

DEFINING CUSTOMER REFERRALS

by [Steve Brown](#)

The dictionary defines referral as 'the act of a person recommended to someone or for something or mentioning.' Bankers are always trying to capture new customers and one of the best ways to do that is through a referral program. While your bank may already have an existing referral program, here are some tips worthy of consideration in order to make it more effective and generate new leads.

The key to any rock-solid customer referral program begins with training salespeople to ask if the customer feels comfortable giving a referral. Contrary to popular belief, there is no "best" time to ask for a referral (although the worst times are when a customer is angry, you have given them a bill, at the very beginning or the end of a meeting), so quit stalling. Teaching everyone at the bank to continually ask happy customers if they will refer others is a great way to begin. Remember that referrals begin with a satisfied customer experience, so watch for that and ask whenever you see a smile.

Another important component of a well-run customer referral program ensures clients are armed with the information they need to help sell. It is easy to ask someone if they will be a referral, but 5 minutes after walking out of the branch they usually forget. Enthusiastic customers may be given marketing materials, business cards, an email they can forward to others, or given an brochure about a promotion. Remember that the easier it is for customers to refer someone the better the results.

The third major component includes an ongoing process to raise awareness. Customers should know you are creating (or already have) a referral program that explains the value to their business. Make sure existing customers know you are seeking referrals and be sure to send a letter outlining the program to every new customer within a few days of their first purchase. To really supercharge this effort, have employees call customers with recent interaction individually during downtime to be sure the experience was a good one.

Still another item to consider incorporating is to offer some sort of incentive for the referral. People like to feel special, so including discounts, a small gift, lunch, points and a slew of other potential items can deliver results. Try testing different ideas to find the right mix and then occasionally rotate things to keep everything fresh. Customers love to collect points, incentives and coupons, so figure out what works for yours.

Any good program will also have a tracking mechanism and a feedback loop. It is hard to reward customers for results if there is no way to track them. Incorporating something as simple as a form, checklist or even more robust systems are all available. Just be sure whatever you use, at a minimum, identifies the source of the referral (customer, mailing, alliance, staff, etc.). Then, follow up with the referral source letting them know that their referral resulted in action (and maybe new business).

These are just some of the ways to help begin turning your customers into an extension of your own sales force. Some studies find as much as 90% of business at many companies ultimately comes from a referral source. We will cover more on that tomorrow as we delve deeper into word of mouth marketing and show that the results can be very powerful indeed.

BANK NEWS

FRB Plan

The FRB laid out its "exit plan" and stated they intend to tighten credit by pulling out cash from the market before raising rates. The FRB may first test out reverse repos and raise rates on excess reserves. In conjunction, the discount rate will be increased, so that the 1% spread between the discount rate and the Fed Funds rate returns over time. In related news, the Fed is in talks with money-market mutual funds on agreements to help drain \$1T from the system.

Bank Future

A report released by the Congressional Panel Oversight Committee concludes that 3k community banks will be forced to substantially curtail their lending activity due to losses in the CRE portfolio. This continued tightness in credit will further slow the recovery.

Asset Sale Datapoint

The FDIC sold a 40% interest in \$3.1B of largely non-performing residential (68% of portfolio) and commercial (32%) loans to home builder Lennar for \$1.2B, or \$0.40 on the dollar. In addition to the discount, Lennar was extended financing at a 0% interest rate for a non-recourse loan for 80% of the purchase price.

New Mexico

The New Mexico House voted to move \$5B from the state's general fund at Bank of America into community banks in an effort to stoke lending. The bill is now headed to the Senate where it is expected to be approved.

AIG Pay System

AIG released the details of their rank and file pay system that many TARP banks are eyeing. The system evaluates the top 10% of employees for the largest bonuses, while putting the rest in 3 other categories. The bottom 10% receives no incentive compensation, while Category 3 is the largest cohort with 50% of the employees.

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