



Building a Referral Network

"You should give ... a ring"

The art and science of referrals

As marketing guru Seth Godin says, "The people who work the hardest to get referrals ... are the people who least deserve them."¹ Ouch! Those are tough words to hear, particularly if your referrals sources are low.

Tough, but possibly true. Pick up any business book on generating referrals or building word-of-mouth and you can expect the author to dedicate chapters (yes, chapters) to the idea of being referral worthy.

Marketing guru John Jantsch, author of *The Referral Engine*, writes, "If you are not receiving lots of referrals, something needs fixing."² Bill Cates, who touts himself as "America's Number One Referral Coach" says simply, "The referral process cannot happen if you and your business are not referable."³

No one will refer a business that performed inadequately and few will refer a company that merely met expectations. You need to create real value for your customers by being good at what you do, meeting (or exceeding) all commitments, and maybe - just maybe - going that extra mile to surprise and delight your customers.

However, even if your referrals are not all you wish them to be, take heart. Getting referrals is about more than being referral worthy. It's about building your network, educating your customers and simply asking for help. We'll cover all that and more in this Blue Paper. But first, a few more words on ...

Referral rule #1: Be worthy

People like to complain. That's been proven. Consider research by TARP, a US customer research behaviour company. Satisfied customers share their positive customer service experiences with "just a few friends," who in turn, don't share this information with anyone else. But it's a totally different story when a customer has a bad experience as they're likely to tell around 12 other people. Those 12 people tell an average of six others. $1 + 12 + (12 \times 6) = 85$ people with a



¹ Godin, Seth. "On Finding Referrals." Seth Godin's Blog. 23 May, 2010. Web. 7 Sept., 2011. <http://sethgodin.typepad.com/seths_blog/2010/05/on-finding-referrals.html>

² Jantsch, John. *The Referral Engine*. Penguin: New York. 2010. p149. Print.

³ Cates, Bill *Get More Referrals Now!* McGraw-Hill: New Work. 2010. p31. Print.

bad taste in their mouths - about your business!!⁴ Crikey!

With that sobering thought in mind, it's time to engage in some self-reflection:

- Do your employees represent your company in a way that reflects a culture of caring?
- Do your employees treat your customers the same way that you treat them? And how is that, exactly?
- How is your service? Consistently strong, or patchy?
- How about service recovery? Are you willing to admit when you make a mistake? How diligently do you work to fix problems?
- Are you over promising and under delivering or vice versa?
- How much time do you invest in your customers both before and after the sale?

Answers to these questions may determine whether your business is referral-worthy. Trust is number one. Without trust, referrals just don't happen. Every time clients make referrals, they put their own reputation on the line. Clients need to trust that you will deliver the same stellar experience to others that you've delivered to them. And they won't refer if that experience is not amazing to begin with.

Researchers on referral marketing have identified two elements of trust relationships: credibility and benevolence. Credibility refers to one's ability to deliver the goods. Benevolence goes deeper, develops over time, and spills into the emotional realm. The strength of the customer relationship influences benevolence-based trust, which leads to a greater number of referrals. Credibility is great, but it's benevolence that leads to the most referrals.⁵ What kind of relationships are you building?

Referral ROI

According to sales trainer Tom Hopkins, in "Sales Prospecting for Dummies," your closing ratio for non-qualified leads is 10% against a 60% close ratio with referred leads.⁶

HR experts know that filling vacancies with employee referrals is the lowest cost and most effective way to take on new staff. Employee referrals lead to lowest cost per appointment, faster recruitment time



⁴ ReferralFormula.com, *Word of Mouth Gone Wrong*, <http://referralformula.com/referral-system/word-of-mouth-gone-wrong.html>

⁵ Law, Monica, *Customer referral management: the implications of social networks*, *The Service Industries Journal*, vol. 28, no. 5, June 2008.

⁶ Zahorsky, Darrell. "7 Sure-Fire Ways to Build Your Referral Business." *About.com*. No date. Web. 7 Sept., 2011. <<http://sbinformation.about.com/cs/advertising/a/aa020203a.htm>>

and employees who are a better fit for the company.⁷

The same benefits hold true in customer referrals. In *The Referral Engine*, John Jantsch outlines several bottom line benefits to referrals:

1. **Premium pricing.** Customers who come to your business as a result of a referral expect to pay well for a quality service. They've usually called you because they've heard that you're good, not because they are going to get a discount.
2. **Inbound versus outbound.** As Jantsch puts in, inbound leads "aren't sold to; they decide to buy." It's less expensive to field incoming leads than make outgoing calls. Plus, it's obviously emotionally less taxing - particularly if you or your sales staff find cold calling challenging.
3. **Shorter sales cycle.** You still need to qualify the customer and make sure you are a good fit, but, as Jantsch says, "that process can occur more quickly when your prospect's natural sales resistance has been lowered by the referral."⁸

Beyond the intuitive benefits listed above, research shows that customers generated through referral are actually more profitable over the long term. One research group spent three years tracking 10,000 customers of a leading German bank. They found that referred customers 1) have a higher initial contribution margin, 2) have a higher retention rate, and 3) are more valuable in both the short and the long term. The average value of a referred customer is at least 16% higher than that of a non-referred customer with similar demographics and time of acquisition.⁹



Calculate your company's "referral ROI" by tracking the value of the business you receive from referral sources. If you have customer relationship management (CRM) software, this feature is probably already built in. If not, you can start a simple spreadsheet. You might track the date of a new business enquiry, a potential revenue estimate, and (later) an actual revenue figure.

As for tracking your referral source, you might include a specific name as well as a category. Was the referral from a past customer, from the local chamber of commerce, your trade association, someone from your son or daughter's sports team? Tracking the source of your referrals can help you decide where to commit

⁷ Bruce, Steve. "Referral: Top ROI of All Recruiting Methods." 15 Nov., 2010. *HR Daily Advisor*. Web. 9 Sept., 2011. <http://hrdailyadvisor.blr.com/archive/2010/11/15/Hiring_Recruiting_ROI_Employee_Referral_Programs.aspx>

⁸ Jantsch, John. *The Referral Engine*. Penguin: New York. 2010. Print

⁹ Schmitt, Philipp; Skiera, Bernd; Van den Bolte, Christophe. "Referral Programs and Customer Value." *Journal of Marketing*. Jan. 2011. p46-59. Print.

more of your networking energy.

Spheres of influence

Where you commit your time should be driven by those sources that are most likely to connect you with your ideal customer. Think about who knows the kind of customers you want, and network your way into those circles.

Manchester based Optimum-PDM, a sales and marketing consultancy for electronic security and technology companies knows that its best clients come from word of mouth marketing by way of referrals from happy existing customers. It rewards each customer with a £100 John Lewis voucher for each new client referred to them who subsequently uses their services and maintains momentum throughout the year by giving a John Lewis hamper as a Thank You at Christmas for the customer who has made the most referrals.¹⁰



Sticking their neck out

Sales people in the insurance industry are usually trained to generate new clients by starting with family and friends. They are trained to ask their network for help using language like, "Help me grow my business." There's certainly nothing wrong with sharing an excellent service with friends and family. (If you wouldn't sell your service to them, how could you sell it to anyone else?) The problem is in the positioning. Asking for referrals is not about getting clients to help you. It's about helping your clients to help others.

Seth Godin says businesses need to remember that their clients put a lot on the line when they make a referral. "I have a lot to lose if I refer a friend to you. You might screw up, in which case she'll hate me. Or you might somehow do something that, through no fault of your own, disappoints," he writes.¹¹

This is why trust is such a huge part of the referral process. A customer has to trust you enough to put a friendship or a business relationship on the line. If you fail, you both lose.

One way to lower the referral risk for your customers is to provide discount cards, special offers or something else of real value they can give to friends and family. It flips the referral relationship and suddenly, "not giving that gift to a friend feels

¹⁰ Optimum PDM website, <http://www.optimum-pdm.com/article.asp?id=85>

¹¹ Godin, Seth. "How to Get Referrals." Seth Godin's blog. 27 Nov., 2006. Web. 7 Sept., 2011. <http://sethgodin.typepad.com/seths_blog/2006/11/how_to_get_refe.html>

selfish.”¹²

And that brings us to the topic of ...

Paying for referrals

To pay or not to pay, that is the question! Referral experts have a variety of opinions on this question. On the one hand, there are those who say “You get what you pay for!” On the other hand, there are others who say that paying for referrals generates lower quality referrals and lowers the closing ratio for new business.

In reality, the truth lies somewhere between these two positions, and may depend on a number of factors.



1. B2B and professional service businesses.

Accountants, lawyers, advisers, coaches, marketing firms ... these are the types of businesses in which paying for referrals probably makes the least sense. Why? Because these businesses are built on relationships. You wouldn't pay someone to be your friend, and you can't pay for sincerity. Reasonable thank you gifts (e.g. lunch, a round of golf, wine, chocolate) are always appropriate.

Idea to try: A law firm regularly networked over lunch and a game of golf with the advisors of a mergers and acquisition firm. One day, in order to recognise the admin staff working behind the scenes, they sent a hamper to each member of the firm's support team.

Idea to try: Ask a good local restaurant if they would provide a discount if you purchased gift vouchers in bulk. Keep a stock on hand for referral thank you's.

2. Consumer service businesses. Gardening services, hair salons, plumbers, massage therapists ... these businesses can use service discounts as referral incentives and thank you's. As we mentioned above, service discounts provide something of real value that a customer can share with friends and family. Reward people who refer new clients with discounts or free service, commensurate to the value of the referral.

Idea to try: A chiropractor's office offers regular monthly incentives for referring new clients. Incentives include discounts on massage services, raffle entries for a TV or iPad, free podiatry

check, etc. In addition to generating new clients, the referral programme introduced existing clients to other services they provided like the massage and podiatry. By changing the incentives each month, the chiropractic office always has new promotion to talk about on its Facebook page. Plus, they increase their chances of capturing different people's interest with different incentives.

- 3. Consumer products.** Vacuum cleaner sales, clothes shops, electronics ... again, discount cards and free product promotions work well to motivate referrals when sales aren't relationship based.

Idea to try: An optician offers new clients a 100% refund if they refer four new clients within one year. For every new customer that comes in, the referral source is sent a 25% refund on their purchase. After four new customers, the referrer has earned a 100% refund. The optical store even has a photo wall of customers who made it into the 100% Referral Club.¹³

Researchers Ryu and Feick looked at the connection between referrer relationships and referral likelihood, with and without incentive. They found that incentives made the biggest difference when customers referred businesses to casual acquaintances. Among the findings: Recommenders with "strong ties" (family and friends) were almost twice as likely to make referrals with no reward incentive as were recommenders with "weak ties" (i.e. casual acquaintances).¹⁴

When modest incentives were added to the mix, strong- and weak-tied customers were almost equally as likely to make referrals. Conversely, when even larger rewards were offered there was little additional impact on likelihood of referral between the two groups - in fact, likelihood of referral actually decreased slightly for the strong-tie group.

Relationships matter. Customers are more likely to make recommendations to those with whom they have strong ties, with no expectation of reward, in part because 1) they have a greater understanding of the ongoing needs of those with whom they have regular contact and 2) they care for the other person's welfare.

Customers are less inclined to make recommendations to those with whom they have weaker ties, but still more inclined to do so *if there is a sufficient benefit to them*. Unlike the strong-tie strength relationship, which is

¹³ Jantsch, John. *The Referral Engine*. Penguin: New York. 2010. p214. Print.

¹⁴ Ryu, Gangseog & Feick, Lawrence. "A Penny for Your Thoughts: Referral Reward Programs and Referral Likelihood." *Journal of Marketing*, January 2007. p84-94. Print.



Referrals
are
made
by

characterised more by goodwill and less by monetary or other reward, the weak-tie strength relationship is more transactional - and the referrer focuses more attention on personal reward in that transaction.

Other findings of this study indicate that products and services perceived as having weaker brand strength benefit more from referral rewards programmes than products and services perceived as having stronger brand strength.

Recall the above comment in which Seth Godin reminds businesses that a referrer puts a lot on the line when they make a referral? Researchers Ryu and Feick corroborate that very notion:



- There are perceived social benefits and psychological and social risks inherent in recommending products and services. Perceptions are greatly amplified when reward incentives are introduced: Perceived benefits are smaller; risks as greater. Factoring in tie strength, the perceived rewards diminish even further, and the risks continue to increase, for strong-tie strength relationships.
- The likelihood of referral may be a function of recipient of reward and tie strength. Strong-tie strength recommenders' likelihood to refer increased as the reward system favoured the person they were referring. Weak-tie strength recommenders were more likely to refer as they gained greater personal benefit.
- Offering rewards increases referrals, but there may be little additional benefit to increasing the size of the rewards.¹⁵

Most referral programmes already capitalise on strong-tie strength relationships. Weak-tie strength recommendations pose the bigger challenge in marketing. Ryu and Feick suggest that a system of graduated rewards for increased numbers of referrals may incentivise customers to continue to refer after the most likely referral sources (those with whom they have the strongest tie strength) have already been referred.¹⁶

Don't forget your manners. Whatever you do, thanking your referral sources is a basic requirement. Send them a thank-you card when a prospective customer contacts you as a result of their referral. Then send another thank you when the prospect becomes a customer. Be prompt with your thank you's so that the first person who tells them about your new business relationship is you!

¹⁵ *Ibid.*

¹⁶ *Ibid.*

Idea to try : Writing for the US Journal of Financial Planning, business consultant Dan Richards explains how one advisor makes client service and referral thank you's go hand in hand. Within the first 90 days of any new relationship, clients generally hear from this advisor at least four times. At a 90-day checkup meeting, the advisor asks his clients to fill out a score card, rating their satisfaction with his service to-date. When clients are happy (as they usually are) he asks permission to share that score card with the person who referred him. When they say yes, the advisor benefits in two ways: First, he gets a positive, no-sales reason to send his existing clients a note. Second, he gives his referral source the comfort of knowing their recommendation resulted in a quality experience for their friends.¹⁷

Making the ask and referral systems

Richards isn't keen on passive referral requests: the "Referrals Always Appreciated" sign in the reception or the email signature that says "Referrals Welcomed." First, he argues, these messages are too subtle to be noticed and acted upon. Second, he suggests, they threaten your image of professionalism.

As Richards explains, asking for referrals is not so much about the *asking*, but about educating your clients as to who would benefit most from your services.¹⁸

It's obvious that business owners could increase referrals simply by asking for the; and Advisor Impact (a US company that works with financial advisors and accountants) set out to find if this were true. Among 'engaged' clients (those who rated their financial advisor 10 out of 10), only 6% said that they provided a referral because their advisor asked for one. A far higher number said that they provided a referral because a friend asked for one (54%) or because a friend shared a financial challenge (45%).¹⁹

When issuing these results for their membership, Advisor Impact President Julie Littlechild wrote: "This data suggests that the reason clients refer is to do their friend or colleague a favour, not to do their adviser a favour. If that is the case, it substantially changes (or should change) our approach. This isn't an issue of just asking for names because you have provided outstanding service. It's about helping your best and most engaged clients understand the kinds of problems you can solve for their friends, making you a resource that your clients want to share. The focus has to be on problem-solving for their

¹⁷ Richards, Dan. "Change the Way You Ask for Client Referrals." *Journal of Financial Planning*, Mar. 2011. p36-37. Print.

¹⁸ Richards, Dan. *Ibid.*

¹⁹ Littlechild, Julie. "What Motivates Clients to Provide Referrals." *Solutions*. May/June 2008. p10-12. Print.



friends, not business building for you.”

Dan Richards offers the same advice: “Advisers often forget that the reason clients provide referrals is to help their friends, not their advisers. As a result, phrases such as, “I’d like to ask a favour” or, “Please don’t keep me a secret,” are unlikely to be successful. Your entire approach to referrals should be rooted in your clients’ reality, not your own agenda.”²⁰

Baraba Bix is a marketing consultant with BB Marketing Plus in the United States. Bix reminds business owners that getting referrals is about more than providing quality service and making ‘the ask’ - your whole marketing mix comes into play. In order for someone to provide a referral they must meet the following nine criteria:

1. Know someone who needs a service you provide
2. Recognise that the individual would benefit from that service
3. Be motivated to make the referral
4. Be aware of your existence
5. Know that you can provide the service the prospect needs
6. Think of you when the time comes
7. Think highly of your services
8. Believe you provide good value
9. Find it easy to refer you²¹



Bix recommends that businesses developing a referral system based on these nine criteria. We’ll highlight a few here:

#1 Know someone. As Tim Templeton writes in *The Referral of a Lifetime*, getting referral is about who your client knows.²² Again, this is where ‘spheres of influence’ come into play. Who do you know (or who could you get to know) who is likely to encounter people with the kinds of challenges you help resolve?

#2 Recognise the benefit. Cornerstone Business Services works to educate its referral sources. Not every lawyer or accountant knows when or how their business owner clients should go about selling their business. So the Cornerstone team works to educate them with valuable seminars, educational booklets and

²⁰ Richards, Dan. “Change the Way You Ask for Client Referrals.” *Journal of Financial Planning*, Mar. 2011. p36-37. Print.

²¹ Bix, Barbara. “Accelerate Your Referrals: Nine Steps to Success.” *MarketingProfs*. 21 Sept. 2010. Web. 12 Sept., 2011. <<http://www.marketingprofs.com/articles/2010/3915/accelerate-your-referrals-nine-steps-to-success>>

²² Templeton, Tim. *The Referral of a Lifetime*. Berrett-Koehler: San Francisco. 2003. Print.

expert articles.

#3 Be motivated. Consider payment and incentives detailed previously.

#4-6 Visibility and awareness. This all ties back to an overall marketing and networking programme that keeps your name in front of both potential customers and potential referral sources.

#7-8 Think highly of your services. Note the earlier discussion on trust and being referral worthy.

#9 Find it Easy. Depending on your industry and/or incentive programme you may provide referral cards or a dedicated web page. E-newsletters are great for boosting referrals because it's easy to forward them on to a colleague in need. Use social media to your advantage. At the very least have a Web presence and a profile on LinkedIn so that customers can quickly connect you with others ... without having to hunt for content information.

And finally ... giving referrals

An important part of getting referrals is having the generosity and foresight to provide them to others. Giving referrals is an excellent way to build your network and create goodwill among potential referral sources. Just be sure you approach this from the right frame of mind - you are giving referrals in order to help others, not as a means of ingratiating yourself and getting more in return. Rest assured, when you start making referrals, reciprocity will naturally follow.

Generally, you have three opportunities to provide referrals:

- 1. Someone you know has a challenge.** Sometimes a friend or colleague will ask you directly for a recommendation. This is an obvious and easy time to pass on a few good words about a business that has impressed you. But you can do more than waiting to be asked for a referral. Practice active listening and be on the lookout for people who are struggling with a particular challenge or starting a new project. This is a great time to share your network and foster new connections.
- 2. A misfit customer.** Understand your business niche and have the courage to pass along customers who aren't a good fit for your service. You may be too busy to meet the customer's deadline, or you may not be the best possible expert to meet the customer's need. Either way, it's good to know



Referrals

similar business providers who you trust to treat customers well. Taking on a client who is not a good fit does you both a serious dis-service. Remember, no fee is worth a damaged reputation.

- 3. Goodwill.** You CAN make referrals without any provocation at all. John Jantsch, author of *The Referral Engine*, was one of the creative masterminds behind *Make a Referral Week*. The idea is to get people to proactively reach out to their network and promote deserving businesses. Twitter users are already accustomed to a version of this with their custom of recommending favorite Twitter feeds on so-called 'Follow Friday' (#ff). But you don't have to be a Twitter user to make unsolicited recommendations. Consider using a portion of your newsletter or blog to recommend favourite service providers. Or, you can do as Jantsch recommends and create a weekly referral habit with *Make a Referral Mondays*. This is a day when you purposefully and thoughtfully make time to help others make new business connections.

Make this a part of your weekly practice. The more conscious you are about making referrals, the more you'll increase your social capital. As Bill Cates writes in *Get More Referrals Now!* "There's no better way to send the message to the world that you work from referrals than by giving referrals."²³

*Who could you help connect today?
And who could help connect you?*



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