

Customer Referral Value: The Other Side of Customer Lifetime Value

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Abstract

Many firms are now using viral marketing programs to harness the power of word-of-mouth and referrals in order to acquire new customers. We introduce the concept of Customer Referral Value (CRV) which quantifies the value of the referrals that each customer gives to the firm. We not only demonstrate how to measure CRV, but also illustrate how to maximize it. We show the role that CRV plays in evaluating the importance of each customer to the firm is critical. This is because many of these same firms are using customer selection metrics like CLV (Customer Lifetime Value) to identify their “best” customers and then allocating resources to those customers with the highest CLV. In the process, these firms frequently alienate low and medium CLV customers because of the lower level service provided and the differentiated treatment. An important question is whether these low and medium CLV customers may in fact be of value to a firm due to their word-of-mouth and referrals and if so, what is this value to the firm? In this study, we show that customers who tend to score highly on CLV often do not score highly on CRV. In fact, it is indeed the low and medium CLV customers who score highly on CRV. Therefore, any customer management strategy must take into account both the CLV and the CRV measures when determining the value of any customer. We also show through case studies how measuring and implementing marketing campaigns that consider both CLV and CRV can lead to the firm better understanding who their high value customers are and their characteristics. This in turn can lead to customers building a positive social network around the firm that can be continuously drawn upon for new business. Most important, the firm’s profits and customer growth can be enhanced through paying attention to both CLV and CRV when managing customers.

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