

## REFERRAL REWARD PROGRAMS: NEW CUSTOMER ACQUISITION BY OPPORTUNISM?

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### ABSTRACT

Referral reward programs are frequently used in services marketing. In referral reward programs, a customer receives a reward for convincing others to become a customer. Numerous large service firms offer rewards to their customers when they recommend a service to their friends and acquaintances. Referral reward programs are so ubiquitous as they are an effective and efficient marketing tool for new customer acquisition (Verlegh, Peters and Pruyn 2003). Ryu and Feick (2007) show that the offered reward can be effective in increasing customers' word of mouth (WOM). As Biyalgorsky, Gerstner, and Libai (2001) point out referral reward programs are not only effective, but also efficient as the company only pays for the reward if WOM is articulated.

To date, research has assumed that customers who are satisfied may need an extra stimulation, i.e. a reward, to recommend a service (Ryu and Feick 2007; Wirtz and Chew 2002). Consequently, referral reward programs are perceived as an adequate means for increasing referral likelihood among satisfied customers. However, no research considered that the reward might encourage satisfied as well as dissatisfied customers to articulate positive WOM. While it is typically assumed that dissatisfied customers do not give positive WOM (East, Hammond and Wright 2007), a reward might be able to motivate a dissatisfied customer to refer disliked services, i.e. to articulate opportunistic WOM.

As opportunistic WOM normally is unintended by service firms and consequences of opportunistic WOM for service firms are unclear, it is important to learn more about whether and when referral reward programs can actually cause opportunistic WOM. Therefore, this paper aims at answering the following research questions: Do referral reward programs increase opportunistic WOM behavior? If so, under which circumstances does opportunistic WOM occur?

To answer these research questions we relied on New Institutional Economics and conducted an experiment (2x2 factorial design, between subjects). Existence of a referral reward (50€ reward, no reward) and tie strength between sender and receiver of the recommendation (strong-tie, weak-tie) were manipulated on two levels. 200 business students participated in the experiment.

Our study confirms a positive relationship between rewards and opportunistic WOM. Consequently, offering referral reward programs can motivate dissatisfied customers to give positive WOM ( $M_{50€ \text{ reward}}=37,21\%$ ;  $M_{\text{no reward}}=12,65\%$ ;  $p<.001$ ). The results also support the hypothesized moderating effect of tie strength on the relationship between the reception of a reward and opportunistic WOM. When a 50€ reward is offered and the recommendation is given to a friend, dissatisfied senders have an intention to recommend of 23.2%. Talking to an acquaintance, this intention increases to 51.3% ( $p<.001$ ).

These study's findings have several implications. First, as opportunistic WOM seems to be increased by the existence of a referral reward program, firms offering rewards should ensure that their customers are satisfied. When the satisfaction level of the current customer base is comparably low, firms should choose a different approach to foster WOM and not implement a referral reward program. Second, firms offering services that are mainly discussed in weak tie relationships, i.e. with acquaintances and not with friends, should be especially careful, as they are most susceptible to opportunistic WOM. According to Duhan et al. (1997), individuals' reliance on weak versus strong ties' information depends on task difficulty. When individuals need to solve a problem which is of low task difficulty, they rely on weak ties, while in a difficult situation the informant typically is a strong tie. Providers of complex high involvement services that are normally needed to solve situations high in task difficulty, e.g. medical services, are probably less vulnerable to opportunistic WOM compared to rather simple low involvement services like restaurants.

References available upon request