

**CUSTOMER  
REFERRAL  
PROGRAM  
HANDBOOK**

A STEP-BY-STEP GUIDE ON HOW  
TO GROW YOUR CUSTOMER BASE

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# INTRODUCTION



Many business owners are unaware of the influence their own clients can have on marketing. Customer referral marketing is one of the most effective strategies to help a business consolidate customers, reinforce brand loyalty, and grow revenues.

This book will walk you through all the necessary steps required to build an effective customer referral program from scratch.

For a better understanding of the materials in this book, please watch the corresponding webinar here: [On Demand Webinar Video](#)

# THE IMPORTANCE OF CUSTOMER EXPERIENCE

## Increases Customer retention

Customers who are treated well are happy and always come back. Good customer service is the best way for any organization to keep its customers coming back for more business.

## A brand Differentiator

Gone are the days where businesses used to compete on things like price, visibility or features. Customers that have had exceptional customer service at least once, always benchmark any other business using that experience.

## Leads to increased value

Another way to look at good customer experience is by framing it as exceptional value or “over and above” value offered by a business. This could be in turnaround time, knowledge of employees, use of technology, extra services or even ambience.

It is this value that keeps customers coming back. It is this value that differentiates your brand and gives your business a justification to increase price where necessary without worrying about losing customers.

## Reduces costs

Good customer experience results in lower operating costs within certain business units such as call center bills or marketing expenses required to attract new customers. When you apply insights from your customer experience program to your marketing campaigns, you inevitably target the right people with the right message at the right time thus reducing the need to spend excessively hoping for the best.

## Increases profits

Through good customer experience, repeat customers that are loyal to your business eventually become advocates or brand ambassadors. It is these customers who will help your business attract new customers through word of mouth in many cases for free.

This coupled with reduced advertising spend and operational costs results in an increased profit margin for your business.

# BENEFITS OF A CUSTOMER REFERRAL PROGRAM

## Generates high quality leads (easy to close)

People are four times likely to buy a product or service when it is referred to them by a friend. Referred prospects are always high quality leads because of the positive opinion about your brand imbued on them by your customers.

## Generates high quality leads (higher CLTV)

A referred customer has 16% higher lifetime value than customers acquired through other methods. The positive word of mouth from your customers helps make this possible.

## Cost effective compared to other marketing

Referral programs are generally more cost effective compared to traditional marketing methods because of the types of incentives offered. Whereas typical marketing campaigns involve spending money to advertise on various media platforms, referral programs usually offer discounts or value added services that loyal customers appreciate.

## Easy to measure & track progress

Marketing efforts can sometimes be abstract and difficult to measure in a meaningful way. However, with referral marketing, measuring performance is simple and straight forward.

## Enhances brand reputation

Customers referring friends and family to your business typically praise the quality of service delivery they've received from you. Regardless of any bad publicity that you may have, a customer singing your praises with first-hand experience will certainly trump any negative perception about you.

## Increases brand reach

Your customers know where to find people like them who will appreciate your services. When you run a traditional marketing campaign, you may sometimes fail to reach these prospects. Using your customers is a good way to reach prospects that traditional marketing can't.

## Identifies potential affiliate marketers

A referral program helps you identify your best advocates that bring in the most leads or largest accounts. These advocates can later become great brand ambassadors who give good publicity to your company. They can also become dependable sales agents for your business.

# SELECTING A CUSTOMER SEGMENT

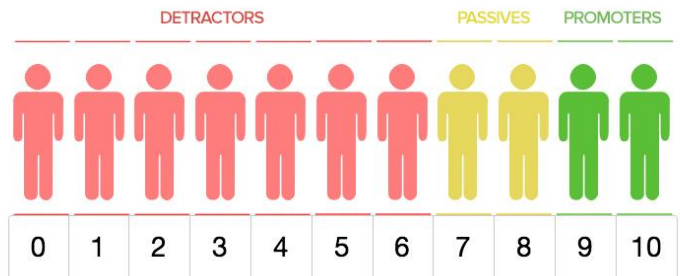


It is very important to note that before running a customer referral program, you need to know which customers to approach for this campaign. The customers you reach out to must already be willing to refer your business. Approaching your entire customer base will not be effective and will certainly be a waste of resources.

The first step is to identify which of your customers are already willing to promote your business. This can be achieved by using a tool called the Net Promoter System or NPS.

Net promoter score/system is a widely used market research metric that is based on a single survey question asking respondents to rate the likelihood that they would recommend a company, product, or a service to a friend or colleague.

NPS measures customer experience and predicts business growth.



**Promoters** (score 9-10) are loyal enthusiasts who will keep buying and refer others, fueling growth.

**Passives** (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.

**Detractors** (score 0-6) are unhappy customers who can damage your brand and impede growth through negative word-of-mouth.

Here is a list of various [Online Survey Software](#) tools to help you get started with your NPS survey.

In marketing, market segmentation is the process of dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers based on shared characteristics.

After identifying your Promoters from the NPS survey, you now need to segment them further. This can be achieved using different segmentation criteria such as Demographic, Geographic, Technographic, Psychographic, and Behavioral.

Segmenting your customers using these criteria helps you create a campaign and incentive/reward that is easily embraced because of the similarities of the customers.



## Segment your Promoters

A business needs customer segmentation because every user of their product or service is unique, having different preferences and likings. Normally, there are five types of customer segmentation:

**Demographic Segmentation** This segmentation divides the customer market based on gender, age, occupation, etc.

**Geographic Segmentation** This segmentation divides the customer market based on country, state, city, and locality.

**Technographic Segmentation** This segmentation divides the customer market on the basis of apps, software, and devices.

**Psychographic Segmentation** This segmentation divides the customer segmentation on the basis of attitudes, values, and personal traits.

**Behavioral Segmentation** This kind of segmentation divides the customer market on the basis of actions, spending habits, and how they consume.



While segmenting your customers, consider categories that align with your sales trend. Try and place your customers into segments that closely resemble those of your most common type of customer. For example, if 80% of your customer base is female, try and focus on female promoters as opposed to male promoters only.

To better understand how to select the right customer segment, let us consider a Computer shop that sells laptops, each at \$100.

Assuming that this shop has a total of 200 customers of which the predominant customer segments are Students (150) and Enterprises (6), how would they decide which segment to focus on for their Customer Referral Program?

Below is a breakdown of the income received from each segment and probability of referring new customers given the number of promoters from each segment after conducting an NPS survey.

## Student Segment

This segment is represented by 150 customers of which 20 are promoters.

The average student buys only one laptop but has the potential to refer 1 other student.

Assuming that running a Customer Referral Program for this segment would yield 20 referrals from the 20 promoters, the expected income would be  $(20 \times \$100) = \mathbf{\$2,000}$

## Enterprise Segment

This segment is represented by only 6 customers of which 2 are promoters.

The average enterprise buys at least 20 laptops.

Assuming that running a Customer Referral Program for this segment would mean yield 1 referral from the 2 promoters, the expected income would be  $(20 \times \$100) = \mathbf{\$2,000}$

## Key questions to consider

In a scenario like this where two segments have the potential to bring in a similar amount of income, consider the following questions:

- What is the minimum number of referrals per segment?
- What is the total cost to incentivize the segment?
- How long will they take to convert?
- What is the total customer value of referrals?

## What is the minimum number of referrals

Once you have identified your potential segments, you need to consider the minimum number of referrals that can be generated from each. Historical data can help you make a decision, for instance, which segment has a better history of referring customers to your business prior to running a customer referral program?

## What is the total cost of incentives

Depending on how you have segmented your promoters, the incentives to refer new customers may differ in value. Using the Computer Shop example, the incentive offered to an enterprise for referral business is different from the incentive offered to a student. The sum of expected income must outweigh the cost of incentives to acquire that business.

## How long will the referrals take to convert

Some conversions take a shorter time compared to others. This is also dependent on when the Customer Referral Program is run. For the Computer shop, running the program at the start of a semester might make more sense for students than enterprise. The turn-around time of conversion for enterprises is also longer due to company internal processes.



## What is the total customer value of the referrals

In the Computer Shop example, one enterprise is the equivalent to 20 students in terms of income. In other cases, the value might be the same but only differentiated by number of potential referrals.

Different businesses will have a unique perspective on which customer segment is suitable for their referral program, some might consider low numbers with high value a better option than low value with high numbers and vice versa, it all depends on the overall return on investment.

## Other considerations to make

Customer insights play a critical role when determining which segment to focus on for a referral program.

Insights reveal trends on consumer behavior such as most frequent periods of purchase, along with the various types of classification of consumers.

An example would be insights of the students for the Computer Shop such as 15 out of the 20 promoters coming from one university. This could signal an opportunity to run a campaign at that specific University as opposed to handing out flyers from the shop or spreading efforts across all Universities.

## Summary

After identifying your promoters from the NPS survey, you need to further segment them in order to focus on the most productive customer segment.

Segmentation can be Demographic, Geographic, Technographic, Psychographic or Behavioral. Once you've grouped your customers and find that you have more than one potential group to target, consider the following; Number of referrals, Cost of Incentives, Referral conversion time, and Value of Referrals.

This will help you zero down on which segment to focus on. Remember to apply other customer insights from previous trends.

## OFFERING THE RIGHT INCENTIVE



### Offer the right incentive

Now that you have identified your customer segment for the referral program, the next step is to give your promoters an incentive to make as many referrals as possible. One of the reasons to focus on one customer segment is so that you can identify a unique incentive that will drive engagement.

Before deciding on which incentive to offer, you need to understand how the customers use your product/service for example:

- How frequently do they come you?
- What features/value additions do they love the most?
- What features do they wish could be added?

You need to appreciate why your customers use the product or service; is it for functionality, is it because of the brand/self-esteem?



### Understand the user needs

Let's consider at our earlier example of the Computer Shop. For the students, the laptop store needs to know what they use the laptops for:

- draft essays and other word documents
- graphic design and video rendering
- attend online classes

Each of these guides you as a business on what type of incentive to offer that will complement these user needs.

For the organizations, again using the same example, what kind of work do they do? Does it involve any outdoor activity that requires laptop protection, does it involve online collaboration that requires a specific type of software etc.

The goal is to dig further into the service/product use of your customers and identify opportunities to offer them value that is worthwhile.

## Types of incentives

Some of the incentives that you may come up with might require an external partner to compliment your service offering. For example a phone company may partner with a phone accessories company to give its customers free/discounted products as an incentive for referrals. The beauty with having a partner when doing a referral program is that they can also refer their customers to you since your products or services complement each other.

In other cases, 100% of the incentive might come from your business alone, either through value added services or discounts. Discounts work best for repeat customers, for example frequent customers of a restaurant. If your customers make one time purchases like the laptop example, then value added services might be the better option. Whichever option you go for, make sure that it will entice your new and current customers to willingly participate in the referral program.

## Single sided vs Double sided rewards

A single sided reward is one which usually goes to your current customer who refers a new customer e.g. for every customer referred, they get a discount. A double sided reward on the other hand is given to both the current and new customer. In other words, they both get equal portions of the reward e.g. each gets 20% off their next meal.

The choice of reward is up to you depending on the amount of resources you have, however, research shows that the double sided rewards work better than the single sided rewards.

## Customer Lifetime Value

Before investing in a Referral Program, you need to know the Customer Lifetime Value of the chosen segment.

Customer lifetime value is the total income a business can expect from a customer over the entire period of their relationship.

It is computed as follows:

$$\text{CLTV} = (\text{Customer Value} \times \text{Average Customer Lifespan})$$

Where **Customer Value** is the average amount of money given to you by a customer multiplied by the frequency of visits over a period of time e.g. year.

For example if you own a restaurant and a customer buys a burger \$2 burger from you every week for a year, the Customer Value would be (52 weeks x \$2) = **\$104**

The **Average Customer Lifespan** is the average period of time your customers spend with your business, let's say this is **2 years**.

In this example, the CLTV would be (104 x 2) = **\$208**

For this restaurant, each customer we get will be worth \$208 for their entire stay with the business, therefore any reward/incentive to acquire them must not exceed this figure.

In this example an incentive of say 5 free burgers (\$10) or any offering worth similar value would be a good incentive because of how it compares to the CLTV.

## Summary

When choosing an incentive for your customers, consider their habits and preferences:

- How often do they buy from you?
- What do they like about your offering?

Remember to put into consideration the Customer Lifetime Value of the segment. An incentive should not be the equivalent or more than the CLTV

## MARKETING THE REFERRAL PROGRAM



### Timing is everything

The timing of your campaign matters a lot. Even if you get everything else right but roll out the referral program at the wrong time, you won't get the desired results. For instance, running a discount campaign for Christmas trees in June will not yield the same results as doing it in December.

Your referral campaign will produce a maximum return on investment if run during a period when demand for the service/product is high.

Before reaching out to customers, you need to draft a message that will both explain the referral campaign and also make it easy for them to share and explain to new customers. The reward mechanism and benefit to the customer must be easy to understand.

A popular example used is the Dropbox referral campaign that gave its customers additional storage space every time a referral signed up. At the time, having several GBs of free cloud storage space was not common, and this helped Dropbox grow rapidly in a very short period of time.

### Market at the right time

How you relay the information of a referral campaign to your customers is also important. Customers have different preferences when it comes to communication channels. Some might prefer email, others social media, SMS, or telephone. It is important to identify which channel they actively use and engage them there, otherwise your efforts to inform them about the referral campaign might go to waste.

## Market internally

Engaging your staff and involving them in the program is another great way to increase referrals. You could create rewards for staff who refer the most customers. This will create healthy competition which will improve their productivity during the campaign period.

## Promoting the campaign

As part of your communication to your customers, a reference code is required for their referrals to use when onboarding. There are several options for you to choose from when generating these codes including [Coupon Carrier](#).

Now that you have your coupons generated, you will need an excel sheet to keep track of which referrals have redeemed their coupons. [This Excel Sheet](#) is a free template that I put together to help you get started on tracking your referrals.

For a paid solution that is all inclusive, you can consider these [Referral Software Tools](#) that will automatically handle the entire process of the Referral Campaign.

## Remember your Passives and Detractors

Referral campaigns work best with Promoters but you should not ignore [Passives and Detractors](#). Passives can be converted into promoters and Detractors can help identify which areas of improvement are needed in a business.

A separate campaign for these types of customers is encouraged particularly to get them on board with your business and improve service delivery. You could give passives a surprise discount or even get them involved in the referral program, especially if they have been with you for a long time and also match the customer segment you are targeting.

As for Detractors, these need to be engaged one on one to appreciate where you went wrong and how you can make things better.

## Summary

Your first customer referral program should be a simple one with a straight forward incentive and customer segment. As you learn the mechanics of the campaign, you can then make your next one more sophisticated.

These campaigns should be run periodically with slight improvements made with each iteration.

## MEASURING THE CAMPAIGN



While running your Customer Referral Program, it is important to know what success looks like, and how to measure it. Here are some metrics to consider.

### Conversion Rate

How many new customers did you get out of the number of current customers reached? A low conversion rate might indicate a poor customer segment targeted, an uninspiring incentive or poor timing of the campaign. Take note of which customers had the highest conversion rate. Also try to find out from those that didn't convert where the problem could be. This will help you execute a better referral campaign next time.

### Number of new Customers

This is the most obvious metric to consider at the end of the campaign. How many new customers did you get as a result of running the campaign? It is also good to note where they came from; which customer / staff member referred the most and what value of business did they offer? If it's a product, did they buy one or many, if it's a service did they choose one month or a full year?

### Return on Investment

How much money was spent on the campaign (incentives and reaching out to the customers) vs how much money was made from the campaign. In some cases, incentive costs are met only when a new customer is engaged (service discounts), in others, they are met well in advance (shopping vouchers). Whatever the case, this amount should be compared to the amount of money brought in by new customers at the end of the campaign. For the income, you need to consider the customer lifetime value, we discussed this in the section about offering the right incentive.

## CONCLUSION

A [Customer Referral Program](#) encourages customers to promote your business through word-of-mouth marketing. Customers will recommend leads that are a good match for your brand when you ask them to consider individuals who would benefit from your product or service.

Companies found that referred customers have a 30% higher conversion rate, a 16% higher lifetime value rate, and a 37% higher retention rate than leads generated from other marketing channels.

A customer referral program is, all things considered, a great way to retain customers and drive word-of-mouth marketing.



# CONTACT

If you'd like to learn more about customer referral programs or customer experience in general, connect with me using any of the contact details below.

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