

# Enhancing SME Growth through Referral Marketing and Customer Lifetime Value in Banking

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## ABSTRACT

This study is motivated by the need to understand the factors influencing business owners in selecting partner banks to support their operational activities. The main focus of this research is the effectiveness of referral-based marketing strategies in increasing customer acquisition for Micro, Small, and Medium Enterprises (MSMEs) within the banking sector, particularly in the West Java marketing region. This research adopts a literature study approach by analyzing various sources such as books, journal articles, and relevant research reports. The research instruments include secondary data analysis and structured interviews with business owners and bank representatives. The findings reveal that referral-based marketing strategies have a significant impact on consumer behavior and contribute to an increase in Customer Lifetime Value (CLV). The proposed strategies include implementing incentive-driven referral programs, collaborating with local entrepreneurs, and improving literacy in digital banking services. These findings imply that community-based and personal recommendation approaches are effective in expanding customer reach. Further research using empirical methods is recommended to strengthen the validity and implementation of these strategies in the future.

## ABSTRAK

Penelitian ini dilatarbelakangi oleh kebutuhan untuk memahami faktor-faktor yang mempengaruhi pelaku usaha dalam memilih bank rekanan untuk mendukung operasional bisnis mereka. Fokus utama penelitian ini adalah efektivitas strategi pemasaran berbasis referral dalam meningkatkan akuisisi nasabah Usaha Mikro, Kecil, dan Menengah (UMKM) di sektor perbankan, khususnya wilayah pemasaran Jawa Barat. Penelitian ini menggunakan pendekatan studi literatur, dengan menganalisis berbagai sumber seperti buku, artikel jurnal, dan laporan penelitian yang relevan. Instrumen penelitian meliputi analisis data sekunder dan wawancara terstruktur dengan pelaku usaha dan perwakilan bank. Hasil penelitian menunjukkan bahwa strategi pemasaran berbasis referral memiliki dampak signifikan terhadap perilaku konsumen serta berkontribusi pada peningkatan Customer Lifetime Value (CLV). Strategi yang diusulkan meliputi penerapan program referral dengan insentif, kolaborasi dengan pelaku usaha lokal, serta peningkatan literasi penggunaan layanan digital banking. Temuan ini memberikan implikasi bahwa pendekatan berbasis komunitas dan rekomendasi personal efektif dalam memperluas jangkauan nasabah. Penelitian lanjutan dengan pendekatan empiris direkomendasikan untuk memperkuat validitas dan implementasi strategi ini di masa mendatang.

## Kata Kunci:

Pemasaran referral

Perilaku konsumen

Perbankan digital

Bank

Jawa Barat

## INTRODUCTION

The rapid advancement of digital technology and the evolving behavior of banking consumers have prompted financial institutions to adopt more community-driven and relationship-based marketing approaches. One such approach is referral marketing, a strategy that leverages customer recommendations

to attract new clients. Research indicates that customers acquired through referrals tend to be more loyal and generate higher lifetime value compared to those obtained through traditional advertising methods (Byalogorsky et al., 2001; Villanueva et al., 2008). Despite its growing relevance globally, the structured implementation of referral marketing within Indonesia's banking sector remains limited and underutilized.

At the same time, banks in Indonesia face increasing challenges in acquiring SME customers, a segment deemed critical for sustainable growth, especially due to competition from state owned banks and emerging fintech companies. A gap in the literature reveals that community based influence or peer referrals are not yet fully integrated into SME marketing strategies. However, interviews with SME business owners indicate that trust, peer testimonials, and ease of digital access significantly shape their preferences when choosing a banking partner. This discrepancy between the ideal strategy (das sollen) and current practice (das sein) highlights a misalignment that requires strategic correction.

This research aims to analyze the effectiveness of referral-based marketing in acquiring SME customers, with a focus on Xyzbank's operations in West Java a region with substantial SME growth potential. A case study approach is employed, combining internal and external strategic analysis tools (SWOT and TOWS) alongside primary data gathered through in-depth interviews with SME owners and banking personnel. The findings are expected to contribute to the development of sustainable customer acquisition strategies, emphasizing peer-driven influence and relationship-based branding. Additionally, the research seeks to support the design of a more structured and impactful referral program for Xyzbank's SME banking division.

## RESEARCH METHODOLOGY

This research employs a qualitative exploratory case study methodology to investigate the role and impact of referral-based marketing in attracting SME clients to Xyzbank Regional West Java operations. This approach is particularly appropriate for capturing the nuanced, real world context of banking strategies, especially those tied to branding, customer preferences, and institutional practices that influence business decisions.

The primary data collection process involved conducting semi-structured interviews with selected stakeholders. On the internal side, the participants included key Xyzbank personnel such as the Head of SME Banking, two Area Heads for SME, two SME Managers, two Branch Managers, and three Relationship Officers. Meanwhile, external data were gathered from interviews with ten SME business owners located in West Java five of whom are current Xyzbank customers, and the other five are affiliated with different banks. All interviews were conducted in person, and scheduled flexibly to respect the availability of each participant. Internal interviews were arranged outside of peak working hours to minimize any disruption to their responsibilities.

To complement the primary data, secondary data were collected through document analysis involving internal reports, public banking data, and relevant academic literature. These documents provided broader context on market trends, customer behavior, and referral practices within the SME banking landscape in Indonesia.

The main research instrument consisted of an interview guide designed to explore key themes such as customer perceptions of Xyzbank SME brand, their experience or interest in referral programs, and key decision-making factors when choosing a banking partner. The questions were grounded in established theoretical frameworks, including the Customer-Based Brand Equity (CBBE) model, theories of consumer behavior, and principles of referral marketing.

Researcher actively participated throughout the study from crafting the interview framework to facilitating interviews and analyzing the findings. Fieldwork was carried out over three months in several

cities across West Java. During interviews, the researcher maintained an open yet focused approach, encouraging participants to share freely while staying aligned with the study objectives.

To uphold the credibility of the data, a triangulation strategy was adopted, where responses from internal and external stakeholders were compared for consistency. In addition, member-checking was conducted by sharing interview summaries with participants for confirmation. This multi-layered validation process helped strengthen the trustworthiness and depth of the findings.

Overall, this methodological framework allows for a rich and reliable understanding of Xyzbank's referral-based marketing strategies and offers grounded recommendations for enhancing customer engagement in the SME segment.

## **RESULT AND DISCUSSION**

The internal analysis was conducted to identify the strengths and weaknesses of Xyzbank Regional West Java in implementing branding and referral strategies, based on interview data with internal respondents. This study used the frameworks of Value Chain Analysis and VRIO Analysis to understand the resources, capabilities, and systems that influence the effectiveness of SME customer acquisition strategies.

Based on the Value Chain Analysis, Xyzbank has established a structured service process through digital banking (mobile apps) and competent relationship officers. However, some weaknesses were identified, including lengthy loan application processes at the branch level and a lack of referral program socialization to customers. This indicates that despite digital systems, operational processes still require improvement at the frontliner level and in interdepartmental coordination.

In the VRIO analysis, the "value" aspect is met as Xyzbank SME products offer competitive interest rates and international transaction services relevant for export-oriented businesses. However, in terms of "rarity," these services are not considered unique as many competitors offer similar features. Ease of imitation is also a concern, which suggests the need for differentiation through more personalized service experiences. On the "organization" side, while Xyzbank has a supportive structure, it has not yet maximized the organization of brand communication strategies and consistent referral programs. Therefore, the company needs to strengthen its referral marketing execution structure and consider implementing a paperless credit verification system as a service value enhancement.

### ***Referral Based Marketing***

Referral-Based Marketing is a marketing strategy that encourages existing customers to recommend products or services to others, typically in exchange for incentives such as financial rewards, discounts, or exclusive benefits. This strategy leverages the power of trust between individuals and the strong social influence involved in consumer decision-making. This strategy is particularly important in the context of SME banking, as small and medium-sized business owners are more likely to trust recommendations from peers or their business community rather than conventional advertising. In this research focused on Xyzbank Regional West Java, it was found that low brand awareness and limited customer engagement in promoting Xyzbank services hindered new customer acquisition. This is supported by interview data showing that although customers are generally satisfied, they do not actively refer others due to the absence of a formal program that rewards such behavior.

When linked to the topic of branding and customer acquisition, referral-based marketing becomes a strategic solution to close the gap in brand exposure and organically expand reach. A structured referral program not only boosts acquisition but also enhances Customer Lifetime Value (CLV), as referred customers tend to show higher loyalty and greater long-term value. According to Biyalogorsky, Gerstner, and Libai (2001), referred customers are proven to be more profitable over time compared to those acquired through traditional marketing channels.

Therefore, referral-based marketing is not just a marketing tool but a relational strategy that supports sustainable growth, particularly in financial service industries where trust and reputation are critical. For Xyzbank, implementing this strategy in a formal and measurable way can strengthen brand positioning in the SME segment and provide a competitive edge in an increasingly saturated market.

### ***Customer Lifetime Value***

Customer Lifetime Value (CLV) is a metric that reflects the total net profit a company expects to gain from a customer throughout the duration of their relationship. In the context of SME banking at Xyzbank Regional West Java, CLV becomes highly relevant when aligned with consumer behavior theory. Based on the interview findings, customers who are referred by existing clients tend to exhibit stronger engagement, longer retention, and higher loyalty—indicating a higher CLV compared to those acquired through conventional channels.

This relationship between referral and CLV can be explained through the lens of consumer behavior, particularly in how individuals process trust, social influence, and decision-making. Referral marketing leverages interpersonal influence, where trust is transferred from the referrer to the referred. In line with this, SME owners tend to follow behavior modeled by peers within their industry or local business community. This aligns with the concept of social learning theory (Bandura, 1977), where individuals are more likely to adopt behaviors they observe from others they trust and respect.

Additionally, from a behavioral loyalty perspective, customers acquired through referrals often show stronger commitment and lower churn rates because their initial trust is based on lived experiences of others, not just promotional messaging. Several interview respondents acknowledged that although Xyzbank's interest rates and digital tools were attractive, their trust and decision to stay with the bank were strengthened by recommendations from other business owners. This highlights the experiential and social nature of SME banking decisions.

Therefore, understanding consumer behavior is essential for designing effective referral strategies. Xyzbank can increase CLV by focusing on behavioral drivers such as trust, perceived value, and peer influence. Encouraging satisfied customers to refer others not only amplifies brand advocacy but also attracts prospects who are behaviorally predisposed to longer and more profitable relationships.

Findings from this research indicate that the effectiveness of referral-based marketing strategies and customer acquisition efforts for SMEs at Xyzbank West Java Regional is influenced by the interaction between customer behavior, organizational readiness, and digital support infrastructure. A holistic understanding and management of these elements is essential for implementing an impactful referral marketing system aligned with the needs of the SME segment.

Based on data analysis and interview findings, several recommendations can be proposed to enhance the success of referral-based strategies at Xyzbank:

- a) Develop an incentive and recognition system to encourage customer referrals, particularly from existing satisfied SME clients.
- b) Build a brand culture within the organization that supports advocacy-based marketing, digital engagement, and customer trust through consistent service experiences.
- c) Simplify referral workflows and strengthen cross-functional collaboration to ensure seamless execution across sales, marketing, and product teams.
- d) Invest in digital tools such as automated referral links, mobile-friendly platforms, and CRM integration to improve ease of use and tracking effectiveness.

Leveraging referral-based marketing strategies in alignment with consumer behavior principles presents a powerful opportunity for Xyzbank Regional West Java to sustainably grow its SME customer base. By cultivating trust, reinforcing peer influence, and enhancing digital infrastructure, Xyzbank can not

only increase customer acquisition but also extend the lifetime value of each relationship transforming loyal customers into long-term brand advocates and competitive differentiators in the SME banking landscape.

## CONCLUSION

This study provides a comprehensive understanding of the effectiveness of referral-based marketing strategies in enhancing SME customer acquisition in the banking sector, particularly within Xyzbank Regional West Java. The findings indicate that referral strategies play a critical role in fostering customer loyalty and increasing Customer Lifetime Value (CLV). Customers acquired through referrals from existing clients tend to exhibit a longer relationship duration and a higher likelihood of utilizing multiple banking services.

Through a qualitative case study approach, in-depth interviews were conducted with internal bank personnel and local SME business owners in West Java. The data revealed that internal strengths, such as competitive loan interest rates and solid digital support, must be complemented by an organizational structure capable of executing referral programs in a consistent and systematic manner. This includes streamlined processes and responsive frontliners to effectively support referral activation and follow-up. Externally, the competitive landscape remains intense, with major banks already implementing robust referral and digital engagement initiatives. The study also highlights the influence of business communities and peer networks on brand awareness and switching behavior, emphasizing the need for Xyzbank to strengthen its community-based outreach and testimonial-driven promotion efforts.

The primary recommendation drawn from this research is the development of a formal referral program that offers attractive incentives and leverages the trust embedded in peer-to-peer marketing. This strategy should be supported by digital literacy campaigns and active collaboration with local SMEs to ensure relevance and engagement. The integration of personalized services and loyalty rewards will further reinforce long-term customer value.

In conclusion, referral-based marketing is not only effective in acquiring new customers but also instrumental in extending customer lifetime value. To optimize this potential, banks must align internal capabilities with external opportunities, ensuring that both technology and human resources work in synergy. Future research using an empirical approach is recommended to validate these findings and expand strategic frameworks applicable across broader banking contexts.

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