

Referral Reward Programs and Referral Likelihood

by Suzanne Blake, M.B.A. Candidate

How can referrals affect your business positively? Conversely, what is the significance of the damage they can inflict? Referral reward programs can play a considerable role in establishing the effectiveness or ineffectiveness of referrals. In *A Penny for Your Thoughts: Referral Reward Programs and Referral Likelihood*, L. Feick and G. Ryu conducted a study in which they did four experiments to determine the impact that reward programs have on referrals. Their findings show that reward programs do matter; furthermore, brand strength, personal ties, and the person receiving the reward all have an impact on the effectiveness of the reward. As word-of-mouth (WOM) advertising can be a particularly difficult method to implement and measure, this article provides some very useful information that may assist in establishing effective WOM advertising. **Please note, the industry studied here was not real estate, though the core findings will still be relevant to your field. The results of this research should not be applied blindly, but with serious thought as to how they might be relevant in your particular market. Specific types of marketing media, measures of time, and percentages should be altered to fit your industry.**

1. “Consumers consider the value of potential cost for themselves and for the other consumer in rewarded referral.”

THINK: Approach rewarded referrals from the perspective of the buyer rather than that of the seller. Think about what the rewards and benefits are for the home owner when s/he makes a recommendation. According to exchange theory, consumers will make a decision to provide a referral based on what’s in it for themselves. Looking at rewarded referrals from this point of view will assist real estate agents in determining how to reward referrals.

2. “With strong ties, people tend to have communal relationships in which they feel general concern about the other person’s welfare. They respond to the other’s needs but do not expect anything in return... With weak ties, reciprocity is important; people expect to get back what they put in.”

THINK: With this in mind, it makes sense that people would naturally refer close friends and family. However, to go out of their way to refer a more distant acquaintance, they may need some incentive or expect to get something out of the referral. If real estate agents can focus their rewards on those weaker relationships, they may have referrals that would not have occurred organically.

3. “Research shows that consumers respond to stronger and weaker brands differently.” “[The] stronger commitment gives consumers of a stronger brand more confidence in making recommendations, thus increasing (unrewarded) referral likelihood.”

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THINK: When working with a strong realtor name brand, the agent should focus on the quality and prestige associated with that brand as it will help increase referrals. This methodology would also apply to a real estate agent who is well-established in the industry. By focusing on his/her proven track record, s/he will be able to generate more referrals. On the other hand, when working with lesser-known brands or when working as a new, lesser known real estate agent, rewards may be much more crucial to realizing positive referrals.

4. “Offering a reward increased referral likelihood by more than 20 percentage points for the weaker brand but by less than 10 percentage points for the stronger brand.”

THINK: This experiment shows the validity of the previous point that reward incentives are more important for weaker brands or lesser known realtors than for strong brand names. The efforts of rewards programs have a greater magnitude when used by weaker brands.

5. “The first referrals from a customer will probably be family or close friends for whom the recommendation is likely to have occurred anyway. It is probably subsequent referrals, presumably weaker ties, that need encouragement.”

THINK: This supports the second point that rewards should be focused on weaker tie relationships. According to the article, one way this can be realized is to offer rewards of higher value as referrals increase. Home buyers would be most likely to refer family members or very close friends first. A reward of greater value may be necessary to extend their recommendations to more distant friends.

6. “Making a referral without any extrinsic reward may create feelings of inequity for a customer; the referral is an unreciprocated favor done for the consumer and the company.”

THINK: Rewarded referrals may not just be an added benefit to business. In fact, it may be advisable to think of rewarded referrals as a necessary part of doing business. In order to establish beneficial long-term relationships, people need to feel that there is balance in the relationship. Rewarding referrals is one way to establish this balance in the proverbial “bank of favors.”

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