Referral programs and superior customer value: Replication and extension

The potential for referral programs to lower the cost of acquiring customers has received much attention. Recent research indicates that there can be post-acquisition benefits as well: higher margins and greater loyalty of referred vs. non-referred customers. The present research provides new insights into this phenomenon by tracking 27,000 pairs of referred and non-referred telecom customers matched on age, gender, zip code, and month of acquisition. We investigate whether referred customers churn less, generate higher revenue while active, and require less customer service support. We find evidence of differences between referred and non-referred customers across all three facets of post-acquisition customer value. The difference in expected customer value 5 years after acquisition, even ignoring differences in customer support, amounts to 32% and to more than ten times the referral fee.

To assess whether these differences are consistent with the “better matching” and “social enrichment” mechanisms, we investigate whether the post-acquisition benefits of customer referral are larger (i) when the referrers have a stronger tie with the referred customer at the time of referral, (ii) when the referrers have more extensive experience and engagement with the company at the time of referral, and (iii) when the referrers remain active customers themselves. The analyses to date support the notions that the post-acquisition benefits of referral stem from better matching and, to a lesser extent, from social enrichment through joint consumption rather than through social support. The latter is consistent with the simple nature of the service and with free calling to in-network members.