

Why online referrals are changing the marketing game

By [Ernest North](#)

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The best-loved brands of the digital age - Netflix, Uber, Airbnb - have powered their growth by scaling positive word of mouth. More than expensive advertising campaigns via billboards and TV campaigns, it's the effect of millions of fans converting more people to their brands that has driven their exponential growth.



Ernest North, cofounder of Naked

This starts small, by impressing a few consumers to the extent that they love a brand enough to tell everyone about it. And as they get their friends to try it, the brand creates more and more advocates who go out and spread its message to the world. Pretty soon, the company has a tribe of passionate supporters singing its praises on social media. Unless it gets things wrong, in which case, it may find itself in a social media storm that can damage its brand for good.

One key element of digital word of mouth is the paid referral programme, where a customer gets a voucher, discount, or even a cash reward for each new member they recruit into the tribe. Referral programmes are not new, but they never really worked that well in the analogue world.

Here are some reasons why and how the picture has changed in the digital world.

1. The customer is in control

Old school referral: You knew your best friend wouldn't be happy to receive a call from a call centre because you shared their details with your insurance company.

Digital referral: Rather than giving your friend's details to a company, you can simply generate a code or referral link for them to use if they're interested. They are in complete control. They can get an online quote or explore the service at their convenience, and sign up if they like what they see – with no need to speak to a salesperson.

2. Rewards are tracked accurately

Old school referral: You couldn't really be sure that you'd get the reward for the referral, especially if your friend joined or bought months later.

Digital referral: Digital platforms mean that the brand can more easily and accurately track where each customer comes from. A company can track your friend's journey from getting an online quote via your referral link to signing up as a customer (all done in ways that comply with data privacy regulations and best practices). This means that there is less chance of your reward slipping through the cracks because, for example, your friend got a quote and then only became a customer several months later.

3. Customers actually want to share their experience

Old school referral: Many old-school brands didn't inspire levels of passion among their customers that would galvanise them to refer them to their friends or vice versa. While you would rave about the great movie you saw over the braai, you probably wouldn't spend much time praising your bank.

Digital referral: Digital native companies know they live or die by word of mouth. They understand referrals only work if customers love their product and want to share their experience with others. It's not [just] about the money or discount—it's about the warm fuzzy feeling and social cred they get from sharing something that adds value to the lives of their friends, family or clients.

Why digital referrals make sense

From a digital brand's perspective, referral marketing and other forms of organic, tribe-based marketing are a cost-effective and powerful means to build a customer base. For those that get it right, the acquisition cost for a customer is low compared to what traditional companies spend on big advertising campaigns in mass media, and it's more measurable and accountable.

But the benefits for consumers are significant, too. For a forward-thinking company, lower marketing costs are an opportunity to invest in other elements of the customer experience and to bring down the price of its offering. It also means that brands know that each experience a customer has with them really matters – get things wrong too badly or too often, and your customers will stop referring their friends and family to you. It keeps brands on their toes!

This is particularly important in a segment like insurance, where providers treat their product like a commodity and where consumers have come to see it as a grudge purchase. At Naked, we have embraced the challenge of doing what some insurance providers believed to be impossible: creating an insurance experience that people enjoy enough to tell their friends about. We have incorporated digital referrals into our marketing mix because it offers a fresh, accurate, and customer-centred way to build our customer base. We're already seeing significant uptake, so much so, that digital referrals are now one of the key ingredients driving Naked's growth.

It is also a way car dealers, brokers, social media influencers, clients, retailers, and anyone else can earn some extra income – and that includes people who aren't Naked customers or business partners. By sharing a unique link and encouraging their audience – be it existing clients, newsletter readers, or even social media followers – to click, they are earning a steady revenue stream. The referral fee is about thanking them for sharing something they believe will add value to the lives of their friends, family or clients.

It's clear that the nature of marketing has changed dramatically over the past few years. Consumers are better informed—and more cynical—about brands than ever. They are able to organise themselves into powerful online communities. And, word gets out fast when the customer experience doesn't live up to the brand promise. In this world, a passionate tribe is the best form of advertising a brand can get. But here's the catch – the brand succeeds or thrives as much by what its customers say about it as by what it has to say for itself. Customers are in charge.

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