



Referral Marketing



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What Is Referral Marketing?

If your hair stylist gave you \$10 every time you sent one of your friends her way, you might be more tempted to tell all of your buddies what a fabulous stylist she was—or you might even try to make new friends to refer.

This clever method of customer acquisition is a form of word-of-mouth marketing known as a referral program.

Referral Marketing is NOT new!

Referral marketing is a process to encourage and significantly increase referrals from word of mouth, perhaps the oldest and most trusted marketing strategy.

Online referral marketing is the internet-based, or Software as a Service (saas) approach, to traditional referral marketing. By tracking customer behavior online through the use of web browser cookies and similar technology, online referral marketing can potentially increase brand awareness, referrals and, ultimately, revenue.

The Case Of Airbnb

Airbnb is a peer-to-peer online marketplace and homestay network enabling people to list or rent short-term lodging in residential properties, with the cost of such accommodation set by the property owner. It was once a burgeoning startup. At present with a valuation of close to \$30 billion, it is one of the most valued startups globally.

Airbnb's referral program

Airbnb took a straightforward referral approach by sending email invitations to existing participants.

The offer was enticing: referrers would receive a \$25 travel credit when new members took their first trip. Then, they would receive an additional \$75 credit when they hosted a guest for the first time.

After all, they were only paying for referrals after new users made a purchase. This ensured that they weren't wasting any money on unprofitable referrals.

The program worked (and still does), helping Airbnb to achieve incredible growth, in which the total number of users has practically doubled each year since 2012.

Referral basically makes use of word of mouth, a highly effective method of advertising and promotion. It is a three-way process. A customer can

refer an acquaintance to a business or product. A customer can refer the business to another company that can use its services. The company can give a referral to customers to use a product or business that meets their specific needs.

Statistics to ponder over

- 65% of new business comes from referrals
- Customers are 4 times more likely to buy with referrals from friends
- Referral programs are among the least expensive marketing strategies

- Referred customers spend an average of 13.2% more than regular customers

Benefits of a referral program

Reducing your sales budget by focusing on customers who are satisfied with your products and services.

Increasing your sales cycle by generating leads within the scope of your satisfied customers' circles of influence, a better way to spend marketing dollars than cold calling.

Quickly generating more satisfied customers, ensuring a continuous cycle of repeat customers and referrals.

Improving sales revenue, offering a higher conversion rate than unqualified sales leads.

Generate a better overall ROI from your marketing strategy.

Dropbox case study

The Challenge With Dropbox

Dropbox was using search engine marketing and affiliate marketing, which cost them between \$288-\$388 for a new user. But the math didn't work out. Their product was priced at \$99/year.

Referral Program Of Dropbox

Dropbox wasn't actually being original with its referral program. (They were actually following in paypal's footsteps). Their incentive program was inspired by paypal's refer-a-friend program.

While paypal rewarded its users with cash, Dropbox gave extra storage space to both the referrer and the referees.

- It invested the users in the product.
- It made sense for paypal to give cash, because they're a payments company and need users to use their service to make financial transactions.
- Dropbox is a storage company, and they need their users to use their service to store stuff.

Advantages

- Dropbox went from 100,000 to 4,000,000 users in 15 months.
- According to founder/CEO Drew Houston, referrals increased signups by 60%, PERMANENTLY.
- It was 40x increase, or a doubling of users every 3 months.
- In April 2010, Dropbox users sent 2.8 million direct referral invites!

Paypal Refer-A-Friend

The Big Challenge

Paypal's big challenge was to get new customers. They tried advertising.

It was too expensive. They tried to negotiate deals with big banks. It met with bureaucratic hurdles.

Over ice cream, the paypal team reached an important conclusion:
Business Development didn't work. They needed organic, viral growth.
They needed to give people money.

Refer-A-Friend

New customers got \$10 for signing up, and existing ones got \$10 for referrals.

Paypal wound up paying \$20 for each new customer.

Initially users just had to sign up, confirm their email address, and add a (unique, authorized) credit card.

Impact

- Referrals helped paypal get 7 to 10% daily growth,
- Paypal acquired 1 million users by March 2000 and 5 million by summer 2000
- Eventually catapulted their user base to over 100 million members.

Uber Driver Referral Program

In early 2012, Uber started expanding outside of the US. In just 3 years, Uber has since expanded to more than 50 countries. So how did Uber set out to solve the taxi crisis, and expand their user base so quickly?

Uber has two mobile apps: one for Uber passengers, and another for Uber drivers. Uber drivers use the app to pick up customers with the

press of a button too. Simply go “online” and they’re ready to pick up passengers. Uber has different referral programs for drivers across various countries.

Looking at Uber San Diego, Uber drivers can earn \$500 for referring experienced rideshare drivers, and \$100 for drivers with no ridesharing experience. Referrals can be done from within the mobile app. Uber drivers can also earn \$5 in cash by referring riders to take their first Uber trip using your unique code! New riders enjoy a \$20 off for their first trip.

Driving is their job, so rewarding Uber drivers with cash is a no-brainer.

Giving Uber riders ride credits incentivizes their next trip, ensuring that they'll return to use it.

Lyft is one of Uber's biggest competitors, and Uber offers a referral reward for drivers who used to drive for Lyft.

Uber has understood that customers belonging to your competitors are still potential customers. All they need is proof that your company is better.

Creating A Referral Marketing Program

Now that you understand why referrals and referral programs can help your business, it's time to get tactical. How can you build an effective referral program that actually works?

Before creating a referral program ask yourself the following questions

Who are my current customers? What types of prizes would they most enjoy?

Are the rewards for this referral program on brand? Do they make sense for who we are?

Am I offering something to the current customer as well as to the new customer that is getting referred?

Define And Understand Your Target Audience

Research is an important first step for any marketing strategy. With referral marketing, initial research will often include discovering who your potential customers and what they want (referral incentive).

If the incentives are worthless or undesirable to the company's existing customer base, the customers won't be interested enough to participate in the referral program. This is why many referral marketing programs fail.

This initial research could be done in a number of ways. Marketing personnel might study the buying habits of their customers to find out what products or services they enjoy the most, and offer either discounts, free products, add-on services, or bill credits, depending on the type of industry.

Identifying The Referral Incentives

Following is a list of referral incentives that can help you in narrowing down your referral program.

Mattress company Leesa knows that people aren't likely to buy a second mattress right after they've bought their first one, so they give cash rewards instead— \$50 cash Paypal'd to you, and \$50 off for the friend you refer. The mattress typically costs \$890, so that's about a 6% discount.

Watch company dappertime gives \$10 cash to advocates and 10% off their friend's order (as long as the order exceeds \$30). When chatting with dappertime's marketing team, we learned that they chose cash over

discounts because it would be more novel and interesting to their customers. “We’re actually trying to give you money here.”

Supplements company Powder City gives a 6% cash reward to the advocate upon successful referral, while offering the referred friend 10% off their purchase.

Payment gateway Paypal literally gave away cash as a referral incentive in the early days. Similarly, e-wallet company matchmove gives its customers \$3.88 of credit for each referral, up to \$500.

Repeat Purchase Rule

While setting up a referral program often deciding between a cash vs.

Discount can be tricky. You can follow this simple thumb rule.

If your advocates are likely to make repeat purchases, give discounts to encourage them.

If your product costs more than \$100, a flat discount is usually more enticing (\$300 off a \$1,000 laptop)

If your product costs less than \$100, a percentage discount is usually better (\$10 off a \$50 t-shirt is better phrased as 20% off)

If your advocates are unlikely to make repeat purchases, give cash.

If you're doing pre-orders, consider giving cash discounts on the advocates' existing pre-order.

Remember to focus on your customers' interests and motivations.

Defining The Type Of Rewards

The key here is to understand what motivates your users to make a referral then design your program to give out rewards that match their motivations. Not all users are influenced by certain types of reward structures, incentives and prizes.

Single or Double-sided Rewards: A common practice in referral programs is to only give out a reward to the sender of the referral. The limitation is that if you don't reward both parties you are changing the overall motivation a user has to make a referral to their network.

Double-sided programs give rewards to both the sender and the recipient. The even reward structure helps motivate users who are not looking to profit off of their personal network.

Monetary or Non-Monetary Incentives: Choosing the reward for your referral program should not be approached simply. You need to understand what your users are motivated by and then offer prizes designed to reward that behavior.

Reward Variety: The type of rewards you offer your users is a crucial element to the performance of your program. If you can offer multiple types of rewards you can help satisfy different referral behavior.

Informing Your Users About The Referral Program

One of the most important factors for successful referral marketing is how you create customer awareness of the program. Unfortunately, this is an area that many companies don't dedicate enough time and

resources toward. This is an effort that has to be maintained and thought about just like your other marketing efforts.

Evaluate your current contacts: You don't just have to reach out to your customers; in fact your referral program can reach so much farther than that. You should be asking anyone you've made a connection or had an interaction with. This could be via phone call, social media, or email.

List possible referral sources: Now that you know your contacts can be anyone you've connected with, you can begin listing them out. You could reach out to current customers, past customers, leads that may not have closed, industry leaders, your vendors, etc.

Segment inner circle contacts: Once you have these possible sources listed out, you should narrow down a list of “inner circle” contacts. These are people who know what value your business has and would refer you without any incentive. Finding your inner circle isn’t a process that can be automated, you will get more benefit from this if you pull and segment these contacts manually.

Define Your Referral Process: Create a document that outlines the steps in your referral process for you marketing team and sales team to follow. Let them know who is being sent emails, when these emails are going out, what they have in them, and when it becomes their place to contact. Make sure you provide them with a script as well.

Automate: An automated process will actually move your contacts through the referral program for you. This could include automated social media, email processes, and website activity. You can use automated website tools that integrate with your email and will essentially notify you anytime a contact interacts with you. This could be opening an email, visiting a page on your site, etc.

Analytics

In order to see whether a referral program is working, you need to make sure you've implemented analytics and tracking systems. This is where referral program software comes in handy, as these solutions come with analytics and tracking built in.

If your development team chooses to build a referral program on its own, it's absolutely essential to implement an analytics and tracking system that will help you understand how many referral links get shared and clicked.

Google Analytics actually has a special referral sections that can help you see where people come from to get to your site. However, this solution is not as comprehensive as a referral software solution.

Referral Marketing Technology

Importance Of Referral Marketing Technology

The great disadvantage of referral marketing, by contrast, at least until recent years, is that it has been extraordinarily labor intensive, and

therefore expensive. But with the advance of social media and mobile technologies, there are now numerous apps which can help facilitate the process.

A customer referral program has many benefits. However, without the right tools your referral marketing plans can end in catastrophe. Not only will you have to spend a lot of time and resources managing such a program, but as you grow and the number of referrals increases, you may encounter issues, such as advocates (or new customers) not receiving their rewards or discounts. Such issues can not only throw a spanner in your referral program, but they can also seriously dent your company's image.

In this section we'll learn important aspects to consider while choosing your referral marketing technology. We'll also list down some popular tools that can be used to implement your referral marketing program.

Tracking And Rewards

Automated Tracking And Reward Fulfillment

Tracking referrals and rewarding your advocates manually can be time-consuming and result in costly errors. Software that automates the process of tracking and rewarding your advocates can be very beneficial.

In addition, it is very important to be able to customize aspects such as your user interface, emails to advocates, conversion triggers, etc.

Customization also gives you the flexibility to design a program based on your unique business requirements.

Reward Program

Reward Program Options

Rewards are a key motivational factor when it comes to your advocates referring your products.

Your software must be able to provide different reward options for different marketing campaigns, or even for different groups of advocates.

Instant rewards, goal-based rewards, contests and sweepstakes each reward type can offer optimum utility based on your current marketing goals.

E-Commerce Integration

In a largely connected world, your referral software cannot be a standalone application. With more and more businesses operating online, it's important to be able to easily integrate your software with popular third party applications, including ecommerce, shopping cart, payment and analytics applications. This ensures that your referral program is able to effortlessly communicate and share data with your favorite and preferred business applications.

Social Media Optimization And Mobile Readiness

When it comes to helping your advocates refer your products to their friends and family, no other platform can be more useful than social

media. Readily accessible and visible Facebook, Twitter and Google+ buttons can help your advocates instantly share information with their friends and associates.

Mobile optimized user interfaces are equally useful in this context.

People are more connected today via their smartphones than ever before. To help your advocates reach out on the go, it's important for your software to be mobile friendly.

Program Analytics

Automating the main components of your referral program allows trouble free operations. However, it's important to constantly monitor the progress of your marketing campaign to ensure that it is on track to

achieving your desired goals. You may have to regularly make changes to your program to ensure maximum profitability.

To do this, you need to be able to view the various performance parameters such as the number of active advocates, your top 5 advocates, the number of referrals made, conversion rates, revenue earned, referral sources, etc. In addition, access to social media stats such as clicks, reward attainability and conversions can help you tweak your marketing program to optimize it better.

Tools

There are a number of software solutions that make it easy to set up a referral program

Referral Rock – Referral Rock’s software helps all businesses (not just ecommerce sites) design, track and manage referrals online.

Campaign Monitor – Campaign Monitor is an easy to use email marketing service that can help you spread the word and effectively market a referral program.

Hubspot or Marketo – Marketing automation systems such as hubspot and Marketo are excellent complements to any referral program.

Google Analytics – Google Analytics can help you track which websites and social media sites refer new customers to your business. It can also help you track the success of a referral program.

Advocatehub by Influitive – The advocatehub by Influitive helps B2B companies capture customer enthusiasm to turbocharge marketing and sales efforts.

Referralcandy – referralcandy helps you easily create, run, and manage a referral marketing program.

Ambassador – Ambassador offers referral marketing software, as well as affiliate marketing software.

Friendbuy – Friendbuy specializes in customer referral programs for ecommerce businesses.