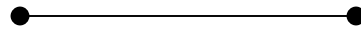
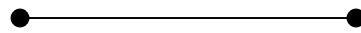


***Embracing
The N.U.D.E. Model***



The New
Art & Science of
Referral Marketing



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SECTION TWO

REFERRAL MARKETING

Information Overload

Referral marketing has existed for years. Word of mouth is probably the original form of advertising or marketing as it were. But in recent history we have been overwhelmed. We have overlooked the value of word of mouth in favor of all the media.

Based on daily averages in an urban environment, conservative estimates say there are over 1,000 attempted intrusions or commercial requests for our attention per day. A lot of experts place that number even higher.

That figure reflects everything from television, radio, and newspaper advertising to blimps, billboards, pop-ups, and matchbook covers. From the time you open your eyes in the morning until you close them and fall asleep at night someone somewhere will be attempting desperately to obtain your interest in their product or service for just an instant. You are seeing lots and lots of requests for your attention to buy something, try something, experience something, etc. They may tease, shout, whisper, seduce, surprise, tempt, demand, bribe, or even outright try to trick us.

Because of the profligate inflation of advertising of all types, your attention however fleeting has become an incredibly valuable commercial commodity. Companies invest literally trillions of dollars to get you to look at them. Unfortunately that investment has long since exceeded the point of diminishing returns.

What has happened is you have adapted your attention to filter out all that noise. Can you remember the last three ads you have seen today, what they wanted you to do or what they wanted you to buy? In a room of 150 people maybe 2-3 people can remember a couple of ads. That is amazing. If you consider all the millions of dollars of advertising and marketing that represents trying to get through to you. You have created very powerful filters that are keeping most of it out most of the time. You are not even conscious of that filter being on as you walk through life. Your mind is so powerful. It can attenuate almost anything.

It is like noise attenuation. You don't realize how much sound you are filtering at any moment, how much work your brain is doing at this very instant. If you are in a very noisy room, at first it occurs as a cacophony but if you are in there long enough, you start to focus on voices and the necessary information. Stop a moment and listen to the noises in the room, the music, the traffic, etc. And don't forget the air handlers, breathing, paper noises, clocks ticking, movement of clothing/jewelry, etc. There are number of noises but your mind is only looking for useful information. Your mind has also learned to attenuate that advertising and marketing as the same kind of useless information as the noises of the air handlers.

Your brain is enormously powerful. A lot of people are intimidated by math but you are doing an enormous amount of math right this very instant. Your brain is processing

thousands of pieces of information, far more than just the words on this page. It is working to filter and process a lot of other noise and intrusions and let you focus on just the needed information. You are doing tremendous ratio calculations, analysis of covariance, lots of math that you would make you dizzy if you realized what was going on mathematically to allow you to function as well as you do.

You have got 30 billion brain cells in your cortex and they are connected by over a million billion connections, axons and dendrites and so on. In fact, it would take you 32 million years counting at one per second to count all those connections. That is going on inside your head right now. All those connections and all those cells are talking to each other at a staggering rate and you are attenuating all the information, a lot of the calculations, a lot of the thoughts and memories are being processed right now. Well, our brains have adapted to that cacophony of advertising, so we really let very little of it through.

So, it gets harder and harder for advertising to get through the filters. Even when it does rarely get through, we have come to believe that it is not accurate, so to speak. We have come to expect less than full integrity is present in a lot of advertising messages. It is Believe-ability Suspect or B.S. for short.

People are the New Media

So what is getting through? Personal endorsements, referrals, people willingly extending their credibility to a product or service they have experienced personally are the one remaining thing for which we will readily lower our shields. In a very real and important sense *people are the new media*. We've become inured to most traditional media. What we are all generally open to are the recommendations, the advice and the suggestions of friends.

If you look at where you are getting information about your next buying decision, where you are likely to go to your next movie, your next restaurant or what books you are considering; for most of us it comes from your circle of friends, family and colleagues. This is where a lot of buying decisions are driven. If you have an endorsement by someone or even a negative endorsement (someone recommending against something), those endorsements are the most likely thing to influence your buying. Now you may not know anything about that person's expertise, qualifications or objectivity but you tend to lend it some credence because somebody took the time to tell you about it.

That does not mean you should ignore all the marketing strategies. It is absolutely important to have a marketing strategy and conventional marketing can be very valuable. We'll look at a couple of statistics that explain why you need both shortly. But it would be very dangerous for start-up businesses or small businesses to have only a conventional marketing campaign. If you can use viral endorsement behaviors, if you can get referrals, you absolutely should. And it is a shame if you can't.

There is a special relationship between referral marketing and conventional media) marketing. This may not make the traditional media works very happy but since I so seldom (as in never) buy TV, radio or newspaper advertising, I am willing to take that chance.

I am going to use the analogy of the horse and rider for this relationship:

- **The Horse** - Traditional media represents the horse. Big, powerful, hungry and very messy to keep inside (just kidding about that last part, I've met several media people who are almost completely housetrained).
- **The Rider** - Referral marketing is like a rider, it gives direction, training and care to the conventional marketing efforts.

Left unbridled, traditional marketing is often unable to arrive effectively at its objectives. It tends to wander and graze aimlessly, heading for the barn every chance it gets. Referral marketing by clearly identifying what the market finds attractive and interesting about a service or product achieves an efficiency of both direction and results otherwise only randomly available.

This by no means denigrates the horse. It can take you farther than the rider ever could alone. They can function as partners not unlike the Lone Ranger and his horse, Silver (I suppose this dates us but then again who else would?). Certainly Silver, on more than one occasion helped the Lone Ranger out of a jam. But at the beginning and end of every show, the Lone Ranger ALWAYS had to tell Silver where to go ("away" obviously). You would think that after hundreds of episodes Silver would start to get it and remember where he was going but not unlike conventional marketing, he has to be reminded every time that the market is in charge.

Absent this understanding and with a traditional media-only marketing approach, you can expect to see a lot of your own Silver going away and never coming back.

As to small businesses that may not need to go somewhere farther and faster, it is possible that the rider (referral marketing) can take you there alone. For the majority of our small clients, referral marketing is not just their primary; it is their exclusive marketing strategy. That doesn't mean they might not run an occasional newspaper ad or radio spot sometimes but it does mean they depend on referrals for 99.9% of their profitability and growth.

The Power of Referrals

I am sure all of you have heard of the impact of referrals but this is something we were only able to precisely quantify by looking at very large data sets. If we look at the force of the two relative channels that lead to buying (referrals versus advertising), the disparity is staggering.

The incidence of consideration is a term that addresses how often you defer to a referral or a piece of advertising when considering a purchase. It means you will at least think about comparing that product or service to other alternatives or choices. The statistics say that when somebody suggests something to you, you will consider that suggestion the next time you have an opportunity to buy or use that product 80% of the time. That is huge!

The incidence of consideration for a print ad, a full-page print ad, is less than 1%. Obviously the ROI (Return on Investment) is highly in favor of the referrals. In fact 1% is quite high. But if you consider the number of exposures, clearly it does get you some

business. Quite a few people still read the newspaper. If you were to run a full-page ad in a newspaper, even a 1% incidence of consideration will get you some attention but that is only how many people will think about the product, still quite far from those who will become actual customers.