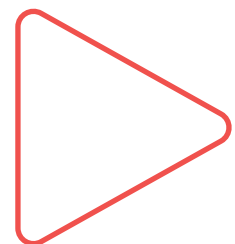


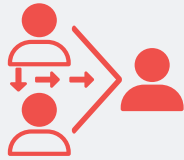


Building A World-Class Referral Program

TECHNIQUES TO TRANSFORM HAPPY CUSTOMERS INTO REVENUE-DRIVING BRAND AMBASSADORS



In almost every industry, referrals are the gold standard of customer acquisition. Research has repeatedly shown that referred leads close faster, buy more, and stay longer – all with significantly less effort and at a much lower CPA than non-referred prospects. Here are some facts to back our take:



A University of Pennsylvania study¹ found that referred customers are more loyal and profitable – by a **16%** margin – than their non-referred counterparts.



A 2016 Nielsen poll conducted on behalf of Ambassador revealed that, across industries, **82%** of Americans seek recommendations from friends and family when considering a purchase.



In the Nielsen’s survey for Ambassador, it suggests **two-thirds** of us are at least a little more likely to make the same purchase when we see those same people talk about their purchase.

All of this has never been more true than in the age of the internet – a chaotic, noisy place where we’re constantly bombarded with blatant marketing messages, thinly-veiled “native advertising,” and unapologetic branded soapboxing. In this environment, a referral from a trusted source is a welcome respite from the subjectivity of typical brand communications.

So, why isn't there more talk about referral marketing?

It's simple: More often than not, people expect referrals to just happen organically

But that assumption often doesn't translate. In fact, a Texas Tech University study² found that while **83% of customers say they're willing to provide referrals after a positive brand experience, only 29% actually do**. That chasm exists for many reasons, but it's often exacerbated by a failure to prioritize and manage a truly scalable referral marketing program.



83% of customers
are willing to provide referrals



29% of those
customers actually do

How can your company close that gap?

This eBook will explore the basics of referral marketing, the techniques you can use to transform happy customers into revenue-driving brand ambassadors, and the simple steps you can take to ensure your referral program is easy to manage, measure, and scale.





SEGMENT

01

The Strategy

Defining and Demystifying
Referral Marketing



Ultimately, the goal of referral marketing is simple: To harness the power of authentic word-of-mouth to drive a steady stream of high-quality referrals to your business (and grow revenue as a result). Let's take a look at what that looks like:

For referral marketing to work, you need to have a few core building blocks in place:

A quality product that customers love

If your customers are continually telling you how much they love your product, they'll probably be willing to tell their network.



A captive, engaged audience

You'll want to have an audience of loyal customers, fans, and followers, to make your referral marketing efforts incredibly powerful. Engage and incentivize them correctly, and you'll see a big ROI.



A process to track, manage, and reward referrals

Consider implementing processes that automate the repetitive nature of creating, tracking, and rewarding referral campaigns. This is the only way to make referrals a truly scalable source of revenue.



The Do's and Don'ts of Successful Referral Marketing



Do

Consider how (and when) you ask.

The best referral marketing programs operate with a deep understanding of who they're targeting, where those people are active, and which incentives will drive actions.

Make referrals part of your broader strategy.

The highest performing referral marketing programs share a common thread: referrals are fully baked into every customer's sales, marketing, and support experience. This includes the company website, employee signatures, and fully integrating it into your internal systems (CRM, marketing automation, etc.)



Don't

Make customers do all the work.

While the vast majority of happy customers say they're willing to provide referrals, the truth is they'll only follow through if the referral process is extremely simple.

"Set it and forget it".

This is where referral marketing software becomes enormously valuable. With the right technology, you can create (and automate) much-needed processes around monitoring, tracking, and incentivizing referrals. Over time, that will generate insight to help optimize results.

3 Use Cases for Referral Marketing

1 Fashion eCommerce

Large customer bases. Engaged social followings. High customer lifetime values. All of that adds up to organic word-of-mouth, an interest in referrals, and plenty of room to get creative with incentive structures (more on that later).



2 B2B SaaS

Gmail, Evernote, Dropbox, and Trello all drove exponential growth early on by harnessing the power of referrals. With these businesses, brand ambassadors can be rewarded for referrals with premium features or a cut of the referred customer's recurring revenue.



3 Big Ticket Items

Because margins and customer value tend to be higher with big ticket items - such as TVs, furniture, even cars - brands that sell them can offer larger referral incentives that are more appealing to both parties.



At its core, referral marketing isn't overly complex. In fact, getting started is as simple as putting yourself in your customer's shoes. Objectively, would you recommend your company's products to others? Where and how would you do it? What incentives would motivate you to increase your referral activity? What barriers would keep you from doing it? Answer those questions and you'll be well on your way to building an effective referral marketing strategy.



SEGMENT

02

The People

Identifying, Engaging,
and Finding the Right
Brand Ambassadors



Think about the last time word-of-mouth influenced one of your purchasing decisions. You probably acted on the referral, in part, because it came from someone you trusted. Now, think about the last time you received a referral and ignored it. Why did you ignore it? Generally, when referrals are directionless, or look and feel like an advertisement, we tend to tune them out – and rightfully so.

So, before you start getting your marketing and sales teams excited, and engaging customers for referrals, let's review how to ensure amazing experiences for your brand ambassadors, their referrals, and your team. There's a process to engaging ambassadors, and if you manage it properly you'll begin to reap the rewards.

The Core Characteristics of Successful Brand Ambassadors

So, what does an effective brand ambassador look like? Below we outline what we think is important and how you should target them.

1 They already know and love you

Quality brands already have existing relationships with raving fans - usually loyal customers. These are the people who are already telling their friends and/or colleagues about you and may feel alienated if they are passed over.

What this looks like in practice: Make sharing your brand and products incredibly easy and “ask” while they are highly engaged such as a post purchase page. Or try promoting your referral program on your social platforms by highlighting a brand ambassador who benefited from referring friends.



2 A High Net Promoter Score

The most effective starting point utilizing those high scorers who are most likely to guarantee you positive word-of-mouth. It's important to note that your biggest fans are not always the ones spending the most money on your product or service, so be sure to leverage these customers as well.

What this looks like in practice: Send an NPS survey to your entire customer database, which will allow you to gather feedback and ultimately identify your promoters. Then, immediately direct these customers to your referral experience, giving them an opportunity to act on their good intentions. Additionally, this feedback will enable you to identify detractors and their feedback to improve future experiences.



3 A Voice and an Audience

Most people have both the means to communicate and a network willing to listen, especially on social media and in online/offline communities. The important element here is allowing that person to individualize and tailor their promotion to their peer group - it has to be their voice and the message needs to resonate with their audience.

What this looks like in practice: Allow your ambassadors to promote your brand on whichever social media platforms they are most active on. Provide templated messaging that makes it effortless for an ambassador to share, but also easy for them to personalize with their own voice.



Before you dive in, take some time to think about the ultimate goals of your program. Every aspect of who you engage first, how you engage, and when you communicate with them, depends on the goals of the referral program. Once you know that, you can start to build your program.



SEGMENT

03

The Rewards

Choosing the Right
Incentive Structure for
Your Business



If you've used Uber, you're probably familiar with one of the company's incentive structures: Referred new users get \$20 in free Uber rides, while the referrer gets \$10 in credits for every friend who signs-up for an account. This dual-sided incentive is a common structure for referral programs and allows the customer to feel like they are helping others out while being rewarded for their efforts. While cash is king, there are a broad spectrum of rewards — cash, gift cards, exclusive offers, access to premium features, etc. to consider as well as what the perfect amount should be.

Determining Your Optimal Incentive Cost

The first step in setting up your incentive structure is determining how much you can afford to pay for each referral. Before you perform that calculation, there are two things to keep in mind:

01

The incentive should be enough to interest your customers to participate.

There's no "right" answer here, because it largely depends on the type of products or services you sell and what exactly motivates your ambassadors.

02

The incentive should not erase the profit generated by new customers.

Like any marketing channel, referrals should drive a healthy ROI. Rewarding ambassadors with an Apple Watch when the average new customer is worth \$50 isn't good for business.


For example, if the average customer spends \$25 in their "lifetime" and the profit margin on those purchases is 30% (after all hard costs and overhead are built in), then we can assume LTV is \$7.50. If you offer ambassadors \$2 in shop credit for every new customer they refer, that leaves you \$5.50 in profit margin for each referred customer. Win-win.

To determine the optimal cost of your referral incentive structure, you'll need to calculate two key metrics: Customer lifetime value (LTV) and Customer Acquisition Cost (CAC). Most marketers are familiar with these metrics already, but it's worth reviewing them here. So, to recap:

LTV is the amount of economic value (marginal profit) a customer brings in over their lifetime of sales with your company

$$\begin{matrix} \text{Average} \\ \text{Marginal Profit} \\ \text{Per Customer} \\ \text{Repeat} \end{matrix} \times \begin{matrix} \text{Purchase} \\ \text{Rate} \end{matrix} = \begin{matrix} \text{LTV} \end{matrix}$$


CAC is the total costs associated with acquiring a new customer

$$\begin{matrix} \text{Product Costs +} \\ \text{Sales/Marketing} \\ \text{Expenses over a} \\ \text{certain period} \\ \text{of time} \end{matrix} / \begin{matrix} \text{Total new} \\ \text{customers} \\ \text{acquired over} \\ \text{that same time} \\ \text{period} \end{matrix} = \begin{matrix} \text{CAC} \end{matrix}$$


Three Distinct Types of Referral Incentives

While there are many ways to reward referrals, incentive structures can be boiled down into three distinct formats:

1 Single Incentive

This structure only rewards the original referrer and protects your CAC.

When To Use: Brand awareness is low, margins are tight.

Why It Works: Your business is only responsible for rewarding one part of the transaction, expenses are limited to only those existing customers who are doing the referring. You can also offer a larger reward to just one party, which increases the likelihood of purchase.



2 Double Incentive

This structure only rewards one party, typically the Ambassador, but it rewards them twice.

When To Use: Longer sales cycle

Why It Works: A double incentive typically offers a smaller incentive for a lower value conversion (i.e. a demo request) and a larger incentive for a higher value conversion (i.e. a purchase). This model is a great way to keep ambassadors engaged and referring.



3 Dual Incentive

Dual Incentive This structure gives both the referrer and person being referred a reward, discount, or deal when a transaction is complete. Dual incentive systems tend to be more compelling since both sides of the transaction benefit from the referral.

When To Use: If your business can afford to reward both parties (i.e. Give \$10, Get \$10 is a common incentive structure)

Why It Works: While dual incentive programs are more expensive, they tend to yield a much larger volume of referrals and new customers. This type of incentive also helps the referrer avoid feeling like they are taking advantage of (or profiting from) their network.



Monetary or Non-Monetary?

After deciding on the right incentive structure, you'll need to consider what type of reward to offer your ambassadors.



77%
Preferred cash

In a Nielsen Harris Poll conducted on behalf of Ambassador, more than three quarters (77%) of Americans said they preferred to be rewarded for referrals with cash.



Monetary Incentives

Types

Cash, rebates, discounts, gift cards, and commissions.

Benefits

Monetary incentives make it extremely easy to calculate CAC and simplify things when analyzing the effectiveness of your program.

Things to consider

You need to be prepared to pay out rewards without being assured of ROI.



Non-monetary Incentives

Types

Exclusive access to new products, public recognition (i.e., a video shout-out, tweet, etc.), or insider benefits not available to the general public

Benefits

Non-monetary rewards allow you to 'shield your hand,' so to speak. Because there's no tangible value attached to the incentive, you can dramatically limit the cost of your program and still reap the benefits of referrals.

Things to consider

It typically takes a very strong level of brand engagement or an extremely exciting product for these types of incentives to work.



As a general rule of thumb: Incentives should always be profitable, tailored to your target audience, and compelling enough to encourage engagement with your brand.

SEGMENT

04

SALES



CLICK

click here fore more information

The Ultimate Goal

Tracking, Measuring, &
Optimizing Your Program
at Scale



After you've built an incentive structure and launched your referral marketing program, you might start to see a steady stream of referrals pour in. And that's awesome. Unless, of course, you're not prepared to track and manage referral activity, measure results in real-time, and actually deliver the incentives you promised.

To avoid that fate, you need to implement processes that allow you to:

01

Attribute new customer activity to the correct referrer. If you're generating new customers from brand ambassadors, you need a way to accurately connect which new customers came from which referrer.

02

Automate rewards in a timely fashion. If you're generating hundreds (or thousands) of referrals a month and you'll want to have a way to automate conversion payments.

03

Learn, observe, and iterate. At scale, an effective referral marketing program should generate incredible insight into customer behavior, prospect motivations, and channel preferences. It's absolutely critical to have systems in place that can process and leverage that insight from Day 1.

Ultimately, referral marketing is most valuable when you're able to easily amplify results without also proportionately amplifying internal resources.



The Argument for Referral Marketing Automation

Developing referral measurement, management, and analytics functionality in-house is certainly possible, but it requires a lot of effort and internal resources. However, with a referral marketing platform, you can easily attribute new customer activity to the appropriate ambassadors, fully automate campaign logistics and quickly integrate other third-party systems to seamlessly sync data between platforms.

Why is automation so important?

It eliminates the guesswork while freeing up time and individual efforts to focus on the things that really matter – executing efficient, measurable, and profitable referral marketing campaigns that, over time, positively influence every aspect of your marketing strategy.

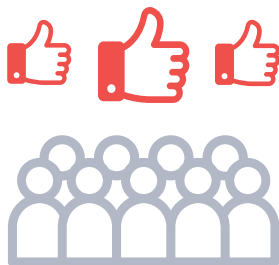


How Are You Making Referrals Work?

In a 2016 Nielsen Harris Poll conducted on behalf of Ambassador showed these telling statistics about purchasing behavior:



67% of Americans said they're at least a little more likely to purchase a product after a friend or family member shared it via social media, email, or text message.



92% of 18-to-34 year-olds say they **seek recommendations** from friends and family when considering a product purchase.

For marketers, those are pretty compelling numbers. That said, for referrals to consistently deliver bottom-line results, they must be woven into who you are and how you operate. Without structure and commitment, you're largely hoping that good things happen and that customers inherently know to refer their friends and colleagues to your business. That might happen. Or it might not.

The far better option is to approach referral marketing just as you would any other high-value customer acquisition channel – investing in process and technology, and incorporating it into every aspect of your marketing strategy.



So what's stopping you from tapping into your audience and incentivize them to increase your bottom line?

At Ambassador, you'll find our flexible relationship marketing software can help you automate, integrate with existing technologies, and quickly build, scale, and optimize referral marketing programs. If you find yourself wanting to learn more about how to get started, visit our website at www.getambassador.com.