

Acquiring New Business

The differences between a lead and a referral

I often hear the terms lead and referral used in the same context when, in fact, they are two very different things. Both are used to acquire new business. Yet one far outweighs the other in its effectiveness in getting closer to a sale. Entire marketing campaigns are built around finding new business using leads. Likewise, sales processes build in methods for finding new business using referrals. One method, leads, works off volume while the other, referrals, works off quality.

So what's the difference between a lead and a referral and how should a company and, more importantly, a sales person take advantage of each? Additionally, why is it important to distinguish between the two? To begin with, a lead and a referral should be treated with different priorities since a referral is at least one step closer to the prospect than a lead. In other words, leads are strangers, referrals could be prospective customers. If a sales rep receives a lead, he shouldn't treat it like a referral. And more importantly, if he receives a referral, he shouldn't treat it like a lead because referrals have a higher priority than leads. Knowing the difference between the two is vital to knowing how each should be handled by a sales person.



One way to look at the difference is this – leads are cold while referrals are warm. Quite simply, referrals come from someone you know (a client, business contact, colleague, friend, etc.). Hence, you already have a connection with the referred prospect and maybe even something or someone in common before you even contact them. This, combined with a little research on the referral, will allow you to make a warm call instead of a cold call. Leads often come from purchased lists (magazine subscribers, association members, industry mailing lists, trade shows, etc) which have no personal connection with you or your organization. Your first contact with a lead is truly a cold call.

Leads usually contain less information about the contact's requirements and issues than referrals and, therefore, need to be qualified further. A lead may contain more detailed information about the contact; such as age, income, revenue, number of employees, SIC code, industry, and more. But it won't include other important information about the needs of the contact or their business, which is harder to obtain. If you receive a referral, it's not that difficult these days to look up their business on the Internet to find the same or similar information that you would get from a leads database. You can dig even deeper by subscribing to an on-line database service (SalesGenie, The SalesTrack, Hoovers, JigSaw, etc) and doing more research on the referral to learn about their specific details. In doing so, you'll get as much detailed information as from a leads database while already possessing the important information about the referral's needs and issues.

When contacting a referral, the relationship can begin more quickly than with a lead since you already have something or someone in common. It's much easier to get someone's attention when you start by saying, "Hi Art, this is Russ Lombardo of XYZ Inc. Peter Johnson suggested I give you a call to discuss your new expansion into Asia. We helped Peter's company with their growth plans in Europe and since he knows you from your previous work together (or personally or as a vendor on a previous project or ...), he thought we should speak to see if our services might be of interest to you." This introduction even works when leaving a voice message. Why? Because of the connections you made between yourself, Art and Peter.

If Art truly knows and likes Peter (which is the assumption here), then he usually will honor that connection and extend the same respect to you. He also won't want Peter to find out he blew you off, acted unprofessionally or was a jerk to you because, a) it may affect his relationship with Peter ("Art, how come you treated my good friend Russ so poorly?") and, b) Art really doesn't know how close you are to Peter and will err toward caution and take, or return, your call.

When you reach a gatekeeper, consider the effect this approach will have in place of a cold call. Instead of the typical cold call scenario with a gatekeeper ("Hi. I'm calling to speak to Art about how we can help with..."), with a referral you can say, "Hi. Peter Johnson, Art's friend/colleague/business associate/etc, asked me to give Art a call about Art's new project." The personalized connection alone will cause the gatekeeper to think that this is not a cold solicitation as much as a personal contact and will pass you through ("Art, I have a Russ Lombardo on the line. He said he's friends with Peter Johnson.")

So, when and how should you get referrals? The best way to get referrals is to ask your customers. Don't wait for them to give them to you. They're too busy to think that someone they know might need your services or products. So ask. A good time to ask for referrals is after the sale and delivery or implementation of your product or service. You want to make sure they are first satisfied with what they bought. Otherwise, they will be reluctant to refer you to their colleagues and friends without knowing for themselves if it was a worthwhile purchase. When you make your "customer service" call to check in to see how pleased they are with your product or service, that's a great time to ask for referrals. If they are pleased, they should be very receptive to giving you referrals.

When you do get a referral, be sure to also ask your source what sort of issues, challenges and problems they may be having. Many times your customer may just say that they think you should call another company/person they know that might be interested in your offerings. But try to dig deeper by asking why they believe they may be interested. At a minimum they should say it's because they know they've been struggling with something or have been growing and could use help or something generic that you can use when you make your first contact. You can even ask for referrals from companies who you did not win as a customer. "Thanks for considering us. Perhaps we could do business in the future. In the meantime, who else do you know that might be interested in our offerings?"

Be sure to follow up with the person who gave you the referral so they know how you made out. If they are going out of their way to help you by giving you this important information, then they deserve to know the outcome, as well as receive a big fat thank you for helping you out. A personal phone call works great, but so does a personal note or even an email thanking them with an update as to what happened.

Some people like to pay for referrals with money, discounts or some sort of incentive. This may work in a B-to-C (Business to Consumer) environment but I don't believe it is really appropriate in a B-to-B (Business to Business) situation. Consumers like to get discounts or incentives for doing things and if they provide referrals to get them, then that's fine. But I can't help but think about the calls I get from companies selling items such as vacuum cleaners, real estate services or rug shampooing who got my name from my friend or neighbor. I know my friend forked over my name, along with several other unsuspecting victims, just so they could get a 10% discount. The quality of these referrals is typically poor.

In a B-to-B environment, you are faced with other challenges. One is that many companies are not allowed to take payment for things like referrals. For instance, do you pay their company the fee (how would THAT work?) or the individual, who probably is not permitted to receive personal payments from vendors (graft and all that messy stuff.) You could make the payment to their favorite charity or donate something to a worthy cause, but this can be an administrative nightmare and, in the end, have little or no affect. My thoughts are that if you are credible and have a good relationship with your clients, then they should be willing to provide good referrals to you with no strings attached.

In the end, leads are easy to get and cost money but require a lot more work to get into the sales cycle. Referrals are harder to get but are free and will yield much more success in your customer acquisition process. When acquiring new business, look to referrals as an important part of your prospecting mix and be sure to treat them differently than leads.

Good luck and good selling!

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