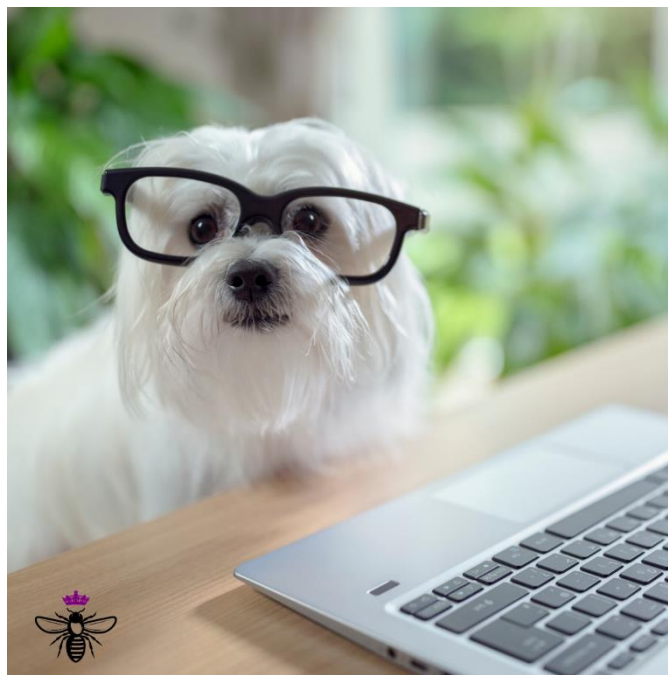


# Referral Marketing 101: How to Start a Referral Program That Works



What is a referral program and why do they work? Learn everything you need to know about how to start a referral program.

24 minute read



When a potential customer is in need of a product or service, where do they turn? They're most likely going to ask a friend or family member for a recommendation. Or they might scroll through some online customer reviews.

Referrals occur when one person recommends a business or provider to another person. This word of mouth is a big help to businesses of all sizes and industries. From [clothing brands](#) to [banks](#) to [solar panel companies](#), referral programs can bring in a steady stream of new customers.

Research reveals [92% of consumers trust recommendations](#) from friends and family above all other forms of advertising. Nearly [95% also read online reviews](#) before making a purchase.

Recommendations and reviews – both essentials in word-of-mouth marketing – have changed the way consumers shop these days. And if your business is going to adapt to these changes, it needs a strong [referral program strategy](#).

## Why do referrals matter in marketing?

Referrals are one of the most valuable forms of marketing. Not only do most of us look to others for product and service recommendations, these recommendations come with a high level of trust.

A [study by Nielsen](#) revealed that 84% of people see referrals as the most trusted and influential form of advertising. It makes sense – if someone you know tells you how great a product is, you're likely to give it a try. You might be looking for a similar solution – and who better to listen to than friends or family you already trust?

As for how referral marketing compares to other types of marketing, the benefits are significant. Referrals require relatively little financial investment, yet bring about significant results. They build on existing relationships with your best customers, which fosters even more engagement and loyalty.

Plus, referral programs, like most [word-of-mouth marketing \(WOMM\)](#), have the potential to create a viral network effect. One referral leads to two, three, and so on – all from a single customer.

## What is a referral program?

If you want to get referrals, you have to first make sure you're giving exceptional products and services. With these in place, your customers will be happy to refer you to others.

However, happy customers might not always remember to spread the word about your services without a prompt from a friend, family member, or colleague. If no one asks, they might never tell.

This is where a [referral program](#) can help. A referral program standardizes the way you invite and reward customers for sharing your brand with others. By learning how to create a referral program (with clearly stated rewards), you can better guarantee your business gets word of mouth.

For example, a [beauty brand](#) can run a referral program that offers \$10 to the existing customer, and gives a \$10 discount on the referred customer's first purchase. When promoted to its base of customers, the referral program incentivizes customers to refer the brand to their friends.

## Why do you need a referral program?

A strategic referral program can help any business get new customers at a very low price. By making use of your current customers to help spread the word, referral marketing has a lower customer acquisition cost (CAC) than most types of marketing. These costs are also fixed (per referral) and paid only for performance.

Plus, customers gained through referrals are more likely to become high-value customers. Studies show referred customers [spend 25% more](#), are three times more likely to refer someone else, and remain loyal to the company.

Referral programs have also been noted to help businesses generate higher revenue and ROI:

- PayPal's famous referral program (which literally gave away money) helped the company achieve 7–10% daily growth and a user base of over 100 million.
- Inspired by PayPal, [Dropbox](#) also offered a referral program that led to a 60% increase in user signups, with over 2.8 million referrals taking place in the first 18 months. Even today, 35% of all signups come from their referral program.
- [A leading German bank](#) offered €25 (\$28) for every successful referral, and found that referred customers generated 16% greater profits and were 18% more likely to stay with the bank.

Referral programs are also very [easy to track](#), with the right [referral software](#). You can monitor when a customer refers others, whether the referral results in a sale, and other key metrics in your campaign. Let's dig deeper into some ideas on how to [make a referral program](#).

## **How to build a referral program: Getting started**

### **Lesson 1: Design a referral program that converts**

### **Lesson 2: Choose your referral program rewards**

### **Lesson 3: Utilize referral program software tools**

### **Lesson 4: Use reviews to boost your referral marketing**

## **Examples of referral programs to inspire your own**

# **How to build a referral program: Getting started**

Now that you understand how referrals and referral programs help a business, it's time to start building one of your own. So where do you begin? Referral program success lies in having a [solid foundation](#) – one built on exceptional products, strong customer relationships, and a clear marketing goal.

## **Provide exceptional products**

Providing exceptional products and services is the first step to building a referral program. If what you offer isn't standing out and making an impact, people are probably not going to go out of their way to recommend you – no matter how great your referral program.

It's important to be passionate about offering exceptional products and services. Otherwise, even the best referral program may never take off.

## Put your customers first

A referral program is nothing without your customers. If you're [planning to launch a program](#), it's important to develop your customer relationships.

And like all good relationships, communication is key. Take the time to have conversations with your customers. Listen to them and respond sincerely. After all, these customers are similar to the ones you'll be targeting in your referral program, so consider them as your direct line to understanding the market.

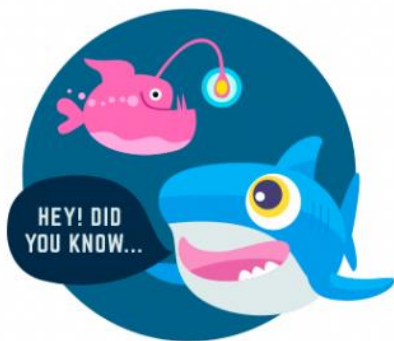
At the end of the day, if you're deliberate about the experience you're providing, and making sure it inspires positive brand affiliation, customers will be happy to share.

## Have a clear marketing goal

While the first two points covered generally good business practices, this final one focuses on how to set up a referral program. Why are you creating a referral program? Aside from more sales, is there anything else you hope to get out of it?

A few other goals can include: increase customer loyalty, build brand awareness, create a viral marketing campaign, or drive customer acquisition. No matter why you're learning how to start a referral program, it's important to identify these goals. This [allows you to measure](#) how the program is doing, and see if you're actually hitting your targets.

### How it Works



Tell your friends about the DigitalOcean story.



Your friend signs up and receives \$10 in DO credit.



You earn \$25 after your friend reaches \$25 in billings.

# Lesson 1: Design a referral program that converts

Once you have the basics down, the next step is designing your referral program. The look and feel of your campaign can say a lot about your business and the way it interacts with customers. After all, these referrals may be the first time someone comes across your business.

Keep your referral messaging clear and easy to understand, and make sure the elements – the way it looks, feels, and sounds – are in line with your business.

## Use catchy headlines

Before you can get a customer's referral, you need to get their attention. This is true for every type of marketing. But when it comes to referral programs, headlines are a key player in attracting your customers to join. A good headline should provide the gist of the program in a single sentence. It should also share what the referral program is about and explain the benefits of joining. **YOU HAVE to HAVE SOMETHING that will motivate people to refer.**

Here are a few examples of headlines that work:

- **Give \$20, Get \$20**
- **Refer a friend and get \$15**
- **Share a better way of working**
- **Spread the word and get free socks for life**

## Create your referral messaging

While your customer already knows about your business, their friend might not. This referral message might be their first point of contact with you, and should cover a few things:

- Explain the benefits at the very start
- Give a clear call to action (what the next step is)
- Be easy to understand
- Be personal

## Make it easy for people to refer

A good referral program makes it easy for [customers to share your brand with others](#). If a customer has to jump through hoops just to send a referral, they'll likely give up early in the game.

Give your customers a few different ways to share, and you increase the likelihood of them actually sharing. Fortunately, most referral software tools give you multiple convenient options (i.e., social media, email). Some businesses also include traditional methods, such as handing out or mailing printed referral flyers to their customers.

For example, clothing retailer American Apparel sent an email to their subscribers, encouraging them to share the brand with their friends. In exchange, they offered 20% off for both the subscriber and their friend. But American Apparel's referral success wasn't just because of its enticing offer – it was how easy they made it to refer a friend.

The company allowed subscribers to share the coupon via email, Facebook, Twitter, or a direct link. It even pre-filled the message box so subscribers didn't have to do a thing, aside from making a few simple clicks. The process is easy as pie, making it more likely for everyone to participate. (referral/lead ads costs are based on who you want to reach and the frequency)




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### Share with Email


From: emmafaye@gmail.com

Your friend's email 

I love American Apparel and thought you would too. Here's 20% off your next purchase since I'm sharing my discount with you.

**Send Email**

---

 Email My Stats

---

Or, share the link below:

**Copy**



## Implement analytics and tracking

When designing a referral program, you may need to do a little bit of testing – what words resonate with your customers? What type of reward will draw them in? You may find what works well for other referral programs might not work well for you.

To see success in your referral program, it's important to implement an analytics and tracking system. This is where the right [referral program software](#) comes in handy – these solutions come with built-in analytics, [referral link](#) distribution, A/B testing, [referral tracking](#), and more. Referral program software can help you understand what messaging works best, how many referral links get shared and clicked, and any areas where customers tend to drop off. With this information, you can better learn how to create a referral program that meets your needs. For more about these benefits, see our infographic on why [referral software is better](#) for your business.

## Lesson 2: Choose your referral program rewards

What will make a customer spend time and effort to refer others to you? Aside from being a great company (see Lesson 1) and asking nicely (see Lesson 2), some kind of incentive can be the nudge they need to send others your way.

### Figure out who to reward

The first step is to determine who will receive the reward. Will you offer incentives to the existing customer (the referrer), the new customer (the referred), or both?

- **One-sided incentives:** This type of incentive rewards either the existing customer or the referred customer – not both. If you choose to reward your existing customer, it can increase their motivation to share, but also make the referral seem self-serving. If the reward only goes to the referred customer, there's a good chance it will lead to a sale, although you might not see as many referrals.
- **Two-sided incentives (or double-sided incentives):** This type of incentive usually has the highest engagement, as it rewards both the existing customer and referred customer. The reward can be the same for both parties ("Give \$20, Get \$20") or different ("Give \$15 to your friends, and get a free product in return").



- **No incentive:** As expected, offering no incentives makes it difficult to get anyone to participate. Even if your business and product are well-loved, an incentive (or lack of one) can make or break your referral program. When it comes to any business transaction, people usually take a “what’s in it for me” attitude.

In most cases, it’s best for referral programs to reward both the existing customer *and* the new customer. If you only reward the existing customer, the person they refer won’t be very motivated to purchase right away – leaving both parties (and your business) still without a sale.



## INVITE FRIENDS TO EVERNOTE

When they register, install, and sign in to Evernote, they’ll get Premium.  
You’ll also earn points to use for Premium.



### INVITE FRIENDS

Your first 3 referrals earn you **10 points each** - enough for 3 months of Premium.



### KEEP EARNING

Whenever a friend you referred buys Premium for the first time, you will earn **5 more points**.

## Determine what reward to offer

Just as every business is different, every referral reward will be, too. To figure out what reward incentive will work best, consider what your customers value most. For example, a snack food brand might offer its customers a free sample or discount for sending referrals. On the other hand, a B2B software company might be better off giving account credit or free access to a paid feature.

Here are some questions to help you determine your referral reward:

- *Who are my current customers? What type of reward would they most enjoy?*
- *Do the referral rewards make sense for my brand and business?*
- *Will I offer monetary or non-monetary rewards?*

Monetary rewards tend to be the most enticing and eye-catching, but they aren't the only way to incentivize your customers. In fact, studies suggest customers may be even happier receiving "gifts" as opposed to straight cash. With a little creativity, you'll find there are many types of reward incentives:

- Coupons
- Store credit or points
- Service upgrades or freebies
- Company swag
- Gift cards (i.e., Amazon, Apple, Visa)
- Donations to charity

There are many [ways to reward your customers](#) for their referrals – just make sure the reward incentive you choose is one where they see the most benefit.

## Decide on a reward structure

### Lesson 3: Utilize referral program software tools

There are a number of software solutions that make it easy to set up a referral program. Keep in mind that not all customer programs are alike. There are other programs, such as [affiliate programs](#) or [loyalty programs](#), which may be useful in boosting businesses, but are not necessary in referral programs.

### Lesson 4: Use reviews to boost your referral marketing

A perfect complement to [customer referrals](#) are customer reviews. Think of the last time someone recommended a new product or service to you – did you do a quick online search before deciding to make (or not make) your purchase?

The average consumer reads 10 reviews before they even begin to trust a business, and [91% of consumers](#) more likely to buy from a business that has positive reviews.

Both customer referrals and reviews play a big part in [word-of-mouth marketing](#), which has been identified as “[the most valuable form of marketing](#).” By focusing on [getting positive reviews](#) – or addressing [handling any negative reviews](#) – you are effectively building brand awareness and trust.

Here are other key reasons why reviews are important in referral marketing:

#### Positive reviews are the best form of referrals

Just like celebrity endorsements and organic social shares, positive reviews have a good influence in the market. They can even turn a stranger into a believer in your brand.

Why not create a referral program that rewards customers for positive shares on social media? Or, you can simply reach out to your most loyal customers to thank them and [ask for a review](#). Interacting with your loyal customers will help keep them loyal and more likely to share their positive view of your brand with others.



**Dan Allred**  
@dgallred



Wow, Pixar exhibit at [@museumofscience](#) is a must.  
Check it out!

2:40 PM · Dec 31, 2015 from [Boston, MA](#) · [Twitter for iPhone](#)

## Reviews empower word of mouth to occur

While [word-of-mouth marketing](#) is a great way to spread the word about your business, you still need positive reviews and a good reputation to turn referrals into customers.

For the most part, reviews are seen as real opinions and public markers of trust in a product or service. A review is someone openly sharing about their first-hand experience with your brand – just imagine how much of an impact this can have to a lead, a referral, or any potential customer.

Word-of-mouth marketing aims to motivate people to freely talk about a brand, products, or services. These days, most of the “talking” is done online through personal posts and customer review sites. So not only do reviews influence a potential customer’s path to purchase, they also boost your brand awareness visibility.

## Sharing adds to your social currency

When someone’s talking about [social currency](#), they’re referring to your influence and presence in social networks and other communities, both online and offline. At its core, social currency is based on the belief that value is derived from social participation.

For example, when someone chooses to share something, they are *spending* their social currency. They are most likely sharing something cool, funny, or makes them look good. Why? Because something boring might make others think they are boring, as well. It’s a risk to their reputation.

But if someone shares something about your brand, you are then *earning* social currency. It indicates your brand is worth knowing and talking about.

Although social currency is now more available thanks to [social media](#), it still needs to be earned. The reviews your brand receives can either build or break its credibility. And once it starts losing credibility, customers will give up a lot more social currency to promote or refer your brand to others — which they may not be willing to do.

**NOTE: if you don't know how to make social ads....find someone that does!  
You could end up burning LOTS of \$\$ and getting zero ROI.**

## Examples of referral programs to inspire your own

### Example 1: Harry's Shave Club

*Using a referral program to create awareness before a launch*

Sometimes, referral programs are the catalyst that makes a brand a household name. For example, [Harry's Shave Club](#) offered a referral program before they even launched. The company's co-founder and co-CEO, Jeff Raider, described the process on the [Four-Hour Work Week blog](#):

"First, users entered their email addresses on a splash page. This first step was essential since we wanted to capture emails both for our list and so that we could use it as an identifier for tracking referrals.



"The second page was where the referral mechanisms lived. It contained a shareable link to the splash page coded specifically to the user. Below the link were buttons to share the link through email, Facebook, and Twitter with the click of a mouse. By sharing the link with friends, users had the opportunity to earn free product. The more friends who signed up using your unique referral link, the bigger the prize you earned."



The referral program worked wonders for Harry's. In one week, they were able to gather almost 100,000 email addresses. Today, Harry's owns the German factory that makes its blades, and its products can be found in top retailers across the country. With the right messaging and execution, referral marketing has greatly contributed to the brand's overall [marketing strategy](#).

## Example 2: Stitch Fix

*Using a referral program to encourage sharing positive experiences*

[Stitch Fix](#) is a subscription service that uses technology to recommend personal styling and clothing items based on size, budget, and style. The company, which was founded in 2011, is now valued at \$300 million and continues to grow. Part of their secret sauce is a referral program.

Stitch Fix capitalizes on customer happiness, encouraging customers to share their positive experiences in exchange for a reward. Each customer gets a unique referral link to forward to their friends, and for each one who signs up, the customer gets \$25 in Stitch Fix credit. The more friends they refer, the more credit they get.

This referral program helped Stitch Fix spread like wildfire, especially on social media sites like Facebook. Happy customers all over the country share their unique referral link with their Facebook friends, in hopes of getting their friends to sign up and increasing their Stitch Fix credit.



Sara Galli Ancich

23 hrs · 🌐

I just received my 16th fix. Thank you Erin Keating DeWald for opening my eyes to [Stitch Fix](#). Use the link below to create your very own style profile... you won't be sorry!



### Stitch Fix | Try a Personal Stylist!

Your own personal stylist! Get hand-selected women's fashion, shipped free straight to your door. Try on everything risk-free at home.

STITCHFIX.COM

## Example 3: Grasshopper

*Fostering community through its 'Refer an Entrepreneur' referral program*

[Grasshopper](#) is a virtual phone system marketed to entrepreneurs and small business owners, rather than general consumers. To capture its target audience, the company built a referral program called "Refer an Entrepreneur."

# Refer an Entrepreneur

Because sharing is caring!

YOUR NAME

YOUR EMAIL

YOUR FRIEND'S EMAIL

Send Email >

## Tell a Friend via Email

If you love the Grasshopper virtual phone system as much as we do, we'd appreciate your referral! You can refer entrepreneurs via email, your social networks, or both. We'll even give everyone who signs up via email a special link to save \$25. Thanks for spreading the word!



In Grasshopper's referral program, both the referring customer *and* the new customer get \$25 credit each. This double-sided incentive motivates existing customers to spread the word within their network, as well as new customers to take advantage of the special discount.



# How to start a referral program that works for you

Referrals can come from anywhere – a happy customer, a friend or family member, or even a celebrity endorsement. The key is to harness these referrals using a well-designed program that incentivizes word of mouth and builds customer loyalty.

When learning how to start a referral program, it's important to have a relationship with your customers and understand what will best incentivize them to share. You should also make the referral process as easy as possible, automate any routine steps, track referrals, and make use of analytics to create the best referral program for your business.

Referral marketing programs can take your business to the next level, bringing new customers directly to your door.



## About Queen Bee Marketing

We build your social media presence! Period.

Here at QUEEN BEE, we promote brands, build preference, target & engage with customers and increase sales through various digital marketing techniques.

Let us develop and GROW your hive.

A busy hive yields LOTS of honey!

EMAIL: [grow@myqueenbee.org](mailto:grow@myqueenbee.org) to get GROWING!