An Introduction to Referral Marketing:

Best practices for creating, publicizing, and measuring a successful referral program

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Turning Ordinary Customers into Brand Promoters

You have customers, they have friends, and their friends tend to act a lot like them. They are more likely to dress the same, live in the same place, and shop at the same stores. Social media and referral marketing are based off of the fact that your best prospective customers are often the friends of your current customers.

Referral marketing uses incentives to encourage the distribution of information. Referral promoters use relationships with friends to share meaningful information about your business. When this information is combined with the right rewards and incentives, you can acquire new customers at a lower cost and higher rate than through other marketing channels.

Friends of current customers are also more likely to have a higher lifetime customer value than your average customer. From banking to breakfast sausages, multiple studies have shown that referral marketing raises visibility, attracts new customers, and increases profits. Referral programs are unique within social media because they are directly trackable. They create engagement, buzz, awareness, and ultimately drive new sales.

“The Wharton School of Business found that a referred customer had a 16% higher life-time value.”

Consumers share information to enhance personal relationships and build social capital. They carefully decide where to deliver content to ensure that it reaches an appreciative audience, and this relevance drives action. In the last month, 53% of Internet users visited websites referred by friends or family.

Referrals also tap into the powerful trust shared by friends. People trust friends and family more than virtually any other information source, and pay 2x more attention to recommendations that come from friends than other sources. Using referrals to promote your company through trusted sources immediately amplifies your impact. In *An Introduction to Referral Marketing*, we focus on the 5 steps to building a successful referral program:

1. **Goals:** Establishing an explicit and specific referral marketing objective
2. **Incentives:** Creating the proper reward to Promoters and offer to Friends
3. **Urgency:** Increasing effectiveness by establishing a sense of urgency
4. **Publicity:** Promoting your referral program
5. **Measurement:** Understanding how customers use the program and optimizing performance
Below is the standard path that referral programs follow:

1. Create the offer for new customers

2. Create the reward for Promoters

3. Publicize the referral program

4. Convert friends to customers

5. Reward Promoters
1. **Goals**  *Establishing an explicit and specific referral marketing objective*

What are your objectives? Sure, you want more customers, but how will you attract them? You cannot have an effective referral program without first identifying your goals.

Referral programs can be used to drive virtually any activity within the sales funnel. The most commonly incentivized action is a sale, but a variety of social sharing and lead generating activities are gaining popularity.

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<thead>
<tr>
<th>Action</th>
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<tr>
<td>Shares</td>
<td>Awareness</td>
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<td>Leads</td>
<td>Engagement</td>
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<td>Sales</td>
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**Share**

Just share & you could win!

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**Lead**

**Refer a Friend!**

Get $10 off your next purchase when your friend buys
2. Incentives *Creating the proper reward for Promoters and offer to Friends*

Offer to Friends

We all like to think that our product, service, or brand is the only incentive needed to convert a referred customer. While this is often the case, research from the Journal of Marketing shows that referral programs perform best when they include a special offer or discount to friends.

Reward to Promoters

The most common question that we are asked at Buzz Referrals is, “What reward should I offer?” Rewards must drive promoters to make referrals to the right audience in a way that drives desired behavior. There are countless ways to reward referrals, and the primary methods are listed below:

- Cash
- Third-party credit (i.e. $25 at Amazon gift card)
- In-store credit (i.e. $15 off a purchase of $30 or more)
- Future discount (i.e. 25% off your next purchase)
- Rebate (i.e. $10 off your last purchase)

“83% of satisfied customers are willing to refer products and services. But only 29% actually do.”

Although counter-intuitive, cash rewards are often perceived to have a lower value than gifts or discounts. A University of Chicago study found that non-cash incentives are 24% more effective at boosting performance than cash incentives. One realty group increased referral sales by 3,600% simply by shifting from a cash reward to a bottle of wine – a vintage 1/10th the cost of the cash reward.

The matrix to the right provides a good way to think about rewards. Business with an extremely low purchase frequency (e.g. Insurance) should consider third party credit like gift cards. High purchase frequency businesses (e.g. eCommerce shoes) can use in store credit to encourage future purchases.
**Rebates:** Giving a Promoter $5 back from a previous purchase may not strengthen your relationship with promoters. Buzz Referrals generally recommends in-store credit to promote future purchases. Because in-store credit is used for a future purchase, you can usually afford to offer a larger reward.

Buzz Referrals often speaks with companies that want a referral program like Groupon’s. This program uses in-house credit, offering $10 to Promoters.

**Third-party credit:** This is like giving away cash and comes straight out of your bottom line. There are certain third party rewards, however, that have a higher perceived value than their cost. For instance, Buzz Referrals offers its clients $25 Restaurant.com gift cards that cost only $5.

Good referral programs result in lots of rewards! The benefits of accomplishing your referral program objective should far outweigh the cost of rewards. The more people who receive rewards, the better your business will perform. If you find yourself thinking, “I don’t think many Promoters will earn rewards because the bar is too high,” then you might want to reconsider your reward requirements. Design the promotion so customers can reasonably expect to earn a reward.
3. Urgency *Increasing effectiveness by establishing a sense of urgency*

In 2011, Ad Age estimated that the average U.S. consumer was bombarded with over 5,000 messages...every day. It is increasingly difficult for businesses to get noticed. Because referrals deliver relevant information through trusted sources they are more likely to cut through the clutter. Once consumers see a referral, however, they still need a reason to act, and act now.

Marketers often think of referral programs as “evergreen” meaning that they never expire. While this can be a very successful approach, there can also be benefits to running referral programs as limited-time offers (or perceived limited-time offers).

- **Evergreen Programs**: With a one-time setup, these programs provide an ongoing opportunity to drive business growth. The risk is that there is no sense of urgency for either the Promoter or the Friend to act. Referral information often sits in an inbox, forgotten amongst an ever-growing to do list. To keep programs top of mind, businesses should regularly remind both Promoters and Friends about this special referral opportunity.

- **Limited-Time Offers**: Restricting the duration of a referral program helps generate excitement and urgency. Both Promoters and Friends feel the need to act quickly, increasing immediate engagement and conversions. Limited-time offers can also be created around special business and calendar events, such as new product launches, holidays, sports and news events.

While limited-time offers are very effective in getting Friends to act quickly, they can be very time consuming to implement. Buzz Referrals often builds referral programs with a perceived limited-time offer.

In the LuLu*s promotion below, the promo code is evergreen, but Buzz Referrals automatically inserts an expiration date four days into the future. This tactic significantly increases redemptions.
4. Publicity  Promoting your referral program

The value of referral programs is in participation. The best referral program is useless if no one knows about it, so companies publicize promotions using:

- Homepage call-to-actions
- Dedicated emails
- Post-Purchase emails
- Post-Purchase confirmation pages
- Email newsletters
- Facebook posts
- Facebook apps/tabs
- Tweets

Choosing the right promotional channel depends on the company, the offer, and technological capabilities. Below is a graph showing the makeup of how our clients effectively promote their referral programs.
As one might expect, at 37% homepage call-to-actions are the most common method used to promote the referral program. However, in aggregate, dedicated emails account for 47% of all participant signups within referral programs. Dedicated emails are sent to specifically highlight the referral program to current customers.

Post-purchase emails are sent automatically after a purchase to boost customer participation. The Buzz Referrals platform includes lead nurturing tools that allow clients to email customers with a custom referral link a specific number of days after purchase. Customers can refer friends quickly by forwarding this email or sharing the offer instantly through integrated social media links.

5. Measurement  Understanding how consumers use the program and optimizing performance

Like any form of marketing, effective referral marketing requires careful tracking and measurement. The data generated by referral programs is some of the most valuable data a marketer will find, but tracking and analytics are conspicuously absent from many referral programs.

The key performance indicators (KPIs) tracked on the Buzz Referrals platform include:

- Signup data: where Promoters signup (see publicity above)
- Sharing data: number of referral shares by channel - email, Twitter, and Facebook
- Promoter data: date of signup, number of shares, referral clicks, and referral conversions
- Likes: Facebook Likes generated from the referral program
- Messaging: what consumers are saying within their referral communications

Designing and building this kind of analytics is costly and time consuming, but it is critical to effectively optimize the referral program and see what offers resonate most with consumers.
The referral messages Promoters share with friends offer actionable insights that can impact all marketing initiatives. The channels customers use can also provide valuable insight about your audience. On average, Buzz Referrals programs have the following channel breakdown:

- Facebook: 28%
- Email: 67%
- Twitter: 5%

Buzz Referrals has isolated these three channels as the most important. This is corroborated by sources like ShareThis, which offers over 200 modes of sharing, yet 80% of shares come through email, Facebook, and Twitter.

The sharing rates vary significantly depending on the demographic of the consumers as well as whether the referral program is for a B2B vs B2C client.

While email is the most popular mode of sharing, Facebook generates approximately 3x as many clicks per share and, if paired with an app, offers valuable consumer data with each share.

**Conclusion**

With the rise of social media, every consumer has become a publisher capable of reaching a targeted audience. Companies have a tremendous opportunity to use referral marketing to drive sales and awareness while gathering new customer insights, and increasing engagement with current customers.

By powering referral programs across multiple verticals, Buzz Referrals is in a unique position to offer expertise and technology that help companies maximize their referral marketing efforts.

**About Buzz Referrals**

Buzz Referrals creates customized referral programs that turn their ordinary customers into brand promoters. Our platform allows customers to easily share with friends online and offline and to receive a reward when a friend transacts. The Buzz Referrals tracking system shows all activity associated with the campaign, including the best "promoters" and the dollar value of their referrals.
References

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