CULTIVATING REFERRALS

by Steve Brown

While prospecting for clients is good, prospecting for "Centers of Influence" (COI) is better. While a good client might yield a 45% ROE, a quality firm or person of influence can yield 8 to 10 referrals per year - producing a return of many times that. We estimate that only 60% of community banks ever ask for referrals and of those, just a little more than 50% closely track referral flow. Ironically, when we run profitability on a bank that does track referrals, we find approximately 75% of customers with a 15% ROE or better come from a referral. To help increase profitability, one tactic we suggest is to have a formal plan in place to target, gather, track and manage referrals. To start, focus on relationships that have the greatest ability to grow profitable clients. CPAs, commercial loan brokers and lawyers are usually on the top of everyone's list. However, equipment manufacturers, community leaders, insurance agents, investment bankers, tax accountants, trade association leaders and fellow corporate executives are also great sources. We often recommend tracking the potential for each COI on a "Referral Code" scale of A to D. "A's" are those proven COI sources that yield at least 2 quality referrals per year. "B's" yield less or none, but have potential and "C's" seem like they could give you referrals, but haven't been asked. "D"s are those that seem like they could give you leads, have been tested and don't for a variety of reasons. The beauty of this simple system lies in the fact that you categorize these D's. If done right, the D category should be your largest and it is acknowledgement that despite your bank's past efforts, these people or firms just don't like or are not set up to give referrals. By tracking D's, a bank now knows where not to spend resources, except for once every 3Ys in order to confirm the D status. We recommend spending 75% of your allocated resources to COIs by conducting scalable marketing such as emails, sponsorships, direct mails and promotions. Here, a steady stream of case studies of how your bank helped a client usually works best. This keeps your success in front of everyone in a very real and practical way. This effort should be focused on helping the COIs indentify similar potential customers that might be in the same situation such as wanting to expand, purchase a business or buy their own building. The next most effective scalable marketing effort that we have found is through specific training. Helping your COIs look smarter about important topics in their line of work by giving them insight into your expertise is a double win. Partnering with a benefits group to discuss the changing health care reform, a social media marketing group (on how to win more clients), or a local economist will all be appreciated by your COIs and will help them win more business that they might then refer to you. Other successful scalable marketing efforts include sending out news articles, product information and other such materials. The remaining 25% of resources should be done in person through meetings, meals and events. While this will be your most expensive effort on a per person basis, there really is no substitute for meeting key COIs face to face. Finally, a successful referral program means tracking your progress and having a plan in place to manage it. A CRM system is a good place to start and a process where you can track how clients came to you and through what referral source is critical. A good process should also include a feedback loop and a "thank you" note or small gift so the COI gets positive feedback. Banks are all striving to build a scalable, sustainable and successful customer acquisition plan. By focusing on COIs and institutionalizing the process, you can develop a simple and organic approach that yields results.

BANK NEWS

Resignation

Barclays' CEO Marcus Agius stepped on today amid the Libor rate fixing scandal.

Bank Deposits

The SEC is reportedly considering forcing money market mutual funds to make a choice between maintaining a small capital cushion and withdrawal restrictions or abandoning the $1 NAV.

Way Down

A Gallup poll finds Americans' confidence in U.S. banks has fallen to a record low of 21%, well down from the 60% levels of the 1980's and below the 22% low hit in 2009. Banks rank higher than HMOs (19%) and Congress (13%) and are tied with TV news, organized labor and big business.

Potential Customers

A report by American Express finds between 1997 and 2012 the number of businesses in the U.S. grew 37% (the percentage of women-owned businesses increased 54%).

Customer Acquisition

Community banks should know that a report from Javelin Strategy & Research finds 11% of all U.S. consumers could switch their primary financial institution this year. By major bank, you will probably have the most success targeting Citibank (where 25% of customers said they might switch), followed by Bank of America (21%), Wells Fargo (14%) and JPMorgan Chase (12%).

Spooky Situation

A new report finds 28% of Americans have no money in their savings accounts, up from 25% in 2011. In addition, 50% of consumers don't have enough money in savings to cover 3 months expenses and only 25% can cover 6 months.