How To Incentivize Referrals
The process of questioning, calculating and structuring incentives
Introduction

While 83% of prospects are willing to refer, only 29% actually do (Texas Tech University). That leaves 54% of prospects that are willing to refer on the table. Of course you want to recapture that percentage, but how?

While incentives are a powerful way to ensure that customers, partners, and employees take action there has been much debate involving incentives, including discussions on:

1. Whether you should incentivize referrals or if loyalty should be the main motivator.
2. How best to calculate incentives that provide adequate value to your demographic but also generate ROI.
3. What kind of reward structure to use in order to drive referral volume.

In this whitepaper we will discuss these highly deliberated matters in order to provide you with a strategy that optimizes your referral program and capture all 83% percent of prospects that are willing and ready to refer you.
PART 1

Should you Incentivize Referrals?

Can Sales get referrals without incentives?

In regards to referrals, Salespeople fall into two groups. And while both groups lay claim to some exceptional Salespeople, their strengths usually reside in different areas. There are the Salespeople whose talents lie in transactional sales, while there are others who excel at relationship selling. The Transactional Sellers are typically not very successful at getting referrals. Only a small percentage even ask, but those that do don’t end up with great results as they haven’t done any “give-get” with the customer.

The Relationship Sellers spend more time getting to know their clients and often form genuine friendships with them. They take every opportunity to treat them to whatever makes them happy. A good relationship seller does not need to incentivize their customer in order to get a referral. That customer feels grateful to the Sales rep for all of the special treatment. They are happy to refer a peer to them when they ask. In their minds they “owe” the rep and they want their friends to get this special treatment too.

The problem with this model is that Relationship Sellers can’t scale. They can only build these great relationships with a handful of customers and that doesn’t amount to a lot of referrals.
Can Marketing get referrals without incentives?

While referrals from Sales are sparse, they are always high quality. Marketers have caught on to this and are creating referral programs to get these high quality leads at scale. Referral software allows for Marketers to make this happen, but the decision on incentive is always left to the brand.

A few brands are lucky enough to have brand enthusiasts. Those people who love your product so much that they want to shout it from the rooftops. In B2B, this is even rarer. So while this handful of individuals may be willing to give a referral without incentive (note: they are probably well treated by their Sales Rep) that doesn’t create a steady flow of leads.

To increase the amount of leads, some companies will try swag. This will get a bit more participation, but most business professionals have branded coffee mugs falling out of the kitchen cabinets. And typically, this will get a one-time referral at best. Meaning, a customer doesn’t want your branded blanket and backpack and coffee mug (No hard feelings).

Marketers that want a consistent flow of leads are using a monetary incentive. Referring takes time out of your Advocate’s day and asks for an introduction. An Advocate expects to be rewarded for this behavior. And it does indeed work. Amplifinity has a large portfolio of customers who have been very successful at offering monetary incentives for referrals. A few of our customers have even surveyed their Advocates and found that they love the referral program. It makes them feel appreciated and appropriately rewarded for supporting the brand.
Why do we need to be incentivized?

“People should refer because they love us, not because we are paying them to!” is something that incentive naysayers tout. In a perfect world, that would happen. But we live in a busy world where every second of time is precious. You want someone to fill out a survey? You need to pay them to do it. The same goes for referrals.

Nowadays, time itself is a commodity. And if you’re target Advocate has more than one job or a demanding job than their time is often in greater demand and lower supply which means the value is high.

But while every Advocate might not be at the same level, all Advocates want recognition that their time is valuable. That means even if an Advocate loves your brand, they don’t want to feel like it’s a one way street, you have to show them what their loyalty means to you.

So do you need to incentivize someone to make a referral?

The overall answer is on a tiny scale, no. But to grow referrals to be your best channel for demand generation – absolutely.
Therefore, it’s necessary that you calculate your reward to ensure it effectively motivates your Advocates and delivers exceptional ROI.

There are different ways to arrive at what reward amount is best for your referral program. Common approaches include basing this off of your annual revenue from a customer. But it’s also worth considering the value of your Advocates’ time. Consider calculating both and using the values to inform and validate your final decision.

Now that we’ve determined that you need incentives to facilitate a steady stream of high quality referrals, it’s time to determine the appropriate amount to give for a successful referral.

And while you can guess what reward amount would facilitate referrals, you run the risk of going to low and not offering enough to motivate valuable referrals or going too high and not generating the ROI you require to make your program profitable. Unfortunately, if you go too high it’s much harder to decrease the amount of your reward without Advocates feeling cheated.
Calculation Option #1: Percent of Revenue

One way to determine your reward amount is to consider the reward as a percentage of the value of a new customer. For this calculation you’ll need to know the average annual revenue of a new customer. This might be a monthly subscription times 12 months or the average purchase price of your product.

Next you’ll need to consider how much to reward based on the Advocate type. Typically partner Advocates earn more than customer Advocates. The averages from Amplifinity customers end up falling around 5% of average annual revenue for a customer program and up to 20% of average annual revenue for a partner program depending upon how much selling the referral partner does.

This calculation obviously needs to be checked against profit margins, but can be a simple way to start estimating your reward range.
Calculation Option #2: Value of Advocate Action

The second calculation option requires you to take a walk in the shoes of your Advocates. In this approach, you’ll consider a 3 step equation that motivates them to make a referral.

1. The value of your Advocate’s time

An inspirational speaker who spoke on work-life balance taught his audience to figure out the value of their personal time. He asked them to start by calculating their hourly rate from their annual salary. Then, for everyone who feels that personal time is more precious than work time, to multiply that hourly rate by 2. That amount becomes the metric for how you spend your time. When you do the math, you can easily find out how much 10 min of an Advocate’s time is worth. Typically it is more than you’d expect.

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\frac{\text{Average annual salary}}{(52 \times 40 \times 6)} \times 2
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That’s the first hurdle that a brand needs to overcome. Take your target Advocate and their average salary and do this math. If my Advocates are Directors in Marketing with an average salary of $100K, then 10 minutes of their time (x2 for personal time value) is worth $16. In this case you’d round up to a $20 gift card.
2. The value of the introduction

Next, you’ll need to factor into the equation that you are asking your Advocates to make an introduction to someone in their network. This may take some additional time and it requires them to trust that their relationship with their referral is not going to be damaged by this recommendation. That means you need to up the ante to get them to take on the risk. Doubling this is a good assumption. So now I’m up to $40.

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\text{Value of 10 minutes of your Advocate’s time} \times 2 = \text{Value for making a referral}
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3. Managing the odds of success

Finally, you will need to consider the odds of your Advocate’s referral becoming successful. Your Advocates know that not every one of their referrals will buy your product or service. So you need to figure out how likely that is and multiply your reward by that amount. For instance, if you expect 2 out of 10 referral leads to make a purchase, then you need to multiply your reward amount accordingly. Going with that assumption, we are now up to a $200 reward. Now you’ve got a motivated Advocate!

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\text{Value for making a referral} \times \text{Lead to purchase conversion rate} = \text{Value for making a successful referral}
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Now when you put the Option #2 reward calculation altogether, you get a great formula to figure out the reward that will make your referral program a continued success.

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\left( \frac{\text{Average annual salary}}{52 \text{ weeks} \times 40 \text{ hours} \times 6} \right) \times 2 \times 2 \times 2 \times \text{Lead to purchase conversion rate} = \text{Value for making a successful referral}
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Validating your Calculations

In order to validate the reward amount you calculated, you’ll want to take a look at marketing costs. Specifically, consider your cost per acquisition (CPA). You might wonder why CPA versus cost per lead (CPL). The best practice for setting the criteria for a successful referral is rewarding an Advocate only after a purchase is made. If you reward for a referral, then you will end up getting junk leads. If you reward at purchase, then your Advocates know they need to refer people likely to buy in order to earn the reward.

Cost per Acquired Customer

If you don’t yet have this number handy, here is the standard formula for calculating CPA. This is usually calculated annually. If you’d like to get more granular, you can calculate this for a similar type of digital marketing campaign instead of using department totals. Of course, this assumes that you can attribute new business by campaign. Not everyone can do this which is why the annual calculation is more commonly used.

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\text{CPA} = \frac{\text{Total marketing spend} + \text{Total marketing resources}}{\text{Total number of new customers}}
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Now you can compare your reward amount with your typical CPA. If the CPA is lower than your reward, then maybe you don’t need a referral program as you are already generating customers at a reasonable cost. The most likely scenario though is that your CPA is much, much higher, and by acquiring a referral program you are going to be generating customers at a fraction of the cost than what you have been.

Validate CPA > Reward

If you calculated your reward using both methods, you’ve probably now have a good picture of the range you should fall in. And with the incentive calculations completed it’s time to take the reward amount you’ve landed on and craft a reward structure to empower it further.
While the reward calculations delve into the amount you should offer your Advocates, reward structure explores delivery of that reward in terms of the amount of engagement and value it will offer. When considering reward structure you have to think about what type of barriers rewards are facing.

Many outside factors that are beyond your control create barriers to Advocates referring and can affect the success of your rewards. This includes:

- Time
- Fear of crossing the line
- Inability to see the benefit of repeat referrals

But it doesn’t mean that there is no hope to breaking through these barriers. For every locked door you encounter when trying to motivate advocates to refer there is always a key that will open it. However, to find that key we must first further examine the barriers that are blocking your way.
1. Time

Many purchases have long sales cycles. Additionally, if a retention period is desired to ensure that a referral will remain a dependable customer it will prolong a referral from becoming successful even after the sale. This means if there is a long period between referral and earning the reward Advocates have a higher chance of becoming disengaged. This also means they are less likely to make any additional referrals.

**Answer:** Multi-stage rewards

Multi-stage rewards distribute the reward over a period of time. This helps appease an Advocate and keep them engaged.

For example, let’s say that a business offers a $100 reward to an Advocate upon a successful referral. If a referral is only considered successful upon staying with the business for three months it leaves the Advocate waiting a long time to receive that reward and makes it less likely for an Advocate to continue referring during that three month period. But if the fulfillment of the reward is split up so the Advocate receives $25 upon their referral becoming a customer and the remaining $75 when their referral has stayed with the business for three months, the $25 will keep the Advocate engaged in the referral program and continue to encourage them to make more referrals while they wait for the remaining $75.

2. Crossing the line

As previously mentioned, Advocates feel an inherent risk when making a referral. They don’t want to feel like a solicitor or that they are crossing the boundary of their relationships with their peers and friends.

**Answer:** Double-sided rewards

Double-sided rewards give an incentive to both the Advocate and their Referral. Usually the incentive for the referral will be a special offer or product discount. This gives Advocates an extra incentive when referring their network by making the Advocate feel good about passing a great deal onto the referral and as a result it removes the risk an advocate might feel a referral carries.
### 3. Generating repeat referrals

Generating repeat referrals can be somewhat of a challenge if your Advocate pool doesn’t feel like they benefit from multiple referrals. There are 2 reward structures that solve this problem.

**Answer 1: Tiered rewards**

Tiered rewards allow your reward structure to communicate to Advocates the value of referring multiple times. Tiered rewards offer Advocates rewards that increase as the amount of successful referrals increase. This drives repeat engagement in the referral program as a result of the increased incentives offered.

The type of tiered reward structure depends on a combination of what the Advocates perceive as value and what aligns with the supposed average number of successful referrals an Advocate is likely to make.

For instance, ADP offers $100 credit for each of the first three successful referrals they receive from an Advocate. Upon the fourth successful referral, an Advocate will receive free payroll for a year. This type of tiered reward is based off their analysis that most Advocates only have on average of one to three successful referrals a year, requiring the fourth referral to be more highly incentivized and therefore substantially increases the likelihood of Advocates referring more of their network and having a successful fourth referral.

**Answer 2: Sweepstakes and special offers**

Adding the additional incentive of an entry into a sweepstakes every time an Advocate makes a new referral increases an Advocate’s motivation to refer. This can be especially useful seasonally, when coming to the end of a busy season or during a slow growth period. Additionally, special offers are great to promote at any time. It allows you to reengage your Advocates by offering them a deal that’s too good to pass up.
4. Advocates value different things

Even when an incentive is enticing, it doesn’t mean it’s enticing or motivating to all your Advocates. The difference between an incentive being offered as a gift card, bill credits, check, training, charitable donation, or a pass to a user conference can influence an Advocate’s perceived value of the incentive despite its inherent monetary value. The fact is, advocates value different things and rewards aren’t one size fits all.

For instance, bill credits might not be as fulfilling as a Visa gift card or specified job training. One Advocate may want cold hard cash while another just wants to get some awesome training that their boss won’t budget the money for.

**Answer: Reward choice**

Reward choice lets an Advocate choose their reward. Once a referral is successful an Advocate will be directed to a landing page that will give them different options of how they would like to receive their reward. With this strategy you can offer Advocates incentives that fit in with their values and life style. This makes the reward more personalized than a predefined reward and goes toward improving the program’s performance because the Advocate is acquiring something they actually want instead of something they might not find alluring.
Now Bring your Incentive Strategy Together

Now you understand how to create an incentive strategy that is specific to your group of Advocates and the ROI you can gain from them. But even so let’s go over what we’ve learned:

1. When you provide incentives to Advocates who refer you’re not decreasing the value of your relationship with them but showing them how much you appreciate and value your relationship.

2. Calculating your reward amount based off the demographic of your Advocates ensures that you provide incentives that contain enough perceived value to ensure that influential Advocates are motivated to take the time to make referrals on your behalf.

   However, you should consider that it’s most advantageous to launch your program with the lowest amount. You can always raise your reward later if you aren’t getting the response you had hoped for.

3. Reward structures break down mental barriers that keep Advocates from referring multiple times. Additionally, you can do sweepstakes to encourage repeat referrals which ups the ante for your Advocates.
If you are still worried about your incentive strategy, remember that:

- Referral leads close at a 4x higher rate than digital marketing leads
- Customers who come from referrals spend more with a 16% higher lifetime value
- Customers who come from a referral are 18% less likely to churn
- And referral leads convert at very high rates – the average results across our platform are that 35% of referral leads make a purchase

The bottom line is to get started with an approach that works for you, measure the results and then optimize as needed.

About Amplifinity

Amplifinity referral marketing software generates revenue growth for sales-driven companies. Amplifinity turns customer, partner and employee advocacy into high-quality leads by integrating referrals into marketing and sales processes. Companies like ADP and DIRECTV trust Amplifinity to enable high-quality acquisition while providing an engaging experience for their Advocates.