Generating Ereferrals Using Incentives and Bribes: a Field Experiment Testing Various Incentives For Online Referrals

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This research examines several methods for generating company-initiated electronic referrals (eReferrals). A field experiment was conducted with 45,000 participants using different online referral techniques. We manipulated the incentive magnitude for senders and receivers. Dependent measures included the number of eReferral emails sent, the number of eReferrals made and the number of eReferrals that led to sales. Our results show that incentives to both the receiver and the sender lead to higher eReferral rates. We also identified an interaction where relatively higher incentives for the sender of the eReferral were most effective when the receiver of the eReferral also was offered an incentive, albeit a lower incentive.

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Abstract
This research examines several methods for generating company-initiated electronic referrals (eReferrals). A field experiment was conducted with 45,000 participants using different online referral techniques. We manipulated the incentive magnitude for senders and receivers. Dependent measures included the number of eReferral emails sent, the number of eReferrals made and the number of eReferrals that led to sales. Our results show that incentives to both the receiver and the sender lead to higher eReferral rates. We also identified an interaction where relatively higher incentives for the sender of the eReferral were most effective when the receiver of the eReferral also was offered an incentive, albeit a lower incentive.

Introduction
The trend toward consumers generating their own marketing messages is increasingly taking the power of attracting customers out of the hands of the marketers. Traditional referrals can be described as one consumer’s promotion of goods or services to another consumer. Electronic referrals (eReferrals) are those referrals that occur online. Firms are making great efforts to respond to this new technology-enabled phenomenon. This has led many firms to invest in encouraging customer acquisition via electronic referrals. eReferrals offer marketers a way to acquire new customers from current customers, at a potentially higher quality and lower cost than advertising.

The research used a large-scale field experiment measuring actual Referral, registration and purchase behavior. Participants in the study were customers of Ebates and the individuals to whom they referred. Ebates is a website offering services and discounts to online shoppers who purchase through their portal.

When financial incentives to both senders and receivers are offered, equity theory suggests the two parties will be affected by what they each receive. Intuitively we may think that the person making a recommendation cares only about what incentive is offered to him or her, however, equity theory suggests otherwise. In general, equity theory can be described as the proposition that individuals seek equity in what they give and what they receive (Walster, Berscheid & Walster 1973). So the sender may believe that the receiver should also receive an incentive for efforts made. Equity exists when both parties receive the same incentive, such as $5 for the sender and $5 for the receiver.

Inequity may be present when the perceived inputs of one person are in opposition to what that person perceives are the inputs of another person (Adams 1963). Or, stated another way, inequity may be present when the incentive levels to the two parties are of different magnitudes. For example, assuming equal effort, if the sender gets $10 and the receiver gets $5, there is positive inequity for the sender. That said, assuming equal effort, if the sender gets $5 and the receiver gets $10, there is negative inequity for the sender.

Field Experiment Measuring Actual eReferral Rates Under Different Incentive Conditions
The field experiment was conducted with 45,000 participants who were customers of Ebates. Ebates offers a percentage of cash back on purchases to its customers who can shop at over 900 popular online stores. Participants were randomly selected from Ebates’ base of customers who had purchased goods through Ebates within the past twelve months and had not opted-out of email communication from the company. The study was a two-factor between-subject experiment, where the size of the financial incentives offered to the senders and receivers of the eReferrals were manipulated. Specifically, the two independent variables were 1) Incentive magnitudes to senders of the eReferrals ($5, $10, $25, and $50), and 2) Incentive magnitudes to receivers of the eReferrals ($5, $10, $25, and $50). There were a total of eight conditions, representing the different incentive combinations (the first incentive level is for the sender, the second is for the receiver): $5/$5, $5/$10, $5/$25, $5/$50, $10/$5, $25/$5, $50/$5, $25/$25. Participants were randomly assigned to one of the eight conditions.

The eReferral initiation process began by Ebates contacting 45,000 current customers via a “prospecting email” with one of eight financial incentive offer combinations in exchange for referring others. These members then chose to make eReferral invitation attempts to friends, relatives, acquaintances or other persons. Receivers of these eReferrals then had the opportunity to register contact information with Ebates and thus become new Ebates members. As indicated in the invitations, for both parties to earn the financial incentive offered, the new member must have made a purchase within the offer expiration period of three weeks. Once this step occurred, the new member’s status changed to that of a buyer, and the promised incentives were rewarded to both parties.

There were three dependent variables in the field experiment: 1) the number of eReferral invitation emails sent in attempts of creating an eReferral (“invitation emails”), 2) the number of new Ebates members acquired through the eReferral efforts (“new members”), and 3) the number of those new members that converted to become buyers (“new buyers”). Of the 45,000 “prospecting emails” sent from Ebates, 37,601 were actually delivered (i.e. “good” email addresses).

A unique URL was included in each email to enable tracking by condition. The URL was tied to each unique sender who then received the promised incentive when a receiver became both a member and a buyer by both registering and then purchasing through Ebates. A total of 2,226 “invitation emails” were sent from Ebates’ Senders. There were 810 “new members” who registered and then subsequently 391 “new buyers” who purchased during the three-week offer expiration period.