



---

# **A Study on the Assessment of the Effectiveness of Referral Marketing in the Acquisition of New Customers for Businesses in Lilongwe City**

*Chipiliro Shaffie Mwinama<sup>1</sup>, Godfrey Mpundu Sekula<sup>2</sup>*

<sup>1</sup>MBA Student, DMI-ST Eugene University, Zambia

<sup>2</sup>Phd, Dmi-St Eugene University, Zambia

---

## **ABSTRACT**

This study evaluates the effectiveness of referral marketing in driving customer acquisition for businesses in Lilongwe City, Malawi. Referral marketing, which uses satisfied customers to attract new ones, is recognized worldwide for its cost efficiency and high conversion rates. However, its impact in the context of the Lilongwe's unique market remains unexplored. This research aims to fill this gap by examining referral marketing strategies suitable for the cultural and economic environment of Lilongwe.

Using a mixed methods approach, the study combines quantitative surveys and qualitative interviews to gain a comprehensive picture of the impact and challenges of referral marketing. A sample of 383 customers was surveyed using convenience sampling and 30 business owners or marketing managers were surveyed using purposive sampling. Data analysis was performed with SPSS (Statistical Package for the Social Sciences) software, using techniques such as multiple regression and descriptive statistics.

By exploring the effectiveness of referral marketing in Lilongwe, this study contributes to a better understanding of marketing strategies in developing economies and provides practical advice that can drive business growth in this unique context.

---

## **INTRODUCTION**

Referral marketing, or word of mouth marketing, uses personal recommendations, making it a cost-effective strategy, especially in developing countries like Malawi, where personal relationships greatly influence consumer behavior. In Lilongwe, the capital of Malawi, businesses face the challenge of standing out in a competitive market with limited budgets. By taking advantage of existing customers to refer others, businesses can expand their reach without significant additional cost.

It is essential to understand the impact of referral marketing in Lilongwe. As Omar and Williams (2021) note, "referral marketing in emerging markets is uniquely positioned to leverage community trust, offering a cost-effective alternative to traditional advertising" (p. 92). This study explores these dynamics, providing new insights into the potential of referral marketing in emerging markets.

The primary aim of this research is to assess the effectiveness of referral marketing in acquiring new customers for businesses in Lilongwe City.

The specific objectives are:

1. To evaluate the impact of referral marketing on customer acquisition rates for businesses in Lilongwe.
2. To compare the effectiveness of referral marketing with other marketing strategies used by businesses in Lilongwe in terms of customer acquisition rates, cost efficiency, customer retention, and overall return on investment (ROI).
3. To identify the key challenges that businesses face when implementing referral marketing campaigns in the local context.
4. To provide actionable recommendations for businesses on how to implement successful referral marketing strategies tailored to Lilongwe's market dynamics.

---

## **LITERATURE REVIEW**

Referral marketing's effectiveness in customer acquisition has been widely studied globally, yet its specific impact in Lilongwe, Malawi, remains underexplored. Globally, referral marketing is recognized for its cost-effectiveness and high conversion rates. Johnson et al. (2021) emphasize the

importance of "localized approaches" for higher engagement, suggesting the need for tailored strategies in specific markets. Brown & Green (2020) highlight that "word-of-mouth recommendations often carry more weight than traditional advertising," underscoring the power of personal recommendations in influencing purchases.

However, Smith and Jones (2023) point out a significant gap in localized research, noting that global studies may not fully capture local market nuances. This lack of localized data limits Lilongwe businesses, leaving them without actionable insights. Martin & Thompson (2019) discuss how "personal recommendations build trust and credibility," crucial elements for customer conversion. Financially, Anderson & Sullivan (2020) argue that referral marketing yields "higher returns on investment due to its relatively low cost," though these findings reflect broader trends rather than Lilongwe's specific context.

Ngwira et al. (2022) explore digital marketing in Malawi, identifying referral marketing as key in reaching wider audiences cost-effectively. Chirwa & Kambalame (2021) focus on SMEs in Lilongwe, noting that "referral marketing helps SMEs build stronger community ties and foster trust," highlighting its potential to enhance customer loyalty.

Mvula et al. (2020) confirm that "referrals from friends and family significantly influence purchasing decisions," especially in urban areas like Lilongwe, though strategies to leverage this are not fully explored. Kachali & Banda (2019) highlight the importance of peer recommendations in the agricultural sector, stressing the role of trust but not thoroughly analyzing urban referral marketing impacts.

In the hospitality industry, Kalua et al. (2018) find that "referral marketing contributes to higher occupancy rates and repeat business in Lilongwe hotels," while Chipeta & Chisala (2019) show that customer referrals significantly grow Lilongwe's retail sector. Manda & Phiri (2020) identify "cultural barriers and lack of technological infrastructure" as major challenges in implementing referral marketing in Malawi, pointing to the need for tailored strategies.

Musuka et al. (2021) show that "banks and microfinance institutions benefit from customer referrals," suggesting cross-industry applicability. Similarly, Nkhata & Gondwe (2022) highlight the role of referrals in the health sector for expanding patient bases. Zimba & Mwase (2021) demonstrate that in Lilongwe's education sector, schools attract students through "positive word-of-mouth," indicating referral marketing's broad applicability but underscoring the need for more research on specific strategies.

## RESEARCH METHODOLOGY

### Study design

This study uses a mixed methods design that integrates qualitative and quantitative approaches to assess the effectiveness of referral marketing in Lilongwe City. The qualitative aspect includes in-depth interviews and observations, while the quantitative component uses surveys for statistical analysis. Triangulation of these methods improves validity and reliability.

### Population and sample size

A sample of 383 customers will be studied, calculated with a confidence level of 95% and a margin of error of 5%. Convenience sampling targets customers familiar with referral marketing for effective data collection. In addition, 30 business owners or marketing managers will be specially selected for interviews to provide an in-depth qualitative insight.

### Data collection technique

Data will be collected through surveys, interviews and analysis of historical financial data. Surveys, distributed online and in person, capture customer experiences, while semi-structured interviews with business owners provide qualitative insight. Historical financial data will assess the impact of referral marketing on metrics such as customer acquisition and ROI.

### Data analysis

Multiple regression will examine the relationship between referral marketing strategies and customer acquisition effectiveness. Descriptive statistics summarize key data and provide insight into trends such as the average number of new customers acquired through referral marketing. These methods provide a comprehensive understanding of the effectiveness of referral marketing, thus contributing to the optimization of the strategy.

## DISCUSSION OF THE RESULTS

### Regression Analysis of Referral Marketing Effectiveness

Model Summary				
Model	Correlation Coefficient (R)	R <sup>2</sup> (R Square)	Adjusted R	Standard Error of the Estimate
1	0.824	0.651	0.623	0.123

### *Figure 2 Regression Analysis of Referral Marketing Effectiveness*

Multiple regression analysis was performed to evaluate the effectiveness of referral marketing strategies, revealing a strong positive impact. The correlation coefficient (R2) of 0.824 suggests a significant relationship between the quality of referral marketing strategies and their effectiveness. The R2 value of 0.651 shows that 65.1% of the variability in effectiveness can be explained by the strategies used, highlighting its importance. An adjusted R2 of 0.623 confirms the robustness of the model, even with multiple predictors. A low standard error of 0.123 also suggests high accuracy in the model's predictions. These results show that companies can significantly improve the effectiveness of their referral marketing through proper planning and execution of their strategy. Focusing on key factors such as customer satisfaction, effective communication and compelling incentives can lead to significant improvements in customer acquisition and increased revenue. As a study from the Wharton School of Business points out, "referred customers have a 16% higher lifetime value than non-referred customers," highlighting the long-term benefits of a well-executed referral strategy.

This study highlights the crucial role of referral marketing in customer acquisition and business growth in Lilongwe. The results show that 74% of companies find referral marketing "effective" or "very effective," a sentiment that is consistent with the literature that emphasizes the effectiveness of the strategy and high conversion rates. In particular, 93% of companies report that 11-50% of their new customers come from referrals, with half of them attributing 31-50% of new customers to this method, highlighting its importance in their marketing efforts.

The regression analysis also shows that 65.1% of the effectiveness of customer acquisition strategies can be explained by the quality of referral marketing. This shows that focusing on customer satisfaction, effective communication and attractive incentives can significantly improve customer acquisition.

### **Financial impact and return on investment**

The study shows that referral marketing significantly increases sales and revenue, with 53% of businesses reporting a significant increase and 47% a moderate increase. These results are consistent with studies suggesting that referred customers have a higher lifetime value. Furthermore, 83% of businesses believe that referral marketing is as effective or more effective than other customer acquisition strategies, highlighting its financial benefits in cost-conscious markets such as Lilongwe.

### **Factors Affecting Referral Marketing**

The main factors that contribute to the success of referral marketing include customer satisfaction (33% of respondents), incentive programs (27%) and the quality of the product or service (23%). These results suggest that companies should prioritize these areas to maximize the impact of their referral marketing strategies.

### **Recommendations**

To improve referral marketing strategies in Lilongwe, companies should prioritize the integration of social media platforms such as Facebook, Instagram and WhatsApp. Social media offers wide reach and high engagement, making it an essential tool for effective campaigns. Along with this, companies should invest in customer awareness and education. By implementing comprehensive campaigns across various communication channels and partnering with local influencers, businesses can ensure that customers fully understand and participate in referral programs.

Simplifying the sponsorship process is also essential. Companies should try to make the process intuitive by reducing the steps, providing clear instructions and offering multiple sponsorship opportunities. Combined with this, competitive and attractive incentives will motivate customers to actively participate. A tiered reward system can also encourage repeat referrals over time.

Strategic use of promotions and contests can create a sense of urgency and excitement around referral programs. Introducing contests with clear rules and substantial prizes will increase customer engagement. In addition, clear instructions and strong customer service make it easier for customers to navigate referral programs and address their concerns. Finally, companies can consider developing a dedicated sponsorship app to simplify the process, improve the user experience and encourage greater participation.

By following these tips, businesses in Lilongwe can significantly improve the effectiveness of their referral marketing efforts, resulting in increased customer acquisition, higher sales and long-term growth.

---

## **Conclusion**

This study confirms that referral marketing is a very effective strategy for customer acquisition and business growth in Lilongwe. The results show that a significant proportion of new customers and sales growth are directly related to well-executed referral marketing strategies. Key factors such as customer satisfaction, effective communication and well-structured incentive programs play a crucial role in this success. The high ROI and superior profitability compared to other marketing strategies make referral marketing a valuable tool for businesses, especially in competitive markets with limited resources.

However, to realize the full potential of referral marketing, companies face many challenges, including high competition, trust issues, low customer awareness and limitations to scale. By focusing on targeted strategies, such as improving customer education, using digital platforms for greater reach,

and developing scalable systems, companies can overcome these obstacles. By doing so, you will not only improve your referral marketing efforts, but also ensure a competitive advantage and sustainable growth in the market.

## REFERENCES

---

1. American Marketing Association (2017). The Financial Impact of Referral Marketing. Retrieved from [<https://www.ama.org>] (<https://www.ama.org>)
2. Anderson, K. and Sullivan, M. (2020). 'The financial impact of referral marketing', *Journal of Financial Marketing*, 23(2), pp. 189-201.
3. Brown, J. and Patel, R. (2021). The Role of Local Adaptation in Global Marketing Strategies. *Global Marketing Review*, 12(1), pp. 78-89.
4. Brown, M. and Green, P. (2020). 'Impact of referral marketing on customer acquisition: A global perspective', *Journal of Marketing Research*, 57(4), pp. 341-356.
5. Chipeta, T. and Chisala, J. (2019). 'Referral marketing in the retail sector in Lilongwe', *Malawi Retail Journal*, 9(1), pp. 67-80.
6. Chirwa, M. and Kambalame, C. (2021). 'Referral marketing for SMEs in Lilongwe', *Lilongwe Business Review*, 6(2), pp. 99-115.
7. Davis, M. (2023). Harnessing Personal Trust in Referral Marketing. *International Journal of Business and Marketing*.
8. Deloitte (2015). Referral Marketing Strategies and Business Growth. Retrieved from [<https://www.deloitte.com>](<https://www.deloitte.com>)
9. HubSpot (2020). The Impact of Digital Marketing on Customer Engagement. Retrieved from [<https://www.hubspot.com>] (<https://www.hubspot.com>)
10. Johnson, R., Smith, T. and Williams, L. (2021). 'Localized marketing strategies and their impact on customer engagement', *Journal of Localized Marketing*, 15(3), pp. 215-230.
11. Jones, M. and Ahmed, S. (2022). Localized Marketing: The Importance of Consumer Behavior in Emerging Markets. *Journal of Marketing Strategy*, 39(4), pp. 112-124.
12. Kalua, T., Banda, P. and Chimwala, J. (2018). 'Referral marketing in the hospitality industry in Lilongwe', *Journal of Hospitality Marketing*, 12(3), pp. 123-139.
13. Kachali, W. and Banda, L. (2019). 'Word-of-mouth marketing in Malawi's agricultural sector', *African Journal of Agricultural Marketing*, 14(1), pp. 44-59.
14. Kumar, V., Petersen, J. A. and Leone, R. P. (2010). Driving profitability by encouraging customer referrals: Who, when, and how. *Journal of Marketing*, 74(5), pp. 1-17.
15. Lee, M. (2024). Challenges and Opportunities in Referral Marketing. *Journal of Marketing Strategies*.
16. Lewis, S. (2023). Strategies for Effective Referral Marketing in Competitive Markets. *Business Growth Journal*.
17. Manda, A. and Phiri, K. (2020). 'Challenges of implementing referral marketing in Malawi', *Malawi Journal of Marketing Studies*, 11(2), pp. 95-110.
18. Martin, J. and Thompson, G. (2019). 'The psychology of referral marketing', *Journal of Consumer Behavior*, 26(4), pp. 299-315.
19. McKinsey & Company (2010). A New Way to Measure Word-of-Mouth Marketing. Retrieved from [<https://www.mckinsey.com>] (<https://www.mckinsey.com>)
20. Msukwa, M., Lungu, P. and Jere, Z. (2021). 'Effectiveness of referral marketing in the financial services sector in Malawi', *Journal of Financial Services Marketing*, 8(3), pp. 205-220.
21. Mvula, D., Ngulube, P. and Nkhalamba, B. (2020). 'Consumer behavior and referral marketing in Malawi', *Journal of Consumer Studies*, 19(2), pp. 89-105.
22. Ngulube, E., Chigwenembe, D. and Kamwendo, F. (2022). 'Digital marketing strategies in Malawi', *Malawi Digital Marketing Review*, 7(1), pp. 34-48.
23. Nkhata, S. and Gondwe, H. (2022). 'Referral marketing in the health sector in Malawi', *Journal of Health Marketing*, 14(2), pp. 71-89.
24. Nielsen (2012). Global Trust in Advertising and Brand Messages. Retrieved from [<https://www.nielsen.com>](<https://www.nielsen.com>)
25. Omar, M. and Williams, R. L. (2021). The Impact of Referral Marketing in Emerging Markets: A Case Study. *Journal of Business Research*, 124, pp. 89-98.
26. Reichheld, F. F. and Sasser, W. E. (1990). Zero defects: Quality comes to services. *Harvard Business Review*, 68(5), pp. 105-111.
27. Smith, R. and Jones, T. (2023). 'Localized marketing insights and customer behaviors', *International Journal of Marketing Research*, 29(1), pp. 44-59.

28. Wharton School of Business (2010). Referral Programs and Customer Value. Retrieved from [<https://www.wharton.upenn.edu>] (<https://www.wharton.upenn.edu>)
29. Zimba, L. and Mwase, A. (2021). 'Referral marketing in the education sector in Lilongwe', *Journal of Educational Marketing*, 11(1), pp. 112-127.