



Perfect for You:

How Referrals and Other Top Channels
Drive Retail Revenue

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EXECUTIVE SUMMARY

Retail marketers use a variety of digital programs to meet their objectives, but that mix shifts regularly. The marketer's goals determine which program(s) she will use, based on their effectiveness towards hitting them. What digital tactics are retail marketers using today? What are they trying to accomplish with them? Which tactics do they think work and which don't? Where are they spending their money? We surveyed over 300 people responsible for marketing and technology within retail organizations to find out.

Our survey revealed:

- More than 60% of retailers will increase digital marketing budgets next year.
- Retail marketers' top digital priority is customer acquisition, followed by retention, conversion, and awareness.
- Social media and email are among the most effective tactics for all objectives. Most marketers year will spend as much as or more on them this year than they did last year.
- Paid search, affiliate marketing, and content marketing are among the least effective tactics for retail goals. Marketers will spend less on these this year than they did last year.

Referral marketing gets results for retailers.

Our survey also uncovered details of how retail marketers are using referral marketing, or refer-a-friend programs that acquire new customers at scale by rewarding existing customers.

We found that:

- Retail marketers find referral marketing effective for priorities across the marketing funnel, particularly conversion.
- Referral marketing acquires a relatively high percentage of retailers' new customers.
- Referral marketing generates strong ROI for retailers.

INTRODUCTION

Retail marketing means digital marketing. Retailers now spend 58 percent more of their total marketing budget on digital than the average company does.¹ Moreover, 20 percent of retail marketers report that digital now accounts for 50–75 percent of their total spend, and 19 percent say that it constitutes 75–100 percent of their marketing budget.²

Of course, “digital” isn’t just one thing. The term encompasses a variety of tactics, programs, and technologies. Coupons, for example, are a traditional retail tactic but have become digital by being adapted for modern distribution platforms. (In fact, a recent Forrester Consulting study indicated that a majority of consumers feel that digital coupons reflect positively on a retailer’s brand, that they generate loyalty, and that they influence purchase.³) Social media, on the other hand, is a phenomenon that can’t be understood outside of the digital world. Both of these can be considered forms of digital marketing.

Retailers spend
58% more marketing
budget on digital than
other companies do.

1 Conversant, Retailer Marketer Insights: The Current State of Digital and the Future of Personalization, May 12, 2014; and Jim Nichols, 8 Ways Digital Marketing is Changing, iMedia Connection, May 27, 2014

2 Ayaz Nanji, Retail: Digital Trends and Challenges, MarketingProfs, April 16, 2014

3 Forrester Consulting, The State of Digital Coupons: How Digital Coupons Are Adapting to Mobile and Omnichannel, August 2014

INTRODUCTION

A June 2014 survey by Gigaom Research (underwritten by Extole) of digital marketers across all industries suggests that they draw on a broad palette of digital tactics to achieve their objectives. That survey found that the four most popular are email marketing, social media marketing, search engine optimization (SEO), and content marketing.⁴ Our survey finds that retail marketers use many of these same tactics, but not necessarily to achieve the same goals. There are also some critical differences in how retail marketers spend money on digital marketing vs. the broader landscape of marketers.

To understand how retailers deploy the digital marketing mix, we surveyed 302 people involved directly in marketing and technology within retail companies of various sizes, geographical footprints, and budgets. We asked them about the programs they use and how those programs perform toward specific goals. We asked them about their budgets and spending plans. Because Gigaom Research called referral marketing “the digital-marketing dark horse,” and said, “Brands that invest in referral can gain a competitive advantage over those investing elsewhere,” we also asked specifically about referral marketing to find out whether and how retail marketers are using referrals, and about what results it drives.

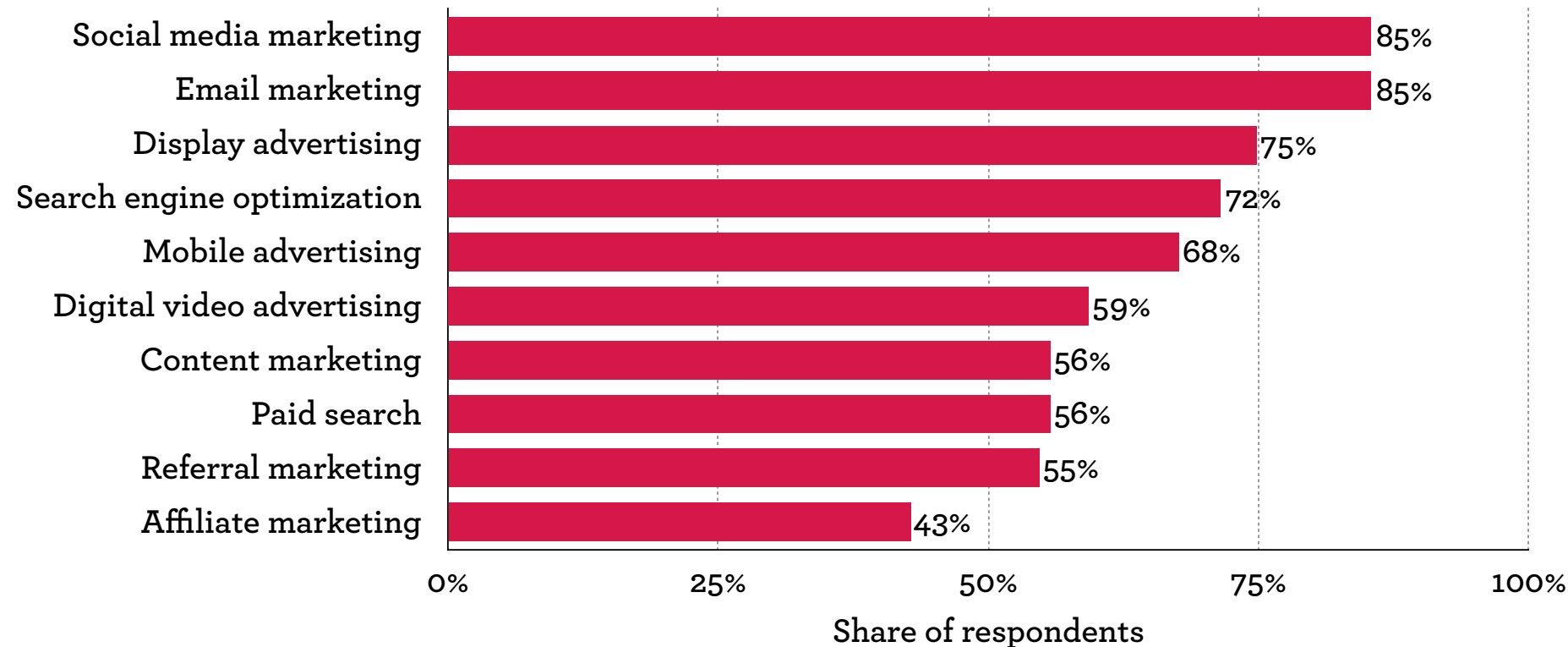
⁴ David Deal, Workhorses and dark horses: digital tactics for customer acquisition, Gigaom Research, June 25, 2014

DIGITAL BUDGETS AND SPENDING

Social media and email marketing are now the leading tactics; both are used by 85 percent of respondents. Display advertising and SEO also rank high, while mobile and digital video are seeing wide adoption.

More retail marketers use **social media** and **email** than any other digital tactic.

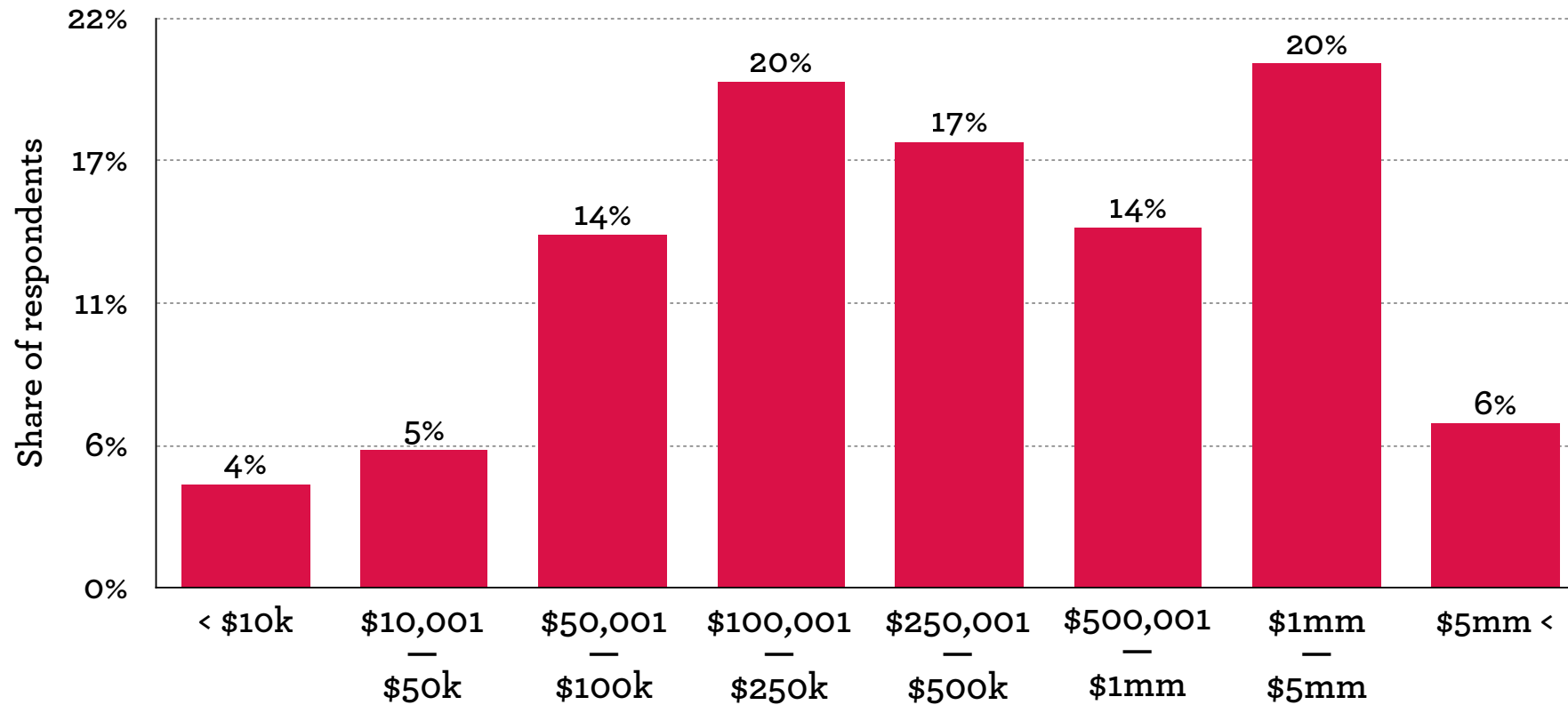
Digital marketing programs used regularly



DIGITAL BUDGETS AND SPENDING

Half the retailers surveyed spend between \$100,000 to \$1 million per year on digital marketing. A little under a quarter spend under \$100,000 per year, while slightly more spend at least \$1 million per year.

Digital marketing budgets

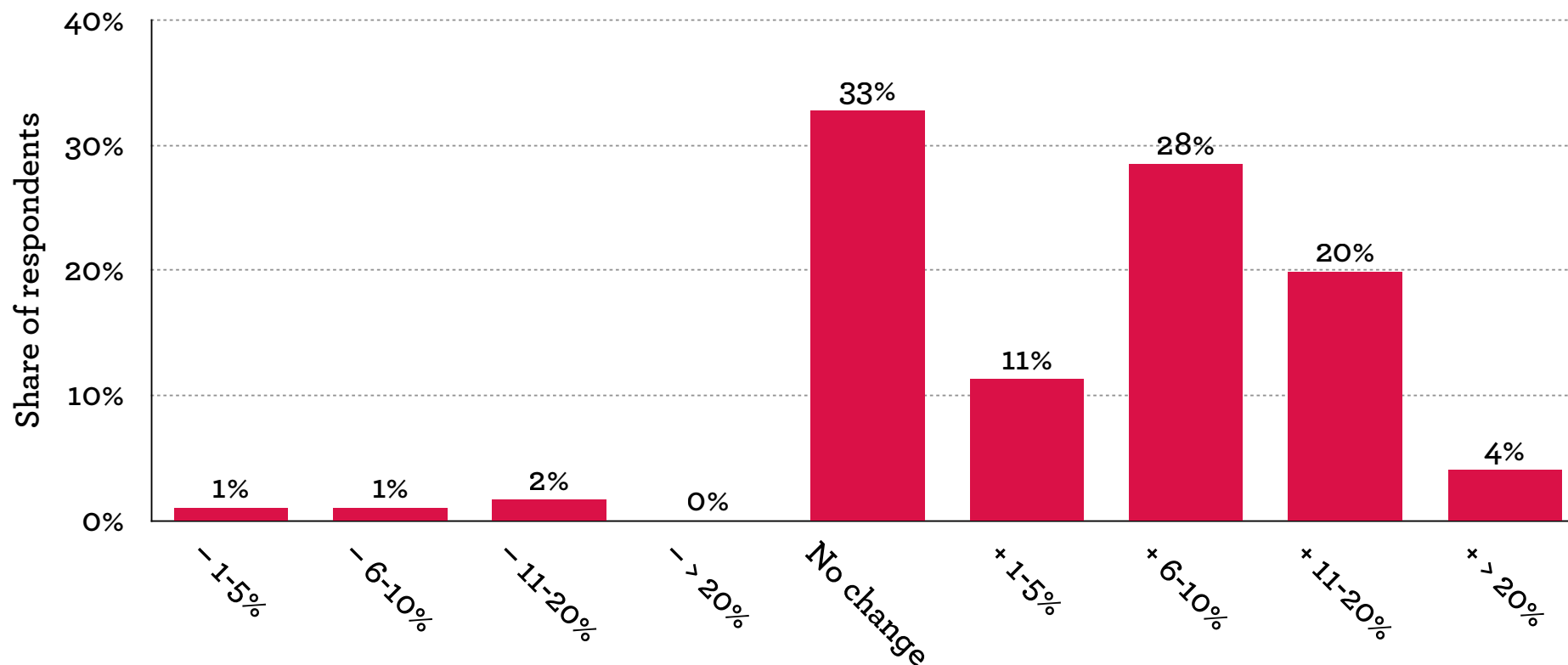


DIGITAL BUDGETS AND SPENDING

Overwhelmingly, retailers expect to increase their digital marketing spending levels next year. Nearly two thirds of them plan to spend more — and 76 percent of those marketers plan to spend 6-20 percent more. About a third of marketers expect spending to remain steady. Meanwhile, fewer than 5 percent expect to spend less next year.

76% of marketers who expect budget increases expect **rises of 6% – 20%.**

Most see budget increases next year

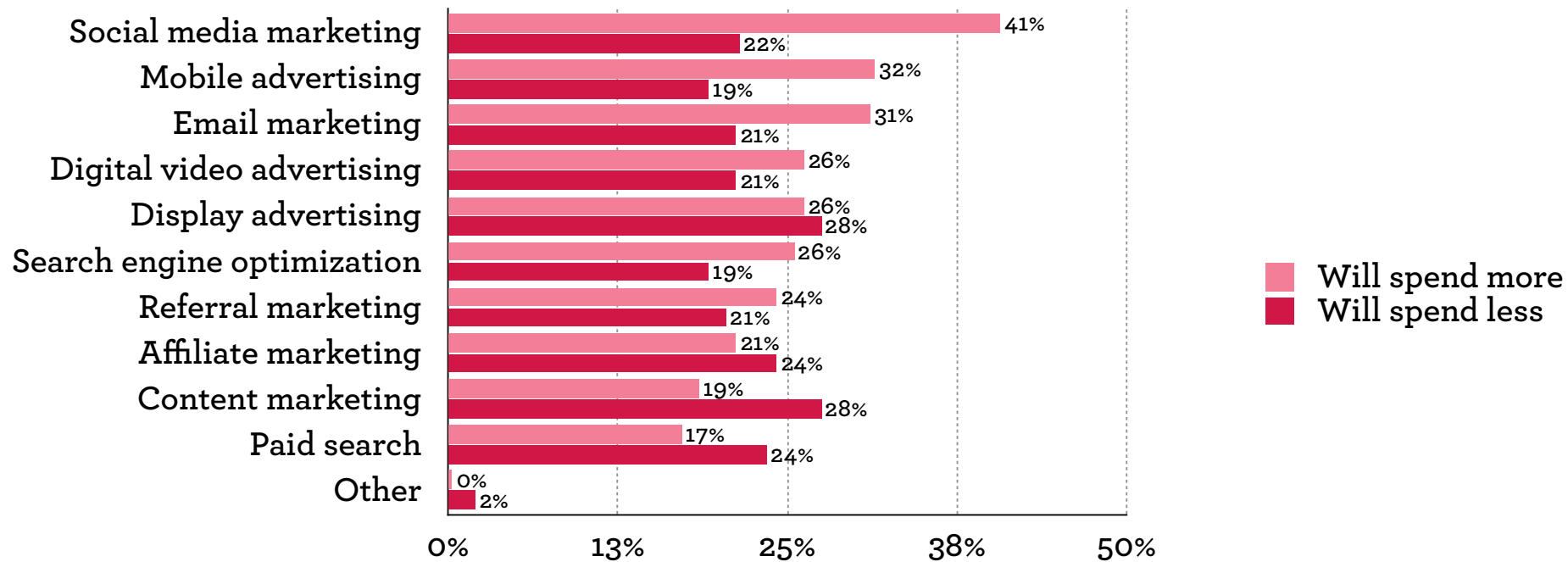


DIGITAL BUDGETS AND SPENDING

How do they currently spend their budgets? Social media, in particular, is booming. Forty-one percent of retailers say they'll spend more on it this year than last. Supporting social's rise, Gigaom also found that most marketers would be spending more on social media marketing. Forrester Research found that 62 percent of retailers plan to spend more on Facebook interactive marketing efforts this year. Mobile advertising, email marketing, digital video advertising, and display advertising round out the top five tactics seeing increased spending this year.

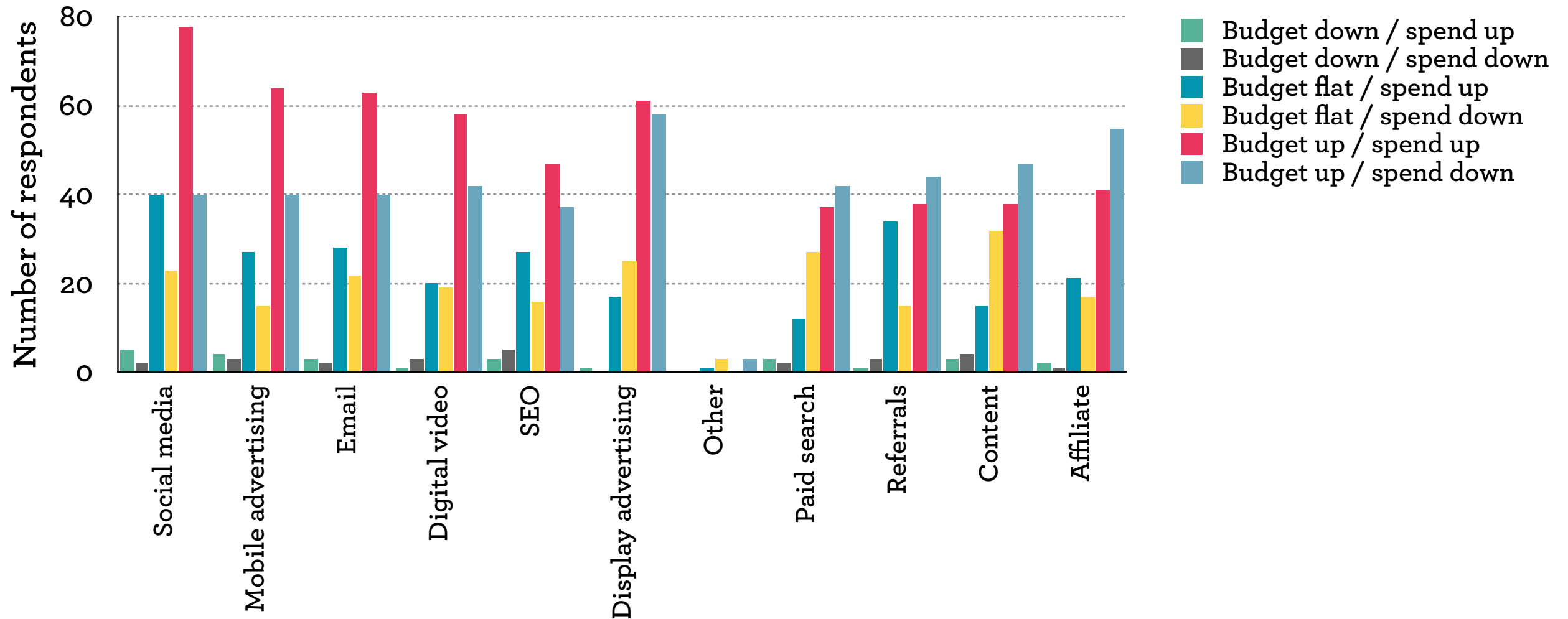
41% of retailers will spend more on **social media marketing**.

Spend on tactics vs. last year



DIGITAL BUDGETS AND SPENDING

Looking deeper into expected spending changes, we see social media, mobile advertising, and email as the three tactics on which a majority of retail marketers are spending more, regardless of whether they see their overall digital budgets rising, falling, or remaining constant.

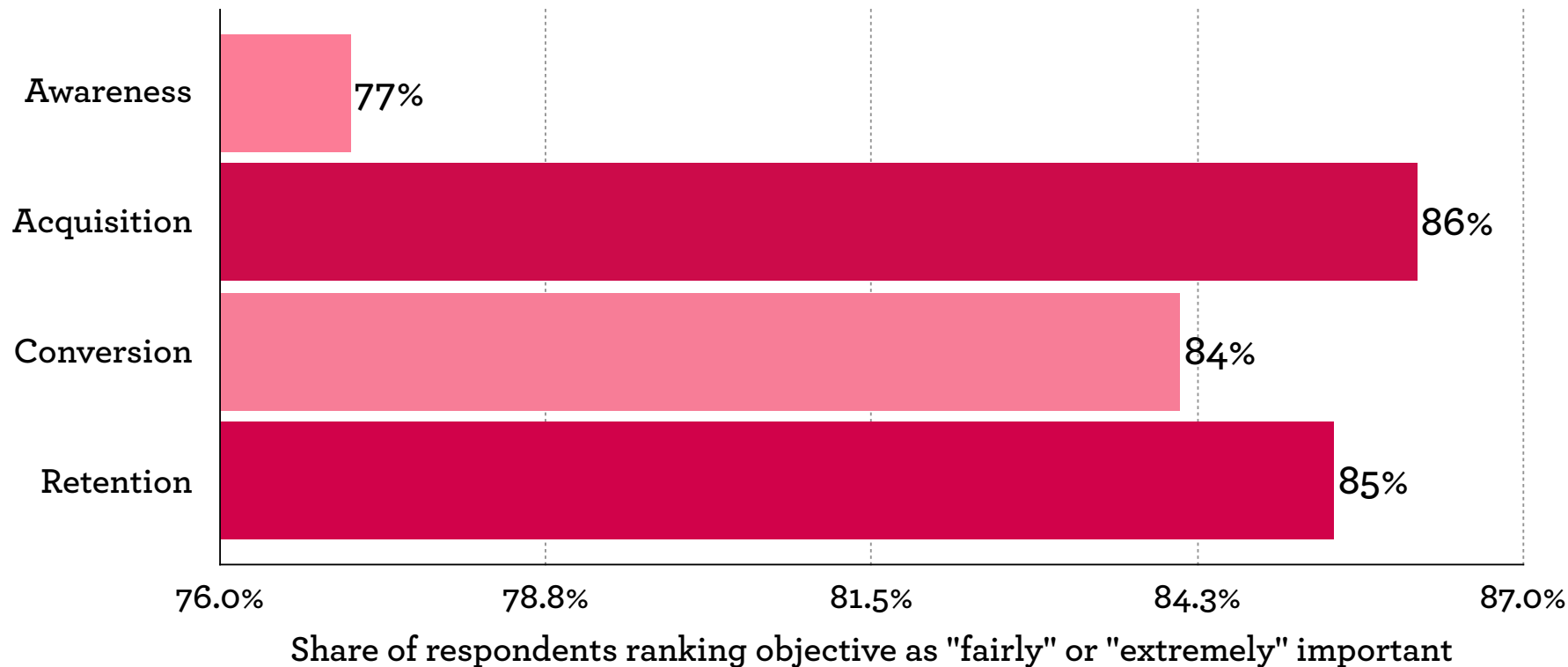


THE DIGITAL PROGRAMS THAT GET RESULTS

Retail marketers' primary goal is customer acquisition, followed closely by retention and conversion. Coming in noticeably behind, in fourth place, is branding and awareness.

Acquisition is important to **86%** of retail marketers.

Acquisition and retention are top goals



THE DIGITAL PROGRAMS THAT GET RESULTS

The various digital tactics perform differently depending on marketers' objectives. Social media and email marketing are at or near the top of the list across all four funnel goals.

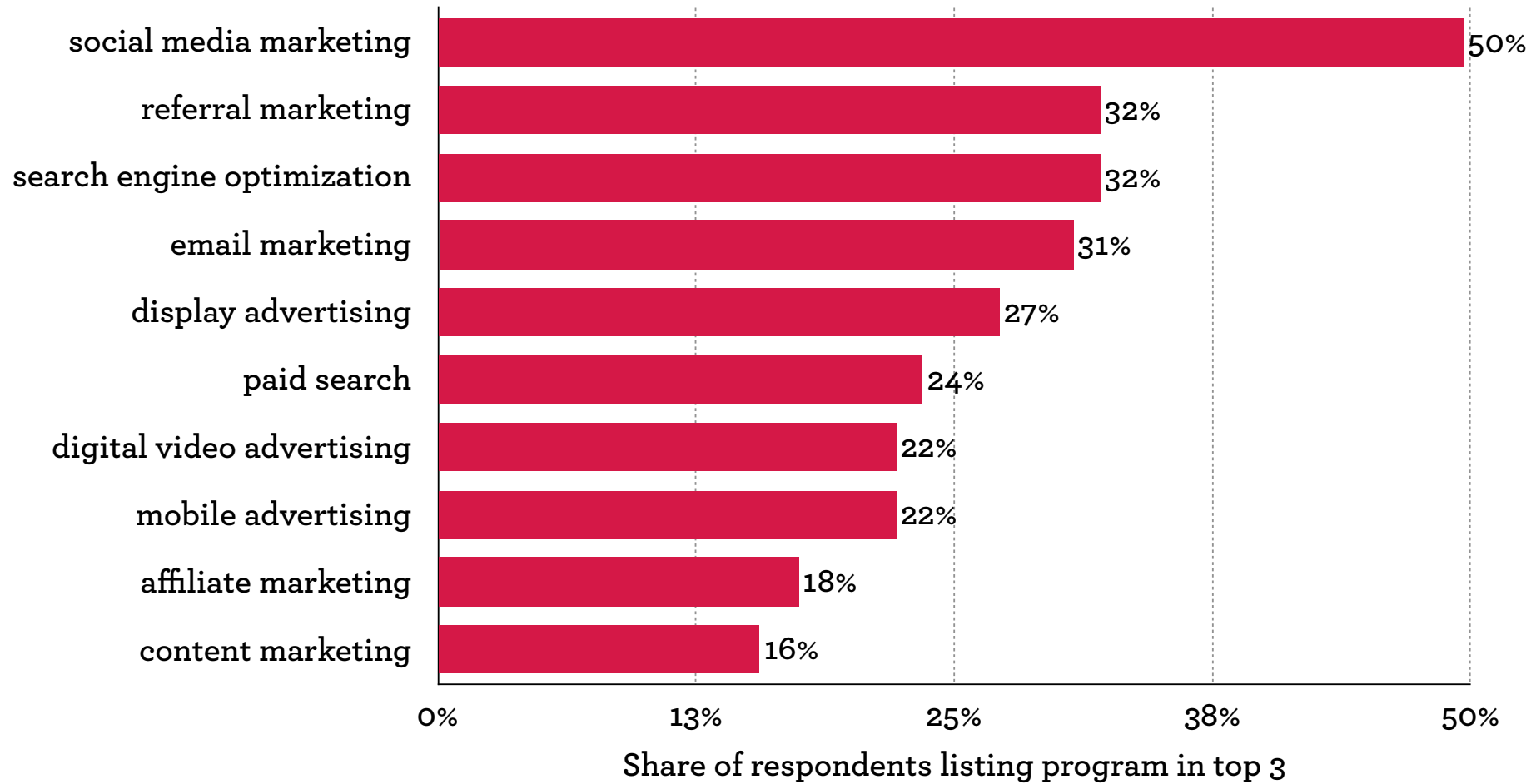
Referral marketing and display advertising also appear consistently near the top of retail marketers' list of effective tactics for awareness, acquisition, conversion, and retention. Both are top-five tactics across all four goals. Referral marketing is a top-three tactic for marketers' two most important goals, acquisition and retention.

At the other end of the spectrum are paid search, affiliate marketing, and content marketing. These three appear at the bottom of the list for every objective, save for acquisition (for which paid search makes it out of the bottom three but remains in the lower half of the list).

Social media, email, referral marketing, and display advertising are the only tactics to appear in the top five for all four funnel goals.

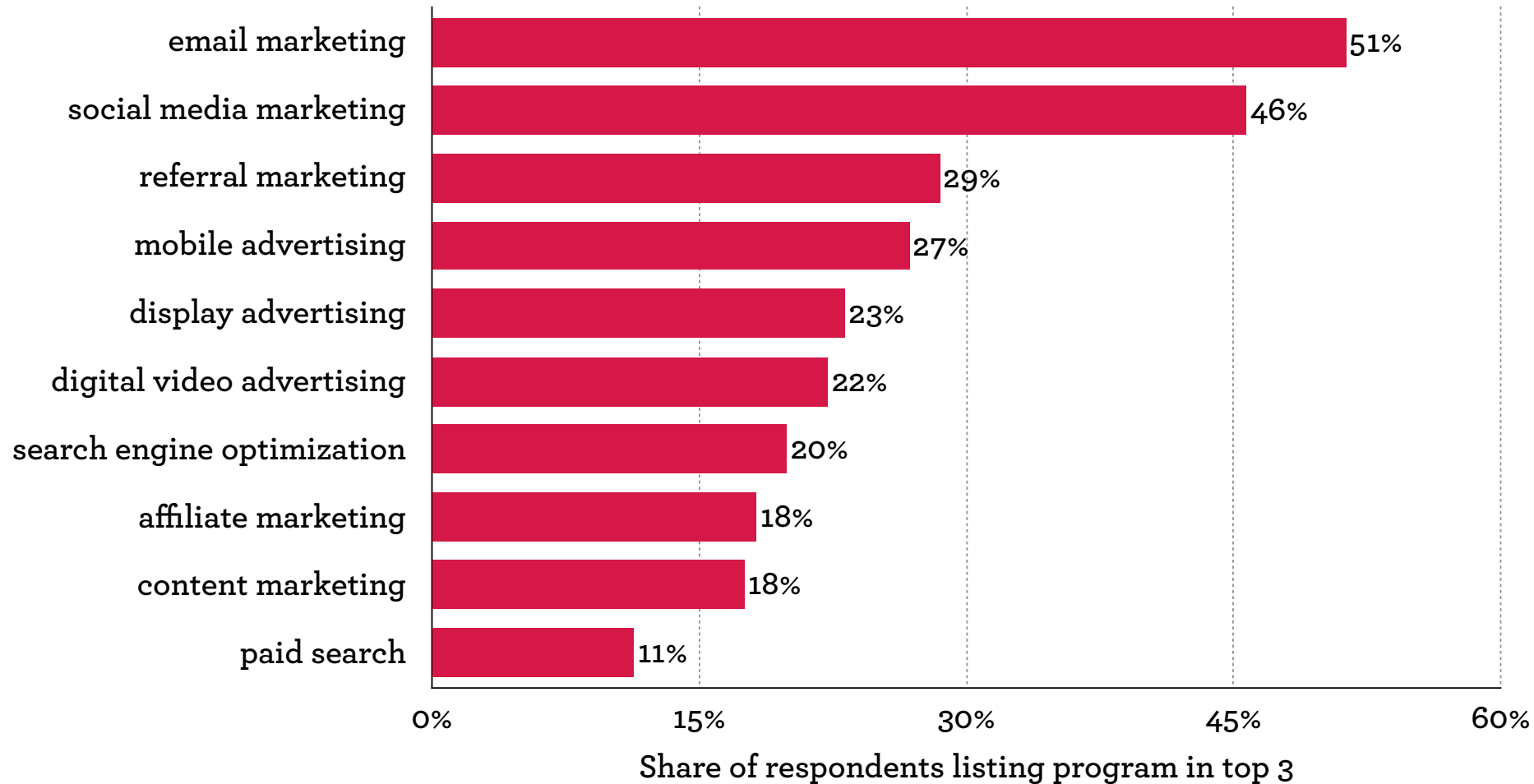
THE DIGITAL PROGRAMS THAT GET RESULTS

Most effective at acquiring customers



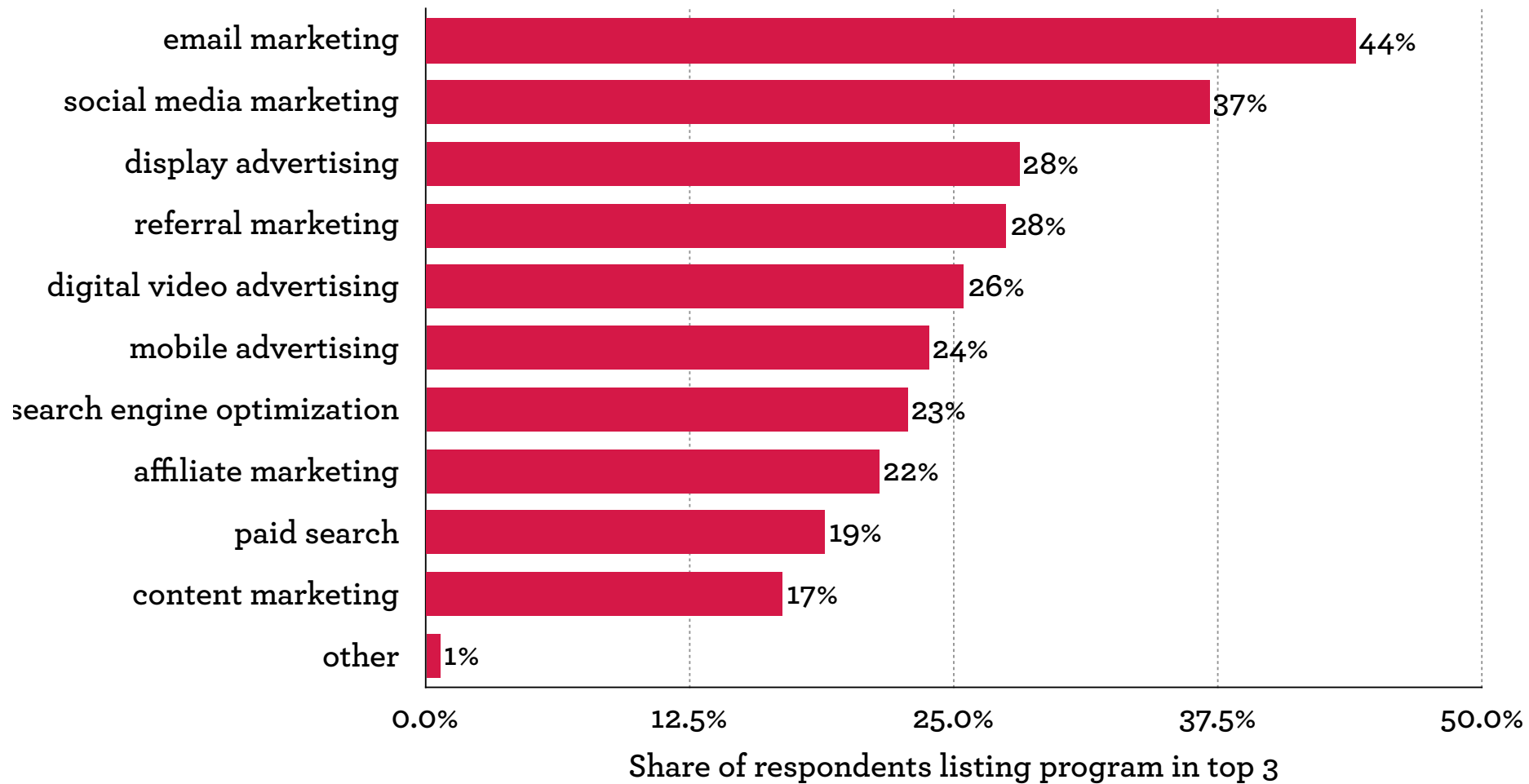
THE DIGITAL PROGRAMS THAT GET RESULTS

Most effective at retaining customers



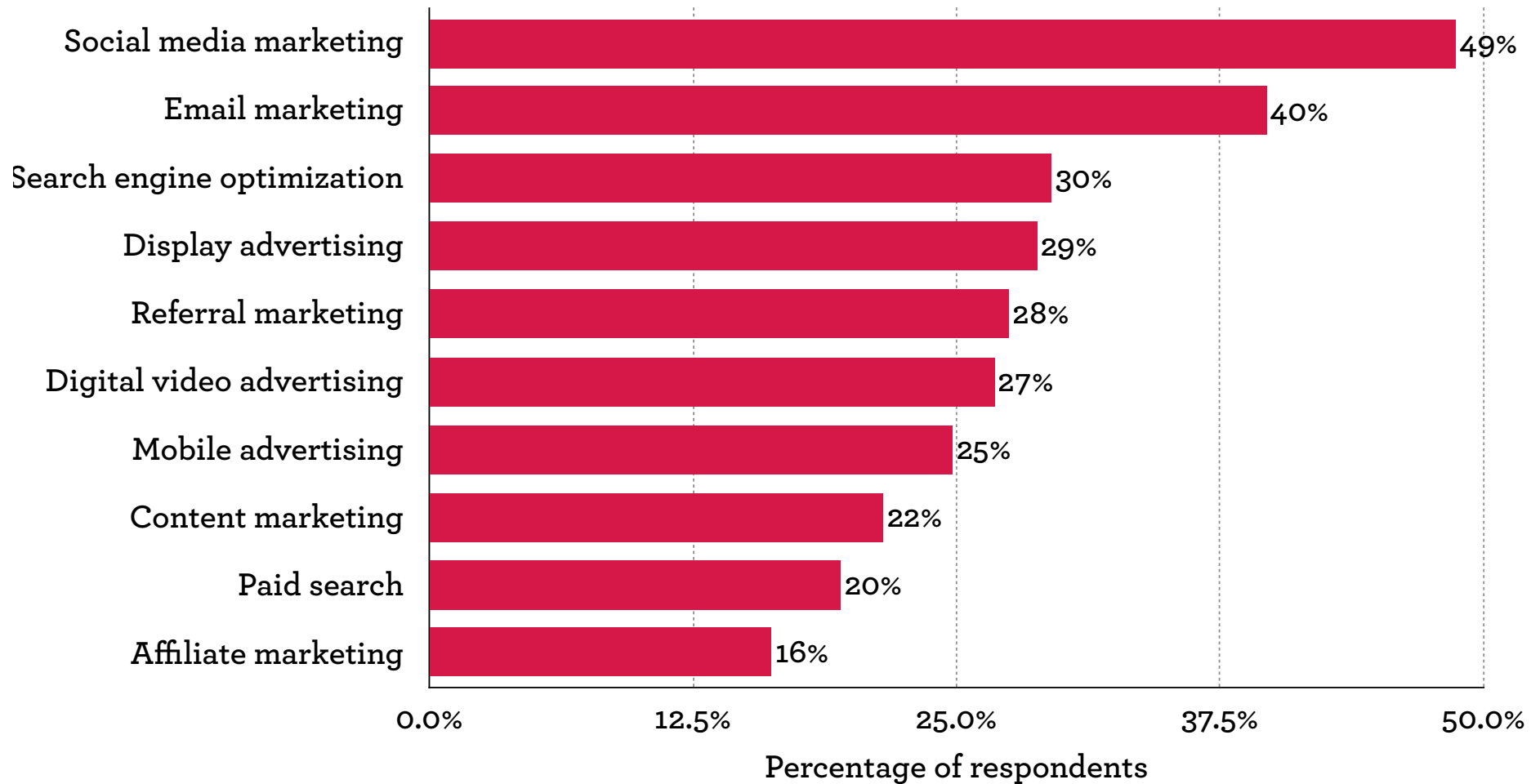
THE DIGITAL PROGRAMS THAT GET RESULTS

Most effective at converting customers



THE DIGITAL PROGRAMS THAT GET RESULTS

Most effective at promoting branding & awareness



ON THE RISE: SOCIAL, EMAIL, AND REFERRAL

We found that the most commonly used tactics in retail digital marketing also tend to be the ones marketers find most effective at hitting their goals. Not surprisingly, spending increases are similarly correlated. Marketers are spending more this year than last on the most effective tactics and expect to increase spending on them again next year.

Social media and email, at the top of the list, follow this pattern: they're the two most commonly used digital tactics, are almost universally the two most effective tactics for all goals, and are in the top three for spending increases this year and next.

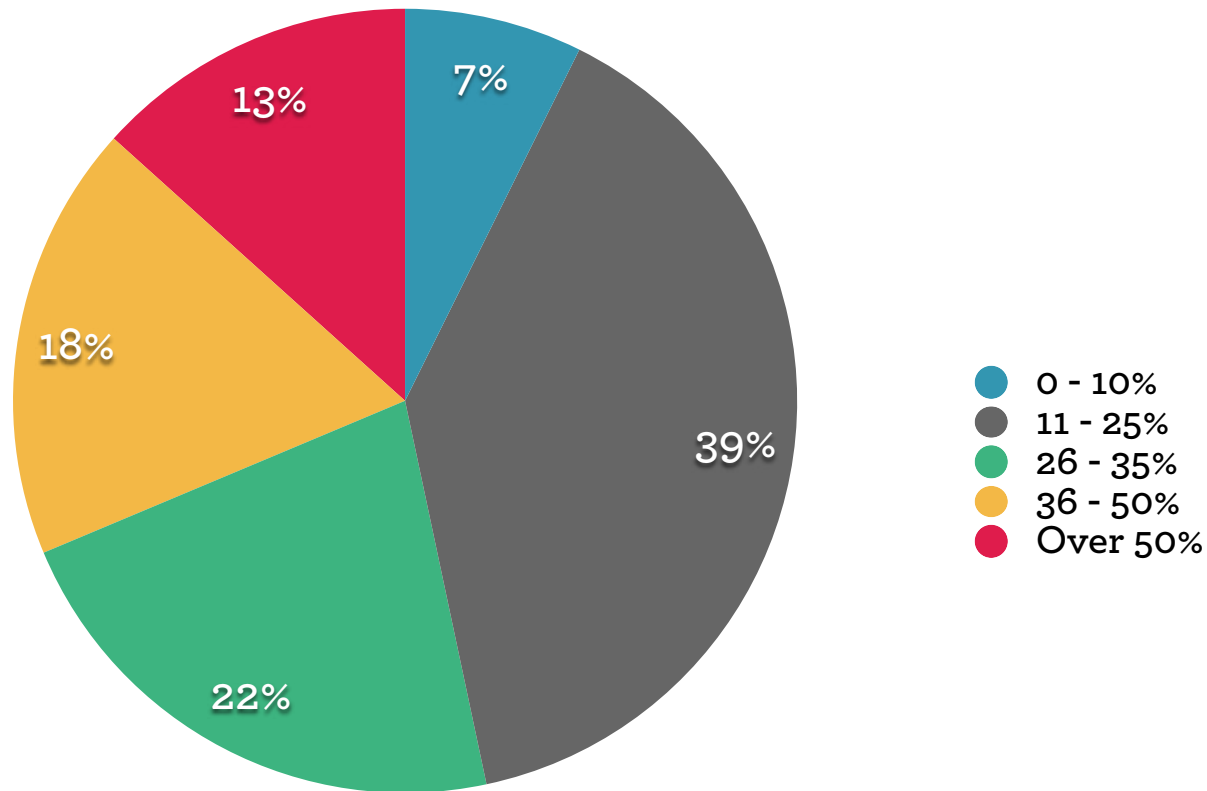
As the chart on page thirteen shows, retail marketers identified social media, referral marketing, and email marketing as three of the most effective digital tactics for acquisition (referral marketing tied for second with search engine optimization). We also asked these marketers to identify the percentage of customer acquisition that each of their top tactics generated.

ON THE RISE: SOCIAL, EMAIL, AND REFERRAL

When compared with other tactics, social media marketing — retailers' most effective digital tactic for acquisition — wasn't actually responsible for acquiring the largest share of customers. 31 percent of those who use it say it's responsible for generating at least 36 percent of new customers. By this metric, it comes in behind mobile advertising, digital video advertising, and email marketing.

Social media marketing generates at least **36%** of new customers for 31% of those who use it.

What percentage of acquisition does social media account for?

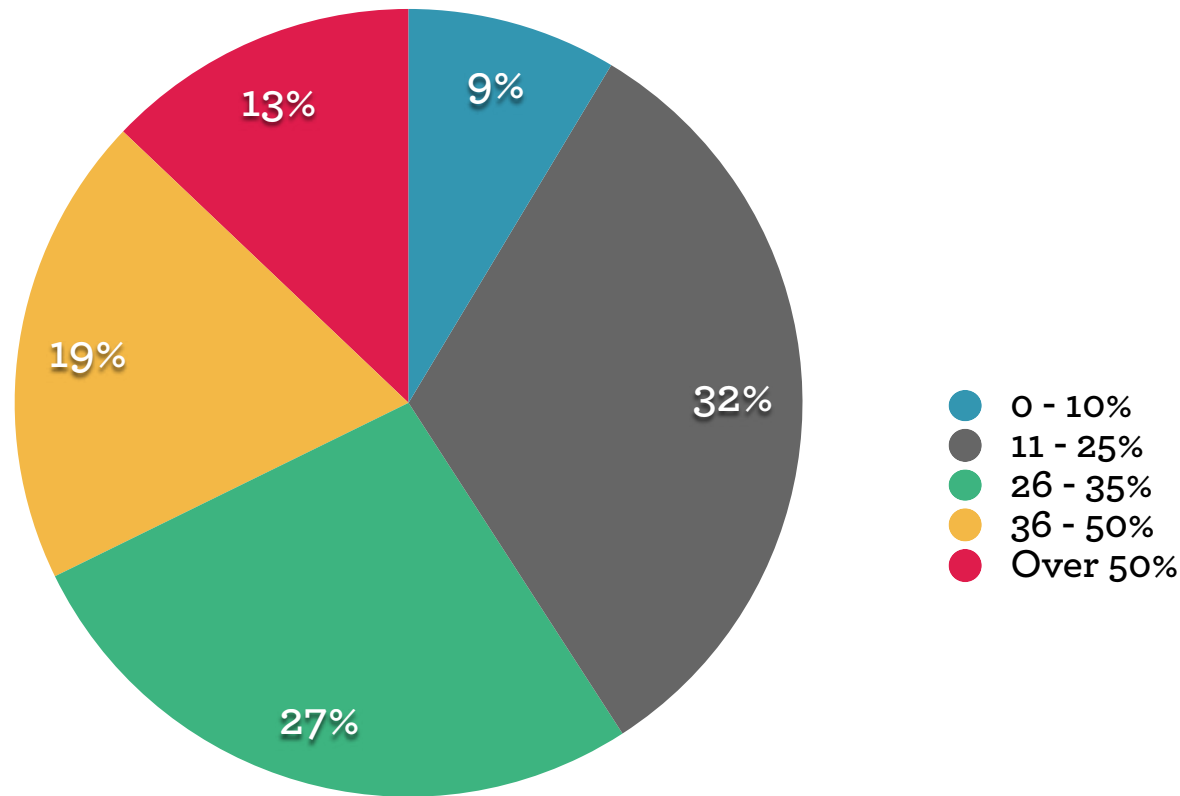


ON THE RISE: SOCIAL, EMAIL, AND REFERRAL

Email marketing acquires at least 36 percent of customers for 32 percent of marketers who use it for acquisition, placing it just ahead of social media.

Email marketing generates at least **36%** of acquisition for just under one third of marketers who use it.

What percentage of acquisition does email account for?

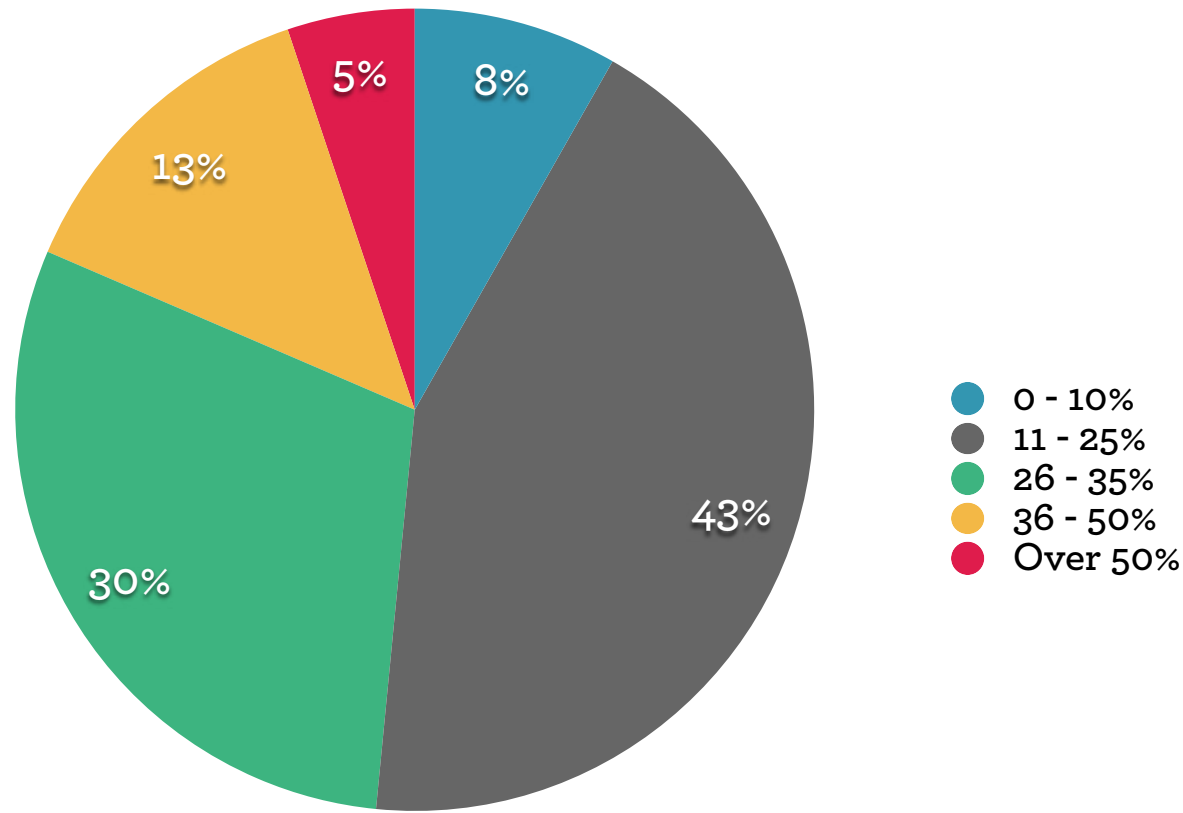


ON THE RISE: SOCIAL, EMAIL, AND REFERRAL

Referral marketing is retailers' second-most effective digital marketing tactic for customer acquisition. When asked what percentage of customers it acquires for its users, it fell behind social media and email. Of the retail marketers who use it for acquisition, 19 percent generate more than 36 percent of new customers with it.

Referral marketing is responsible for acquiring **at least 36% of customers** for almost one fifth of marketers who use it.

What percentage of acquisition does referral marketing account for?



A CLOSER LOOK AT REFERRAL MARKETING

It would make sense that a tactic that is effective throughout the funnel and generates significant numbers of new customers would draw increased spending. This is the case with social media and email, but not with referral marketing, the use of double-sided rewards to build trackable, measurable, scalable acquisition through customer referrals.

Marketers do plan to spend more on referral marketing next year, but it's in the bottom half of the list. Gigaom Research noticed similar trends in calling the tactic the "digital-marketing dark horse." Gigaom said that referral's comparative underexposure, combined with its high effectiveness, meant that "Brands that invest in referral can gain a competitive advantage over those investing elsewhere." Our results bear out a similar conclusion for retailers.

In delving deeper into retail marketers' experience with referral marketing, we found that

- Most retail marketers are familiar with referral marketing
- Most retail marketers agree that it generates valuable new customers
- The majority of retail marketers agree that referral marketing has a positive, measurable ROI

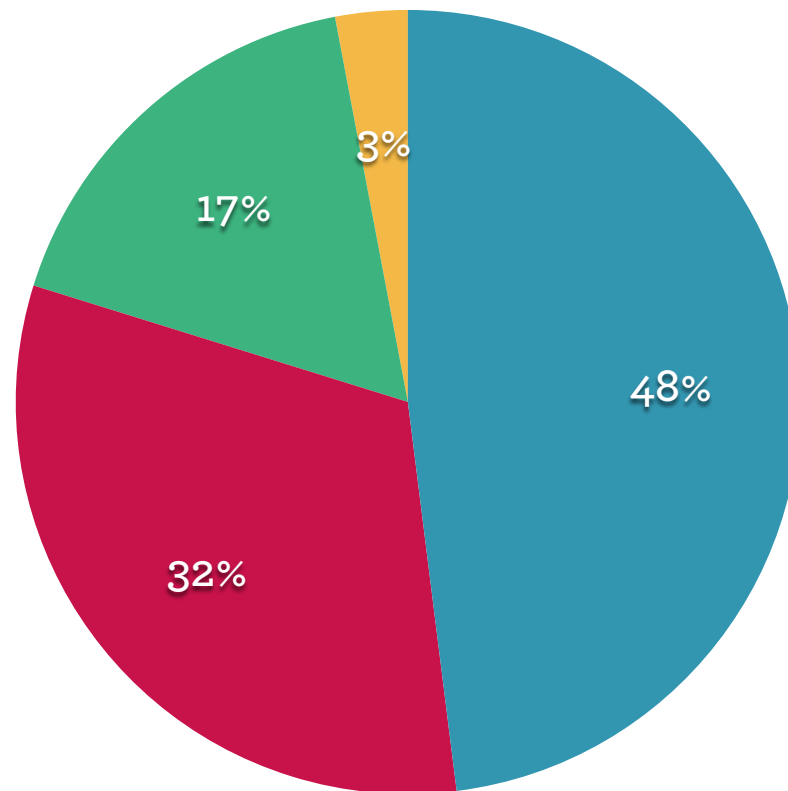
Gigaom called referral marketing the **"digital-marketing dark horse"** for its high effectiveness and low exposure.

7 Deal, Workhorses and dark horses: digital tactics for customer acquisition

A CLOSER LOOK AT REFERRAL MARKETING

Almost half of retail marketers say they use referral marketing regularly, while close to another third say they have tried it. These are high numbers, but even if 55% of marketers use referral marketing regularly (see chart, p. 6), it is still the second-least common digital tactic among retail marketers.

- I use referral marketing regularly
- I'm familiar with the concept, and have tried it but do not use it regularly
- I'm familiar with the concept, but I haven't tried it
- I am unfamiliar with the concept



Referral marketing, while familiar, remains **less commonly used** than other digital programs

A CLOSER LOOK AT REFERRAL MARKETING

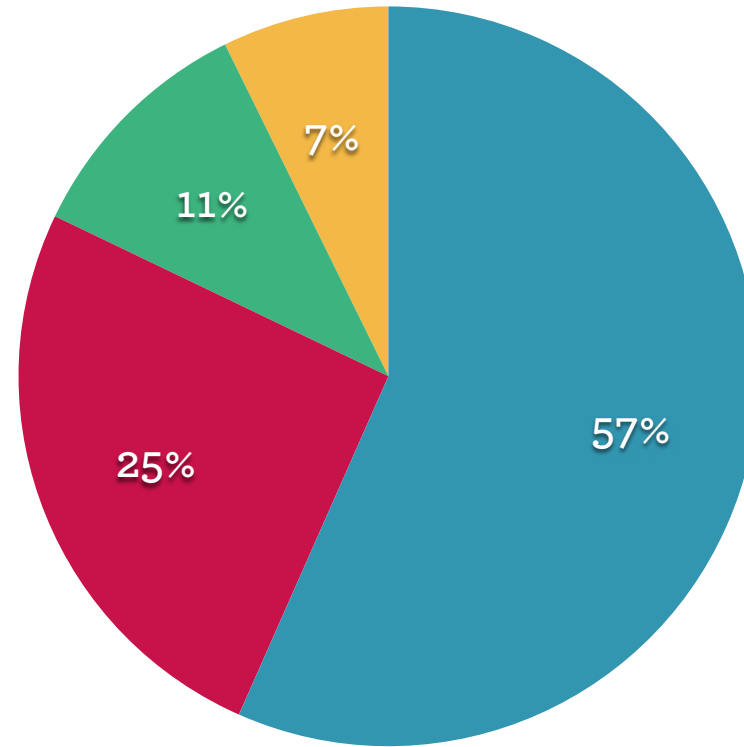
When asked to describe referral marketing, respondents most commonly said:

- It generates valuable new customers (55%)
- It is a way to reward my existing customers (54%)
- It is a way for my existing customers to share rewards with their friends (50%)
- It helps me capitalize on my social follower base (46%)

One third of retailers believes referral marketing lets them **keep control of their brand** compared to affiliate marketing.

A CLOSER LOOK AT REFERRAL MARKETING

How do retailers describe the return on referral marketing investments?



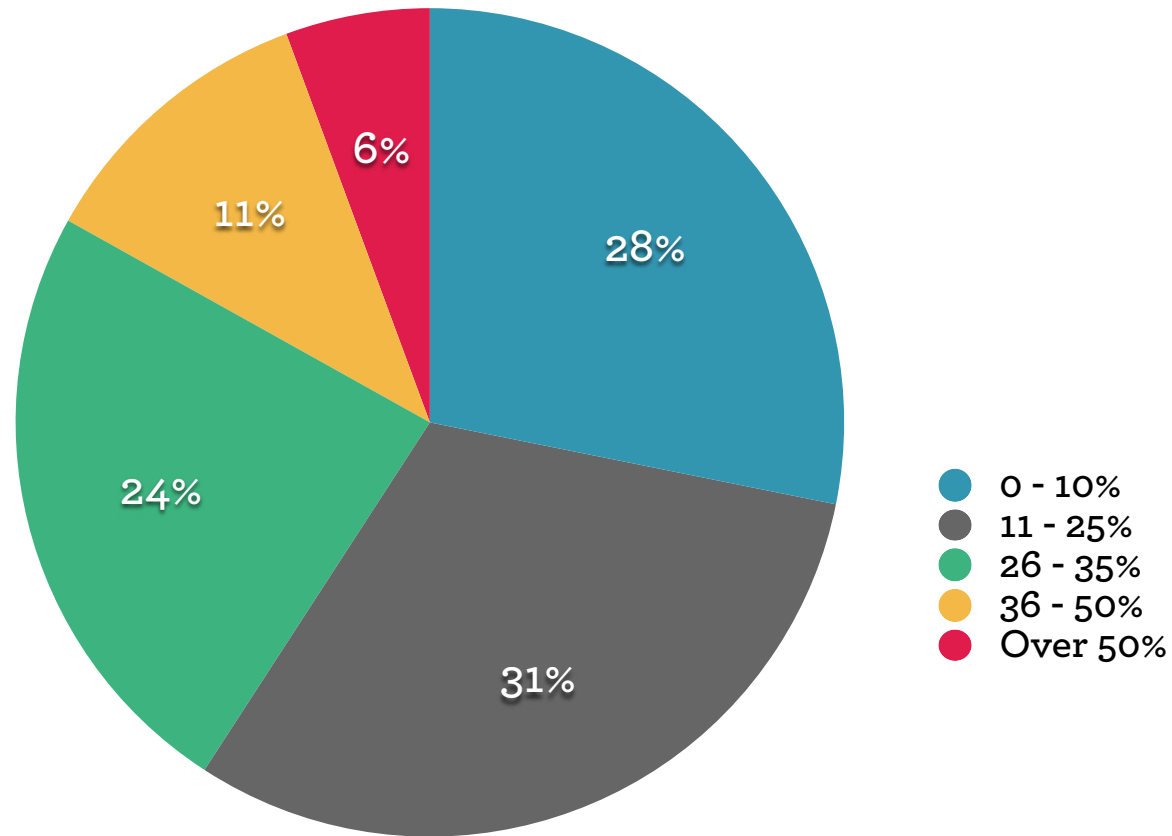
- RM has positive, measurable ROI
- RM is cost neutral
- RM is a net expense
- Don't know

IN RETREAT: PAID SEARCH, CONTENT, AND AFFILIATE

Paid search, content marketing, and affiliate marketing show the correlation between effectiveness and investment at the other end of the scale. They are the least commonly used digital tactics and, retailers say, the least effective for reaching all goals. (Paid search's effectiveness for acquisition is the lone exception. While not at the very bottom of the list, it still falls in its lower half.)

IN RETREAT: PAID SEARCH, CONTENT, AND AFFILIATE

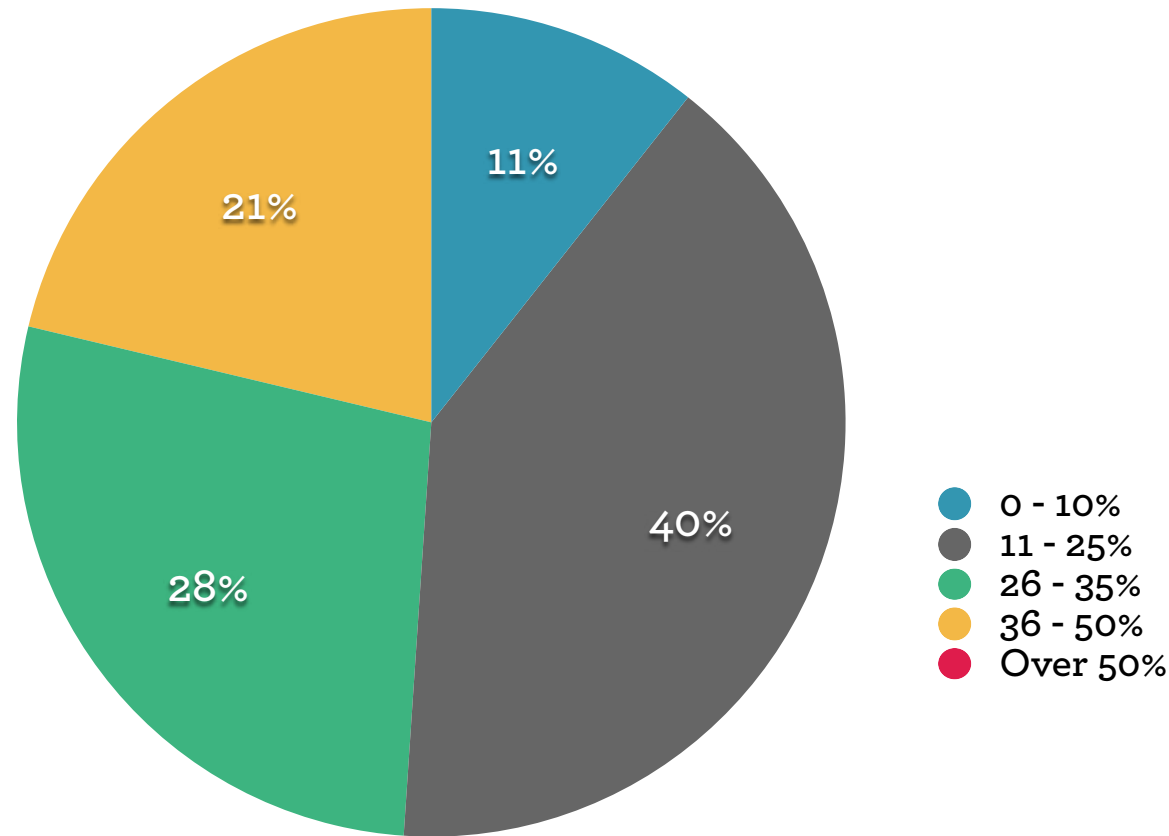
What percentage of acquisition does paid search account for?



Paid search delivers at least 36% of customer acquisition for **only 17% of its users**

IN RETREAT: PAID SEARCH, CONTENT, AND AFFILIATE

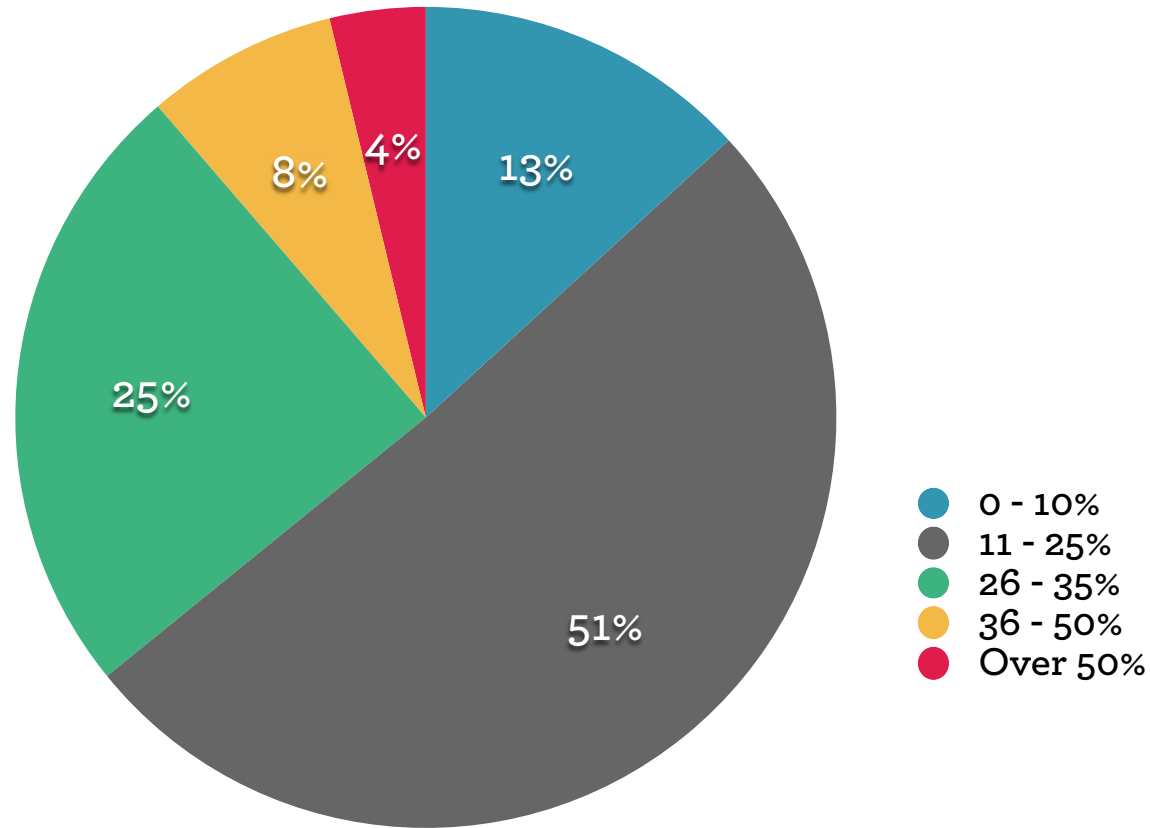
What percentage of acquisition does content marketing account for?



No retailers report acquiring more than 50% of their customers using content marketing

IN RETREAT: PAID SEARCH, CONTENT, AND AFFILIATE

What percentage of acquisition does affiliate marketing account for?



Affiliate marketing acquires at least 36% of customers for the **smallest number of marketers of any tactic surveyed.**

KEY TAKEAWAYS

Retail marketing today requires the right combination of programs. Marketers should experiment with different tactics, measure results, and determine the optimal mix for building awareness, acquiring new customers, and growing their business.

Here are some ways to ensure an optimal return on your digital marketing dollar:

- Realign your digital marketing mix to meet your business objectives: pick the right tactics for the right goals.
- Invest more in highly productive tactics such as social media and email marketing; cut spending where there are diminishing returns, such as paid search or affiliate marketing.
- If you are not already doing so, consider adding referral marketing to your digital mix, especially to meet customer acquisition goals.

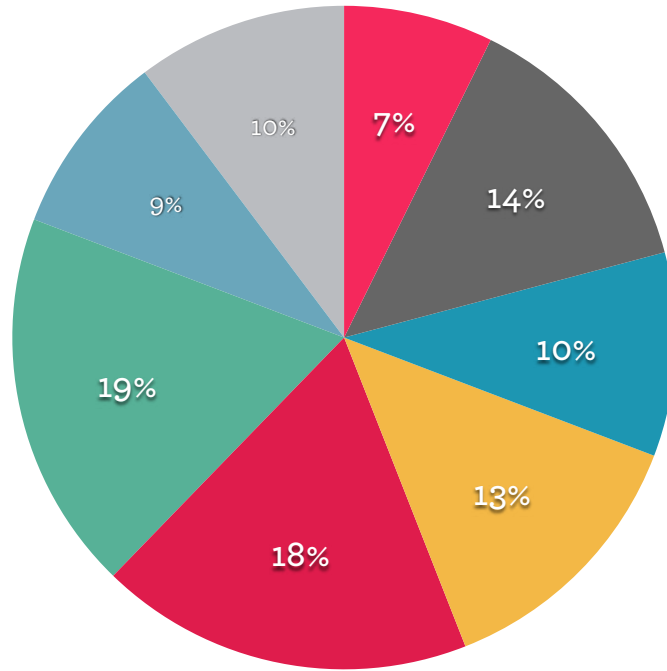
METHODOLOGY

In August 2014 we surveyed 302 respondents in primarily U.S. retail companies varying widely by geography, revenue, and type. Over half of respondents held jobs in marketing or advertising. Others held job functions including information technology, general management, and executive.

Retailer Type	% of respondents
Clothing, Shoes, Jewelry and Accessories	22%
Miscellaneous Retail	16%
Computers, Electronics and Home Entertainment	15%
Building Materials, Hardware and Home	13%
Supermarkets, Groceries and Specialty Foods	10%
Home Furniture, Furnishings and Equipment	5%
Cosmetics, Beauty Supplies, and Fragrances	4%
Office Supplies and Stationery	4%
Books, Music and Movies	3%
Automotive Parts and/or Accessories	3%
Cars, Trucks and Motorcycles	2%
Beer, Wine and Alcohol	2%
Pets and Pet Supplies	1%
Garden Supplies, Flowers, Plants and Nurseries	1%
Toys, Games and Hobbies	0%

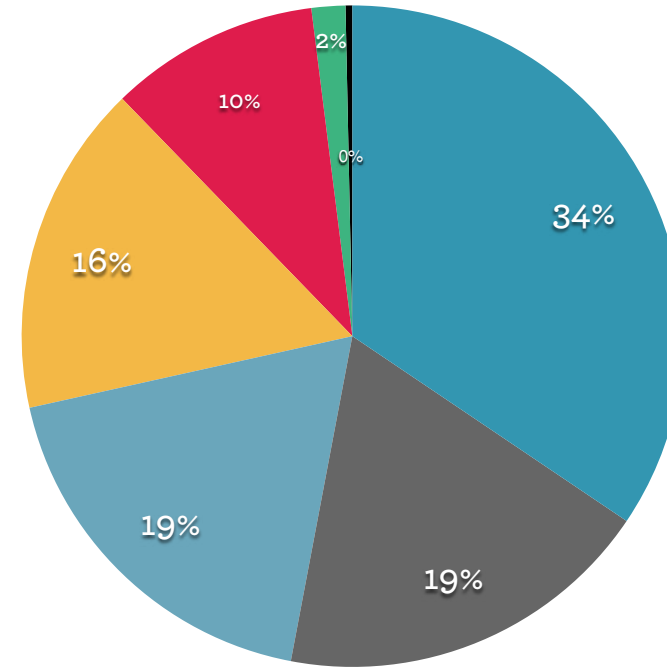
METHODOLOGY

Annual Revenue



- \$5mm < \$10mm
- \$10mm < \$50mm
- \$50mm < \$100mm
- \$100mm < \$500mm
- \$500mm < \$1bn
- \$1bn < \$2bn
- \$2bn < \$5bn
- \$5bn +

Physical Footprint



- Throughout U.S.
- Single U.S. city
- U.S. & international
- U.S. regional
- Single U.S. location
- Online only
- International only

ABOUT EXTOLE

Extole helps brands acquire new customers at scale by rewarding existing customers. We exist to help marketers drive measurable, reliable customer acquisition at scale. Our industry-leading referral platform helps brands take advantage of a unique resource they already have in front of them: their current customers. More than 300 retail, financial services, consumer subscription, and B2B companies use Extole to acquire new customers using our platform.

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