

# REFERRALS:

## To pay or not to pay, that is the question

I have always been a bit funny when it comes to paying for referrals. I know the argument that says it's much more cost effective to pay for a result as opposed to paying for advertising but I've never really come to terms with it. It always seemed to me that if your referrer relationship was built on a cash payment that when someone else offered more cash you would lose the referrer. Recently I had the opportunity to express my views to a very successful broker who does pay for referrals and what he said about why he pays commissions made sense to me. Before I share his strategy with you let me share my referral system so you understand my perspective. First of all I believe that a referral is a favour and to receive a favour you must earn the right to ask for one. It's no different to asking a friend to help you move house. You'll have earned the right to ask for their help through your relationship. When they've helped you move, you then owe them a favour. It's a simple system but it works. Where it breaks down is when the favour isn't returned. I'm sure we've all got stories of where we feel we've been a little short changed by someone who owed us a favour and didn't return it.

So if a referral is a favour how do we earn the right to ask one? My theory is simple, if you help other people get what they want first, then you will get what you want. At this point if you were to say to me that all I was doing was working out how to pay for referrals without paying cash, you would be partly right. What I am trying to establish is what currency these potential referrers value most, and it's not always cash. When I was building my referrer base I changed my mindset to accommodate my theory. Before I attended an appointment with a potential referrer I would ask myself this question "What can I do to help this person get what they want?" By starting with this approach I was thinking about the value I could add to the relationship as opposed to how much cash I would have to pay. Let me give you an example. Setting out to establish a Real Estate Agent as a referrer, I asked myself the question and came up with this answer. Listings and knowledge. If I could refer listings to my agents that would be a lot more valuable to them than a couple of hundred bucks commission and if I could educate them about finance then that would be a lot more valuable than cash. The second part of my answer subscribes to the "the more I learn the more I earn" theory. So I was paying them in a currency they could really value.

To make this system work you need to deal with less referrers who refer you more business.

The alternative to this approach is the pay cash for the referrals approach. The broker I spoke to had an interesting view in regard to paying for referrals. He paid some of his referrers and not others and his reasoning for paying was feasible for him. He paid his referrers when they referred a potential customer whether it was a deal or not. What he is doing is rewarding the behaviour of referring as opposed to only rewarding if it's a deal. After all, you want to encourage the behaviour. He pays less but he does pay more often. This approach, as he sees it, has a number of positive aspects. His referrers aren't reliant on the broker writing a deal to be paid so they are more likely to refer. He contacts his referrers every time a payment is made so he creates his touch points with his referrers by having a reason to call them. In his mind this is truly paying for prospects and is a far more attractive option to him than paying a telemarketing company etc. He also educated his referrers about the kind of referral he can work with and although he admits that he gets a number of duds in the early stages he maintains that he reduces the number of dead leads through his education.

The reason this approach made sense to me was that it didn't rely on the broker actually writing a loan before the referrer got paid. The broker and the referrers also disclosed to the customer that a fee will be paid for the referral. So it was upfront and it rewarded the behaviour not the result. I still don't agree with paying for referrals but I have to admit rewarding the behaviour made a lot of sense to me.



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