THE PROFESSIONAL REFERRAL METHOD: A PIPELINE OF CORPORATE CLIENT REFERRALS

EXECUTION GUIDE

In today's challenging environment, Plan Advisors are increasingly marketing not only to clients, but also to professional intermediaries who serve as gatekeepers to wealthy families.

To accommodate this shift, Plan Advisors must change their messaging from one that is Valuable to one that is Referable.

This guide offers four specific strategies for executing a messaging process to this market. It provides instructions for creating warm introductions to professionals, then teaches how to develop a Referable Message, structure a presentation for an intermediary and close a meeting for an action.

AB **ADVISOR INSTITUTE**

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MESSAGES: VALUABLE VERSUS REFERABLE

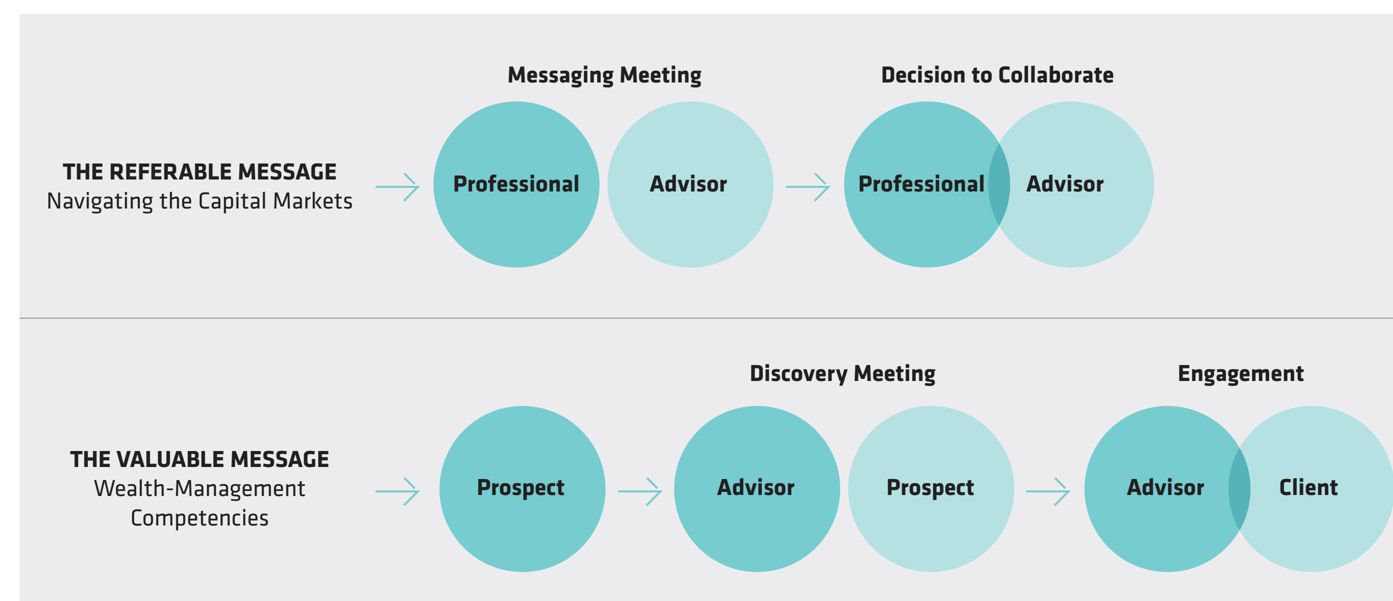
Meeting with professionals who function as trusted advisors to successful families requires a unique message—one that doesn't sell valuable services, but instead inspires referrals.

We've all met them: professionals who function as trusted advisors to successful families. Increasingly, these professional intermediaries, such as CPAs and attorneys, have become the gatekeepers to accessing desirable new clients. This intermediary market requires a unique messaging strategy, one that will inspire the professional to make a referral to his existing client base.

In this guide, we will look at that new message, what it does and how it differs from the traditional approach used by most Plan Advisors (PAs). Let's start with a closer look at the kind of messaging we're talking about. In the illustration below, we see two messaging processes, one on either side of the line.

Below the line is the messaging process used with a prospective client who has been referred to the practice. Once someone has been referred, the process changes from a marketing process to an engagement and intake process. When this happens, the PA's messaging is directed to the prospective client and focuses on the wealth-management capabilities of the practice. This is the "Valuable Message."

Above the line, before the prospective client is referred, there is a different messaging process. When the PA is talking to the intermediary, the PA's task is to deliver a "Referable Message."



HOW WE GOT WHERE WE ARE TODAY

A retrospective look at the industry is necessary to help us understand the changes in our culture and our economic environment and how those changes influenced our industry.

Over the past 30 years, the Baby Boomer generation has represented an important and formative influence on the financial-services industry that has affected how PAs designed and managed their businesses. Understanding the Baby Boomers' experience with financial services over these years gives insights for constructing more effective outreach messaging that will help attract new clients to a practice.

Let's start by observing the trajectory of growth and plateaus of our industry over the past 30 years. In 1981, 5.7% of households in the US had a mutual fund investment—a relatively low penetration rate.[1] In this case, we're using ownership of mutual funds as a representation of the public's engagement with the financial markets. Mutual funds have been available since the 1930s, but until 1981, only a small percentage of the population was invested. Suddenly and explosively, the culture embraced mutual fund ownership. Ownership maxed out at 47% of households by the mid-2000s and then declined slowly.

The financial-services industry expanded along a similar trajectory, from 171,000 brokers in 1975 to more than 770,000 Registered Representatives in 2000.[2] What caused this explosion of growth? Demographically, the oldest Baby Boomer turned 35 in 1981, followed by 78 million others (approximately four million a year for 20 years). When we look at the statistics together, it seems likely that aging Americans began purchasing mutual funds and that the industry grew to accommodate the demand.

EXPLOSIVE GROWTH LEVELED OFF

The growth was explosive for the first 20 years, but then leveled off. This helps to explain why growth rates of individual PA businesses have been far less robust in recent years. Fewer PAs survive the challenges of starting their own practices in this environment. Even established advisors have seen a steep decline in organic referrals. "The way we've always done it" no longer applies. The business-management and client-management requirements for building a successful business have increased dramatically.

This expansion and leveling off have significant implications for outreach messaging. During the rapid growth from 1975 to 2000, advisors enjoyed the combination of expanding engagement, falling interest rates and a bull market in equities. This created a powerful and positive response potential in the culture: Everyone knew someone who was investing and making money, and as the economy prospered, more people wanted to hire a PA. New investors talked about their advisor with friends, and these endorsement referrals stimulated new business. Cold calling worked. Advisors could describe what they did and expect prospective clients to respond.

Over time, the industry became saturated with the same standard types of messages, and potential clients experienced message fatigue. Eventually the "Do Not Call" list was created to block unwanted solicitations (a natural development when too many sellers are chasing a finite number of buyers). By the early 2000s, two things happened: everyone who had money was working with one advisor (or more), and the industry experienced the first shocking correction of the decade. Eventually, as the crisis of 2008 unfolded, much of the positive euphoric excitement of investing had been dampened, and a much more pessimistic (some would say realistic) culture of investors had evolved.

It should be no surprise that the messaging that worked in the 1980s and 1990s doesn't work as well today. Since the early 2000s, a new kind of referral has emerged—the prescriptive referral—in which an investor or a professional makes a thoughtful case to a person he knows and cares about, explaining how a particular advisor can help. Motivating someone to make this kind of referral is challenging because of additional, powerful forces at work in our culture.

UNEQUAL DISTRIBUTION OF WEALTH

One of these forces is how wealth is distributed in the United States. Rather than being distributed evenly, wealth is controlled by a very small percentage of the US population. In fact, the top 1% controls *more than 40%* of the total wealth in the country, and the top 10% controls 75% of the wealth.[3] This means that in the US, *all* of the liquid, investible wealth is controlled by 10% of the population. It also means that 10%—fewer than 110 million households in the country—represent meaningful clients for full-service PAs. In practical terms, this means that there are about 11 million families who have $1 million or more in investible assets and have the kind of complex financial lives that require a full-service PA.

To put this in even starker perspective, there are more than 300,000 client-facing advisors pursuing their ideal client investor—an individual or family with $1 million or more in liquid assets. It's a very crowded industry of highly motivated advisors chasing a relatively small number of clients, most of whom already work with at least one advisor.

While there are 300,000 Plan Advisors actively serving the investing public, all but a few of them collect less than 40% of their income from defined contribution (DC) plans. That leaves only about 4%—approximately 12,000 Plan Advisors—who have an active DC business. That means they receive more than 40% of their income from DC plans. These 4% of advisors are considered leaders in the field: they control 47%, or almost half, of all advisor-sold DC assets in the US.

What makes these PAs so successful? How do they build their book of business, and what makes plan sponsors loyal to these high-performing advisors?

OVER-TARGETED AND OVERWHELMED

Plan sponsors are busy executives with many responsibilities. They often protect themselves from the multitude of vendors who vie for time by finding a few trusted advisors and listening to their advice.

In most cases, these advisors are typically CPAs, ERISA attorneys, insurance agents or benefit consultants. Research has shown that such trusted advisors have become the gatekeepers to the wealthy. In a 2007 study by AB, 800 high-net-worth families were asked, "The last time you changed Plan Advisors, what did you do?" The entire 100% of the families answered, "We asked our CPA or attorney for a referral." So, how does a Plan Advisor get an introduction to those gatekeepers?

1 Investment Company Institute, *2010 Investment Company Fact Book* and *2011 Investment Company Fact Book*, as of December 31, 2013
2 Financial Industry Regulatory Authority and US Bureau of Labor Statistics, as of February 2014

3 Dale Archer, "Could America's Wealth Gap Lead to a Revolt?," Forbes.com, September 4, 2013; Credit Suisse Research Institute, *Global Wealth Databook 2013*; and Eric Zuesse, "United States Is Now the Most Unequal of All Advanced Economies," HuffingtonPost.com, December 8, 2013

HOW TO GAIN AN INTRODUCTION TO CPA FIRMS

Gain an introduction to a gatekeeper by following this four-step process that can be executed via telephone.

A FOUR-STEP PROCESS

Step One: Introduce yourself and your firm, then ask a favor. In his book *Influence: Psychology of Persuasion*, Robert Cialdini describes the natural tendency of human beings to respond positively to a favor asked by a person they know, even if they don't know him well.

Step Two: Explain that, as part of your job, you're expected to maintain a group of resources to which you can refer your clients for specialized services. Say, "I don't think I know your CPA. May I ask you a few questions about the person you work with?"

Step Three: Ask the seven questions noted here about the CPA (or attorney) to determine if that professional might make a good resource for your files. In this "mini-discovery," you not only find out important information about the professional, but steer the conversation toward asking for a personal introduction. The questions clarify the nature of the professional's practice and generate an understanding of the client/professional relationship. The last question is, "Would you be willing to introduce me to this person?" Experiences in the field indicate that the majority of people who are asked to do a favor and introduce their CPA or attorney to their PA will happily do so, especially if the PA makes it easy to give the introduction.

Step Four: Offer an easy way to make the introduction. Recommend that the client introduce you to her CPA via e-mail and suggest that there might be a reason to talk.

As a result of this approach, the professional, who has been recommended by his own client, is much more likely to be willing to meet you and is likely to come to the first meeting with greater interest in making this new connection.

1. How long have you worked with this person?
2. Do you like working with this person?
3. Is there a focus or specialization to this person's practice?
4. What is the one thing you like best about this person?
5. Would you recommend this person to others?
6. Would I benefit from knowing this person?
7. Would you be willing to introduce me to this person?

HOW TO GAIN AN INTRODUCTION TO AN RA OR A PROFESSIONAL

There is a similar process for gaining warm introductions to other retail advisors (RAs) and professionals.

GAINING AN INTRODUCTION TO RETAIL ADVISORS

When seeking an introduction to another retail advisor, it is important to remember that some may see you as competition, even if you specialize in plans and have no intention of competing with them for retail relationships. As a result, it's helpful to approach potential collaborators through their manager.

1. Introduce yourself and your firm: "Hello. This is [name] from the [location] office."

2. Explain why you are calling: "I'm calling to see if you would be interested in working with me to expand some business opportunities within your office. Specifically, I work exclusively with 401(k) plans and have had some great experiences collaborating with other advisors in our firm to help them take advantage of opportunities in their book of business. I have found that there are usually one or two very strategically minded advisors in an office who want to focus their work with higher-net-worth investors and don't want to dilute their efforts by dabbling in the retirement plan space."

3. Introduce the idea of collaborating: "It's been my experience that they can collaborate with me as a specialist to engage the plan opportunities within their book; enjoy essentially effort-free revenue, which adds to your bottom line; and be able to remain focused on their core business. I'd be interested in working with you to find the one or two advisors in your office that think strategically like this."

4. Inquire if there are any clients who could benefit from this type of collaborative effort: "Does anyone you manage currently come to mind?"

5. Ask for an introduction: "Would you be willing to facilitate an introduction?"

GAINING AN INTRODUCTION TO OTHER PROFESSIONALS

There are other gatekeepers who are professionals—such as ERISA attorneys, corporate benefit specialists and insurance brokers—who can also make referrals. We follow the same four-step process outlined on page 4.

Step One: Call and introduce yourself and your firm. Ask a favor.

Step Two: Explain that, as part of your job, you're expected to maintain a group of resources to which you can refer your clients for specialized services. Say, "I don't think I know your [name the type of professional]. May I ask you a few questions about the person you work with?"

Step Three: Ask the seven questions to conduct your "mini-discovery."

1. How long have you worked with this person?
2. Do you like working with this person?
3. Is there a focus or specialization to this person's practice?
4. What is the one thing you like best about this person?
5. Would you recommend this person to others?
6. Would I benefit from knowing this person?
7. Would you be willing to introduce me to this person?

Step Four: Offer an easy way to make the introduction. Recommend that the client introduce you to this professional via e-mail and suggest that there might be a reason to talk.

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CREATING THE REFERABLE MESSAGE

Once an opportunity to meet with a professional has been secured, the next step is deciding on the messaging. That messaging cannot be the traditional "Lead With" description of what you do for your clients; every CPA and attorney knows what a PA does. This is what we referred to earlier as the Valuable Message.

Instead, consider a "Lead To" communication strategy, which uses a Referable Message. Don't jump into an explanation of the features and benefits of a product (the Lead With the product approach). Rather, use a Lead To strategy and offer an observation of an event occurring in the capital markets that can cause a problem for investors. The conversation must include a powerful Referable Message that motivates action.

To properly create this message, it's helpful to understand how human beings become motivated and make decisions. When making a decision to take action, a person uses two different parts of the brain. The rational part of the brain (the neocortex) uses information to understand the meaning of a decision, that is, whether or not it is a good idea. But understanding the meaning isn't enough to motivate action; actions require feelings to be activated. The emotional part of the brain is located in several places: the brain stem and limbic system are involved with generating feelings. When it comes to making a decision about risking a referral, the professional needs to balance the strong feelings that motivate action with clear thinking about why making the referral is a good thing to do.

Your main tool for helping professionals make this kind of decision is language. The choice of words, and the illustrations used to accompany those words, will determine what kind of motivation is created in the other person. Once the professional recognizes the painful problem, she becomes motivated to act. This allows you to migrate the conversation to an introduction of the product, service or idea that solves a painful problem.

The key point is not to Lead With the ultimate solution (the desired outcome of the meeting) but instead to Lead To a conversation about the solution from a different starting place, one that prepares the recipient's mind to see the solution as a remedy to a painful problem.

LOSS AVERSION MOTIVATES ACTION

The largest challenge you face when asking a professional for a referral is how to motivate action. We discussed earlier that effective language or an impactful message motivates people. Studies have shown that a desire to avoid negative sensations (loss aversion) is the *primary motivator* of all human behavior and activity—even in highly rational professionals. Research into loss aversion shows that someone who experiences the potential of loss or has experienced an actual loss feels a great deal of pain. This pain can be in the form of fear or dread. Such fear and dread become the organizing principles for behavior and stimulants of activity.

In the absence of pain, pleasure can motivate some actions; however, research in behavioral finance has shown that avoiding pain is at least twice as motivating as achieving pleasure. This means that your main task is to frame an idea so that the primary motivator of behavior, avoiding pain, is activated within the other person. Framing an investment strategy as attempting to "solve a potential problem" serves this need and helps the CPA or attorney understand why the story is important to some of the people she cares about in her practice.

SIX CRITERIA FOR A REFERABLE MESSAGE

These insights into the thinking/feeling and pain/pleasure aspects of building powerful messages help us build our Referable Message. There are six distinct criteria that must be in any message and should guide the selection of the kinds of stories you present.

+ The idea must be a *single* clear idea that is easy to understand in five to 10 minutes. Initially the professional won't expend much energy trying to understand the message, so it should start out clear, easy to understand and as singular as possible.
+ The idea must register as *significant*, as an important concept in the mind of the professional. She must have an internal "wow" response to the information and feel strong emotions as you tell the story. The best way to do this consistently is to talk about disruptions that represent dangers in the capital markets that some of the professional's clients are exposed to.
+ You must present a *solution* that is available immediately. The professional must register that the benefit of engaging your services provides an immediate value to a referred client.
+ You must appear to be a *superior* provider compared to others who offer similar services. The professional must conclude that you are an expert who is superior to others in the market.
+ The message must cause the professional to think of *someone* in her practice that would benefit from the message being delivered.
+ The message must conclude with a next *step* that the professional can take to engage you. This step should represent a no-risk and no-cost way for a client to receive some value from you without having to totally disrupt his current financial life.

DURING THE MEETING

When meeting with the professional, it's important to manage time effectively. To do so, the story must be presented in the most influential manner possible.

Start by introducing a problem that will potentially impact at least a few of the professional's clients. This creates a "burning platform" problem that allows the story to achieve relevancy quickly. With this in place, reveal the mechanism in the capital markets that creates this problem, and then explain why it's something to be concerned about. For the other person to respond to the message, he must understand how the problem happens and why it's something to be personally concerned about. If these first three steps are accomplished successfully, the rest of the presentation will be personally meaningful, and motivating, to the professional.

Most advisors are familiar with the final three steps: propose a solution, reveal the mechanism (explain how the recommended solution works) and then close for a next step. In this case, the next step should be an action that the professional can take that represents little or no risk as well as little or no cost but that gives the other person an easy way to get value from the advisor.

While many advisors are skillful in the propose-and-close process, most advisors *do not* provide the first three steps, which create a meaningful framework for why the professional should listen to the proposal and risk making a referral. For the message to optimally motivate, more than half of the presentation should be concerned with the reasons why investors need to be concerned about a potential problem and possible losses so that the professional will become motivated to refer.

Once the message has been delivered and the professional understands the importance of the message and has credited the PA with the superior knowledge, it's important to close the meeting for a next step, the final step mentioned above.

CLOSE THE MEETING

If you don't close the meeting, you're unlikely to receive many referrals. Clearly tell the professional what you want: explain the next step. The closing process illustrated here consists of a series of statements and questions that move the professional from understanding the problem and the risk her clients are exposed to into considering taking a next step: working with you.

Step One: Conclude the information delivery part of the meeting and transition into the end of the meeting by asking, "Was this helpful?" By asking this question, you signal a move to a different stage of the conversation.

Step Two: Prime the professional to think about possible clients who might benefit from your help. He may already have someone in mind based on your earlier messaging. Ask, "Would this be helpful for________?" and name a particular group within the practice that might benefit from the proposed solution. This forces the CPA or attorney to think of someone who is exposed to the problem and who might benefit from that solution. Experience in the field has shown that the CPA or attorney is likely to respond, "Yes, I can see how this would be helpful for ________ ."

Step Three: Close the meeting by asking, "Let me make you an offer. Would it make sense for us to ________?" and recommend the action the professional should take. This is the no-risk, no-cost step that makes it easy for the professional to get started. Examples include: offer to perform a portfolio analysis, review some account materials or provide a second opinion on a portfolio.

In the case where the professional responds, "I'm not sure if this would be applicable; most of my clients already have an advisor," respond with: "You sound like you're uncomfortable with making a referral to my practice. I can certainly understand you not wanting to alienate the other advisors you work with. As an alternative, what if, instead of sitting down with one of your clients, I put together a seminar for a number of your clients as an educational opportunity? This way, you wouldn't have to run the risk of making a referral to my practice, but your clients would still get the benefit of the information."

The idea is that no matter how the professional responds to the invitation to move forward, you have a clear way to advance the relationship. If the professional still doesn't agree to a next step, put him on a list for future contacts. Sometimes it takes several different ideas before the professional becomes comfortable making a referral.

DEDICATED SCHEDULING

Experience with Plan Advisors shows that it's difficult to execute on this model unless time is dedicated to outreach.

Frequently making the time for outreach is the hardest part. Experience with PAs who are managing a large and complex practice has demonstrated that it's difficult for many to execute on this referral model unless they set aside specific time to schedule and hold meetings with professionals on a consistent weekly basis.

It's recommended that you set aside two to four three-hour blocks of time in your weekly schedule for meetings with new professionals and for meetings and follow-up engagements with professionals who have been previously contacted. We strongly encourage that you set aside those blocks at the same time every week for at least a six- to nine-month period.

By setting aside specific times to do outreach, meetings become a priority—the most important activity for that period of time. Instead of deciding to get around to outreach whenever there's time, we recommend fitting everything else around the outreach activity. Make a commitment to these activities, and complete an adequate number of meetings to populate a meaningful pipeline of referrals. Not every professional the advisor meets will make a referral in the first meeting, and some may not refer even after several follow-up experiences.

In the long run, the persistent advisor—who dedicates the time, builds a Referable Message and Leads To a conversation about an effective solution—is likely to build a group of fully engaged collaborators who value the advisor's expertise.

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	Outreach Meetings					
				Outreach Meetings		
		Outreach Meetings				

As an advisor, your ultimate goal is to build better outcomes for your clients. At AB, we share your commitment. We've put our research to work for our clients around the world:

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- **Defining the importance of investment planning and portfolio construction in determining investment success**
- **Providing tools to help advisors build deeper relationships that benefit their clients and their practices**

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