

How to launch a *successful* refer-a-friend programme



How to Launch a Successful Refer-a-Friend Programme

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Find out more

Contact Mention Me for a demonstration of how our referral programme can help you.

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Executive Summary

Everyone knows word of mouth is an effective channel for acquiring new customers, but few businesses systematically drive the channel through a dedicated referral programme. Often, it sits as a request from the marketing team on the development pipeline year after year.

Or perhaps worse, a referral programme is built, fails to deliver and is then neglected and marked down as a failed endeavour. In these situations it's easy to assume that referral will never work. At Mention Me we strongly believe that most businesses can get referral to work if they approach the challenge in the right way and invest in discovering the keys to unlock the channel.

This guide is designed to help you determine how to make the referral channel work for your business.

1. Develop a strong case for referral

For some businesses, referral represents the largest online channel for their business. Dropbox manage to acquire 60% of their customers from their referral programme¹. giffgaff, the UK mobile phone company, claim referral accounts for 35%². These businesses achieved this level of referrals by building it into their product offering from an early stage.

For more mature online and multichannel businesses that are adding referral as an incremental marketing channel, it should be driving a 10% to 25% increase in online acquisition. Amongst the Mention Me client base we see businesses in different sectors with different business models and at different life stages all achieving these sorts of results.

10-25%

The increase in customer acquisition that most businesses can expect from referral marketing

Drew Houston interview: <http://www.slideshare.net/gueste94e4c/dropbox-startup-lessons-learned-3836587>
Mobile Today article: <http://bit.ly/1MFnAsQ>

2. Understand the key success drivers

It is very common for marketing teams to fixate on what incentives and sharing options to offer when they start to think about referral. Whilst these are important components of referral, they are not the most important factors for success.

Social considerations play a huge part. Your customers will only share if they believe their friends will value what they're being offered and there is minimal risk of the referrer being perceived negatively for sharing the offer. Everything from the way you present the programme, the brand, the incentives and the share options can have a big impact on how your customers perceive the social risk, and the social upside, and ultimately that will determine the success of the programme.

3. Encourage referral at points of delight

Referral can be promoted in many different places: at various locations on site, in emails, as card inserts and even via the phone channel. Typically businesses look to find a couple of touch points to launch with and then build out the promotion points over time. The best starting point tends to be post-purchase or post-sign up. You're looking for somewhere that is close to a point of delight in the customer experience and that gets significant volume from engaged and happy customers.

4. Make it easy for customers to tell their friends

Generally it is helpful to give your customers all of the sharing options that they might want to choose from to maximise the chance of sharing and to maximise the chance of them using multiple sharing channels.

That is not to say that all sharing channels are equal. Sharing channels vary in effectiveness by demographic but the rough rule of thumb is that the more meaningful the share the higher the conversion rate. So, when people share face-to-face the conversion rate is higher than if they are referred by email. Similarly email converts better than if they are referred by Twitter. Working out which share options are right for each of your customer segments is a key part of getting referral to work.

5. Find the right incentives

Testing different types of rewards and levels of reward can have a major impact on the success of a referral programme. Whilst the rewards aren't usually the primary driver of a referral, if you get them wrong then your customers just won't share. There are no hard and fast rules on rewards but it is always worth testing extensively which rewards work best for your customers and whether different rewards work better for different customer segments.

6. Plan for the long-term

Referral should be viewed as a marketing channel rather than a product launch. As a channel it needs optimising and engagement. Typically the first six months are spent testing and optimising the offers and from there on it becomes about increasing promotion and segmenting the customer base to ensure that each segment is getting the optimal offer to maximise conversion. It is by continuing to work on and improve the channel that the real potential of referral can be unlocked.

Introduction

Most online business put a huge amount of effort into customer acquisition and retention, yet they often miss the significant opportunity presented by referral marketing.



What is referral marketing?

Referral marketing goes by many names including “Refer a Friend”, “Introduce a Friend”, “Incentivised referral” and “Member get Member”. At its core it is about incentivising your existing customer base to encourage their friends to come and buy from you for the first time.

“Referral” and “Word of Mouth” marketing are often confused. “Word of Mouth” is the result of customers generally talking about a brand and convincing others to try it on the back of their recommendation without any prompting by marketing efforts. It is absolutely the best marketing channel because it is free and brings in customers pre-disposed to like you. The biggest challenge with “Word of Mouth” is that it is completely uncontrollable. Apart from being the best business that you can be there is little that a marketing team can do to drive it.

When marketing teams want to boost “word of mouth” they usually turn to referral marketing and start to think how they can drive their existing customers to share more. That usually involves some form of incentivisation ... although incentives are only a small part of the story when it comes to referral.

Part 1:

Develop a strong case for referral

10-25%

The increase in customer acquisition that most businesses can expect from referral marketing

The potential of referral

Referral marketing represents a significant opportunity for most online businesses to boost their customer acquisition.

At Mention Me we believe that most businesses should be targeting an increase in acquisition of 10% to 25%. For mature businesses there aren't many other channels that you could switch on and deliver that kind of an increase.

There are some well-documented examples of businesses who have made referral perform even better than this benchmark. Dropbox generated 60% of new customers, giffgaff generated 35% and Uber is reputed to generate 50% of new customers from referral when entering new markets. For all of these businesses, referral has been a key part of the business from very early on and it was prioritised within the product accordingly.

For businesses that already have an established model and marketing mix referral is likely to represent one of the best ways of materially increasing acquisition for a business.

The hidden benefits of referral

The number one benefit of referral is the number of new customers that it delivers to your business. However, what is often overlooked is the quality of the customers that are delivered.

Since the new customers are the friends of your existing customers, they are a great match for your target market. Unlike some channels where you bring in discount hunters who are not in your target demographic and likely to only buy once, referred customers are usually right in your target demographic and tend to become great, longstanding customers.

They're also predisposed to liking you as a brand before they've even bought anything because their friends have been enthusing about you to them.

15-25%

The increase in first order value expected from a referred customer

As a result, from the data we see at Mention Me...

- They spend more on their first order - typically 15-25% more
- They have a higher lifetime value, up to 200% that of customers who come in from other channels
- They are three times more likely to become a referrer themselves

Avoiding the pitfalls of referral

The obvious question after seeing the potential upside is "If it is so valuable, why isn't everyone doing it?"

The answer, quite simply, is that it isn't as easy as it might seem. For each success story there are more businesses that have tried referral marketing and found it didn't live up to their expectations. Often teams end up thinking that it's because the channel doesn't work for their business whereas in most cases it's because of how it was implemented.

There are very few referral experts out there and most online marketing teams don't have anyone with deep experience of the channel that they can call on in-house. As a result marketing teams often start with a hypothesis about how to approach referral that is not grounded in real experience of what works.

The marketing teams then need to convince the business to dedicate the development resource to build a referral programme. For some businesses this is impossible (particularly if the business case is unproven). In others it is possible but it just takes time. In these cases, once it is scheduled, the development team build the solution to the marketing team's hypothesis. Then once they've delivered the product they're off working on other projects.

If the marketing team's initial hypothesis doesn't work they tend to have very little scope to change anything. They need the development team to change creative, messaging, user experience and promotion points. Also if the initial offer doesn't seem to chime with the audience then it's very hard to test alternatives. The marketing team can't just change an offer unless they're willing for everyone who is sharing and receiving shares to see something different to what they were promised. As a result, marketing teams rarely manage to change anything after a programme launches and if it doesn't work then they won't promote it further. In this case the whole programme tends to get labeled a failure.

The rationale for outsourcing

The reason for outsourcing referral marketing is to overcome some of these challenges. A good referral partner will have deep expertise and their team will work with you to make it resonate for your customers. They will have customisable solutions that you can get live quickly. They'll also have a robust testing and segmentation platform so that you can AB test by cohort enabling you to test every component of a programme, including offers, whilst ensuring consistency of experience for customers and friends who have already seen an offer.

Confirm referral is right for you

There are no hard and fast rules that can guarantee whether referral will work for your businesses. Success comes from a range of factors, and the most relevant factors for driving a good referral channel are:

- **Underlying customer satisfaction**

The happier your customers are with your product the more likely they are to tell their friends. A high Net Promoter Score (NPS) is a great indication that referral has the potential to work well.

- **Demographic**

Referral can work for any demographic but some tend to be more active. As a very general rule of thumb, women share more than men and under 30s share more than over 30s. That said, it's not the be all and end all and we have seen referral work on brands that only sell to 50+ year olds. Whilst the older demographic tend to share less, the shares they make tend to convert better.

- **Proportion of existing customers**

If the majority of customers coming through a checkout are buying for the first time they tend to be less likely to share.

- **Talkability of the category**

Some categories lend themselves to discussion. For instance, clothing is often commented on, holiday plans are discussed with colleagues, hobbies are shared with other enthusiasts. If this dynamic is present it increases the share rate.

- **Impulse or considered purchase**

If your product requires consideration it will take longer to get a referral programme off the ground as friends who receive a share may not yet be ready to buy.

- **Discounting environment**

If a brand regularly discounts heavily it makes it hard for a referral offer to stand out. If the referral offer is less generous than other offers in the marketplace then referrers will simply not bother sharing it because there is little point in sharing an offer if they know their friends will get better value elsewhere.

- **Economics**

You need sufficient gross margin for the referrer and the referee incentives to fit within your Cost Per Acquisition. If you can't offer a compelling incentive out of the margin you have available then incentivised referral won't work.

Part 2:

Understand the Key Success Drivers

It's one thing knowing that referral marketing should work, it's another making it work. You need to start by understanding how good programmes work.

Engage with the social interaction at the core of referral

When people initially think about referral marketing they tend to focus on the incentives and ease of use as the key drivers of success.

These are indeed both important components. It's critical to make sure the incentive feels right to the customer and that customers can share easily, however they are not the most important components customers talk about when asked. It is the relationship with their friends that is by far and away the most important factor when deciding whether or not to share.

There are two parts to this. At Mention Me, we define them as "social capital" and "social risk". If the referral makes someone look good because they're introducing a brand that their friends will love, or because they're giving an offer that is too good to be true, then their friendship will benefit from the referral and their social capital increases.

If the referral risks making them look like they're acting in their own self interest then most customers won't risk a friendship by sharing an offer with their friends. There is too much social risk. The key determinant of how people think about the social capital and the social risk components comes down to how the referral offer is positioned and how they view the brand. There is a lot you can do when setting up the referral programme to optimise these social considerations.

The picture to the left is a graphic we use at Mention Me to think through how to optimise referral programmes. The aim is to increase the number of referrals by growing the balloons and shrinking the weights. It's a useful metaphor to make sure that teams don't focus solely on the left hand side as they design their referral programme.



Part 3:

Encourage referral at the point of greatest delight

Identify the right touch points

When promoting referral there should be three ambitions:

- To get as close to the point of delight as possible
- To keep the programme top of mind
- To enable customers to easily find it if they look for it

To achieve this it's great to place promotion points in different places on your site and within your email cycles.

We typically recommend starting on the post-purchase or post-sign up page. This page is usually close to a point of delight. In online retail the greatest delight is when people have physically received their order.

YOUR ORDER IS COMPLETE

CYBILLA, TREAT YOUR FRIENDS AND FAMILY TO £15 OFF AT RADLEY

And when they place their first order, we'll treat you to **£15** off too.

GET OFFER NOW

£25 for you, £25 for them

Ann, recommend First Utility to your friends.

For every friend that switches you'll both receive a **£25 Amazon.co.uk Gift Card**

Start saving

Friends First

*Amazon.co.uk is not a sponsor of this promotion. Amazon.co.uk Gift Cards ("GCs") may be redeemed on the Amazon.co.uk website towards the purchase of eligible products listed in our online catalogue and sold by Amazon.co.uk or any other seller selling through Amazon.co.uk. GCs cannot be reloaded, resold, transferred for value, redeemed for cash or applied to any other account. Amazon.co.uk is not responsible if a GC is lost, stolen, destroyed or used without permission. See www.amazon.co.uk/legal for complete terms and conditions. GCs are issued by Amazon EU S.a.r.l. All Amazon, ®, ™ & © are IP of Amazon.com, Inc. or its affiliates.

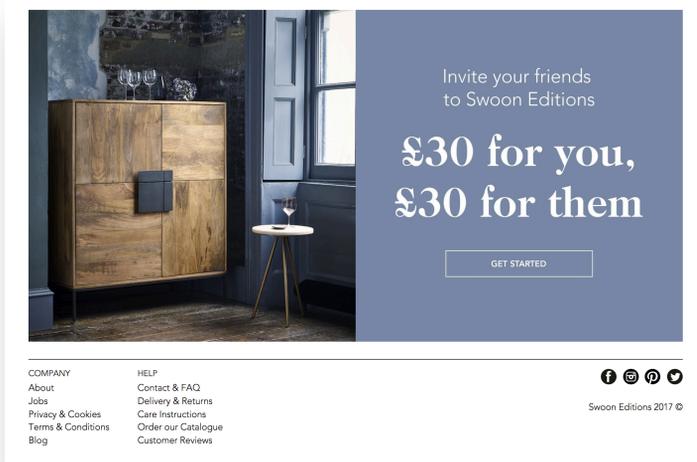
Examples of an overlay on the order confirmation page

However you're not in an online conversation with them when that happens and so you back up to the last time you were, when they were happy enough to buy. Putting an offer in front of customers here should result in between 10% and 30% of customers who see an offer sharing it with their friends.

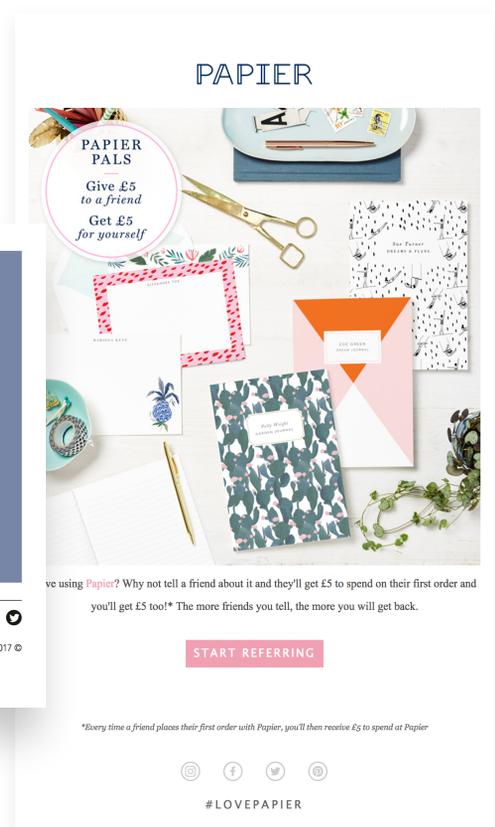
You are also likely to want to include a reference promotion point for launch so that customers can find the referral programme if they're looking for it. The "my account" section typically lends itself to this and including a dashboard giving the status of any referrals that have been made works well.

It can also be good to include the referral programme as a standard feature in email newsletters. Like almost all things marketing, reminding customers about something means that more of them take note of it.

Inserts can also work very well. In an online retail example, including a physical card with the product does get to people at exactly the point of greatest delight. The key here is to find a way to enable people to share without needing to go to a website to share a link. If you can give them cards that they can share with their friends it is much more effective.



Example of promotion on the homepage

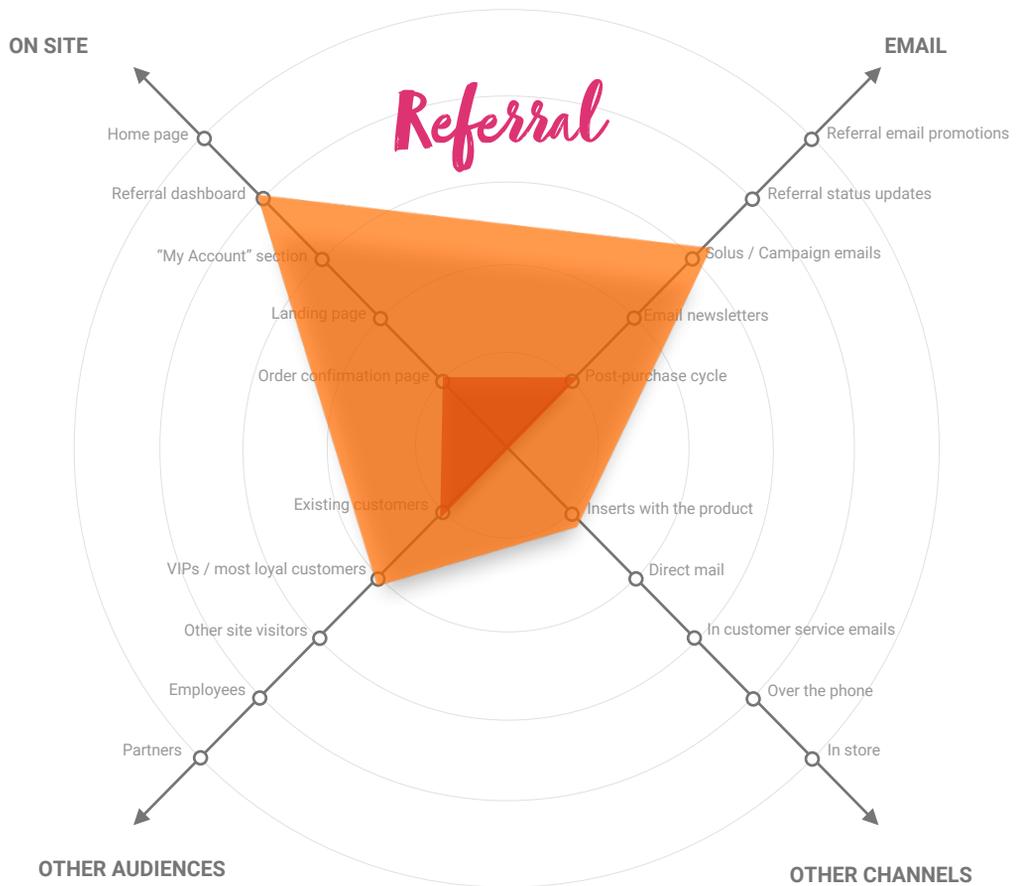


Example of promotion in solus email

Increase promotion over time

Usually when rolling out a programme we'd suggest starting with a post purchase promotion point and in one or two other places and then once you're happy that the referral funnel is healthy, rolling it out more broadly across the site, email and other touch points.

Below is a list of many of the promotion points that will be available to you. Our approach is to start in the bottom left of the diagram below and work our way to the top right. Obviously the ease of implementation for each of these touch points will vary by business and so you just need to be pragmatic as you plan what makes sense for you.



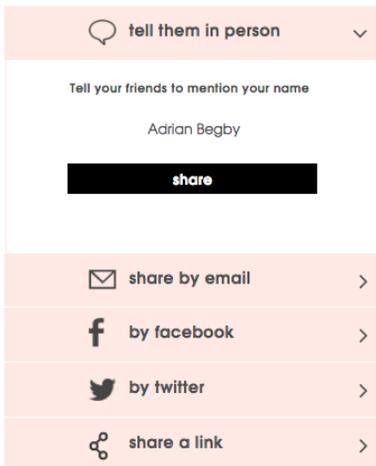
We recommend starting bottom left and building out the programme by moving to the top right once you know which offers work best and how to present them

Part 4:

Make it easy for your customers to tell their friends

Give your customers options

The basic rule here is that you should enable your customers to share however they want to. The sharing options we find most successful are:



Example of share options

- **Face-to-face**
At Mention Me, we let customers share using their name so that a referred friend can visit the site and just enter the referrer's name in order to receive their introductory offer. This allows us to capture the face-to-face referrals that are happening that might otherwise be lost, reward the referrer and start a virtuous circle.
- **Unique sharing URL**
Each customer gets their own unique sharing URL that they can post wherever they like: in an email, on social media or on a blog.
- **Email**
Allowing people both to send an email from the share page with the option to look up their friends email addresses and giving them an email they can forward on to their friends later on.
- **Social**
For example, via Facebook (directly or on their timeline), via Twitter, via Whatsapp or Weibo (for the Chinese market).

Maximise meaningful shares

For most demographics face-to-face, email and sharing URL are used most to share. That said there are some demographics that favour social, particularly the “Young Mum” demographic, where we can see more than 70% of successful referrals coming from Facebook sharing.

However the share rate is only half of the story. The conversion rate from share to referred friend purchasing varies significantly by share channel. The more personal a sharing message feels, the more likely it is to result in a successful referral. Accordingly face-to-face conversations convert best, emails are next best. The social sharing options still deliver, but a single Tweet often lacks the power to drive many referrals.

When optimising the programme it is important that you experiment with all the channels and don't be afraid to get rid of share options that aren't working.

Part 5:

Find the right incentives

Test, test and test again

Whilst incentives are not the sole driver of referral programme success, they are important and can make a big difference. We find that it is possible to more than double the performance of a programme by testing different offers.

Testing offers sounds like an obvious thing to do but it's more complicated than it first sounds and you need to make sure that your programme has the capability to do so. If you show an offer to a cohort of customers for a month and then want to test a different offer, it would be a very poor user experience to just switch out the offer that referred friends of the first cohort are expecting.

To avoid this you need to be able to conduct **AB testing by cohort** so that you can offer consistency of experience to each cohort. AB testing by cohort enables you to offer one cohort an offer and for them and their friends to continue to benefit from it for the next six months but for the next cohort to see a different offer and for them and their friends to be able to benefit from the new offer. In order to unlock referral being able to test offers in this way is critical.

Examples of incentives to consider:

- Discounts - % or \$/£/€
- Gift cards
- 3rd party vouchers
- Free Delivery
- Loyalty points
- Cash or Rebate
- Free product
- Donations to charity
- VIP Access
- Competition Entry

How much to offer

This is very business specific. Your underlying economics will determine how much you can afford to give away. The other offers that you have in the market place will determine how much you need to give away in order for the referral offer to feel special. Both offers should always be better than other offers that the referrer or their friend could get elsewhere. Without this the customer feels like they're doing their friend, or indeed themselves, a disservice in sharing it. The reward for the friend should be at least better than other new customer offers on the site and the reward for the referrer should be better than other offers you've been emailing to your base or that they can see on your site.

Businesses that get referral to work often find that they can go deeper than they go in other channels because they can afford a higher cost per acquisition for referred customers. Since referred customers tend to spend 15% to 25% more on their first order and have double the lifetime value it is possible to be generous in the incentives that are offered. Teams often want to prove this before rolling out deeper offers and so again a platform that allows testing by cohort is critical to be able to do this.

How to split the incentives

The rule of thumb here is that a balanced offer between the referrer and their friend is best. If you are generous to the referrer but not to the friend then the referrer risks feeling like they're taking advantage of their friendship and may not share. If you're generous to the friend but not the referrer, it makes the referrer question why their friend can get a better deal on your site even though they themselves are already a loyal customer.

That is not to say the offers need to be the same. It may well be that you can't offer them the same because of your business model or your business systems. Or simply because money off a future purchase isn't attractive to a referrer if they're unlikely to buy again for a while. In these cases, offering something that the customers perceive to be of roughly equal value tends to work just as well.

Rewarding the referrer, their friend or both

For the reasons outlined above, we've found that rewarding both parties works significantly better than only rewarding one party. Some businesses think that the referrer should only need an offer to give to the friend and not need the reward. However, this can leave them feeling frustrated if they've never been able to get that offer themselves. Similarly, if you just give the referrer a reward then it can feel like you're trying to pay them to take advantage of their friendships and that can make people feel uneasy and prevent them from sharing.

The most effective incentives

There are some other rules of thumb here based on our experience that we use to determine which incentives to test. The first rule is that money off your own product or service tends to work best; customers understand it, they like your product or service enough to recommend it and so will probably want more of it. It also is likely to be more cost effective for you as a business.

Where it isn't appropriate because of your business model or your business constraints then 3rd party vouchers can work. Generally the more liquid the voucher the better. In other words Amazon works very well because it can be used universally online towards a wide range of products. The supermarkets are next most effective because people can envisage using the vouchers soon. After that comes national brands (like M&S in the UK). Finally then come national brands with regional bias (such as John Lewis in the UK which has a much stronger retail presence and brand affinity in the South). In most cases these can either be fulfilled by e-vouchers or as physical cards by post.

What is interesting is that offering cash, the most liquid of rewards, tends to convert less well because it results in confusion. Customers don't understand why you as a business are offering them cash rather than credit towards your store nor do they understand how you'd give it to them. This confusion is usually enough to stop many from sharing.



It should be said that this is not a hard and fast rule and that there will certainly be circumstances where you make decisions based on what is right for your brand. For instance, many brands may consider it inappropriate to offer a supermarket voucher. We would always recommend testing different offers and seeing what works best for your business, and preferably what works best for your different customer segments.

* so long as the customer can perceive using that credit in the near term

Part 1:

Plan for the long-term

Launch it, prove it, promote it

- **Launch it**

Aim to get the referral channel up as quickly as possible. Initially, it is worth limiting the number of touch points and upfront work to get something live and to start learning.

- **Prove it**

Once it has launched you'll start to see performance and metrics that you can improve. Typically there are a couple of places in the funnel where the numbers are weaker after launch and so the team can focus on testing different variants that will improve those specific metrics.

- **Promote it**

Once the referral funnel is looking healthy it is time to ramp up the promotion. You should be happy showing a customer an offer that has a good chance of bringing in new customers and so it is easier to convince other stakeholders to build the referral programme into different parts of the site and into email lifecycles.

It's a marketing channel, not a project

Refer-a-friend often starts as a project within a business. That may well be the best way to get it up and running but it needs to be treated as a project to launch a successful marketing channel rather than a project to release a new feature on the website. This requires doing a number of things differently.

First, everyone who will be involved in managing the channel needs to be involved from day one of the project. Often we see a handover from product to marketing once the project is delivered. Unless the refer-a-friend is an immediate success this risks tension and frustration between the teams and it makes it very hard to then build out the channel after launch. Marketing teams don't feel full ownership and the product teams aren't on hand to make any changes needed.

Secondly, resource needs to be made available on an ongoing basis rather than just for the length of a finite project. It is highly unlikely that the team will get it right first time. The team may be smart but the only way to know what will work is to test the different components of the referral programme over time.

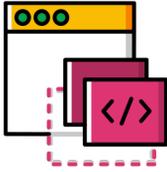
Finally, it is worth recognising that doing this right will result in a channel that can boost acquisition by 10% to 25%. This warrants spending marketing time and effort on it to enable it to reach its full potential. The launch is only the start. The real value comes from the marketing team working to optimise the channel over time.

Check list of things to consider

When embarking on setting up a referral programme there are a number of elements to consider when defining the requirements beyond the basics of the share options and reward mechanism.

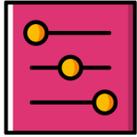
- **AB Testing by Cohort** - the ability to test different offers against each other whilst allowing customers to receive a consistent experience.
- **Segmentation** – the ability to serve different offers to different customer segments.
- **Easy Configuration of Offers** – you'll want to be able to change key variables (e.g. the incentives on offer, the share options, validity period of referee offer) for the different tests without needing development support.
- **Detailed Reporting** – referral is a funnel (like the rest of an online business) and you need easy access to data to be able to optimise.
- **Content Management System** – the ability to easily amend any text that touches a customer.
- **Easily Editable Designs** – the ability for the design of the referral programme to fit your brand and user experience and to be easily editable so that it looks like a seamless extension of your site and service.
- **Rewards Management System** – to manage fulfillment of either your own coupon codes or third party vouchers.
- **Customer Service Interface** – the Customer Service team will need to be able to answer questions and resolve issues for the calls that come in relating to the referral programme.

- **Gaming Management** – you'll want to be able to identify customers who are attempting to claim rewards without genuinely introducing a friend.
- **Mobile Experience** – the user experience will need to work seamlessly across devices.
- **Assets for each Promotion Point** – e.g. you may want a referral dashboard in your My Account area.



Easy to set-up

Just two tags to set up our SaaS platform



AB testing

Unique optimisation and segmentation technology



Word of mouth

Customers share in conversation using their name



Expertise

Expert advice, shared learnings and hands-on management

About Mention Me

Mention Me helps businesses turn referral into a new marketing channel. Our platform has unique features to ensure referral success and our team work alongside you to determine how best to unlock the potential for your business.

We start by modeling a business case to show how well the channel will work for you and the numbers you can expect to deliver from a refer-a-friend programme.

Our integration is light (based on JavaScript tags) and places few demands on your technology team. This means you can have your programme up and running quickly.

Once you're live you'll have the tools you need, and the expertise on hand, to allow you to optimise the referral programme for your different customer segments. We incorporate best practice and innovation (such as the ability for customers to share by name) so that you can have a world-class referral programme live from day one.

We also back ourselves to make it work for each business we work with by charging on a cost per acquisition basis, rather than charging license fees.

200+ leading brands, including Farfetch, Karen Millen, Laithwaites, Schuh and Swoon Editions, already benefit from our referral platform.

Interested to find out how you can join them? Get in touch and request a demo.

Find out more

Contact Mention Me for a demonstration of how our referral programme can help you.

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