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The Total Economic Impact™ Of Extole

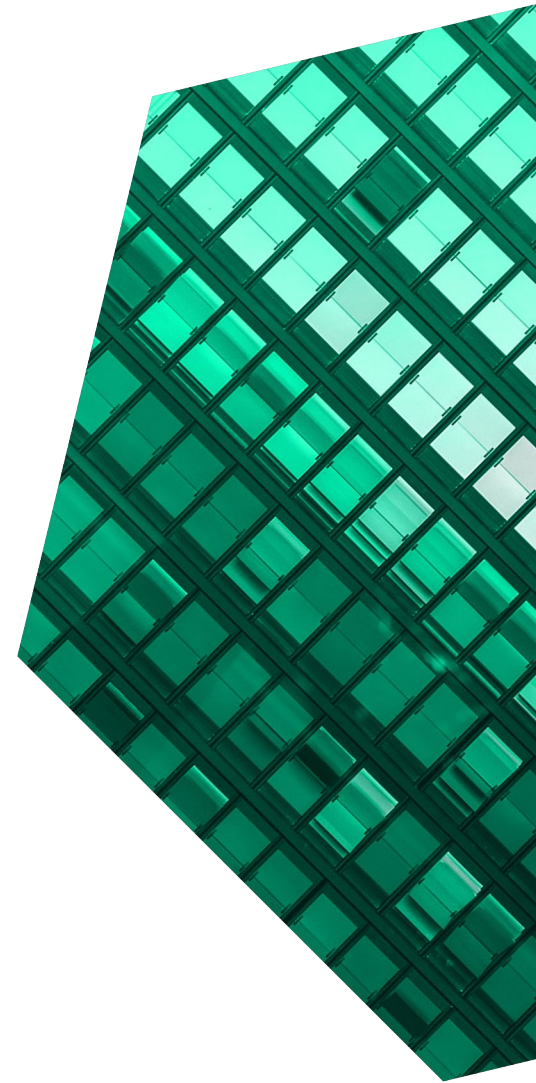
Cost Savings And Business Benefits
Enabled By Extole

AUGUST 2021

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ABOUT FORRESTER CONSULTING

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Executive Summary

A company's best customers are its strongest advocates, and all too often, businesses leave value on the table by failing to engage these customers. Given the high and increasing cost of performance media, businesses need to activate their customer base to promote their offerings to friends and family. Leveraging an engagement and referral-focused tech solution can help businesses accelerate customer acquisition.

[Extole](#) is a marketing platform that helps companies engage with and activate the loyalty of their best customers. Extole's core offering is Refer-A-Friend, a platform companies use to incentivize their best existing customers to refer new business. (Going forward, Forrester will call the referring customers "advocates.") Beyond Refer-A-Friend, Extole offers a dynamic range of advocacy programs like Nominate-A-Friend and Drop-A-Hint that offer more opportunities for customers to make referrals. Extole helps companies create and manage all aspects of a referral marketing program, from rewards and A/B testing on creative to audience analytics and program optimization.

Extole commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying [Extole](#).¹ The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Extole on their business.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four customers with experience using Extole. For the purposes of this study, Forrester aggregated the experiences of the interviewed customers and combined the results into a single [composite organization](#).

Before using Extole, interviewees' organizations had simple referral programs either built in-house or

KEY STATISTICS



Return on investment (ROI)
282%



Incremental revenue
\$19.1M

provided by other vendors. However, these programs were not delivering the results the interviewees wanted, and they required significant time and effort to manage.

After deploying Extole, interviewees' organizations quickly grew their referral marketing channel. More advocates engaged in the Extole-powered programs, and the referred customers spent more than average customers. Extole also prevented unqualified redemptions, and the marketing team members saved time. Over time, the interviewed organizations used Extole's performance-analysis tool to refine their referral programs. With Extole, the interviewed organizations realized the untapped value of their best customers.

KEY FINDINGS

Quantified benefits. Risk-adjusted present value (PV) quantified benefits include:

- **Engaged customers generate \$19.1 million in incremental revenue or \$1.1 million in profit.** Extole helps companies activate their best customers through referral programs that have high participation rates. Performance is driven by the variety of referral programs. Extole also offers companies the ability to segment audiences and send them personalized messages. After organizations deploy Extole, their advocates share more frequently. These advocates and the customers they refer tend to have higher lifetime values — they have higher order values, and they purchase more frequently. Organizations without prior referral programs may see even greater benefits.

referrers from taking advantage of the interviewed customers' referral programs, saving the businesses hundreds of thousands of dollars.

Revenue from incremental engaged customers:

**\$19.1M
over 3 years**



Increase in referrals:
100% to 260%



- **Marketing team members realize time savings of 90%.** By switching to Extole, marketing teams saved significant time tracking and operating their referral programs. At one of the interviewed organizations, marketing team members freed up almost one week every month. Organizations without prior referral programs should note that Extole's programs require minimal effort to launch.
- **Unqualified redemptions fell by 80%.** Maintaining the integrity of a referral program is important. Extole prevented bots and self-

Unquantified benefits. Benefits that are not quantified for this study include:

- **Different types of referral programs.** At all of the interviewed organizations, Extole's core Refer-A-Friend program was the source of most referrals. However, all of the organizations had deployed other programs in addition to Refer-A-Friend. Extole offers a large and diverse library of referral programs — including programs specifically for influencers and ambassadors — and the organizations had implemented referral strategies customized to their specific needs.
- **Branding and promotion.** Extole programs like Nominate-A-Friend — which enables advocates to gift rewards — can drive initiatives that pay off over the long run.

Increase in average order value for referred customers:

150%

Before

\$100

After

\$150

- **Strategic partnership with Extole.** The interviewees appreciated Extole's innovation and expertise in referral. In more than one case, the interviewed customers incorporated Extole's guidance into their organization-wide best practices.

Costs. Risk-adjusted PV costs include:

- **Extole annual licensing fees.** Extole charges an annual fee for usage of its platform and programs.
- **Implementation costs.** The interviewees found Extole easy to implement. Organizations do need to involve their IT teams to deploy Extole, but the work required was light.

The customer interviews and financial analysis found that a composite organization experiences benefits of \$1.33 million over three years versus costs of \$350,000, adding up to a net present value (NPV) of \$984,000 and an ROI of 282%.

“Extole has become truly integrated into how we speak to customers on a personalized level. They actually provide more personalization than we do now internally. We leverage them a lot that way.”

*Loyalty marketing manager,
clothing retailer*



ROI
282%



BENEFITS PV
\$1.33M



NPV
\$984K

Benefits (Three-Year)

Profit from purchases by incremental engaged customers

\$1.1M

Marketing team productivity

\$58.0K

Reduction in unqualified redemptions

\$164.7K

“We could never have done it with another company — it wasn’t even a possibility. Extole is seamless, easy, and we immediately saw benefits. We still have to transition out of old business practices, but with Extole, it’s a night-and-day difference.”

— VP, manager of client experience, banking

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in Extole.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that Extole can have on an organization.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Extole and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in Extole.

Extole reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

Extole provided the customer names for the interviews but did not participate in the interviews.



DUE DILIGENCE

Interviewed Extole stakeholders and Forrester analysts to gather data relative to Extole.



CUSTOMER INTERVIEWS

Interviewed four decision-makers at organizations using Extole to obtain data with respect to costs, benefits, and risks.



COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewed organizations.



FINANCIAL MODEL FRAMEWORK

Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organizations.



CASE STUDY

Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

The Extole Customer Journey

■ Drivers leading to the Extole investment

Interviewed Organizations				
Industry	Region	Interviewees	Employees	Years Implemented
Retail (home furnishings)	NA HQ; global operations	Senior director, engagement marketing	35,000	3+ years
Retail (clothing)	NA HQ; NA operations	Loyalty marketing manager	19,000	1 to 2 years
Banking/financial services	NA HQ; NA operations	- VP, manager of client experience - Client experience specialist	2,000	<1 year
Subscription services	NA HQ; global operations	- Senior marketing manager, CRM/lifecycle programs - Marketing manager, CRM/lifecycle programs	5,000	3+ years

KEY CHALLENGES

The stakeholders interviewed were not referral program novices; they were familiar with the potential customer engagement and revenue benefits. Some of the interviewees had built simple referral programs in-house, while others had experimented with alternative vendors.

The interviewed organizations struggled with common challenges, including:

- **Lackluster results from prior customer engagement tactics.** One of the interviewed organizations had engaged with customers primarily through email: “If customers had good experiences, then we kind of just asked them to purchase again,” said the senior director of engagement marketing for a home furnishings retailer. “We gave customers offers, but with no real incentives to share. We’ve always had post-purchase campaigns, but they were not very effective.”
- **Poor execution experiences for both customers and the marketing team.** A regional bank had printed flyers with coupon codes, which customers frequently lost. “No one kept their flyer in their back pocket,” the VP and manager of

client experience explained. “So word-of-mouth referrals were the most common, but also the most cumbersome for us.” Customer service agents spent a lot of time manually administering the referral program, and they often had to turn down customers who thought they had met the conditions for rewards but were actually ineligible. “It was not a nice experience for our customers.”

“Our old referral program was difficult to track and manage. It was a Pandora’s box of problems.”

Client experience specialist, banking

- **Technical difficulty personalizing interactions for customers across channels.** The interviewees with large footprints struggled with the technical challenge of engaging customers across multiple storefronts and brands. For example, before Extole, one of the retailers

lacked the technical infrastructure to maintain relationships with customers if those customers moved and started shopping at a new store in a different state.

“There was almost no data integrity with our old program. It was hard to reward the clients who were supposed to get rewards, and it was difficult to assist clients who inquired about their referrals. It was just hard to track the program. There were a lot of mix-ups.”

VP, manager of client experience, banking

- **Cumbersome manual tracking and management processes.** The VP and manager of client experience at the regional bank described how her organization did not trust their prior referral vendor. After she and her team discovered several errors in the referral database, the prior vendor offered to clean up the database — for an extra fee. Her team declined and instead spent an inordinate amount of time auditing the data manually. “Our old program took up all of my time. The data was a mess,” said a client experience specialist at the same bank. Although the bank’s issues were especially severe, all of the interviewees lacked the data to sufficiently track, analyze, and optimize their referral programs.

INVESTMENT OBJECTIVES

The interviewed organizations searched for a solution that could:

- **Accelerate customer acquisition.** The primary goal of all of the interviewees was to acquire new customers to grow top-line revenue. They knew that referral had potential as a channel, but their prior referral solutions were ineffective.
- **Provide a premium customer experience (CX).** To maximize results, the referral process must be seamless and convenient for both the advocates and the referral recipients.
- **Save time.** Interviewees were frustrated with the amount of time they spent administering their old referral programs.
- **Innovate.** Digital technology changes quickly. The interviewees did not know what capabilities their organizations would need in the future, but they wanted a partner that would be agile and nimble. The VP and manager of client experience at the regional bank described how inflexible their old referral provider was: “Whenever we had conversations with our old vendor, they always responded to us by saying, ‘We don’t think we can do that’ or ‘If we do that, we’re going have to charge you.’” The interviewees sought a long-term strategic partnership.

“We did a SWOT [strengths, weaknesses, opportunities, and threats] analysis, and Extolle checked every box when the other vendors did not.”

Senior director of engagement marketing, home furnishings retailer

COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an ROI

analysis that illustrates the areas financially affected. The composite organization is representative of the four companies that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

Description of composite. The composite organization is a retailer with \$2 billion in annual revenue. The retailer sells goods through both digital storefronts and brick-and-mortar stores. The organization is headquartered in North America but has global operations.

In addition, the composite organization has several characteristics relevant to the financial analysis:

- First, the composite organization has 2 million customers in Year 1, and this customer base grows annually through a combination of referral marketing and other advertising programs.
- Second, 15% of the composite organization's customers are advocates. *Advocates* are customers who like the company so much that they will recommend it if given the chance. Advocates are fans of the company. This advocacy rate is a trait of the composite organization and is outside of the model. That is, using Extolle does not affect a company's advocacy rate. Instead, a better way for a company to influence its advocacy rate would be by providing products and services that customers *want* to recommend.
- Third, the composite organization has an average profit margin of 8%, which would be typical of a retailer.²

Forrester's financial analysis provides a framework for readers to construct their own business cases for Extolle, and Forrester encourages readers to customize the calculations in the study with metrics specific to their own organizations.

Deployment characteristics. Before using Extolle, the composite organization had in place a prior referral program with limited capabilities. The marketing team could only engage with customers through the equivalent of a Refer-A-Friend program; the marketers could not act on or engage with customers in any of the other creative ways they imagined. Compounding the matter, the old referral program offered no data analytics and required significant manual work to maintain.

In Year 1, the composite organization deploys Extolle's core Refer-A-Friend program. The composite organization then deploys an additional Extolle program each year.

The composite organization deploys Extolle on its digital storefronts as well as throughout its physical stores. One of the interviewed organizations, for example, installed tablet computers at cash registers and encouraged customers to make a referral at checkout.

[Appendix B](#) summarizes the characteristics of the composite organization.

Key assumptions

- **\$2 billion in revenue**
- **2 million customers**
- **15% of customers are advocates**
- **Digital and physical storefronts**

Analysis Of Benefits

■ Quantified benefit data as applied to the composite

Total Benefits						
Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present Value
Atr	Profit from purchases by incremental engaged customers	\$275,400	\$445,322	\$655,838	\$1,376,560	\$1,111,139
Btr	Marketing team productivity	\$23,328	\$23,328	\$23,328	\$69,984	\$58,013
Ctr	Reduction in unqualified redemptions	\$45,563	\$66,987	\$90,437	\$202,987	\$164,713
	Total benefits (risk-adjusted)	\$344,291	\$535,637	\$769,603	\$1,649,531	\$1,333,865

PROFIT FROM PURCHASES BY INCREMENTAL ENGAGED CUSTOMERS

Evidence and data. After the interviewed organizations deployed Extole, referral became a cost-effective way for them to acquire new customers. However, referral was not just a source of new leads — referred customers also tended to be higher-value. In comparison to customers from other channels, referred customers placed larger orders and were more likely to purchase again.

- **Higher spend and higher purchase frequency from engaged customers.** The loyalty marketing manager at a clothing retailer reported that the average order value (AOV) of a referred customer's first purchase was almost twice as high as that of other customers. Similarly, the advocates and the referral recipients purchased much more frequently than other customers.

The senior director of engagement marketing at a home furnishings retailer shared that referred customers were nine times more valuable than the leads captured through the company's website (e.g., customers who sign up for the company's newsletter). In addition, the customers engaged through Extole (both advocates and referral recipients) made up 30% to 50% of the company's repeat purchasers. Overall, although

the advocates and referral recipients together comprised only 10% of the company's customer database, they were high-value and cost-effective to acquire.

“Extole is not just a great lead-gen tool — it also produces that quality of customer I want in my database.”

Senior director, engagement marketing, retail

- **More frequent referrals.** One of the retailers reported that each advocate generated an average of 1.5 to 2 leads. The regional bank also reported a significant uptick in leads after switching to Extole, which they attributed Extole's superior customer experience. “It's so much more convenient and so much easier for [advocates] to share,” the VP and manager of client experience explained.

- **Year-over-year program growth.** The home furnishings retailer found that the number of leads generated by Extole increased between 40% and 60% every year. The subscription services company similarly found that the number of leads that converted into paying customers increased 75% year-over-year. Extole's platform has built-in testing features to help marketers scientifically improve their programs.

“Our response rate from Extole is double our own loyalty program. We see a better result with Refer-A-Friend than [with] our own rewards.”

Senior director, engagement marketing, home furnishings retailer

- **Audience segmentation capabilities.** Extole offers companies the ability to segment their audiences and personalize messages to them, and this likely contributes to the effectiveness of the referral programs. The senior director of engagement marketing at the home furnishings retailer explained: “We treat Extole customers differently than we do customers coming in from other channels. We make sure the advocates and friends have really relevant information as we onboard them, and then later, as an advocate's list of friends has grown, we're able to use them for remarketing.” The clothing retailer similarly leveraged Extole to target marketing messages and personalize the customer experience.
- **Ability to confidently attribute results to Extole.** There are often numerous touchpoints in a customer's journey, making it difficult to

measure the success of some marketing channels. That was not the case with Extole, however. The senior director of engagement marketing for a home furnishings retailer explained, “Because we can see the coupon codes that customers provide, we can definitely say that those results are driven by Extole specifically.”

- **Multiple Extole programs.** The interviewees reported that Refer-A-Friend drove the majority of their referral conversions. For example, at the subscription services company, Refer-A-Friend accounted for 80% of referrals. However, all of the interviewees had also deployed multiple Extole programs — from Nominate-A-Friend to Drop-A-Hint, Sweepstakes, and Bursts. The organizations utilized different programs depending upon their needs.

Modeling and assumptions. For the composite organization, Forrester assumes:

In Year 1:

- The composite organizations begins with a simple referral program, but this program is not very effective: the average number of shares per advocate is 0.5.
- In Year 1, the composite organization replaces its simple referral program with Extole. The first Extole program it deploys is Refer-A-Friend.
- Because Extole makes it significantly easier for advocates to refer others, the average number of shares per advocate doubles: After implementing Extole, each advocate shares the referral offer with one other person on average.
- The referral reward is a discount of 15% off of the customer's next purchase. Advocates are eligible for the reward only if a referral recipient redeems the reward and converts to a customer. In practice, Extole offers organizations a significant amount of flexibility and control over rewards.

Organizations can create countless different types of reward offers.

- Not all advocates and not referral recipients will redeem the reward offer. In Year 1, only 10% of advocates and only 10% of referral recipients redeem the reward.³
- The customers activated by Extole — both the advocates and referral recipients — have a 150% higher AOV than the composite organization's other customers.
- As a retailer, the composite organization has an average profit margin of 8%.
- To isolate the benefits of Extole, Forrester calculated the profit generated by the *incremental* referred customers. Without Extole, the composite organization would still have had some referred customers from its simple referral program. The benefit of Extole lies in *additional* referred customers.
- The reward induces advocates to purchase again and so generates additional profits for the company.

In Years 2 and 3:

- The composite organization deploys a second Extole program in Year 2 and a third Extole program in Year 3.
- The composite organization also uses Extole's features to optimize and improve its referral program. For example, the organization might test different ways of positioning the referral program.
- Thanks to these measures, the shares per advocate and the reward redemption rate increase year-over-year.

Risks. Differences across organizations that may impact the benefits include:

- **Efficacy of the old referral program.**
Organizations without prior referral programs

may see greater benefits. Readers who wish to estimate the potential ROI in such a scenario might customize the calculation table by reducing the "Shares per advocate" rate in row A2 of the following table. Without any prior referral program, the shares per potential advocate would be much closer to 0.

- **Insufficient organizational buy-in and poor onsite placement.** Customers will not use a new referral program if they do not know about it. During interviews with Extole's customers and stakeholders, Forrester found that the most successful Extole customers had invested in making their referral programs successful. These organizations' referral programs were easy to find on their websites, and the organizations had spent time testing and optimizing them.
- **Reward costs.** In its financial model, Forrester modeled a reward cost that might be typical for a retailer. However, the optimal reward offer will vary from organization to organization and will be substantially different in other industries. (For example, the bank rewarded advocates and referral recipients with \$50 cash gift card if a referral recipient opened a new account.)

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of \$1.1 million.

Profit From Purchases By Incremental Engaged Customers					
Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	Potential advocates (baseline)	Assumption: 15% of customer base growing 5% each year	300,000	315,000	330,750
A2	Shares per advocate before Extol	Assumption	0.50	0.50	0.50
A3	Shares to referral recipients before Extol	$A1 \times A2$	150,000	157,500	165,375
A4	Number of Extol programs	R14	1	2	3
A5	Shares per advocate after Extol	Interviews	1.00	1.40	1.80
A6	Shares to referral recipients after Extol	$A1 \times A5$	300,000	441,000	595,350
A7	Reward redemption rate for engaged customers	Assumption	10%	11%	12%
A8	Incremental referral recipients who redeem reward	$(A6 \times A7) - (A3 \times A7)$	15,000	31,185	51,597
A9	AOV of engaged customers	Average AOV: \$100 * AOV gain among engaged customers: 150%	\$150	\$150	\$150
A10	Reward: percent discount off AOV	Interviews	15%	15%	15%
A11	AOV of engaged customers after reward redemption	$A9 \times (1 - A10)$	\$127.50	\$127.50	\$127.50
A12	Subtotal: revenue from incremental referral recipients who redeem rewards	$A8 \times A11$	\$1,912,500	\$3,976,088	\$6,578,618
A13	Incremental shares per advocate	$A1 - A3$	150,000	157,500	165,375
A14	Incremental advocates who redeem reward for sharing	$A13 \times A7$	15,000	17,325	19,845
A15	Subtotal: revenue from incremental advocates who redeem rewards	$A14 \times A11$	\$1,912,500	\$2,208,938	\$2,530,238
A16	Revenue from incremental engaged customers	$A12 + A15$	\$3,825,000	\$6,185,026	\$9,108,856
A17	Average profit margin	Assumption	8%	8%	8%
At	Profit from purchases by incremental engaged customers	$A16 \times A17$	\$306,000	\$494,802	\$728,708
	Risk adjustment	↓ 10%			
Atr	Profit from purchases by incremental engaged customers (risk-adjusted)		\$275,400	\$445,322	\$655,838
Three-year total: \$1,376,560			Three-year present value: \$1,111,139		

MARKETING TEAM PRODUCTIVITY

Evidence and data. By switching to Extole, marketing teams saved time managing their referral programs.

- **Time savings of 90% on data and program management.** The regional bank reported the greatest time-savings benefit. Before Extole, one of the company's client experience specialists spent a full week every month just managing the referral program. The process involved cross-referencing data in seven different spreadsheets, and the company was never confident that their database was error-free. The client experience specialist explained, "A customer could be in the system five different times — there was no real cleanup." Because the process was so time-consuming, the organization rewarded advocates only monthly. Advocates often emailed asking about the status of their rewards, so the client experience team had to spend even more time fielding those requests.

After the organization adopted Extole — which automated data collection and cleanup — the client experience specialist's time commitment dropped to less than 4 hours per month. The client experience specialist was able to shift her attention to other high-value, client-focused initiatives and projects. The organization also began paying rewards daily, creating a much better customer experience.

"Thanks to Extole, I'm spending less than an hour per week focused on referral."

Marketing manager, CRM/lifecycle programs, subscription services

"I can help our customers faster than ever. I can quickly delve into any issues. For example, if there's a typo in a customer's email address, I can fix that easily."

Client experience specialist, banking

- **Streamlined testing and reporting.** Extole enabled marketing teams to test different offers and creative behind referral programs. Through its performance-reporting feature, they could quickly review the potential long-term performance of new referral initiatives and adjust accordingly to see better results. The marketing manager at the subscription services company elaborated: "Extole is very user-friendly and makes it easy to make data-driven decisions. We didn't have a lot of internal resources to dedicate [to testing], and we were able to get up off the ground and run with it."

Modeling and assumptions. For the composite organization, Forrester assumes:

- The composite organization has two full-time marketing managers who oversee the referral program.
- Before Extole, the marketing managers each spent 40 hours per month managing the referral program. They spent this time facilitating the program, fielding requests from customers, and reporting on the program to senior leadership.
- Extole reduces the time to manage a referral program by 90%. After Extole, the marketing managers each only spend 4 hours per month managing the referral program.

- The marketing managers capture and productively use most of the time they save. (In practice, no one is productive 100% of the time.)

Risks. Factors that may cause this benefit to vary from organization to organization include the state of an organization's prior environment. Organizations most likely to realize marketing team productivity gains have an existing referral program requiring significant manual effort. Organizations *without* an existing referral program might instead note that, with

Extole, they can create a referral program without much additional effort (i.e., they do not need to increase team size).

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$58,000.

Marketing Team Productivity					
Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Number of marketing managers (FTEs)	Assumption	2	2	2
B2	Marketing manager hourly rate (fully burdened)	Assumption	\$40	\$40	\$40
B3	Hours per month spent managing referral before Extole	Interviews	40	40	40
B4	Percentage of time saved	Interviews	90%	90%	90%
B5	Hours per month spent managing referral after Extole	$B3 \times (1 - B4)$	4	4	4
B6	Percentage recaptured	Assumption	75%	75%	75%
Bt	Marketing team productivity	$B1 \times B2 \times (B3 - B5) \times 12 \times B6$	\$25,920	\$25,920	\$25,920
	Risk adjustment	↓10%			
Btr	Marketing team productivity (risk-adjusted)		\$23,328	\$23,328	\$23,328
Three-year total: \$69,984			Three-year present value: \$58,013		

REDUCTION IN UNQUALIFIED REDEMPTIONS

Evidence and data. Unqualified redemptions occur when advocates or referral recipients redeem rewards they are not eligible for. This can happen in a variety of ways. The customer trying to redeem the reward might not meet the conditions for reward redemption — such as, for example, living in a certain area to be eligible for the reward. Or an advocate might try to refer himself or herself using another email address.

Ensuring that referrals are qualified is important for the integrity and ROI of a referral program. The senior director of engagement marketing at a home furnishing retailer summarized: “We’re not mad when people try to redeem multiple codes, but it’s important for the integrity of the program that we prevent that. Extole helps us recover thousands of dollars, and that money goes right back into our marketing spend.”

“Extole is very aware of quality control and has safeguards in place. This was an added benefit of partnering with them.”

Marketing manager, CRM/lifecycle, subscription services

At the regional bank, Extole prevented unqualified redemptions just by maintaining a clean database. Before Extole, the company had occasionally rewarded the same customers multiple times if those customers had accidentally registered multiple times (for example, after moving and changing their mailing address). However, the company quickly found that Extole did more than keep clean records. The VP and manager of client experience for the bank said, “With

Extole, there are a lot of back-end rules in place to prevent self-referrals, quick referrals, and bots.”

All of the interviewees estimated that unqualified redemptions were only a minor issue — at most a few percentage points of overall referral program activity. However, sometimes a minority of advocates could be the source of the majority of ineligible redemptions. “Extole’s level of validation is something we would never have been able to do on our own,” the marketing manager of CRM/lifecycle programs at a subscription services company concluded.

Modeling and assumptions. For the composite organization, Forrester assumes:

- Among all referrals, 1% are unqualified. Some of these unqualified referrals are accidental, but others are intentional and come from self-referrals and bots.
- The composite organization’s simple referral program catches only 5% of unqualified referrals.
- Extole prevents at least 80% of unqualified referrals. Extole might not prevent all unqualified referrals, but it diverts the majority of them.

Risks. Factors that may cause this benefit to vary from organization to organization include exposure to unqualified redemptions. An organization’s risk exposure to unqualified redemptions may be greater in some industries than others. For example, financial services, referral rewards are often cash payments (such as \$50 to the advocate and \$50 to the referral recipient if the recipient opens an account). Such rewards are more tempting to fraudsters and also more costly for organizations to improperly pay out.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of nearly \$165,000.

Reduction In Unqualified Redemptions					
Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Total customers	Assumption	2,000,000	2,100,000	2,205,000
C2	Advocacy rate (baseline)	Assumption	15%	15%	15%
C3	Shares per advocate after Extole	Interviews	1.00	1.40	1.80
C4	Shares to referral recipients after Extole	$A1 \times A5$	300,000	441,000	595,350
C5	Percentage of shares that are unqualified	Interviews	1%	1%	1%
C6	Unqualified shares	$C1 \times C2 \times C3 \times C5$	3,000	4,410	5,954
C7	Percentage of unqualified shares diverted before Extole	Assumption	5%	5%	5%
C8	Minimum percentage of unqualified shares diverted after Extole	Assumption	80%	80%	80%
C9	Incremental unqualified shares diverted by Extole	$(C8 - C7) \times C6$	2,250	3,308	4,466
C10	Cost of an unqualified redemption	$A10 \times A11$	\$22.50	\$22.50	\$22.50
Ct	Reduction in unqualified redemptions	$C9 \times C10$	\$50,625	\$74,430	\$100,485
	Risk adjustment	↓ 10%			
Ctr	Reduction in unqualified redemptions (risk-adjusted)		\$45,563	\$66,987	\$90,437
Three-year total: \$202,987			Three-year present value: \$164,713		

FLEXIBILITY

There are multiple scenarios in which a customer might implement Extole and then later realize additional benefits and opportunities, including:

- **Multiple Extole programs.** At all of the interviewed organizations, most referrals were driven by Extole's core program, Refer-A-Friend. However, all of the interviewed organizations had deployed multiple Extole programs. At the time of Forrester's study, Extole offered programs targeting all stages of the referral lifecycle — from acquisition to retention to conversion — and continues to develop new programs. Informed by the performance of current programs and developments in the market, these programs include variations on influencer and ambassador initiatives, sweepstake campaigns, and traditional referral programs. The interviewed organizations all had customized portfolios of programs to meet their unique goals.
- **Branding and promotion.** Extole programs can support customer engagement strategies that pay off over the long run. For example, Extole's Nominate-A-Friend program encourages advocates to gift rewards in the name of pro-social causes. For the furniture retailer, the Nominate-A-Friend program was particularly

“Extole just had capabilities that our old vendor could not offer. Extole upgraded the referral experience for our customers and gave us more options. We’ve seen continuous improvement and innovation from them as well.

VP, manager of client experience, banking

“Under our previous referral program, one customer redeemed rewards that he wasn’t eligible for numerous times. That alone was enough for me to plead my case for why we needed Extole.”

VP, manager of client experience, banking

successful during 2020. The senior director of engagement marketing shared: “With COVID-19 and everything else that was happening in the world, people really engaged with it. They felt good.”

- **Strategic partnership with Extole.** All of the interviewees appreciated Extole's expertise in referral and described how Extole had helped them develop their referral strategies.

“We have a lot going on at our business, and being able to have ideas implemented very quickly — the way Extole can run with an idea or strategy — is really amazing. I don’t have to be the sole brainstormer. They have been invaluable, and they really know their world,” said the senior marketing manager at a subscription services company.

The loyalty marketing manager at a clothing retailer described how Extole's advice for one promotion ended up becoming a best practice beyond referral. She added: “I would say Extole's flexibility and speed-to-market has absolutely been the biggest benefit. The overall ethos and attitude of the company is very refreshing compared to other vendors we use. They have been very, very helpful with best practices.”

The value of flexibility is unique to each customer. Flexibility is described in more detail in [Appendix A](#).

Analysis Of Costs

■ Quantified cost data as applied to the composite

Total Costs							
Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present Value
Dtr	Extole annual licensing fees	\$0	\$137,500	\$137,500	\$137,500	\$412,500	\$341,942
Etr	Implementation effort	\$6,762	\$0	\$0	\$0	\$6,762	\$6,762
	Total costs (risk-adjusted)	\$6,762	\$137,500	\$137,500	\$137,500	\$419,262	\$349,578

EXTOLE ANNUAL LICENSING FEES

Evidence and data. Extole charges an annual fee for usage of its platform and programs. Each brand or domain requires a separate Extole deployment, and Extole programs other than Refer-A-Friend are priced as add-ons.

Modeling and assumptions. The composite organization has one flagship brand that requires one Extole deployment. The composite organization deploys Refer-A-Friend and then deploys an additional referral program each subsequent year.

Risks. As this benefit can vary from organization to organization, readers should contact Extole to receive a quote specific to their organization and planned usage.

Results. To account for variance, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of \$342,000.

Extole Annual Licensing Fees						
Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
D1	Extole annual licensing fees	Assumption		\$125,000	\$125,000	\$125,000
Dt	Extole annual licensing fees	D1	\$0	\$125,000	\$125,000	\$125,000
	Risk adjustment	↑10%				
Dtr	Extole annual licensing fees (risk-adjusted)		\$0	\$137,500	\$137,500	\$137,500
Three-year total: \$412,500			Three-year present value: \$341,942			

IMPLEMENTATION EFFORT

The interviewees reported that the overall effort to implement Extole was minimal. The IT department must be involved in a limited manner to deploy Extole on the website. In addition, the marketing team should allocate some time to learn the platform and plan initial campaigns. The interviewed organizations typically launched Extole within about one month. The interviewees attributed any delays to themselves and not to Extole.

- “Their tool is super-intuitive and super-easy — and even with such an easy tool, their team is always super-helpful,” said the senior director of engagement marketing at a home furnishings retailer.
- “It was a really smooth process,” said the VP and manager of client experience at the regional bank. “Extole was fully committed to making sure we launched on time, and we did.”

Modeling and assumptions. For the composite organization, Forrester assumes:

- **IT effort.** The composite organization’s IT department needs at most 80 hours to deploy

Extole across the organization’s digital storefronts. This work is straightforward and is completed by junior team members.

- **Marketing effort.** The two marketing managers each spend 80 hours planning the composite organization’s new referral program. Each manager also needs 16 hours to fully learn Extole’s platform.

Risks. Factors that may cause this cost to vary from organization to organization include:

- **Existing technology.** The specific technology an organization uses for its digital storefronts may affect the IT implementation effort.
- **Customer education.** Organizations may need to invest additional effort to raise awareness of the new referral program and to teach customers how to use it. For example, the regional bank—which was switching from another referral vendor—hoped to create FAQs and how-to videos.

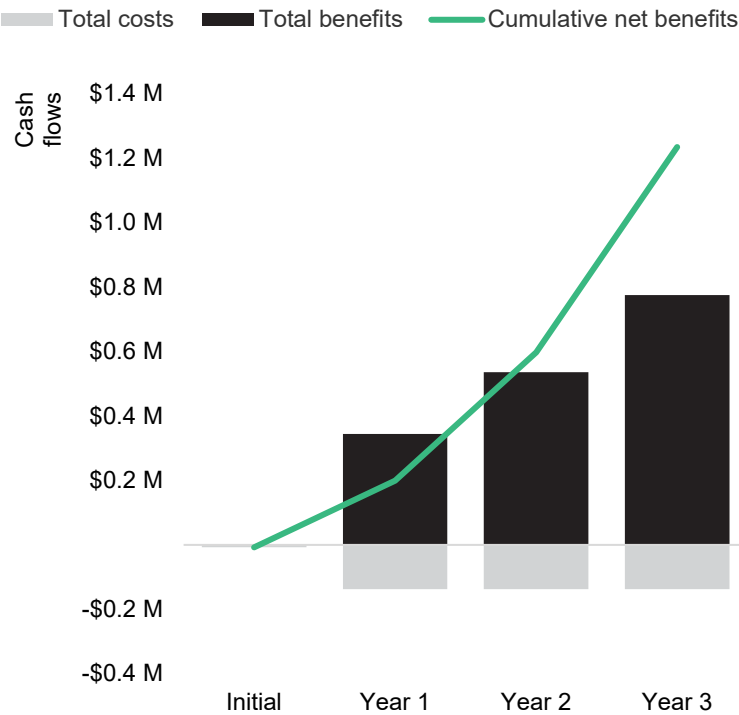
Results. To account for these risks, Forrester adjusted this cost upward by 15%, yielding a three-year, risk-adjusted total PV of \$7,600.

Implementation Effort						
Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
E1	Implementation effort by IT (hours)	Interviews	40			
E2	IT average hourly rate (fully burdened)	Assumption	\$51			
E3	Number of marketing managers (FTEs)	R21	2			
E4	Planning and deployment (hours)	Interviews	40			
E5	Training (hours)	Interviews	8			
E6	Marketing manager hourly rate (fully burdened)	R22	\$40			
Et	Implementation effort	$(E1 \times E2) + (E3 \times (E4 + E5) \times E6)$	\$5,880	\$0	\$0	\$0
	Risk adjustment	↑15%				
Etr	Implementation effort (risk-adjusted)		\$6,762	\$0	\$0	\$0
Three-year total: \$6,762			Three-year present value: \$6,762			

Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI and NPV are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.

Cash Flow Analysis (Risk-Adjusted Estimates)						
	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	(\$6,762)	(\$137,500)	(\$137,500)	(\$137,500)	(\$419,262)	(\$349,578)
Total benefits	\$0	\$344,291	\$535,637	\$769,603	\$1,649,531	\$1,333,865
Net benefits	(\$7,636)	\$206,791	\$398,137	\$632,082	\$1,229,373	\$984,287
ROI						282%

Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

TOTAL ECONOMIC IMPACT APPROACH

Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.



PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.



NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.



RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.



DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.



PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

Appendix B: Composite Organization

The table below summarizes the characteristics of the composite organization.

Composite Organization					
Ref.	Metric	Calculation	Year 1	Year 2	Year 3
R1	Total customers	Assumption	2,000,000	2,100,000	2,205,000
R2	Total customers growth rate (baseline)	Assumption	5%	5%	5%
R3	Advocacy rate (baseline)	Assumption	15%	15%	15%
R4	Advocates (baseline)	$R1 \times R3$	300,000	315,000	330,750
R5	Shares per advocate before Extole	Assumption	0.50	0.50	0.50
R6	Advocates who shared	$R4 \times R5$	150,000	157,500	165,375
R7	Shares before Extole	$R4 \times R5$	150,000	157,500	165,375
R8	Shares per advocate after Extole	Interviews	1.00	1.40	1.80
R9	Shares after Extole	$R4 \times R8$	300,000	441,000	595,350
R10	Incremental shares per advocate due to Extole	$R8 - R5$	0.50	0.90	1.30
R11	Percentage increase in shares per advocate due to Extole	$R10 / R5$	100%	180%	260%
R12	Incremental shares due to Extole	$R9 - R6$	150,000	283,500	429,975
R13	Number of Extole programs	Assumption	1	2	3
R14	Reward redemption rate	Assumption	10%	11%	12%
R15	Referral recipients who redeem reward before Extole	$R7 \times R14$	15,000	17,325	19,845
R16	Referral recipients who redeem reward after Extole	$R9 \times R14$	30,000	48,510	71,442
R17	Subtotal: Incremental referral recipients who redeem reward	$R16 - R15$	15,000	31,185	51,597
R18	Advocates who redeem reward	$R6 \times R14$	15,000	17,325	19,845
R19	AOV of all customers	Assumption	\$100	\$100	\$100
R20	Average profit margin	Assumption	8%	8%	8%
R21	Number of marketing managers (FTEs)	Interviews	2	2	2
R22	Marketing manager hourly rate (fully burdened)	Assumption	\$40	\$40	\$40

Appendix C: Endnotes

¹ Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

² Source: "Margins by Sector (US)," Aswath Damodaran, New York University Leonard N. Stern School of Business, January 2021 (http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html).

³ The average conversion rate observed by all Extole customers is 13%. Source: "4 Key Funnel Metrics From 400 Referral Programs," Extole, January 15, 2016 (<https://www.extole.com/blog/4-key-funnel-metrics-from-400-referral-programs/>).

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