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# Good customers: The value of customers by mode of acquisition

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ABSTRACT

Are referred customers more valuable than customers recruited through advertising/promotion? This question is answered using data accumulated from surveys covering the satisfaction, recommendation, retention, spending and mode of acquisition of customers. The database comprises 6578 records and covers 15 product/service category groupings.

Overall, referral customers are somewhat more satisfied, recommend their brand more, and have superior retention when compared to customers recruited through advertising/promotion. These findings suggest that referral customers are more profitable than advertising customers but, unexpectedly, their superiority over advertising customers rests mainly on their greater retention rather than their higher level of recommendation.

On this evidence, referral customers bring somewhat more benefit to a firm than those recruited through advertising/promotion. Projections for a 7-year period illustrate the magnitude of these benefits. Also discussed and illustrated is a possible secondary outcome – social amplification.


## 1. Introduction

Customers differ in their value to a firm depending on how much they buy, how long they stay, and how many referrals they give. Reichheld (1996) suggested that long-tenure customers buy more and offer more referrals, thus giving impetus to a strategy of customer retention. However, research does not give consistent support to this idea: Reinartz and Kumar (2002) show that long-tenure customers do not necessarily give more recommendations; East et al. (2006) find that customers of several years standing rarely buy at greater volume than shorter-tenure customers; and Steffes et al. (2008) find a weak relationship between the tenure of credit-card customers and profitability. If the value of long-tenure customers is not as great as was once thought, more attention should be given to the relative profitability of other customer segments. In this paper we consider the value of customers by mode of acquisition; specifically the value of referral-acquired customers compared with that of customers acquired by advertising/promotion. Referral-acquired customers are those who state that their primary reason for using a supplier is because of recommendation or because they were directly introduced to the supplier (e.g. by being taken to a restaurant).

Any attempt to assess the value of customers by mode of acquisition must contend with three underlying problems. The first problem is the extent to which effects occur across-the-board, irrespective of product/service category. Many studies focus on only one category and therefore cannot address this problem. For example, in an otherwise thorough investigation Schmitt et al. (2011) looked only at incentivised referral in banks, whereas customers acquired by referral in other categories might show a quite different value advantage depending upon how they spend, how they are retained and whether they give further referrals. Those industries that depend more on referral for the recruitment of customers might gain more advantage from each referral customer if such customers go on to give more recommendations. Therefore, there is a need to show that broad claims are generally supported and a few single-category studies are insufficient for this purpose. To extend prior research, a wider range of categories is studied here with a view to seeing whether there are general, across-the-board effects (the categories are fully described in Section 3.1).

The second problem is the classification of modes of acquisition. One broad division is between acquisition using formal marketing procedures (advertising, promotion, direct marketing, sales representatives, etc.) and informal referral procedures (newspaper editorial, personal advice, online blogs, text messaging, etc.). Other classifications are more finely divided with sales promotion separated from advertising and online advice distinguished from face-to-face recommendation. This diversity in classification limits

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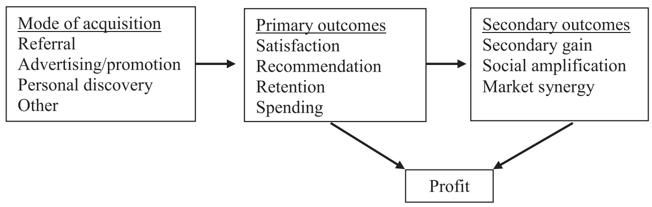


**Fig. 1.** How mode of acquisition can affect outcomes.

comparison between studies so that it is difficult to draw general conclusions from previous work. Here we distinguish between four modes of customer acquisition and do so in a way that is consistent across all categories (this is documented in Section 3.2).

The third problem arises from three "downstream" consequences of referral; these are labelled *secondary gain*, *social amplification* and *market synergy*. Secondary gain occurs when those acquired by referral go on to refer more new customers so that the value of the initial referral customers is enhanced by a chain of extra customers. Social amplification occurs when an increase in advice stimulates advice giving and/or retention in the customer base; if referral customers give more advice, and this induces other customers to give more advice, a feedback effect will occur which adds to the value of referral customers. Market synergy occurs when increased levels of customer recommendation and consequential growth in the customer base lead to effects such as greater advertising and distribution efficiency, network advantage and more price tolerance.

This thinking is shown in Fig. 1 which identifies four modes of customer acquisition: referral, advertising/promotion, personal discovery (those who claim to have found their supplier themselves) and other (a residual category). The data are first examined to compare the satisfaction of referral customers with those acquired through advertising/promotion. Then, the primary outcomes of recommendation, retention and spending are measured. By including many categories, the research is comprehensive and, by covering all three profit-making behavioural outcomes, their relative contribution to customer value can be compared. Customer acquisition cost is also relevant to the return on a customer but this is not studied here because the relevant information is not available. Also shown in Fig. 1 are secondary outcomes; in this work, the effects of secondary gain are estimated, and the possible effect of social amplification is illustrated, but no direct measurement of secondary outcomes is made.

## 2. Previous research and propositions

### 2.1. Mode of acquisition and satisfaction

Numerous studies have examined the output of referral – or of related concepts such as word of mouth (WOM) – as a function of satisfaction (e.g., Anderson, 1998). By contrast, we are concerned with the opposite effect, namely the way in which recruitment through referral may gather more satisfied customers. When people are recruited in this way, they may base their purchase on reasons offered by the adviser. Mangold et al. (1999) indicate that many of these reasons are based on the perceived needs of the receiver (according to the judgment of the receiver). This suggests that referral purchases are often guided by need and, as a result, may be better made than purchases based on advertising, which is impersonal and cannot be adapted to individual needs. This makes it likely that a referral purchaser is more satisfied with the product purchased and will recommend it more than someone buying on the basis of advertising/promotion. Supporting this idea, in a study of a German energy supplier Wangenheim and Bayón (2004) find that referral customers are more satisfied and recommend more than customers acquired in other ways. A second factor that could raise the recommendation rates of referral customers is that those with a wide circle of friends and greater interest in products will naturally tend to receive more and give more recommendations than others. Because they receive more, they are likely to be recruited by referral and this creates an association between referral status and giving more recommendations.

### 2.2. Mode of acquisition and profitability

In studies dealing with incentivised referral, the referral customer is a major contributor to customer value (Lee et al., 2006; Kumar et al., 2010; Godes and Mayzlin, 2009) and may be superior to customers acquired in other ways (Schmitt et al., 2011). For instance, Schmitt et al. (2011) find that customers acquired by referral are up to 16% more valuable than those acquired in other ways. However, the focus in our work is on referral in general since it is based on data that does not separate incentivised referral from other referral. Under these circumstances, we consider whether the referred customer is more profitable than those acquired in other ways and, if so, whether the basis of additional profit is greater recommendation, greater retention or greater spending.

Evidence that referred customers (in general) have superior value is reported by Blattberg and Deighton (1996), Reichheld (1996) and Lopez et al. (2006). More recently, in a study of a Web-hosting firm, Villanueva et al. (2008) investigate the contribution to customer value of marketing activity compared with WOM, which, in their work, includes unpaid media comment and online sources. These researchers find that WOM-induced customers are retained longer than marketing-induced customers and provide nearly twice as much increase in value. Lewis (2006) and Thomas (2001) find that customers recruited through non-promotional activities (such as referral and word of mouth) have higher repurchase rates than those acquired through price promotions; in Lewis' study, customers acquired by a 35% price reduction have half the customer lifetime value of those recruited through a non-promotional route.

In studying Dutch insurance customers, Verhoef and Donkers (2005) find that those recruited by WOM and by websites are better retained than customers acquired through direct mail, TV and radio, but less well retained than those acquired through group insurance arrangements (such as through employer-supported schemes). These findings are consistent with the notion that referral customers are a major contributor to customer value; however, the differences in customer retention are much reduced in the year after the test year. Verhoef and Donkers suggest that, over the longer period, the customer's experience with the firm takes control of defection. These authors also investigate cross-buying, which would usually be linked to an increase in customer spending, but they find little association with mode of customer acquisition.

Other research indicates no advantage from having referral customers or that another mode of customer acquisition gives high value. Steffes et al. (2008) study credit card customers and find that affinity card and direct mail customers have above average lifetime values. Anderson and Simester (2004) note that customers acquired through catalogues are retained better than are those acquired in other ways. Keaveney and Parthasarathy (2001) find that those recruited by online WOM are more likely to switch and it seems possible that online and offline referral customers may have different patterns of defection.

On balance, this review suggests that offline referral customers give more recommendation and are retained better than advertising customers, but the evidence is not strong. There is insufficient comparison across categories using a common classification and a common set of measures. The studies we report here address these deficiencies, with a view to providing more robust evidence about the value of customers by mode of acquisition.

### 2.3. Propositions

Taking account of research summarised in Sections 2.1 and 2.2, three Propositions are put forward:

*P1: Referral customers will report greater satisfaction with suppliers than those recruited by advertising/promotion.*

*P2: Referral customers will report greater rates of recommendation than those recruited by advertising/promotion.*

*P3: Referral customers will report greater rates of retention than those recruited by advertising/promotion.*

It is anticipated that these Propositions are true for all categories since one mechanism – better matching to need – is not category-specific and supports all three Propositions. The research covers spending by mode of customer acquisition but there appears to be little basis for prediction here and no Proposition is offered. Similarly, evidence is gathered on the behaviour of customers acquired by personal discovery and other modes but no Propositions are offered. With regard to secondary outcomes, projections of the possible effects of social amplification are shown. We note that social influence is also possible via imitation (rather than referral) but in our work most of the categories are services where there is little scope for imitation – for this reason imitation is not considered.

## 3. Research design

### 3.1. Surveys and data

Data from 21 surveys of convenience samples are used, mostly drawn from the UK. Details are provided in Table 1. No financial inducements were used but, for each survey, contacts were told in a covering letter that the work furthered the research of the student conducting the fieldwork. A variety of distribution methods were used; home drop off was preferred because face-to-face commitment to fill out the questionnaire could be given by contacts and high response rates obtained, particularly when the questionnaires were collected later by arrangement. When questionnaires were delivered to homes, a number of different geographical areas were used to reduce location effects. Response rates were recorded in all cases except the Internet survey and these ranged from 32–81% with a mean of 48%.

Most surveys covered two or more categories; when this applied, the data were divided into single-category studies. This gave 47 separate category studies and 6578 respondent records after splitting by category. Analyses were made of each of the 47 category studies. Then, weighting by respondent numbers, data on the same category were consolidated in Table 2 for satisfaction and Table 3 for recommendation, retention and spending. Where there were fewer than 160 respondents for a category, data were aggregated into an 'other' grouping to reduce cases with high sampling error. Some studies omitted measures of one or more of the outcome variables. For example, satisfaction was measured in 35 of the 47 studies and Table 2 is therefore based only on these 35 studies (5043 records). Spending was less often measured and, for this reason, there are gaps for some categories under spending in Table 3.

To check on any response-rate effect, response rates were correlated with the recommendation and retention periods for those customers acquired by referral and advertising. These correlations were not statistically significant. All the categories studied are services except mobile phones, cars and outdoor clothing. The services are diverse and range across many of the standard service distinctions (e.g., high/low contact, frequent/infrequent usage and high/low credence).

### 3.2. Measures

Mode of customer acquisition is divided into four types: *referral* includes face-to-face and mediated recommendation as well as direct introduction to a supplier (e.g., being taken to a restaurant); *advertising* covers media-based advertising and promotion; *personal discovery* is when respondents claim to have found the supplier themselves (e.g., when shopping in store); *other modes* includes unpaid information from the Internet, newspapers, magazines and TV as well as occasions when there is little or no choice about product use (e.g., when the product is a gift or provided by an employer).

**Table 1**
Details of surveys used.

| Category | Year | Country | Number[a] | Method | Response rate (%) |
|---|---|---|---|---|---|
| Fashion store/supermarket | 2001 | UK | 164 | Drop off/collect or mail back | 81 |
| Fashion store/supermarket/hairdresser | 2002 | Mexico | 166 | Mail out/mail back | 40 |
| Dentist/current car | 2002 | UK | 208 | Drop off/mail back | 57 |
| Motor insurance/car service | 2002 | Mauritius | 201 | Street intercept | 45 |
| Motor insurance/house contents insurance | 2002 | UK | 121 | Drop off/collect or mail back | 58 |
| Leisure centre | 2002 | UK | 95 | In-house survey | 40 |
| Outdoor apparel | 2003 | USA | 341 | Internet | Na |
| Mobile phone/bank | 2003 | UK | 107 | Drop off/mail back | 36 |
| Mobile phone/coffee shop/credit card | 2003 | UK | 165 | Drop off/mail back | 43 |
| Fashion store/supermarket | 2003 | France | 173 | Drop off/mail back | 59 |
| Mobile airtime/optician/school | 2003 | UK | 190 | Drop off/collect by paperboys | 32 |
| Mobile airtime/broadband | 2003 | UK | 113 | Drop off/mail back | 41 |
| Mobile airtime/broadband | 2003 | UK | 81 | Drop off/mail back | 48 |
| Restaurant/bank | 2004 | UK | 157 | Snowball via friends | 53 |
| Mobile airtime/dentist | 2004 | UK | 93 | Drop off/mail back | 39 |
| Credit card/restaurant | 2004 | UK | 113 | Coffee shop and park intercept | 43 |
| Fashion store/optician | 2006 | UK | 156 | Drop off/collect | 78 |
| Dentist/motor insurance | 2006 | UK | 132 | Drop off/collect | 57 |
| Dentist/optician/broadband/motor insurer | 2007 | UK | 151 | Drop off/mail back | 50 |
| Dentist/mob airtime/hairdresser/elec supp. | 2007 | UK | 116 | Drop off/mail back | 39 |
| Bank/credit card | 2008 | UK | 136 | Drop off/collect or mail back | 54 |

[a] Numbers in Tables 2 and 3 are reduced by non-response.

**Table 2**
Mean satisfaction of customers acquired by referral and advertising/promotion for 13 category groupings.

| Category | N | Mean satisfaction | |
|---|---|---|---|
| | | Referral | Advertising/promotion |
| Banking | 259 | 3.60 | 3.44 |
| Broadband | 162 | 3.56 | 3.52 |
| Car | 205 | 4.23 | 4.22 |
| Mobile phone airtime | 603 | 3.48 | 3.31 |
| Credit card | 226 | 3.38 | 3.46 |
| Dentist | 409 | 3.98 | 4.25 |
| Fashion shop | 611 | 3.26 | 3.00 |
| Motor insurance | 407 | 3.59 | 3.56 |
| Optician | 251 | 3.69 | 3.20 |
| Outdoor clothing | 350 | 4.78 | 4.72 |
| Restaurant | 223 | 4.18 | 4.71 |
| Supermarket | 496 | 3.37 | 3.13 |
| Other | 841 | 3.79 | 3.71 |
| Total/weighted mean | 5043 | 3.78 | 3.49 |

As an example, below we list the items used for the mobile phone category. To take account of category differences there were very minor variations in the way questions were phrased. In repertoire categories, respondents were asked to focus on their main provider. Respondents were classified according to their answer to a question of the form:

*When choosing your current mobile phone service provider, what was the main factor that influenced your decision? (tick one box)*

[1] *Recommendation by others*
[2] *Advertising/promotion*
[3] *Newspapers and other media*
[4] *Advice of sales personnel*
[5] *Personal search*
[6] *No choice*
[7] *Other (please specify)*. . .. . .. . .. . .. . .. . .. . .. . .. . .. . .. . ..

In this case, *referral* was indicated by responses 1 and 4, *advertising* by 2, *personal discovery* by 5 and *other modes* by 3, 6 and 7. Employee recommendations [4] were rare and were grouped with non-commercial recommendation because evidence on BzzAgent advice indicates that consumer acceptance of advice is, if anything, greater when the status of the BzzAgent is known (Carl, 2008); this suggests that consumers are not much affected by the possible self-interest of an informant.

Satisfaction was measured by a single relative item:

*Compared to others, how do rate your mobile phone service provider?*

[1] *Poor*
[2] *Moderately good*
[3] *Fairly good*
[4] *Good*
[5] *Excellent*

The level of recommendation was measured with an item asking about the number of recommendations given for the current supplier in the previous six months. The typical form is:

*In the last six months, how many times have you recommended your mobile phone service provider?*

*Please indicate how many times (0, 1, 2, etc.). . .*

Retention was measured by asking respondents how long they have been customers of the supplier – their tenure. Tenure is an index of retention; a true measure would require evidence of when usage of the supplier was terminated.

*How long have you been using your mobile phone service provider?*
*Please write in . . . years . . . months*

**Table 3**
Rates of recommendation, retention and spending (normalised on unity) by mode of customer acquisition for 15 category groupings.

| Category | N | Referral ($N$ = 2128) | | | Advertising ($N$ = 769) | | | Personal discovery ($N$ = 1107) | | | Other modes ($N$ = 1540) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Recommendation | Retention | Spending | Recommendation | Retention | Spending | Recommendation | Retention | Spending | Recommendation | Retention | Spending |
| Banking | 374 | 1.19 | 0.99 | 0.99 | 0.87 | 0.90 | 0.78 | 0.80 | 1.05 | 1.08 | 1.36 | 1.03 | 1.10 |
| Broadband | 208 | 1.12 | 0.93 | | 0.84 | 0.95 | | 1.48 | 1.03 | | 0.60 | 1.19 | |
| Car | 205 | 1.79 | 1.11 | | 1.41 | 0.79 | | 1.09 | 1.01 | | 0.73 | 1.02 | |
| Mobile phone | 267 | 1.39 | 0.90 | 0.99 | 0.95 | 1.02 | 1.39 | 0.90 | 0.98 | 0.87 | 0.45 | 1.15 | 1.01 |
| Mobile phone airtime | 455 | 1.16 | 1.08 | 1.01 | 0.76 | 0.79 | 0.81 | 0.66 | 1.07 | 0.97 | 0.57 | 0.80 | 1.20 |
| Credit card | 362 | 1.03 | 0.97 | 0.94 | 0.90 | 0.97 | 1.10 | 1.04 | 0.75 | 1.07 | 1.00 | 1.23 | 1.21 |
| Dentist | 453 | 1.18 | 0.96 | | 0.48 | 0.81 | | 0.91 | 0.92 | | 0.68 | 1.01 | |
| Fashion shop | 598 | 1.12 | 0.78 | 1.09 | 0.67 | 0.98 | 1.05 | 0.97 | 0.99 | 1.00 | 1.10 | 1.12 | 0.97 |
| Hairdresser | 192 | 0.63 | 1.00 | 1.15 | 0.46 | 0.66 | 2.23 | 0.72 | 0.93 | 0.77 | 1.57 | 1.06 | 0.87 |
| Motor insurance | 473 | 1.03 | 1.10 | | 0.89 | 0.78 | | 0.97 | 1.28 | | 0.95 | 0.97 | |
| Optician | 266 | 1.44 | 1.07 | | 0.90 | 0.88 | | 0.65 | 0.88 | | 0.42 | 1.00 | |
| Outdoor clothing | 341 | 1.07 | 0.99 | 1.01 | 1.05 | 0.93 | 0.92 | 0.88 | 1.10 | 1.01 | 0.86 | 0.87 | 0.96 |
| Restaurant | 219 | 1.03 | 0.93 | | 0.87 | 0.65 | | 1.01 | 1.13 | | 0.68 | 0.89 | |
| Supermarket | 482 | 1.01 | 0.94 | 0.99 | 0.97 | 0.94 | 0.99 | 1.19 | 0.97 | 1.00 | 1.11 | 1.10 | 0.99 |
| Other | 649 | 1.29 | 1.01 | 1.01 | 0.44 | 0.94 | 0.73 | 1.83 | 1.00 | 0.73 | 1.04 | 1.05 | 1.09 |
| Total/wtd. mean | 6578 | 1.11 | 0.98 | 1.00 | 0.94 | 0.90 | 1.00 | 0.96 | 1.04 | 0.98 | 0.90 | 1.05 | 1.01 |

Spending was measured in a third of the studies by an item of the form:

*In the last month, how much did you spend with your mobile phone service provider?*

*Please write in ...*

### 3.3. Respondent recall

Survey methods necessitate simplifications. Here for instance respondents were asked to give the *main* source of information when they chose their *current* supplier. In practice more than one source may be used and there may be multiple suppliers. These factors can make it difficult for respondents to accurately recall their mode of acquisition, giving rise to classification errors. Even when there is only one main/current supplier, classification into modes of acquisition rests on the recall of respondents and may not be precise. However, misclassification will tend to reduce differences between customer acquisition groups, making it harder to support the Propositions – this means the tests are tougher than they would otherwise be. Problems associated with respondent recall are well documented, but there are few alternatives to surveys for this type of work and other forms of data capture have their deficiencies too (East and Uncles, 2008).

## 4. Findings

### 4.1. Mode of acquisition and satisfaction

Satisfaction was investigated for customers recruited by referral and advertising/promotion only. Average satisfaction, as measured by the five-point scales, is 3.49 for those recruited by advertising/promotion and 3.78 for referral customers (8% more). In 10 of the 13 groupings in Table 2, the referral customers show more satisfaction than the advertising/promotion customers; a non-parametric test on the larger group of 35 studies from which Table 2 is derived shows that this rather modest difference is significant, supporting *P*1 ($p = 0.02$, exact test, 1-tailed).

### 4.2. Mode of acquisition and profitability

The evidence on the outcomes of recommendation, retention and spending were analysed on the four different modes of customer acquisition. Across all respondents, 38% are referral customers, 14% are from advertising, 20% from personal discovery and 28% from other modes. The figures in Table 3 are normalised so that unity is the overall average for each category. Weighted means (shown in the final line) show that customers acquired by referral have a recommendation rate that is 11% above average and a retention period that is 2% below average; those acquired by advertising have a recommendation rate that is 6% below average and a retention period that is 10% below average. The spending of all types of customer is close to average.

To test Propositions 2 and 3, the columns in Table 3 are compared. Recommendation rates for referral customers exceed those for advertising customers in every category supporting *P2* ($p < 0.001$, exact test, one-tailed). Retention periods for referral customers are also significantly higher than those for advertising customers supporting *P3* ($p < 0.02$, exact test, one-tailed), but not for all categories. Referral customers also give significantly higher rates of recommendation than customers of other-modes ($p = 0.015$, exact test, one-tailed). Advertising customers have significantly lower retention than personal discovery and customers of other-modes ($p = 0.009$, $p < 0.001$ exact test, one-tailed) but are not significantly different from these groups on recommendation. Mean spending does not differ significantly across the four modes of acquisition though there are quite substantial differences between individual categories.

### 4.3. Projections

The normalised averages in Table 3 are used to calculate the effect of different rates of recommendation and retention on customer numbers in following years. These projections assume constancy in customer disposition and further assumptions that cover the effect of secondary gain from the extra recommendation and retention of referral customers.

To see how customer numbers could grow, a base cohort of 100 average customers is assumed with the composition found in the research (38% referral, etc. – as shown in Section 4.2). The effect of 10% annual increments in the number of customers is examined when these increments are either referral or advertising customers. The base of 100 customers is assumed to be stationary with gains balanced by defections; thus, gains in the total come only via the 10% increments (that is, 10% of the accumulated number of customers). In the case of referral customers, their tendency to give more recommendation and to have a lower defection rate, compared with advertising customers, will raise their proportion in the customer base and thus produce gains relative to advertising customers.[1]

For illustrative purposes, the mean data in Table 3 are projected over a 7-year period. Plot (a) in Fig. 2 shows how total customer numbers increase when 10% referral customers are recruited each year using the mean recommendation and defection rates in Table 3. Plot (b) shows the corresponding pattern for 10% recruitment of advertising customers per year. The superiority of plot (a) over plot (b) can only be because of extra recruitment or better retention so, to show which is dominant, a more extreme referral case is calculated using three times the mean recommendation rate; this gives plot (c). Plots (a) and (c) hardly differ, which shows that referral customers are more profitable mainly because of their greater retention.

Earlier, it was suggested that the effect of hearing the current supplier recommended could increase the volume of recommendations made by all customers – a social amplification effect. This effect could occur because the heard recommendation provides an easily repeated script, because it corroborates practice and because it makes the supplier more salient. If this happens, the base is no longer stationary and there is feedback as recommendation induces still more recommendation. With present knowledge, this effect is speculative but it is clear that social amplification could produce substantial increases in customers. For example, if

[1] We convert the recommendation rates into customer increments. First, we assume a base cohort of 100 average customers. Second, we must assume a norm for the overall gain and loss in customers each year – a figure of 15% is used here (this is based on Reichheld's (1996) claim that defection rates are 15% and, under stationary conditions, this means an equivalent customer acquisition rate of 15%). Third, of the 15 extra customers in Year 1, 38% are referrals (using our data); that is, approximately 6 customers are recruited by referral for every 100 existing average customers. Fourth, the increment for referral customers is calculated as 1.11 * 6, or 6.66 (where 1.11 is the recommendation rate for referral customers shown in the final line of Table 3). The increment for advertising customers is calculated as $0.94 * 6$, or 5.64 (where 0.94 is the recommendation rate for advertising customers shown in the final line of Table 3).We next convert retention rates into customer increments. Again, we assume a base cohort of 100 average customers and a norm for the overall defection in customers each year of 15% - that is, 85% retention. The new referral customers will have an average rate of retention of $0.98*0.85$, or 0.833 (where 0.98 is the retention rate for referral customers shown in the final line of Table 3). (For advertising customers it will be $0.90 * 0.85$, or 0.77.) Thus, at the end of the year, taking account of recruitment and retention in the 10% increment, there will be $100 + 10 * 1.067 * 0.833$ or 108.89 customers. At the start of Year 2, there will be $1.1 * 108.89$ or 119.78 customers and we continue by applying the same operations to the 19.78 customer increment. Corresponding calculations are made for advertising customers.

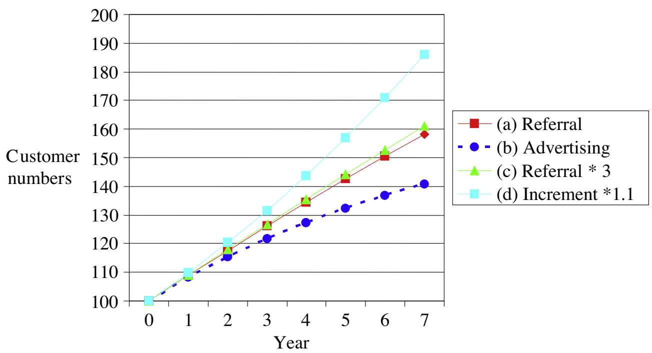


**Fig. 2.** Projected gains in a customer base of 100 assuming 10% increments in either referral or advertising customers.

the annual increase in the increment is 10% greater to represent the social amplification effect, after 7 years the base of 100 average customers reaches 186, plot (d), compared to 158, plot (a).

## 5. Discussion

### 5.1. Review of the findings

This research has examined satisfaction, retention, recommendation and spending in a large numbers of categories in relation to mode of customer acquisition. Referral customers have higher satisfaction rates than advertising/promotion customers but the effect was neither large nor consistent across all categories. This was also true of their retention. By contrast, the greater recommendation rate of referral customers was found consistently across categories. Earlier, it was suggested that those with a wider range of contacts would tend to be recruited more often by referral and would give more recommendations, an effect of mavenism (Feick and Price, 1987); thus, mavenism may support the association found in this work. But the association also could arise because recommendation is more effective than advertising in matching product to consumer need, resulting in more satisfied customers who recommend more themselves. Spending was unrelated to mode of acquisition overall, but the data indicated that, in specific categories, this outcome could be significantly greater than average.

### 5.2. How substantial are the findings?

Most of the extra value of referral over advertising customers rests on the greater retention of referral customers. This may be surprising but our study dealt with reported recommendation which would mostly be naturally occurring recommendation rather than incentivised referral, which can produce much greater effects on recommendation than the 11% that was observed here (e.g., see the effect sizes reported by Kumar et al., 2007).

The comparison between referral and advertising/promotion customers was made by projecting the average observed rates; this showed that the difference between referral and advertising customers is initially very small and inspection of Fig. 2 shows that the difference only becomes clear after some years. Moreover, projections assume no change in the underlying dynamics of customer acquisition and this does not seem realistic since it is likely that customer distinctions and feedback effects will attenuate over time. Thus, despite the projections, the data suggest modest differences between different sorts of customer.

This paper began by pointing out that the claims made on behalf of the long-term customer have been largely unfulfilled. Could mode of acquisition be another blind alley, given the rather modest advantage of the referral customer shown by the work? We believe any such judgment is premature since the research has not measured the social amplification effect of hearing one's supplier recommended. Hearing such a recommendation might raise both retention and recommendation rates in the whole customer base. For example, if people who hear their supplier recommended were to double their rate of recommendation, they would recruit more customers and also produce further recommendation, by chain reaction, from all those in the customer base who hear them. Thus, before we write off mode of acquisition as an important customer distinction, we need evidence on social amplification.

### 5.3. Techniques for raising recommendation rates

Research on mode of acquisition is of limited value if it is not possible to affect recommendation. Thus, it is appropriate to draw attention to marketing practices that may increase levels of recommendation, advice-giving and word of mouth. These may be paid for, like advertising. In addition to incentivised referral, agencies such as BzzAgent and Tremor create discussion by giving products to socially central individuals who then talk about these products to contacts. Another approach is to generate some excitement about the supplier by identifying with it to interesting happenings using public relations, exhibitions and websites. When exponents of buzz and viral marketing report examples of the successful use of word of mouth, they are often describing the effects of this sort of publicity (e.g. Rosen, 2009; Sernowitz, 2009). Such procedures probably work best when the supplier's product is new or substantially repositioned and may be less suitable for established products which draw less attention.

In addition to these methods for creating recommendation, there is considerable scope for a CRM approach. In a review of 15 categories, East et al. (2011) found that current brand owners give 71% of all brand recommendations, previous owners of the brand give 22%, and those who have never owned the brand give only 7%. Thus, a customer database containing present and past purchasers may be used to induce recommendations, using messages that are appropriate to these customer segments. Databases can also be used to combat negative WOM; East et al. (2011) show that current customers give 22% and previous customers 55%, of all NWOM about a brand, so messages designed to defuse criticism may be targeted at ex-customers who are most likely to be critical.

This work has dealt with cross-category averages but, understandably, suppliers will be more concerned with a specific category and here the data indicate quite substantial variability in recommendation, referral and spending. Some of this variation will reflect sampling error but there are several categories where there are quite large differences in the retention periods of referral and advertising customers that should interest managers, particularly if category differences include spending differences (e.g., mobile phone airtime in Table 3). Such single-category investigation is an important area for market research, but it is best conducted against a general understanding of the value of customers by mode of acquisition.

## 6. Conclusion

Referral customers are somewhat more valuable than those recruited through advertising/promotion, partly because they recommend more but mainly because they are retained longer. This is evident from across-the-board analysis of 15 product/service category groupings. It is further illustrated by projections for a 7-year period, comparing referral and advertising/promotion customers. A social amplification effect is proposed which would not only help to explain our survey results but might be seen as a mechanism for inducing even greater increases in customer numbers. With present knowledge this effect is speculative and further evidence on this is needed before firm conclusions can be drawn.

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