Are All Referrals Created Equal? the Impact of Social Connections on Consumer Discounts

Bryan R. Johnson, Pennsylvania State University, USA
William T. Ross, Jr., Pennsylvania State University, USA

In this paper, we examine the economic impact of different types of referrals consumers use to connect to firms as they make purchases. As part of a continuing case study, we test initial data from a small automotive business to demonstrate the differential impact of social relationships on consumer discounts. We draw upon social capital theory to guide our research and to illustrate the extensive influence of social relationships in consumer settings. Our research extends social capital theory’s fundamental notion by assigning a precise dollar value to the various types of referral relationships used by consumers to make purchases.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/14438/volumes/v36/NA-36

[copyright notice]:
This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at http://www.copyright.com/.
Are All Referrals Created Equal? The Impact of Social Connections on Consumer Discounts

Bryan R. Johnson, The Pennsylvania State University, USA
William T. Ross, Jr., The Pennsylvania State University, USA

Conceptualization
Throughout history, social relationships have played a critical role in facilitating communication and cooperation among individuals. Given their importance in social interactions, relationships possess the ability to shape various aspects of human behavior, including those related to consumption. Due to the important influence of these ties, many consumers incorporate relationships, either directly or indirectly, into purchasing products and services (Beatty et al. 1996; DiMaggio and Louch 1998). Accordingly, the purpose of this paper is to investigate the extent to which consumers receive benefits based on their structural relationships with firms, by identifying the economic impact of the different types of links (referrals) used to make purchases. More specifically, this paper examines how a referrer’s connection to a firm (i.e., business relationship, personal relationship, customer relationship, etc.) impacts the size of the discount received by the consumer being referred. Interestingly, the basic question of whether or not consumers receive benefits based on structural relationships, including which connections have the greatest impact, has not been examined in the marketing literature. Nevertheless, given the extent to which consumers are socially connected to one another, and to firms, addressing this question is important if scholars are to understand the social dimension of consumer behavior.

To highlight the impact of social structure on discounts received by consumers, we draw upon social capital theory, which posits that individuals obtain benefits or returns as a result of their social relationships with others (Portes 1998; Lin 2001). In general, social capital theory focuses on the resources ingrained in an individual’s social relationships and how these resources benefit the individual. These resources are considered social because they can only be accessed through direct and indirect ties with others. Common forms of social resources include advice, information, and ideas. Ultimately, to possess social capital, an individual must have relationships with others; it is only through social interactions that social capital can exist and provide benefits to individuals (Coleman 1988; Portes 1998; Lin 2001).

Scholars have explored the impact of social capital in a variety of settings within the social sciences (e.g., Lin and Huang 2005; Mouw 2003; Ream 2005; Seidel, Polzer, and Stewart 2000; Smoldt 1998). Although somewhat less prevalent, marketing scholars have also contributed to research in this area by highlighting the impact of social ties on consumption (Frenzen and Davis 1990; Brown and Reingen 1987; Reingen and Kernan 1986). To further contribute to theory in this developing research area, we highlight the economic consequences of using social ties to connect to firms. In the remainder of this paper, we evaluate the impact of a referrer’s relationship to a firm on the consumer’s discount, using a combination of qualitative and quantitative data. As the first of several studies, the main contribution of this research is that it demonstrates the economic impact of connecting to firms through various types of associations.

Method & Findings
The research site used for this case study, Car Concepts (a pseudonym), is a small automotive business located in the Western United States, specializing in basic to high-end products and services. This site is particularly appropriate for the current study because it is associated with an industry in which customers tend to rely heavily upon others to locate and connect to firms. Data for the study were drawn from the firm’s archival records and from multiple interviews with the business owner between October and November 2007. These initial data include information for 35 consumers and the individuals who referred them to the firm. Additional data are currently being collected as part of an ongoing case study with the company.

To determine the impact of the referrer’s relationship to the firm on the customers’ discounts, we estimated an ordinal logit model with customer discount as the dependent variable and referrer connection type as the independent variable. We included job size and customer type as control variables. The results indicate that customers receive significantly smaller discounts when connecting through unknown individuals, through businesses, and through the firm’s previous customers, than through those the owner deems to be friends. Stated differently, the odds of receiving larger discounts are much higher among those connecting through the owner’s friends than through all other types of linkages to the firm. Amazingly, the average discount for those connecting through the owner’s friends is $88, compared to $31, $12, and $7 for those connecting through previous customers, businesses, and unknown individuals, respectively. Clearly, our data strongly suggest that all referrals are not created equal.

Based on the overwhelming impact of friendship referrals, we conducted additional analyses among those customers connecting through friends of the owner. We created a cognitive friendship network, using the owner’s perception of the relationships that existed among those he identified as friends. To construct this cognitive network, we asked the owner to identify whether or not each of the friends in his ego network were friends with one another, as done in previous research (Kilduff and Krackhardt 1994; Krackhardt 1990). We then used these responses to map the relationships among the owner’s friends.

With this cognitive network in place, we used UCINET 6 to estimate the centrality of the owner’s friends in the network. Then, we performed a median split to allocate these individuals to one of two categories: central or non-central. To test the impact of referrer centrality in the friendship network on the size of discounts received by customers, we estimated an ordinary least squares regression model with customer discount as the dependent variable, referrer centrality as the independent variable, and job size and customer type as control variables.

As expected, we find that customers receive significantly higher discounts when connecting through central friends than through non-central friends. After controlling for job size and customer type, the difference in the total discount received by customers who connect through a central versus a non-central referrer is approximately $107. Hence, while it is beneficial for consumers to connect to firms through friendship relationships, friends who are central in the friendship network tend to yield even greater benefits.

In summary, the main contribution of this research is that it demonstrates the economic impact of connecting to firms through various types of referral relationships. Our research not only confirms social capital theory’s fundamental premise in the context of consumption, but it goes above and beyond the notion that individuals benefit from their social connections, by determining a dollar value associated