lives—perhaps a new job, a divorce or a marriage—would your client recognise the friend's need for advice? A need for advice is typically couched in emotional terms – a fear, a dream or hope. In that moment, you can only hope that your client thinks of you because he or she believes that you can help that other person. If that is the case, your client will refer effortlessly, in the same way he or she might recommend a good book or article on a subject.

When do they refer? Clients take action when they see a clear need for advice.

The Referral Plan

Taking all of the data into consideration, the path forward seems clear. Rather than asking for referrals, advisers should consider two specific tactics:

1. Helping their clients to spot a good referral opportunity and recognise a need for advice.
2. Crafting stories to communicate your value using words that your clients use.

In the first case, many clients will not recognise, for example, that any significant life transition could be a need for advice. They may not connect an emotion, such as fear, with a need for advice. The more you can do to help your clients understand what constitutes a need for advice, the better.

Too often advisers communicate their value in technical terms, focusing on 'how' they help clients to build or manage wealth. For many clients, the real value of working with an adviser is the impact that he or she has had on their families or their future. They think more about the results of what you do, rather than the process of how you do it.

Take Action

Craft Your Story

In order to craft the stories that will help to communicate your value, there is one best source of insight: your clients.[3]

Contact one client and ask for a favour – the opportunity to talk to them about their experience in working with you. Consider asking the following questions. The answers will help you to see your value through the eyes of your clients.

- Why did you select me as your financial adviser?
- If someone asked you to describe how we had helped you, what would you say?
- How do you think the work we have done together will impact your financial future? What will be different?
- What was the trigger that made you decide to get financial advice/change advisers? Was there a problem you wanted to solve?

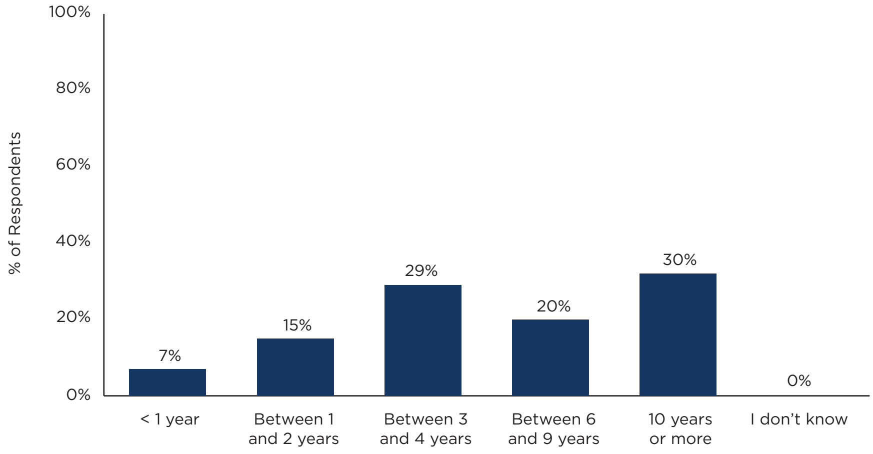
3. For additional information on defining and articulating value, see "Defining and Articulating Your Value" also based on the Economics of Loyalty.

Concluding Thoughts

Advisers are sitting on a substantial referral opportunity. On this point the data is clear. In order to capitalise on that opportunity, advisers must focus first on the quality of relationships and the drivers of engagement and then execute a plan to leverage that level of commitment to increase referrals. Referrals are a tangible reflection of both an engaged relationship AND the adviser’s ability to help clients help their friends. While referrals may be the best way for you to grow your business, it is important to remember that your clients are referring to help their friends, not to help you. Your strategy should reflect that important point.

Appendix 1
Participant Profile

Tenure with Current Adviser

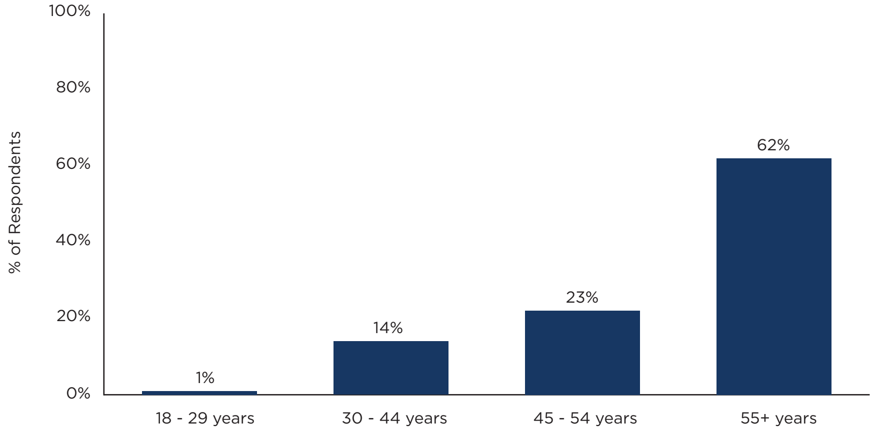


Q. How many years have you been working with your primary financial adviser?

Household Income

Q. Which of the following best describes your annual household income before taxes?

Age of Respondent



Q. What is your age?