

## **Tracking Referrals is Marketing ROI**

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Marketing ROI is a common oxymoron in business. It ranks behind “Agree to Disagree”, but ahead of “Approximately Equal”. The problem with Marketing ROI stems from the uncertainty implied by marketing and the certainty implied with ROI, or Return on Investment. ROI is an explicit financial calculation determined by “dividing the monetary benefits by the money spent on developing or revising a system”. On the other hand, marketing is communication. Successful communication is subjective by nature. How do you measure communicating at level ten? And, how is it different from what happens when you communicate at level nine?

In order to accurately measure a marketing campaign, a meaningful metric must be established. Because marketing is a multi-faceted discipline, identifying what to quantify can be tricky. For example, advertising is marketing since a broadcast campaign tells the virtues of a product or service across the airwaves. Likewise, printed brochures are marketing in the sense that they communicate features and benefits directly to prospects who read it. However, in these cases it may not be clear exactly who receives the marketing message. John Wanamaker, the retail pioneer, pointedly expressed the problem with advertising (and many other forms of marketing) when he said that “half of all advertising is wasted. I just don’t know which half!” To solve the mystery of quantifying marketing results, let’s focus on a marketing tactic that can be counted.

Marketing by referrals is a proven practice. It is similar to word-of-mouth advertising, but more powerful. Both rely on the trust that one individual transfers to another regarding your service. A bonus benefit of marketing by referral is that trust and goodwill is typically transferred by an actual client, and the positive communication is intentionally directed toward the business. Word-of-mouth advertising could simply be someone relaying a good reputation. Referrals involve an endorsement based on personal experience and the expectation of driving business toward someone that deserves the benefit.

Because referrals are direct and intentional, the results are easier to trace. Either new business is realized based on a client speaking on your behalf, or it’s not. Furthermore, new business is quantifiable. Marketing by referral connects a buyer and a seller, then the sale consummates the marketing effort. The revenue is the “return” in “return on investment”!

The “investment” piece of “return on investment” still must be captured from the marketing exercise. Although pursuing referrals is a low cost practice, it is not free. Lunches, gifts, and special events are important parts of business entertainment. Their costs represent the

“investment” part of the equation. The time spent communicating by phone or email to cultivate relationships reflects additional costs associated with marketing by referral. Because results from referrals depend on intentional action from the endorser, let’s not believe that the service provider does no work. But with relatively little effort, you get golden opportunities for warm prospects similar to your referring client that will potentially yield new business.

To track marketing by referral effectively, create a simple spreadsheet that uses columns showing the initial date of the prospect introduction, the referral contact, the prospect they offer, any entertainment costs, the service involved, the revenue potential, the revenue realized, and the date closed. You can add additional columns that specifically benefit you. Perhaps you want to identify where the connections are cultivated that yield the best clients. You can set up a column tracking whether the referral source connected you to the prospect at the golf course, the wine tasting event, the professional sporting event, or the youth soccer game. You may want to identify the industry in which the prospects participate. The possibilities are numerous. The system can be as sophisticated or straightforward as you find comfortable. But most importantly, the tracking tool must be convenient and easy to update. Marketing by referral is not designed to create another report to generate. In fact, it should only require a simple method to monitor what you spend to realize new business that others want to help you earn. Upon determining the amount of new revenue over a given period and the costs invested in time, entertainment expenditures and specific marketing collateral, the ROI calculation is simply new revenue divided by these costs.

Realize that your marketing efforts are tangible when measurable results are captured. Tracking referrals is great marketing. It is based on communicating your service benefits through someone that the prospect already likes and trust. The results can be easily measured by determining whether a sale is made. Marketing by referral works because it features activities that deliver measureable results, is easily replicated and is a marketing tactic where ROI can be calculated. Marketing ROI is no longer an oxymoron. By implementing marketing by referral, businesses can quantify how well these marketing efforts are performing. Best of all, you can measure, then repeat these successes by working strictly with clients that you choose!

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