



Secrets to creating great referral relationships: Part 1

There's a substantial amount of material out there that will provide you with step by step instructions on how to create a successful referral relationship with a centre of influence. I've done my bit to add to this paper blizzard. It's only after seeing what should work, not work out as expected, that I took a step back and re-looked at all the accepted dogma.

It's clear to me that there is no formula for a successful referral relationship in the nascent science of practice management. This is because the "X" factor plays a major part. The X factor here is the beliefs, perceptions, fears, frustrations, hidden agenda and prior experience of the centre of influence (let's refer to this person as the "relationship holder").

Understanding and managing this X factor is usually left out in Referral 101 guides. Yet without the motivation or desire of the relationship holder to refer, the best referral systems fail.

So how can you test the desire, and if necessary motivate the relationship holder to refer? Don't automatically assume that the relationship is all about commission splits. Many people are motivated by money, but if it was as simple as sharing the take, there would be a lot more successful referral relationships out there. No, there are more subtle issues at play.

Here is a list of common issues that impact on the willingness, or otherwise, of a relationship holder to refer. Whilst you read through this list, reflect on your existing relationships that may not be producing the referral flow you believe possible. Before meeting new potential referrers, again review this list. By making yourself sensitive to the emotional desire of the relationship holder to refer, you will be able to ask revealing questions and steer your discussions to uncover blockages to a successful relationship.

Issue 1: How much does the relationship holder understand about what you do?

Whilst the financial services industry is not a closely guarded secret, I never cease to be amazed by the amount of misunderstanding and confusion that exists. Most of us tend to assume that others have some notion of what we do. This is a common mistake, and your ability to create a successful relationship does depend on what preconception the relationship holder has of your services.

I recently spent an enlightening day with the partners of a medium-sized accounting firm. As with many such firms they had an embedded financial planning division. The planning division felt that they were not receiving adequate referrals and I accepted the mission to investigate why.

My first question to each partner was the same – "what does financial planning mean to you?" I received various answers ranging from selling investment products to addressing a client's various financial needs. I didn't expect consistency, but this experience definitely reminded me of how important it is to be talking about the same thing when discussing a business relationship.



Therefore establish early on in your discussions with new (and even existing referral relationships) what they think you do with their clients – and what you do in fact do.

Issue 2: How much does the relationship holder respect what you do?

Our industry has received some tough coverage in the media and remains in the spotlight of the Australian Consumer Association and other consumer bodies and regulators. This has created a certain amount of distrust and suspicion that needs to be addressed.

We also have a legacy burden of being viewed as product-pushing salespeople rather than professional service providers. Again, this perception needs to be countered.

An easy approach to understand how the relationship holder perceives planners and advisers is to ask whether they in fact use such services – and what value these services have delivered. Many relationship holders perceive financial planning to be investment advice. During a strongly rising market some may see our service as unnecessary.

Of course when the tide turns and portfolios with a robust asset-allocation and judiciously selected investments significantly outperform a menagerie of biotech, junior miners and a few penny stocks, then respect for the value a planner brings will return.

Like planners, risk advisers are often not accorded the respect their efforts and skills deserve. Common perceptions held with regard to risk advisers include:

- Commissions that seem exorbitant when compared to the time taken to complete the transaction (few have an appreciation of the work and time it takes to get a risk case completed)
- Advisers mainly viewed as product pushers
- The popular view that insurance is not a necessity but a nice-to-have (she'll be alright)

If your relationship holder does not respect what you do, the relationship will never reach its potential. If your discussions reveal that a lack of respect exists for your services, offer to review the relationship holder's portfolio (risk or investment). This will enable you to identify and communicate gaps and weaknesses. You may also wish to discuss the needs of your own clients (particularly those who would have the same needs as the relationship holder's clients) and some of the strategic advice you have given and how they have benefited from this.

Issue 3: What role does the relationship holder perceive they play in their client's affairs?

One of my favourite assertions is that "accountants are the most trusted financial adviser". I haven't made this up. It appears in survey after survey. But many accountants either don't understand or don't agree with this assertion. Other relationship holders (centres of influence, solicitors etc.) may be



in a similar position. Just because we think they have influence over their client doesn't mean that they think they have.

A second important realisation here is how involved the relationship holder wants to get in their client's affairs. They may realise they have influence, but they may not want to exercise this influence in any way. This could be for selfish reasons, or a concern about potential liability.

Many relationship holders prefer to take a reactive stance with their clients. When a client sits across from them and says "Man! I woke up this morning and felt a huge urge to update my income protection", then the relationship holder is quite comfy to spring into action and make the referral. This seems to be why many accounting firms in particular establish planning divisions – to capture the more obvious planning opportunities. Far fewer relationship holders are willing and motivated to take a proactive look at their client's circumstances and then suggest that they take action. Your first prize when it comes to establishing a referral relationship is the proactive relationship, not the reactive.

The bottom line is, many relationship holders simply want to keep supplying their clients with the same service and don't feel obliged to expand this in any way. This attitude is a major challenge if you want to secure a healthy referral relationship. If the relationship holder will simply refer after receiving a request from their client for your service, then you can only expect irregular and ad hoc referrals.

Issue 4: How aware is the relationship holder of their clients' financial needs?

There are many instances where the relationship holder does understand how much their clients rely on their guidance and who would like to play a greater role in assisting their clients where they can. However, a lack of understanding of their clients' needs often leads to complacency and inaction.

This challenge can be met by asking the relationship holder about their clients, and then describing some of the needs of a "typical" client in each segment.

I now come to an interesting dilemma for some practitioners. Should you decide to adopt a "client needs" approach to strengthening your relationship, you will have to have solutions for these needs.

Say you provide risk and superannuation services and are motivating the relationship holder to refer professionals and high-earning executives. Besides risk and super, other common needs in this segment are wealth management, debt management and estate planning. You may do a good job educating the relationship holder, but then you declare that you will be addressing their clients' personal risk and superannuation needs only. The relationship holder is entitled to look at this as a half-finished job. Who will address their clients' other needs?

You will have a far greater chance of motivating the relationship holder and building a successful relationship if you form alliances to address the full set of your target market's needs.



Issue 5: What risks does the relationship holder perceive in introducing you to their clients?

The greatest risk a relationship holder faces in a referral relationship is damage to the relationship. Relationships can take many years to build and one bad experience to destroy. Relationship holders understand that financial markets offer no guarantees. The risk of you putting a referral into an equity portfolio just before the market tanks is real. On the risk advice front, the bad feelings generated by loadings, exclusions and even a decline to offer cover must also be taken into account.

This situation is not a deal-breaker, but requires that you educate the relationship holder on how you manage the bad-news part of your services.

Finally, why you?

The relationship holder may very well understand the science of financial planning and may want to proactively address their clients' needs, but why work with you? I know of a few instances where an adviser spent a great deal of effort motivating an accountant to refer. The accountant finally "got it" and promptly established a financial planning division.

What advantages, point of difference, compelling value proposition, call it what you will, do you bring to the table? The risks associated with introducing clients to financial planning cannot be avoided. The risks associated with doing business with you can.

I've got an article from Asset Magazine that quotes a planner saying he relies on "market experience" and his "gut feeling" when making investment recommendations to clients. Needless to say an accountant quoted in the same article took a dim view of this approach.

What are you saying to relationship holders that builds their confidence in you? That makes them comfortable about exposing their most valuable asset?

In conclusion...

Many existing referral models ignore the most important aspect of the relationship – the beliefs, attitudes, prejudices, preconceptions, and possible lack of knowledge, of the relationship holder.

By working through these issues in casual conversation and through more deliberate fact finding, you prepare the essential ground-work. You can then work with the relationship holder to construct a robust referral system.

Part 2 of "Secrets to creating great referral relationships" describes an easy to implement referral system.

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