Referral Management Supports Deal Origination

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PricewaterhouseCoopers' Private Equity Trend Report 2012 highlights that secondary buyouts will continue to present opportunities for deal origination; and acquisition from other private equity funds features amongst the top five sources of new deal opportunities for firms. And yet, anecdotal evidence suggests that referral management is not given much importance by private equity firms.

Firms that invest time and resources in managing inbound and outbound referrals not only bring in new business, but crucially ascertain who their major business partners really are for long term gains.

While the private equity sector is to a large extent driven by personal relationships, referrals should be considered assets of the firm and not of individuals – similar to clients and investors being seen as partners of the firm and not of the personnel at the firm. Knowing where inbound referrals come from allows firms to more effectively determine which private equity firms to pass potential deals to and which investors to reward with preferential service and investment opportunities.

Tracking and measuring referrals also provides valuable data that can be used to evaluate firms' business development and marketing investments and to ascertain how best to use these resources in the future.

Firms' approach to referral management varies. Some designate a central referral manager or partner whose job is to gather all inbound and outbound referrals from all of the firm's key intermediaries, collate the data and then produce referral reports for internal discussion, analysis and action. This approach is clearly manual and time consuming and requires the referral manager to be extremely proactive and diligent to ensure effective referral tracking.

Some firms adopt a slightly more sophisticated approach. They acquire or even build specific referral management solutions in-house, though building another silo of information is rarely a long term solution to an activity that is more effectively managed centrally. Therefore, a number of firms simply extend the functionality of their CRM systems to store and track referral data.

Extending the CRM system to provide referral management provides two key advantages. Firstly, it provides a centralised repository of data that makes it easy to analyse referral trends, outbound referrals to firms considered to have the appropriate business match, as well as reward referral sources and effectively manage patronage. Secondly, staff with access to the CRM system can simply add referrals as they come in or as they are passed on, to ensure that all information is captured quickly and accurately at the point of activity. They can also leverage all the information on partners and deal opportunities already held within the CRM system, to reduce time spent on re-entering information and minimise the risks of error and duplication.

Award winning international corporate finance advisor, Catalyst Corporate Finance, is a case in point. The firm uses our CRM system LexisNexis InterAction, for referral tracking and many more core business development functions. Hannah Thackrah, Business Development Executive, comments, "Streamlining and automating referral management has made it easier to monitor referrals across our UK and international operations. It gives us real time visibility of how effectively our network of contacts is working for the business and where we should be focusing our efforts to retain existing clients and win new business."

Often overlooked, referral management must include measurement. Typically, firms demonstrate success through evidence that all referrals are entered into the system and made available for searches and reports; ensuring that marketing teams and partners have easy access to lists of referral sources; or even by enabling easy identification of all deals and investment opportunities generated by inbound referrals.

The real success though is made visible through analysis of referral data. This highlights in tangible terms the revenue generated and the degree of reciprocity between firms. Ultimately, it is these metrics that will help establish an appreciation of the value of a referral network with firms and the ability to maximise those identified primary partnerships. A leading international investor focused on the mid-market has used such analysis to determine a preferred referral network and is reaping the business benefits of being part of such a group.

This kind of measurement also enables firms to assess the quality and types of deals and investments being referred, their value and regularity, which in turn helps with future planning to support such referral arrangements. Cumulatively, all this supports and facilitates greater deal origination.

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