

Improving Patronage in Business Organisations: The Referral Programme Option (A Study of Haier Thermocool Deep Freezer, Oshodi Local Government, Lagos, Nigeria)

**Alebiosu S. O.
Saheed G. A.**

ABSTRACT

Referral programme is one of the emerging phenomena in modern marketing. It has become a popular way to win customers. The ultimate goal of marketing effort is to maintain appreciable percentage of the market. This study examines referral programme as it affects the purchase of Haier Thermocool Deep Freezer with reference to Oshodi Local Government in Lagos. Direct interview and self administered questionnaire were used to elicit information from 160 respondents randomly chosen from within the Local Government. Simple percentage and frequency counts were used to analyse the data collected. Findings show that Haier Thermocool company at one time engaged in referral programme which increases sales volumes. The study is concluded by recommending that Haier Thermocool and its retail outlets should tenaciously integrate referral programme strategy into their marketing activities to increase sales volume.

Keywords: *Referral programme, customer, customer value, home appliances, word-of-mouth.*

INTRODUCTION

All business organizations' ultimate goal is to make sales and sizeable profit. They try to achieve these by the traditional promotional mix of communication of their ideas, and products with their targeted customers. However, satisfied customers themselves have also come on terms with the idea of making reference of good and acceptable products with their colleagues, family and loved ones. The idea is not new to only satisfied products but bad products are also referred so as to scare away buyers from experiencing dissonance that has been experienced by them. Referral programmes have become a popular way to acquiring customers in business organizations. Yet, there is no evidence to date that customer won through such programmes are more valuable than other customers. However, the referral programme cannot be ruled out as it is generated by the satisfied customers. There is no business unit or company that can operate successfully and gainfully without providing for their customers' needs and wants satisfactorily. Referral marketing is a method of promoting products or services to new customers through referrals, usually word-of-mouth (WOM). A satisfied customer may be talking about the benefits derived from product. Customers or organizations can benefit tremendously from referral because of its powerful potency. The reason is due to the fact that it is an external kind of endorsement which

Alebiosu S. O. and Saheed G. A. are Lecturers in the Department of Marketing, Rufus Giwa Polytechnic, Owo, Ondo State, Nigeria

carries more weight than a self generated advertisement. Advertisement mounted by the company marketing campaign do not have the same impact as an experience from customer who had nothing to gain by offering a referral other than the fact that they were satisfied by their consumption. No one is going to refer to a company or product brand in a good conscience if they feel the services or quality of products are inferior, so when a customer refers family, friend or colleagues, this is one of the highest compliments a customer can pay to a satisfied branded product. Apart from the assurance of a quality and statement of approval a customer referral gives, there are other additional benefits to getting customer referral depending on how one looks at it; some people look at it as free advertising but obtaining customer referral is not exactly free advertising, initial investment to attract customer had to be invested. The word-of-mouth (WOM) spread through customer referral is powerful, complimentary and effective. Customer will not recall average services or products, but they will remember excellent product or company that offer superior customer service, standing their guaranteed claim and willing to go extra miles for their patronage are the one to get customer referral. Sales do not end with money exchanging hands, it is only complete when customer has received satisfaction with their purchase when customer spread the word of mouth when they feel a product is good enough to share with others, this will serve as an inducement or influential statement.

According to Philipp, Bernd and Christophe (2011), customer referral programmes are a form of stimulated word-of-mouth (WOM) that provides incentives to existing customers to bring in new customers. An important requirement for such programmes is that individual purchase or service histories are available so that the firm can ascertain whether a referred customer is indeed a new rather than an existing or a former customer. Referral programmes have three distinctive characteristics. First they are deliberately initiated, actively managed, and continuously controlled by the firm, which is impossible or very difficult with organic word-of-mouth (WOM) activities such as conversations and blogs. Second, the key idea is to use social connections of existing customers with noncustomers to convert the latter. Third, to make this conversion happen, the firm offers the existing customer a reward for bringing in new customers.

Although leveraging the social ties of customers with noncustomers to acquire the latter is not unique to customer referral programmes, the three distinctive characteristics of this programme make them distinct from other forms of network-based marketing (Christophe, 2010). Unlike conventional word-of-mouth (WOM), the firm actively manages and monitors referral programmes. Unlike most firms of buzz and viral marketing, the source of social influence is limited to existing customers rather than anyone who knows about the brand or event. Unlike multilevel marketing, existing customers are rewarded only for bringing in new customers. They do not perform any other sales function (for example, hosting parties) and do not generate any income as a function of subsequent sales. Consequently, referral programmes do not carry the stigma of exploiting social ties for mercantile purposes, as multilevel marketing does (Biggart 1989). In most referral programmes, the reward is given regardless of how long the new referred customer stay with the firm. Such programmes are prone to abuse by customers. Although the firm is not

oblige to accept every referral, yet the incentive structure combined with imperfect screening by the firm creates the potential for abuse in which existing customers are rewarded for referring low-quality customers. This kind of moral hazard is less likely to occur with word-of-mouth (WOM) campaigns that do not involve monetary rewards conditional on customer recruitment. Existing studies of customer referral programmes have provided guidance about when rewards should be offered (Biyalogorsky, Eitan and Barak, 2001). Kornish and Quiping (2010) quantify the impact of rewards and tie strength on referral likelihood. Ryu and Lawrence (2007); Wirtz and Patricia (2002) quantify the monetary value of making a referral on benefit. In the view of Helm (2003); Kumar, Andrew and Robert (2010), the key managerial question of the (differential) value of customers won through referral programmes has not yet been addressed.

The main objective of this study is to examine the value of referred customers as regard referral programme. In the purchase of home appliances such as Deep freezer, other auxiliary objectives include to examine:

- i The contribution margin of referred customer's vis-à-vis the regular customers.
- ii The retention rate of referred customers.
- iii Whether referred customers are more valuable in both the short and long run.
- iv The reasons why customer refer their friends, relatives or colleagues to their loyal customer.
- v The effectiveness of referral programme in promoting sales.

Most often referral programme is usually neglected by most business organizations in their marketing endeavours. The reason for this neglect is not farfetched; it is because most business organizations are not alive to the promotional potentials inherent in referral programme. In recent times research has shown that the word - of - mouth (WOM) spread through customer referral is powerful complimentary strategy and effective. For referral programme to make the desired impact, the quality of the products so referred must not be in doubt. However, the following questions were raised to guide the study.

- i. How relevant is referral programme to business organization?
- ii. Has the organization experienced satisfaction from referred customers?
- iii. How profitable is the contribution of referred customer's vis-à-vis the regular customers?
- iv. How loyal are the referred customers to the branded products and the organization?
- v. What are the reasons for referred friends to purchase product/organization by satisfied customers?
- vi. How effective is the role of referral programme in sales and promotional programmes?

Benefits of referral programmes

A study conducted by the Goethe University, Frankfurt and the University of Pennsylvania, on referral programmes and customer value which followed the customer referral programme of a German bank that paid customers 25 euro for bringing in a new customer, was released in July 2010. The study found that referred customers were both more

profitable and loyal than normal customers. Referred customers had a higher contribution margin, a higher retention rate and were more valuable in both the short and long run. On whether customer referral programmes are worth the cost, the study says that it records “a positive value differential, both in the short term and long term, between customers won through a referral programme and other customers. Importantly, this value differential is larger than the referral fee; hence, referral program indeed pays off (Haenlein, 2010).

Employment of referral programme is increasingly becoming popular among companies of today. It has rather become a dengue recruitment tool for companies. Companies are aware of the positive spin-off, employing referral programme generate besides being the most cost effective recruitment tool, also bring in high return on investment. Though, referral program offer a host of advantages to the organization, it has its own share of disquieting consequence.

Examples of successful referral marketing programs

In 2009, Dropbox implemented a referral program to encourage their users to tell their friends about dropbox. Their referral program had a two-sided incentive for sharing: the person who signs up for Dropbox through a referral link get more space than through a normal sign up, and the referral gets additional space as well. According to Houston, the co-founder and CEO of Dropbox, at the startup lessons Learnt Conference on 23 April 2010, the referral program was inspired by paypal sign up Bonus program. The referral program permanently increased their signups by 60%. In the 30 days before the conference presentation, Dropbox estimated that their users had sent 2.8 million direct referral invitations to their friends (Kumar, Andrew and Robert, 2010).

In March 2011, Okabashi, the largest US manufacturer of sandals and flip-flops, implanted their own customer referral program through referral candy, a customer referral web app by Anafore. According to a case study released, the referral programme became one of their top ten drivers of external traffic, boosting sales within a week of implementation. Referred customers also spent 13.2% more on the average compared to regular non-referred customers (Valente, 2011).

Custom Value

According to Lewis (2006), a Customer Value Proposition (CVP) consists of the sum total of benefits which a vendor promises a customer will receive in return for the customer’s associated payment (or other value-transfer). Customer value Management was started by Ray Kordupleski in the 1980s and discussed in his book, Mastering Customer Value Management. A customer value proposition is a business or marketing statement that describes why a customer should buy a product or use a service. It is specifically targeted towards potential customers rather than other constituent groups such as employees, partners or suppliers. It is a clearly defined statement that is designed to convince customers that one particular product or service will add more value or better solve a problem than others in its competitive set.

In order to achieve set objectives, a customer value proposition needs to be clear, concise and compelling. In order to develop a strong customer value proposition, organization needs to have a thorough knowledge of their potential/current customer base. By identifying customer needs through market research and analysis, firms develop clear and concise value propositions that reflect those needs and the tangible results that customers can reasonably expect from using the firm's products or services. Strong value propositions are also expressed from the customer's perspective and talk about the experiences and benefits that they will have when using the products. Referred customers have been found to be both more profitable and loyal than normal customers. Referred customers had a higher contribution margin, a higher retention rate and were more valuable in both the short and long run.

Reasons for Referral Programme

The business harnessing the power of word-of-mouth (WOM) marketing across the social networks will have a leg upon the competition by growing a strong base of supporters who are ready to mobilize online for their favorite brands. There are innumerable amount of benefits to having a referral programme. According to Peterson (2009), the benefits of referral programs include the following:

Referral Programme is Cost Efficient: Throwing costly advertisement and offers at random customers does not necessarily mean you will generate more sales. But factually, a customer is four times more likely to make a purchase when referred by a close friend, neighbor and/or family member.

Referral Programme Build Trust: We live in social media world and putting a face to a brand is more and more important in the eyes of customers. Building a programme to incentivize your customer to go out and build that trust for you is invaluable and cannot be accomplished through more traditional advertising channel, where outreach is expensive and Return on Investment (ROI) is low.

Referral Programme is Viral: The idea of viral company is pretty well known. A simple customer referral programme brings with it chain increase in sales volume. With word of mouth marketing you are not just targeting one customer; you are targeting one customer and entirely his social network. With an effective programme, you can have hundreds of brand ambassadors out on the street mobilizing for your brand rather than reaching only one customer with traditional channel.

METHOD

The study which is descriptive in its design uses a sample size of 160 respondents from Oshodi local government in Lagos State and its environment. The sample technique adopted was purposive while a self-administered questionnaire was employed in the collection of

primary data on the referral programs and customer value. In the analysis of the data collected, the study utilizes both simple percentage and frequency counts.

RESULTS AND DISCUSSION

The data on table 1 show that highest percentages (87.5%) of the respondents believe that referral programme is of high value and relevant to their organizations. From the table 2, it is observed that 100% of the organizations have experienced referred customers from satisfied customers. Table 3 indicates that 93.75% of the organizations are aware of the profitable contribution of referred customers, while 6.25% never bother to conduct or care about the profit contribution of these referred customers. The table 4 shows that 81.25% of the referred customers are loyal to the organization, while 12.5% never measure the loyalty of the referred customers, while 6.25% believes that they are not loyal. On table 5, 81.25 shows that they referred their friends, family and colleagues to the product brand and the organization because they are satisfied with the organization's products, while 6.25% because of the established company's name and 12.5 because of peer influence, while customers that experienced cognitive dissonance never refer their friends or loved one to the branded product. It is shown on table 6 that it is generally believed that referral programme is an integral part of sales promotional programmes with 140 respondents (87.5%) out of the total number of 160 respondents agreeing affirmatively to the assertion. The result of findings as revealed by this work corroborated the earlier positions of various scholars who have written on referral programme to the effect that referral programme has mutual benefits to both old and new customers as well as the marketing organization. The result also reveals that referral programme is more powerful than the conventional word-of-mouth (WOM) and that it is an integral part of sales promotional programmes.

Table 1: How relevant is referral programme to business organizations?

Variable	Response	Percentage
Highly relevant	80	50
Relevant	60	37.5
Undecided	20	12.5
Strongly irrelevant	0	-
Irrelevant	0	-
Total	160	100

Source: Field Survey, 2016

Table 2: Does the organization identify referred customers from the satisfied customers?

Variables	Response	Percentage
Yes	160	100%
No	-	-
No idea	-	-
Total	160	100

Source: Field Survey, 2016.

Table 3: How profitable is referred customers to the organization?

Variables	Response	Percentage
Highly profitable	120	75
Profitable	30	18.75
No idea	10	6.25
Highly unprofitable	-	-
Unprofitable	-	-
Total	160	100

Source: Field Survey, 2016

Table 4: How loyal are these referred customers vis-à-vis the normal customers?

Variable	Response	Percentage
Highly loyal	80	50
Loyal	50	31.25
No idea	20	12.5
Highly unloyal	-	-
Not loyal	10	6.25
Total	160	100

Source: Field Survey, 2016.

Table 5: What are reasons for referral idea to your friends, family and colleagues?

Variable	Response	Percentage
Quality of the product (satisfaction)	130	81.25
Because of the company name	10	6.25
Peer influence	20	12.5
Experience cognitively dissonance	-	-
Interest in the organization	-	-
Total	160	100

Source: Field Survey, 2016

Table 6: Referral programme is an integral part of sales promotional programmes in business organizations

Variable	Response	Percentage
Strongly Agree	100	62.5
Agree	40	25.0
Undecided	10	6.25
Disagree	10	6.25
Strongly Disagree	-	-
Total	160	100

Source: Field Survey, 2016

CONCLUSION AND RECOMMENDATIONS

This study provides the relevance of referral programmes in the purchase and use of home appliances such as Haier Thermocool. The study shows that referred customers are more loyal than the regular customers. Improvements in the targeting, design, and implementation of such programmes will require a better understanding of the drivers of the value differential. In order to achieve, and make the programme more valuable the following recommendations should be taken in consideration.

- i. Haier Thermocool Company should engage in referral programme and customer

- value since the market is very competitive and it will also help them to remain competitive in the industry.
- ii. The company should understand the modern way of advertising their product through referral programme.
 - iii. Their products should meet the customers' expectation in order to bring them more customers.
 - iv. The company should motivate their existing customers in order to recommend such products to their relatives and loved ones.
 - v. The company should know the importance of referral programme and customer value to their organization.
 - vi. The company should interact with customers and manage relationships at each stage.
 - vii. They should create value for their customer that is, the level of satisfaction/utility they have acquired from the consumption of deep freezer.
 - viii. There should be lower process, higher quality products and services.
 - ix. They should provide customer lifetime concept.
 - x. Company marketing campaign needs to be on target, to make the product prove their claims to be the potential customer because it is a customer that can make excellent claim through a customer referral.

REFERENCES

- Biggart, N.W.** (1989). *Charismatic Capitalism: Direct Selling Organizations in America*, Chicago, University of Chicago Press.
- Biyalogorsky, E., Eitan, G. and Barak, L.** (2001). *Customer Referral Management, Optima Reward Program*, Marketing Science.
- Christophe, V. B.** (2010). *Opportunities and Challenges in Studying Customer Networks*: London: Routledge.
- Haenlein, M.** (2010). *A Social Network Analysis of Customer Level Distribution*: Marketing Letters, Forthcoming
- Helm, S.** (2003) *Calculating the Value of Customers' Referrals: Managing Service Quality*.
- Kornish, L. J. and Quiping, L.** (2010). Optima Referral Bonuses with Asymmetric Information: Firm-Offered and Interpersonal Initiatives. *Marketing Science*.
- Kumar V. J., Andrew P. and Robert P. L.** (2010). How Valuable is Word-of-mouth: *Havard Business Review*.
- Lewis, M.** (2006). Customer Acquisition Promotion and Customer Asset Value: *Journal of Marketing Research*.
- Peterson, J.** (2009). *Metric to Maximum Profitability And Shareholders' Value*. Cliffs N.J.: Prentice Hall
- Philipp S., Bernd S. and Chritophe V. B.** (2011). *Do Referral Programs Increase Profits?:* Frankfort: Goethe University, Germany.
- Ryu, G. and Lawrence, F.** (2007). A Penny for Your Thoughts: Referral Reward Programs and Referral Likelihood. *Journal of Marketing*.
- Valente, A.** (2011). Opinion Leadership and Social Contagion in New Product Diffusion: *Marketing Science, Forthcoming*.
- Wirtz, J. and Patricia, C.** (2002). The Effects of Incentive, Satisfaction and Tie Strength on Word-of-Mouth Behaviour: *International Journal of Science Industry Management*, 5, 12-23.