Can Companies Initiate Positive Word of Mouth? A Field Experiment Examining the Effects of Incentive Magnitude and Equity, and eReferral Mechanisms

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Abstract. This research examines strategies for generating electronic referrals (eReferrals). Acquiring customers through Word of Mouth (WOM) appeals to companies because of the perceived transmitter credibility as well as low customer acquisition cost. Company-initiated eReferrals, a form of online WOM, offer marketers a way to influence customers through encouraging WOM. This research utilized a field experiment focusing on company-initiated eReferrals. Several independent variables were manipulated including incentive magnitudes for the referring party and the party being referred. The dependent variables were the number of referrals made and the number of referrals that led to sales. As expected, larger incentives increased referral rates. In addition, we found that offering the same magnitude incentive to both the referrer and referee led to a greater number of referrals. However when offer incentive magnitudes were not equitable, those with higher offers for the referrer performed better than those with a higher offer for the referee.

Keywords: Word of Mouth, WOM, Word-of-Mouth, Referrals, Electronic Referrals, eReferrals, Internet Marketing, Online Marketing, Customer Acquisition, B2C, Consumer Marketing, Viral Marketing.

1 Introduction

Before newspapers, radio, television and the Internet, there was personal communication, often called Word of Mouth (WOM). Compared to advertising created and communicated by the marketer, WOM through a friend or acquaintance is considered to carry more credibility [1, 2]. It also allows a message to spread without the expense of paid media space.

A subset of WOM communication is referrals. Referrals are best described as one consumer's promotion of a product or service. The referral can be targeted to just one other person (1:1) or to a group of people (1:Many). Referrals can take many forms in offline or online environments. In an offline environment, referrals are typically in person or through telephone conversations. In an online environment, consumers typically generate referrals from emails, instant messages, and comments posted in blogs or chat rooms. WOM significance is heightening from technology development such as product complexity [3] and consumer use of the Internet. Online venues such

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as blogs and message boards allow consumers to spread WOM [4] on a large scale to personal acquaintances as well as to strangers. Company-prompted eReferrals can be encouraged by marketers using a variety of methods including a "tell-a-friend" option on the company webpage as well as offering consumers a place to post comments and product ratings.

However, many companies struggle to figure out which strategies will be most effective in eliciting eReferrals. Harnessing the power of the Internet in new forms, such as eReferrals, would benefit marketers immensely.

While WOM has received attention in the literature, no work to date has examined the effects of incentives and referral mechanisms on eReferrals. In this research we began with a series of in-depth interviews, with men and women who frequently shop online, to explore the motivations of electronic referrers as well as the perceptions of these motives by referees. In our field experiment, we compared different incentive magnitudes for referrers and referees. In addition, we also compared a variety of suggested mechanisms for making eReferrals. Specifically, we compared: 1) asking a customer to invite a friend using the company's website mechanism by providing the friend's email address (*invite*), 2) asking a customer to forward an email from the company to a friend (*forward*), and 3) asking a customer to post comments about the company to a 3rd party website (*post*). We measured both the magnitude of referral activity and the effect that the suggested mechanism had on results.

2 Research Methodology

The research project was comprised of three separate studies. The first two studies were in-depth interviews used to inform the design of the experiment. We interviewed customers of an online wedding photography site, Bella Pictures, as well as members of an online sports picking website, Pickspal, to conduct the interviews. These interviews aided in creating a more thorough understanding of eReferral activity including consumer perception of privacy issues, incentives and referral mechanisms.

The main study was a field experiment applied to members of Ebates, an online shopping mall that provides cash back for shopping through Ebates at popular online stores. Consumers selected for the study were members who had purchased through Ebates within the past twelve months and had not opted-out of email communication from the company. Participants were randomly assigned to the 27 experimental conditions in a between-subject, multi-factor design.

Participants were 149,000 Ebates members. An additional cell of more than 85,000 Ebates' members was set aside as a "no email" condition from which to track the incremental effects of our test. Two factors were varied to meet the objectives of the research study. The first tested the effect of incentive magnitude for the referrer and the referee. This allowed us to explore the importance of equity for offer incentives between the person doing the referring (referrer) and the person being referred (referee). It also allowed us to examine the role of the incentive magnitude of the referrer and referee independently. In each cell, an incentive was always offered to both the referrer and the referee. The incentive level was varied for the tests and included the incentive levels of $5, $10, $25 and $50. There were eight incentive

combinations for the referrer/referee: $5/$5, $5/$10, $5/$25, $5/$50, $25/$25, $10/$5, $25/$5, and $50/$5.

The second factor used to meet the objective of the research study was the effect of the nature of the solicitation, or mechanism. Three mechanisms were used to suggest to referrers how they could contact potential referees. The first was considered a control email message that had previously been used by Ebates. It asked members to "*invite*" friends to try Ebates, and in its text included a webpage link to which the current member could give friends' email addresses to Ebates. Ebates then emails the prospective members inviting them to join. The second type was newly designed for this study, and asked the current member to "*forward*" the email to friends. In the email text there was a message to the current member and also a message to the prospective members. The intention of this test was to understand whether the ease of forwarding a message affected the response rate. The third type of mechanism was also newly designed for the study and asked the current member to "*post*" a message about Ebates on public websites. In the email message, the current member was given a recommended paragraph and a unique URL to "cut and paste" to a website. The member would then receive credit for any new members acquired. The intention of this test was to understand the effect of a person's outreach to a larger, and often unknown, group of people. The first two types, then, studied the effect of person-to-person (1:1) eReferrals. The third type studied the effect of person-to-group (1:Many).

3 Summaries of Results and Discussion

Two measurements for each cell and group were tracked: the number of referred members (prospects who registered but had not yet made a purchase) and the number of referred buyers (those new members who had purchased within the expiration period and qualified for the incentive). Only those members and their prospects who became buyers within the three week expiration period received the incentives.

In terms of incentive magnitudes, larger incentives overall yielded significantly better results than the control offer of $5/$5. (See Table 1.) In cells which the referrer was offered a higher incentive than the referee ($10/$5, $25/$5, $50/$5), the results yielded significantly more new referrals (members) and new buyers than the same larger incentives when offered to the referees ($5/$10, $5/$25, $5/$50). (See Table 1.) Implications of these results indicate that in an inequitable incentive scenario, results are better when the current member is offered more than the prospective member.

Offering an equivalent incentive to the referee yielded more new referrals and new buyers than offering a lower or higher incentive to the referee (e.g. $25/$25 versus $5/$25 and $25/$5). When the combination offer was increased for the referrer to $50/$5, the results were better than the $25/$25 equitable offer. However, when the combination offer was $5/$50, the $25/$25 equitable offer performed better. (See Table 1.)

Regarding the referral mechanism, both new suggested methods of *forward* and *post* resulted in significantly more referrals over the control *invite* methodology. (See Table 2.) For the forward mechanism, our in-depth interview results suggest that the 'ease of referring,' and increased privacy are likely to be what positively affected

referral rates. In other words, consumers may respond better to the *forward* mechanism over the *invite* mechanism because it requires less work and does not require providing the friend's email address to the firm. Success from the *post* methodology was likely the result of the wider reach of the mechanism. Instead of *forwarding* or *inviting* one friend at a time, it was suggested that members *post* the information on a public website and reach an audience many multiples the size of their friend pool.

Table 1. Incentive Summary

Referrer $ Incentive	Referee $ Incentive	# Members Who Received Email	% New Members Referred	% New Buyers Referred
$5	$5	17,406	1.3	0.5
$5	$10	17,339	1.6	0.5
$5	$25	17,495	2.0	0.8
$5	$50	12,728	3.4	1.7
$25	$25	12,760	4.2	2.1
$10	$5	17,368	4.4	1.4
$25	$5	12,507	3.3	1.3
$50	$5	5,086	5.4	3.0
Total Control Cells ($5/$5)		17,406	1.3	0.5
Total Referrer Higher $ Cells		34,961	4.2	1.6
Total Referrer Lower $ Cells		47,562	2.2	0.9

Table 2. Mechanism Summary

	# Members Who Received Email	% New Members Referred	% New Buyers Referred
Invite – All Cells	37,601	2.4	1.0
Forward – All Cells	37,490	3.2	1.3
Post – All Cells	37,605	3.2	1.3

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