



Referral marketing will be the acquisition channel of the next decade. Marketers in companies with innovative business models and in established brands with large and loyal customer communities are mastering it fast, becoming the marketing leaders of their generation.

But referral marketing is not universally understood. Misconceptions about how it works — and why — can inhibit marketers from adding it to the marketing mix. As a result, they are delaying their inevitable adoption of referral marketing and, therefore, meaningful revenue.

In this paper, we will look at five common misconceptions about referral marketing including widely held beliefs concerning customer acquisition, reach, and retention rates. We'll also address program costs and complexity. For each, we will uncover the truth based on current industry research and the actual experiences of leading companies that are succeeding because of referral marketing.



AN ENGINE FOR BUSINESS GROWTH

The Internet has changed the face of marketing, and the social Internet has changed marketing's relationship with the customer. Social media programs have joined display advertising, email marketing, natural search (SEO), and paid search (SEM) to give companies a more targeted and human way to engage.

Recently, referral marketing has come to the forefront, giving marketers a way to acquire customers in the age of a personal Internet. Like SEO and SEM, referral marketing engages prospective customers where they live online – through their daily interactions on the Web. It goes further, however, by engaging customers how they live online – through personal connections and by recruiting existing customers to help drive new customer acquisition. New customers acquired via referral marketing are more relevant to the brand, since they share the same tastes and values as existing customers.

Well-known brands like Dropbox, Uber, and Fab.com have used referral marketing to fuel their growth. Most famously, Dropbox launched its referral marketing program as a way to increase sign-ups. Search, keyword, display ad, and affiliate programs were costing too much and delivering too little. So the company decided to incentivize referrals, and sign-ups quickly increased by 60%. In 15 months, Dropbox grew from 100,000 to 4,000,000 registered users, with 35% of daily signups coming directly through the referral program.

This example, like many others, proves what the naysayers have failed to understand: referral marketing is much more than a way to build awareness. In fact, it drives customer acquisition, extends market reach, and boosts customer retention. What's more, it is a cost-effective strategy that can be quite easy to implement. Here's why...



1. Impact – A Matter Of Trust

Belief: Referral Marketing is a low-impact tactic for building awareness.

Fact: Referral Marketing is a high-impact strategy for driving customer acquisition.

Contrary to popular belief, referral marketing is not just another way to get the word out about your brand. In fact, it is a proven method for acquiring new customers, with conversion rates ranging between 5 and 40%. Here are some examples:

When Advance Auto Parts launched its referral marketing program, it experienced a 25% conversion rate on emails sent through the program.

CLEAR, the fastest way through airport security, has doubled member enrollments through online referrals with a conversion rate of 9%. CLEAR now consistently acquires 20% of all full paying members through existing customers.

The online brokerage company OptionsHouse launched a referral marketing program that rewards referrers with \$150 cash or 30 commission-free trades. In the past six months, some 3,000 existing customers have shared the program with an average of five traders each, generating 13,000 shares and resulting in a 13% conversion rate and the acquisition of more than 3,200 new customers. Thus, on average, every OptionsHouse advocate delivers at least one new customer.

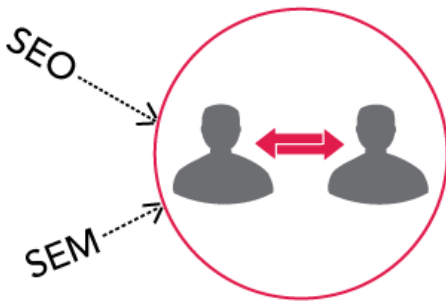
In a sense, referral marketing jumps the usual gap between awareness and sales. Why? One word: trust. Consumers simply trust recommendations above all other forms of advertising. That's why they are more willing to take the plunge and buy based on a friend's endorsement of a brand they have never heard of before.

According to the 2013 Nielson Global Trust in Advertising Survey, earned advertising channels like referral marketing are now the third-ranked format for the delivery of marketing messages worldwide. It states, "Recommendations from friends and family, often referred to as earned advertising, are still the most influential, as 84% of global respondents across 58 countries said this source was the most trustworthy."

"Earned advertising channels have empowered consumers to advocate for their favorite brands, something that shouldn't go unnoticed by brand advertisers," said Randall Beard, global head of Advertiser Solutions at Nielsen.

“ We compete against really big players like eTrade and TDAmeritrade, so outspending them is not an option. All the tactics we choose are about being efficient and smart, to drive customer acquisition. Referral marketing is squarely in that camp.”

— John Beck,
Marketing Director OptionsHouse



2. Reach – Invaluable Introductions

Belief: Referral Marketing attains insignificant reach compared to SEO and SEM.

Fact: Referral Marketing reaches an audience SEO and SEM do not address.

Reaching as many new prospects as possible is a top priority for marketing organizations, and referral marketing reaches prospects who aren't searching for you. This audience is much bigger than the audience captured at any point in time by search marketing. But beyond accessing a huge audience, forward-thinking marketers are finding that people reached through referrals are also more likely to become customers.

"We have a very specific target, and referral marketing allows us to extend our reach to others within that target," said John Beck, Marketing Director of OptionsHouse. "There is nothing like a customer telling a friend about the brand they use. That extra little juice circumvents a lot of tire kicking and leads to faster, more immediate action."

Experience shows that customers acquired through referrals often have no previous experience with the company's products and services. "More than 50% of the customers we acquire through referrals are new to our brand," said Heath Bradbury, eBusiness Marketing Manager for Advance Auto Parts.

Also important is that these acquisitions happen quickly. Across all Extole customers, 33% of acquisitions in the first quarter of 2014 happened within one hour of a friend receiving a referral message from an existing customer.



3. Retention – Got Loyalty?

Belief: Customers acquired through Referral Marketing represent low-value, one-off transactions compared to other channels.

Fact: Customers acquired through Referral Marketing have high retention rates and strong loyalty.

If referral marketing conversions represented one-time-only transactions, marketers might dismiss the referral channel as a short-term, low-value play. In fact, the opposite is true.

A case in point: CLEAR, a travel technology company that allows travelers to speed through airport security lines by using a separate CLEAR kiosk and lane, is finding that new customers acquired through referrals remain loyal for the long term.

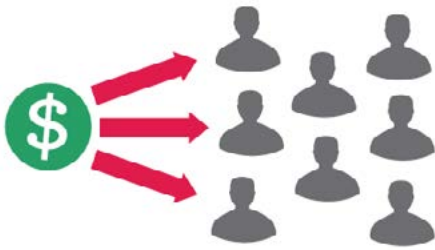
A three-year study of a leading German bank, published by the American Marketing Association's *Journal of Marketing*, found that referred customers have higher margins and stay longer than other customers. Referred customers were about 18% more likely to stay with the bank than other customers, and that gap did not fade over time.

Vonage, the high-quality VoIP home and international phone service, also finds a correlation between referrals and long-term loyalty. "Retention rates for referred customers well surpass our average," said Robert Szczepaniak, Marketing Manager at Vonage.

Extole's internal data reinforces that customers acquired by referrals are more valuable. Among Extole's retail eCommerce customers, 21% of people acquired by a referral end up sharing with their friends and family too.

“ We have a 99% customer retention rate through referrals. We've learned that rewarding our customer advocates not only enhances their loyalty, but also ensures the loyalty of the customers they refer.”

— Allison Romano,
Head of Marketing, CLEAR



4. Cost – More Bang For The Buck

Belief: Referral Marketing is expensive and erodes margins.

Fact: Referral Marketing is a cost-effective alternative strategy.

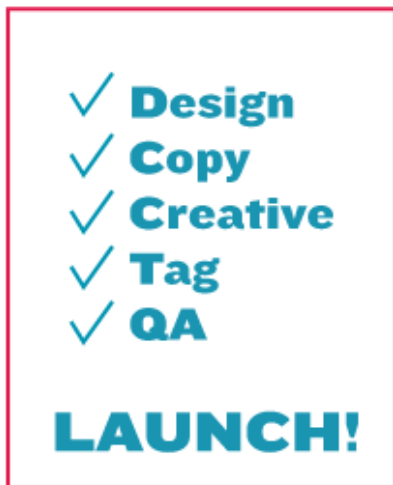
A common concern among marketers is the cost of referral marketing's incentives for advocates and friends. Some marketers see these costs as a threat to the bottom line. Yet first-hand experience tells another story.

"In terms of cost per account, referral marketing is by far our most efficient channel," said John Beck of OptionsHouse. "Display drives a ton of units, but it is our most inefficient channel. The efficiency of the referral channel helps balance our overall marketing spend."

"We knew referrals were going to be an important part of our business," said Hobson Brown, co-founder at Criquet, the Austin Texas-based maker of organic golf shirts and polos. "But we hadn't fully tapped the power of our own customers until now. Customer referrals are now our highest 'paid' acquisition channel."

At Vonage, it's the same story. "Our referral program is easily one of the lowest cost acquisition channels," said Robert Szczepaniak of Vonage.

Using referrals, even the cost per lead can be surprisingly low. Online personal finance service Mint.com generated 8,500 new leads for 50 cents each by emailing existing subscribers with a referral offer that they could forward via email, Facebook, or Twitter.



“Extole is really easy for the advocate to use. There is no user account and no password, you just click on a share button to make an offer to your friend. People are busy, and you can lose a lot of people if you don’t make it really easy.”

— Hobson Brown,
Criquet Co-Founder

5. Complexity – It Doesn’t Have To Be So Hard

Belief: Referral Marketing is complex and difficult to implement.

Fact: It’s easy, with Extole!

When companies design and deploy homegrown referral marketing solutions, they sometimes get bogged down in complexity. To develop applications that enable referrals via email plus social media requires considerable development resources. The good news is, now there’s Extole. Extole takes the cost and complexity out of referral marketing and makes it easy for both marketers and customers.

Through one online referral campaign, Criquet customers can offer their friends \$25 off their first shirt, and get a free shirt for every three friends who buy. “With Extole, we can easily customize and change our messaging depending on where you are on our website,” said Hobson Brown of Criquet.

Extole allows customers to easily share across multiple channels, including email, Facebook, and Twitter. Marketers get total visibility into referral activity, which allows them to optimize referral programs as they go.

“With consolidated referral reporting from Extole, our A-plus account management team gains unique insight into industry trends,” said Robert Szczepaniak of Vonage. “We are always looking for flexible technical solutions to meet business challenges, and Extole is a case in point.”

“With Extole, we can see the entire funnel,” said Allison Romano of CLEAR. “We see the number of incentive offers opened by advocates, how many of them click through and all of their shares by platform, as well as the number of their friends who open, click through, and buy. Every step of the way, we can see where we are doing well and where we need to optimize across different channels. It really makes it easy to tweak our messaging and offers so we can improve performance on an ongoing basis.”

THE EXTOLE DIFFERENCE

Extole enables brands to acquire new customers at scale by rewarding existing customers. In total, Extole has helped its customers acquire 2.5 million new customers. Not only are these customers new to the brands that acquire them, but they are also more loyal, have higher lifetime values, and make repeat purchases.

“What many brands don’t realize is that the opportunity to create a new acquisition channel is right in front of them,” said Extole CEO, Matthew Roche. “Encouraging your existing customers to share with their friends is both an easy and an authentic way to drive new customer acquisition. In fact, referral marketing is hands down one of the most efficient and predictable acquisition channels available.”

Extole’s referral marketing platform gives marketers complete control of their referral programs from promotion to fulfillment. Marketers drive acquisitions through Extole’s wide range of incentives, rich analytics, and cash and fraud management tools.

About Extole

Extole enables brands to acquire new, high value customers at scale with its referral marketing platform. With Extole’s simple, turnkey solution, marketers can create a complete, efficient, and reliable acquisition channel by encouraging their customers to refer new customers.



www.extole.com | www.extole.com/blog
hello@extole.com
(877) 739 - 8653