Talkable

The Only Book on Referral Marketing
You'll Ever Need

A step-by-step guide on how to make your customers come back for more and bring their friends, plus other secrets of sustainable growth.

talkable.com • 2021

"Gaining customers' trust isn't easy — we all know that. As marketers, we're tasked with learning about our customers and finding ways to convert them into loyal advocates who return to our businesses and products again and again. However, sometimes the more we try new growth hacks and marketing tactics, and the harder we try to understand and engage with our customers, we find ourselves stuck or even sliding backwards on customer acquisition.

It feels like each time we pursue a new group of customers, we have to start all over again, and maybe lose some others. Of course, it helps if your brand is already sky rocketing towards the peak of Mt. Awareness. For the rest of us, trying to win people's hearts and attention is more of a Sisyphean hike.

What hurts even more is that it makes sense: human brain is wired to choose a familiar brand over any other, even if the choice is irrational.

Sounds dramatic? It is. But in this book, we're going to teach you how to make your existing customers want to break those walls down for you, and help you increase sales.

Allan Grant, CEO
Talkable

Table of Contents

Table of Contents

Part I: The Basics of Referral Marketing

Part I: The Basics of Referral Marketing

Using your existing customer base, referral marketing is a way to pre-select and attract the right new clients as **brand advocates.**

The mechanics are simple: Let's imagine you own an online store that sells sunglasses. You have a customer base with 1,000 people in it, including Jeff, your most loyal customer who's been with you from the beginning.

You love Jeff and Jeff loves your sunglasses. He talks about your sunglasses and website with his friends, but they are easily distracted and don't make it to the online store, even though they like Jeff's sunglasses.

So, you come up with a **referral offer.**

Jeff gets a special promo code that gives his friends $10 off their first order. Now, whenever someone asks Jeff where he got his sunglasses, he can tell them about your store and that you provide a $10 discount for everyone who comes through **his referral link.**

Suddenly, you've got five new customers that have used Jeff's promo code. What do you know about these new customers? They know Jeff, they trust him, and now they know about you through Jeff.

Part I: The Basics of Referral Marketing

Even better? Now they're telling their friends about your brand and sharing their personal referral links. And now you have an expanding web of engaged customers that all started with Jeff.

→ What Is Referral Marketing (and What Isn't)

Jeff's story is a perfect example of a basic referral campaign with **a one-sided incentive.** Referral marketing, by definition, is a manageable and customer-centric marketing channel that uses incentivized referral offers to encourage your existing customers to become brand advocates (and ultimately win you more customers).
Brand advocates share referral links with their friends, family, and networks.

💡 The end goal of a referral marketing strategy is to turn referrals into **a strategic, incremental, and dependable customer acquisition channel that builds your business in an authentic way.**

→ What Isn't Referral Marketing

💡 Getting referred to by someone is not the same as referral marketing.

Word-of-mouth, as it is, spreads in a chaotic manner and cannot be consistently influenced or predicted, no matter how powerful it is. Referrals, however, can transform word-of-mouth into a solid customer acquisition strategy.

With referral campaigns, you're at the wheel and your advocate is driving their friends' behavior.

In other words, you're practicing referral marketing if you can track and influence the performance of an advocate's sharing.

Having a referral strategy allows you to affect how many of your customers become brand ambassadors, how often they share your referral offer, and how many of their friends become new clients.

It's all about building relationships in a way that benefits you *and* your customers.

If you were able to impact this kind of behavior, how would you set benchmarks, decide on campaigns, and determine calls to action to improve KPIs?

Well, that's what we're here to teach you.

Part I: The Basics of Referral Marketing

→ What Else Is Not Referral Marketing?

💡 Another common mistake is to confuse referral marketing and affiliate marketing.

While both types of marketing rely on other people to promote your brand, **affiliates are different from brand advocates** in the following ways:

→ They might not be your customers.

→ They are marketing professionals.

→ They have no personal connection to the target audience.

→ The traffic they drive to your website is typically low quality.

→ You have little control over the content they associate with your brand.

→ They tend to have low cost-per-action (CPA) benchmarks because ROI is also low.

→ They bring higher fraud risks.

1 Offer shopper rewards for referring a friend

2 Friend shops, buys and gets reward

3 Original advocate gets reward and shops again

4 Everybody wins: business, advocate and friend

Part I: The Basics of Referral Marketing

→ The Place for Referrals in Your Marketing Strategy

💡 Referral programs are not only a great addition to any marketing mix; they can also support and drive your entire strategy when implemented and managed effectively.

Because referral marketing is personal, it has higher conversion rates than other customer acquisition programs (with a lower customer acquisition cost). Need proof? **Talkable's enterprise clients get 10 times higher ROI** with their referral campaigns than comparable paid advertising and affiliate marketing campaigns. Applied strategically and consistently, refer-a-friend campaigns can serve as both stand-alone and supporting channels for acquiring new customers, increasing repurchase rates, and launching new products.

The extent of your referral marketing reach will depend on the size of your company's customer base. A successful strategy is sustainable over time when referrals are treated as incremental building blocks. Each referral is a new, highly qualified 1:1 relationship with a client. This can systematically turn the client into an advocate — thus, a source of new customers — through thoughtful and strategic management. For these reasons, we recommend our clients integrate referral marketing into their existing marketing strategies incrementally in order to begin

Part I: The Basics of Referral Marketing

tracking changes in customer behavior when given a quantifiable way to share your products — and benefit from doing so. In most cases, our clients enjoy a swift increase in ROI for their remaining marketing channels thanks to the ripple effect of building a referral program.

Part II: How Referral Marketing Is Done

Our goal is for you not to leave money on the table. As a growth and strategy partner, Talkable has helped some of the top eCommerce companies in the US to maximize their revenues through referral programs.

# Part II: How Referral Marketing Is Done

→ **Advocates**

💡 Advocates are users who share your referral offer with their network.

Before you launch your referral campaign, decide who your most powerful brand advocates will be. The most natural targets for brand advocates are:

→ Clients who have made at least 1 purchase
→ Registered users
→ Website visitors

Segmentation

- NEW CUSTOMERS
- LAPSED CUSTOMERS
- EXISTING CUSTOMERS
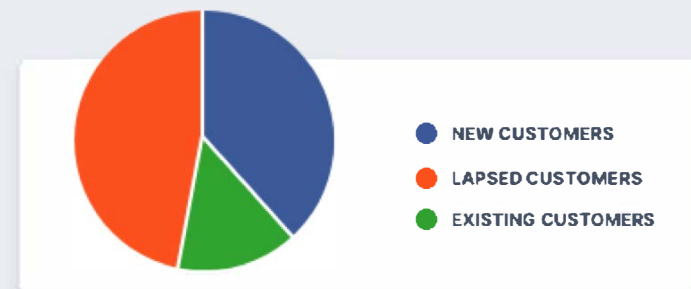
Who to Choose?

We know it's tempting to make your referral offer available to as many people as possible, and many companies do this. But we advise against it.
Placing a gate on your offer in the form of a registration, subscription, or completed purchase is a way to verify users and lower the possibility of fraud. It also qualifies your leads.

How to Measure?

Advocacy rate — This constitutes how many people act upon and share your offer after viewing it. The best ways to get better advocacy rates are to test different incentives and offer placements. Launching different test campaigns may seem labor- intensive, but it pays off. Besides, it isn't difficult if you use referral software.

Channels	Sharers	Sharing Rate	Click Rate	Visit Rate	Friend Conversion Rate
Email	1060	1.29	0.51	0.65	0.25
Direct link	317	1.02	2.05	0.34	0.19
SMS	163	1.01	0.99	0.35	0.20
Twitter	62	1.12	3.2	0.07	0.11
What's app	45	1.01	1.6	0.25	0.10

Share rate — This constitutes how many times one advocate shares your offer on average.

Talkable's guidance for increasing your share rate has 2 steps:

#1

Look at performance by channel and find which channel shows the highest conversion rates

#2

Test different share page designs to discern the best way to point advocates toward the most effective share channels

💡 You can test as many different design layouts and copy drafts as you like without having to involve designers or developers. Just use the software!

→ Friends

💡 Friends are those who receive invites to join your referral program from brand advocates. They represent the middle and bottom parts of the referral marketing funnel.

You can improve your performance with these friends by optimizing the following:

→ **Invite delivery channels** — Find channels with the highest friend conversion levels.

→ **Custom invite copy** — Choose messages that drive the best open rates and CTRs.

→ **Claim page** — Remove any gates on the claim page and auto-apply user promo codes to their purchase.

How to Measure?

We judge how well our sharing channels and messages perform with these metrics:

→ **Open Rate** — how many friends open brand advocates' messages

→ **CTR** — how many friends click on the links

→ **Conversion** — the percentage of friends who become customers

→ **Case Study**

💡 Referral campaigns are all about optimizing each step of the funnel and maximizing your return on every offer.

Our James Allen case study shows how you can get 100 times ROI from your referral program by A/B testing each step of the funnel and optimizing the campaign.

It's important to determine which KPIs are most effective for reaching your business goals and to test different approaches to find the best referral tactics for your business.
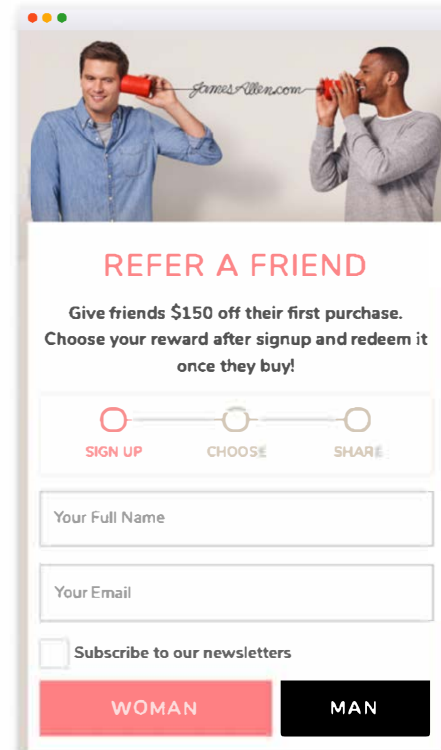
James Allen had a referral program before starting with Talkable, but it wasn't actively managed, effectively promoted, or properly optimized for rewards. The eCommerce diamond retailer wanted to leverage its powerful word-of-mouth promotion to its fullest.

Talkable launched James Allen's new optimized referral campaign, conducting A/B testing for every stage of the referral funnel.
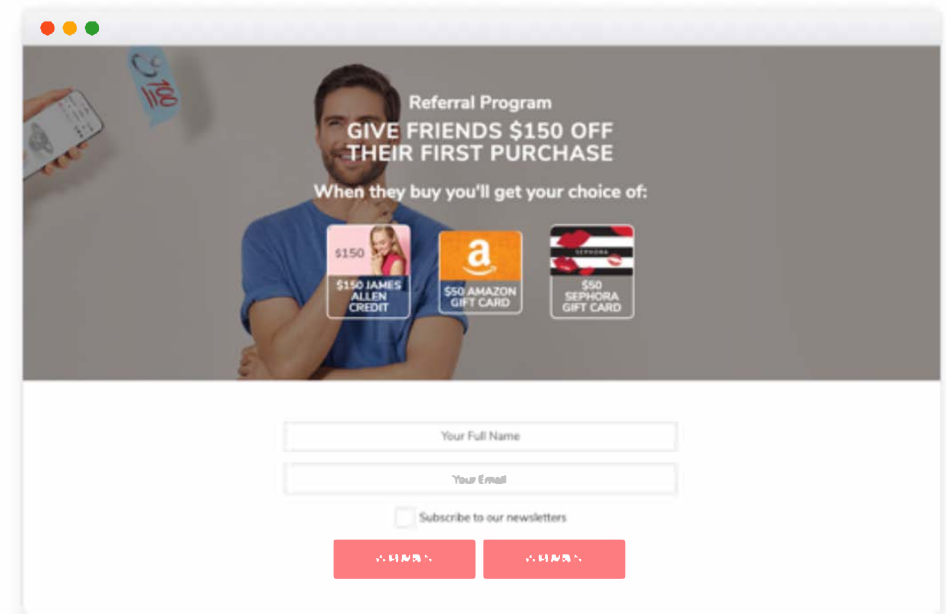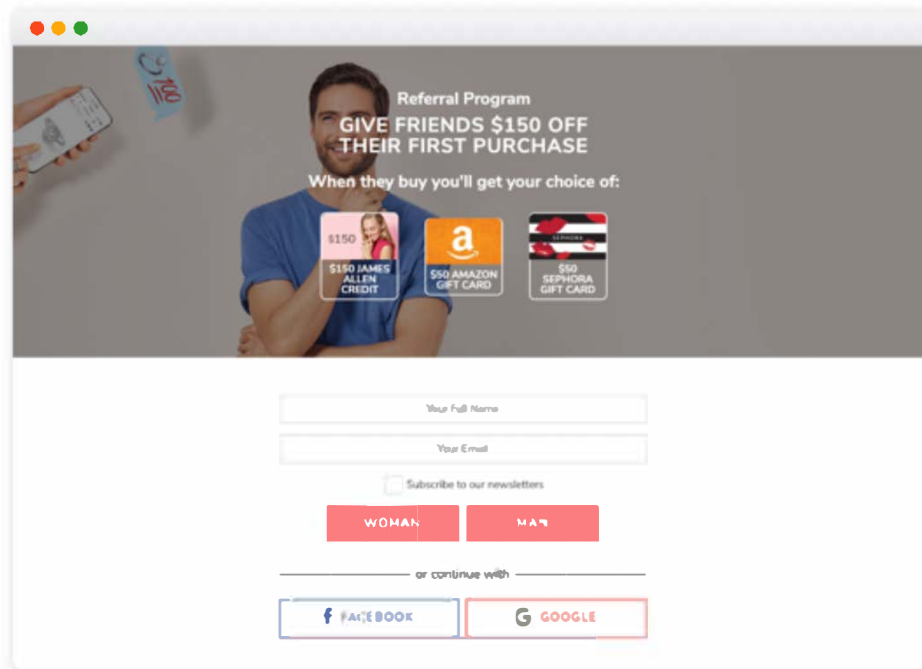
Our tests concluded that a version of the retailer's referral page, equipped with Facebook and Google login options, **increased program sign-up by 8%.**

We gamified the referral experience by offering customers a choice of rewards and sign-up options. On mobile, the referral program's gamification features included a widget that tracked a customer's purchase progress. In contrast to the default layout, the progress tracker prompted customers **to share 15% more often, resulting in 30% more purchases!**
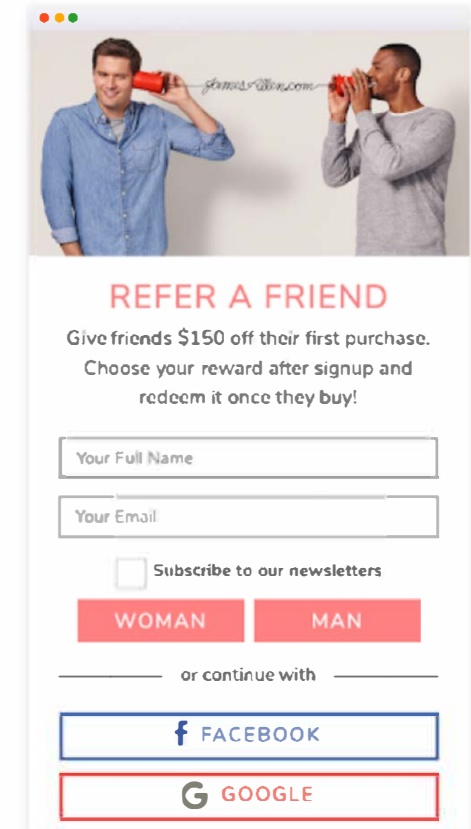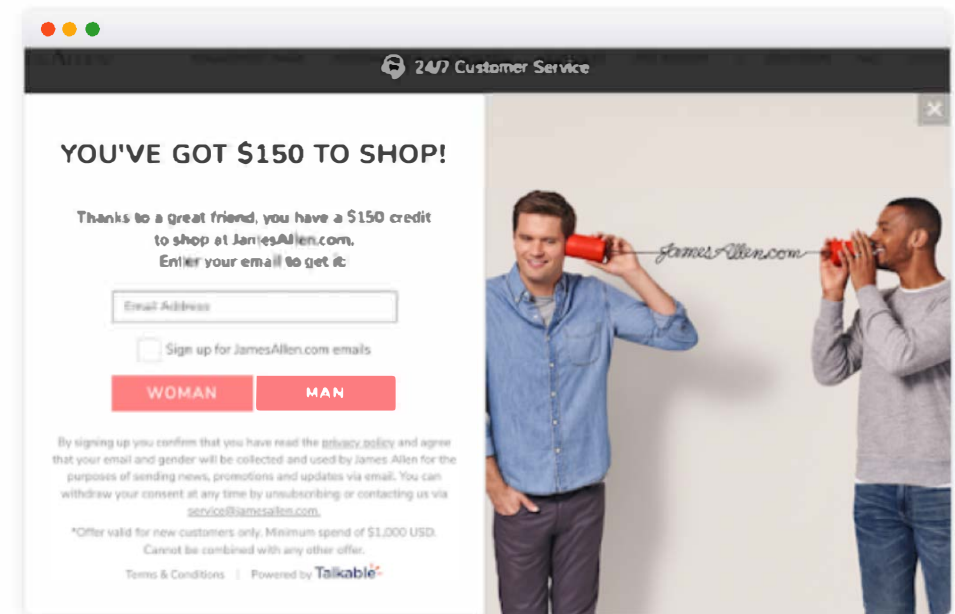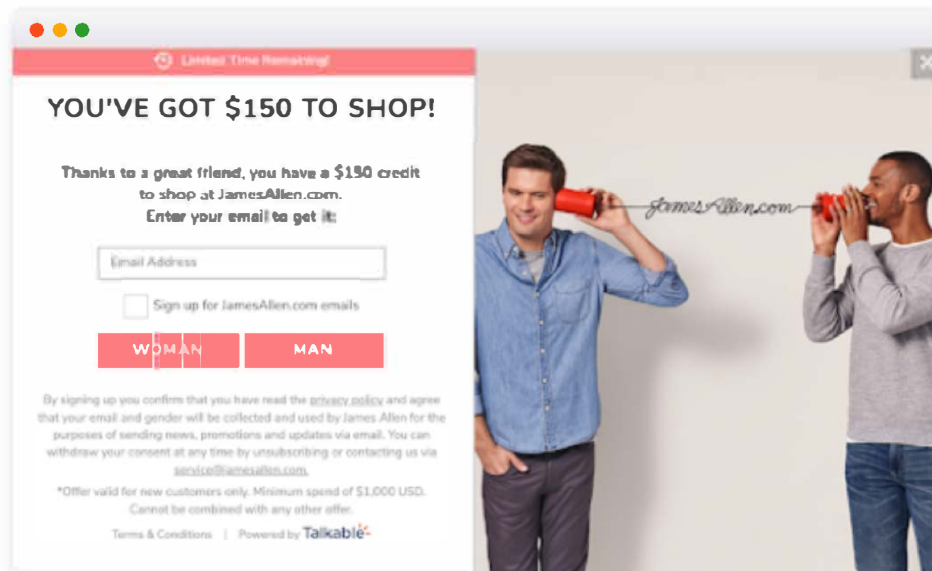
Once a referred friend arrived to claim their discount, they were presented with a landing page. When this page included a message of a limited-time offer, **JamesAllen.com** saw **62% more site visits** from these referred friends.

→ Referral Offers

> 💡 There are three main types of referral campaigns.

→ **One-sided** — ongoing invite campaigns that offer rewards only for advocates or only for friends

→ **Double-sided** — referral programs that reward both advocates and friends. When choosing between one-sided and double-sided rewards, we always recommend the latter. After testing many campaigns with and without friend rewards, we discovered something surprising: If you run a campaign where a friend's reward is bigger than an advocate's, your advocacy rate will raise.

→ **Burst campaigns** — referrals with limited-time offers and usually bigger rewards. We recommend running them at least once a quarter for no longer than a week. Burst campaigns, followed by blast promo activities, will help activate those customers who have yet to join your referral program *and* motivate your advocates to send out more invites. They're a great way to increase advocacy and share rates!

→ **Incentives**

💡 Incentives are the rewards you offer to the participants of your referral program.

→ **Free products**
→ **Store credits**
→ **Discounts**

Talkable's best practice for incentives is to start off with rewards that equal 20% of your average order value. A/B test your rewards in both percentages and dollars, then choose the option that performed best.
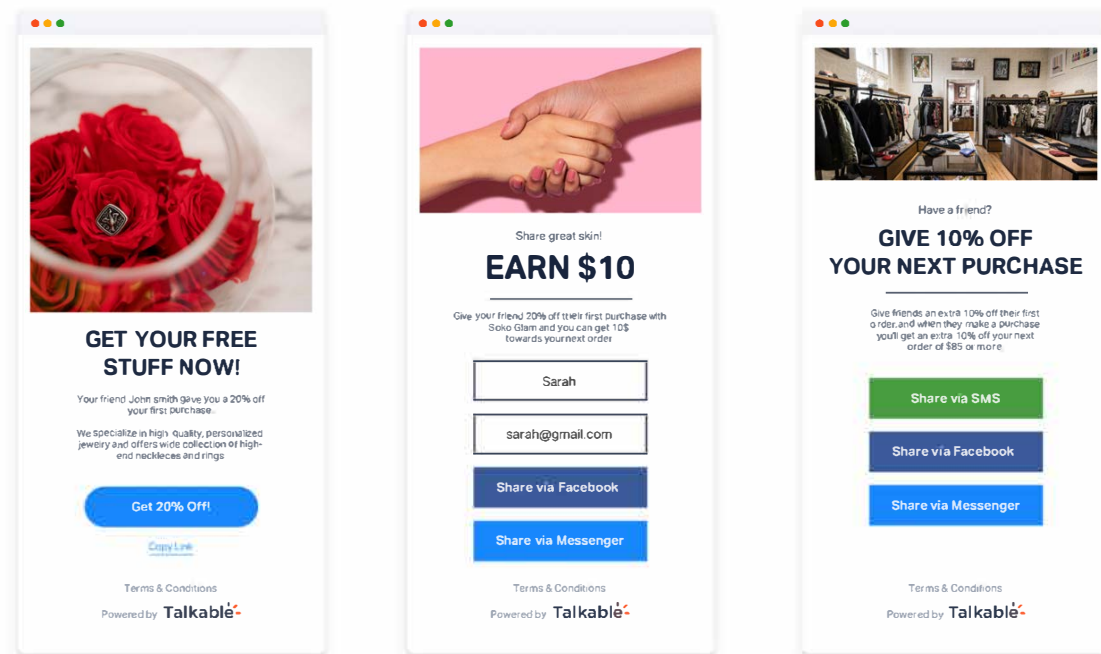
Fig. #4, left to right: Free products, Store credits, Discounts

Part II: How Referral Marketing Is Done

→ **Benchmarks and Analytics**

Last but not least, here are the KPIs and benchmarks you'll need to analyze your referral campaigns.

Advocacy
(% of customers who become advocates) — 4-11%

Share Rate
(AVG number of times 1 advocate shares your offer) — 1.27-1.57%

Clicks
(friend invite CTR) — 29-75%

Visits
(% of friends who come past through the claim page) — 56-71%

Conversions
(% of new customers) — 17-35%

Part II: How Referral Marketing Is Done

→ Influencers

Marketers love referral programs, chiefly because they create a ripple effect: One customer refers your brand to another, and your marketing campaign becomes a self-replicating user acquisition machine. Contrary to common conceptions, your referral campaign doesn't need a sky-high advocacy rate to yield significant revenue gains.

Our practice suggests the top 1% of most active brand advocates generate, on average, up to 20% referral revenue. Up to 15% of sales will happen through your top 10 advocates.

→ Gamification

Leaderboard campaigns and advocate dashboards are a great way to recognize your most involved sharers and encourage even more activity with gamification techniques. For example:

Campaign	Impressions	Sharers	Advocate Percentage	Shares	Sharing Rate
Leaderboard	667	112	16.79%	164	1.4643
Standalone	64.562	4.745	7.35%	6.428	1.3547
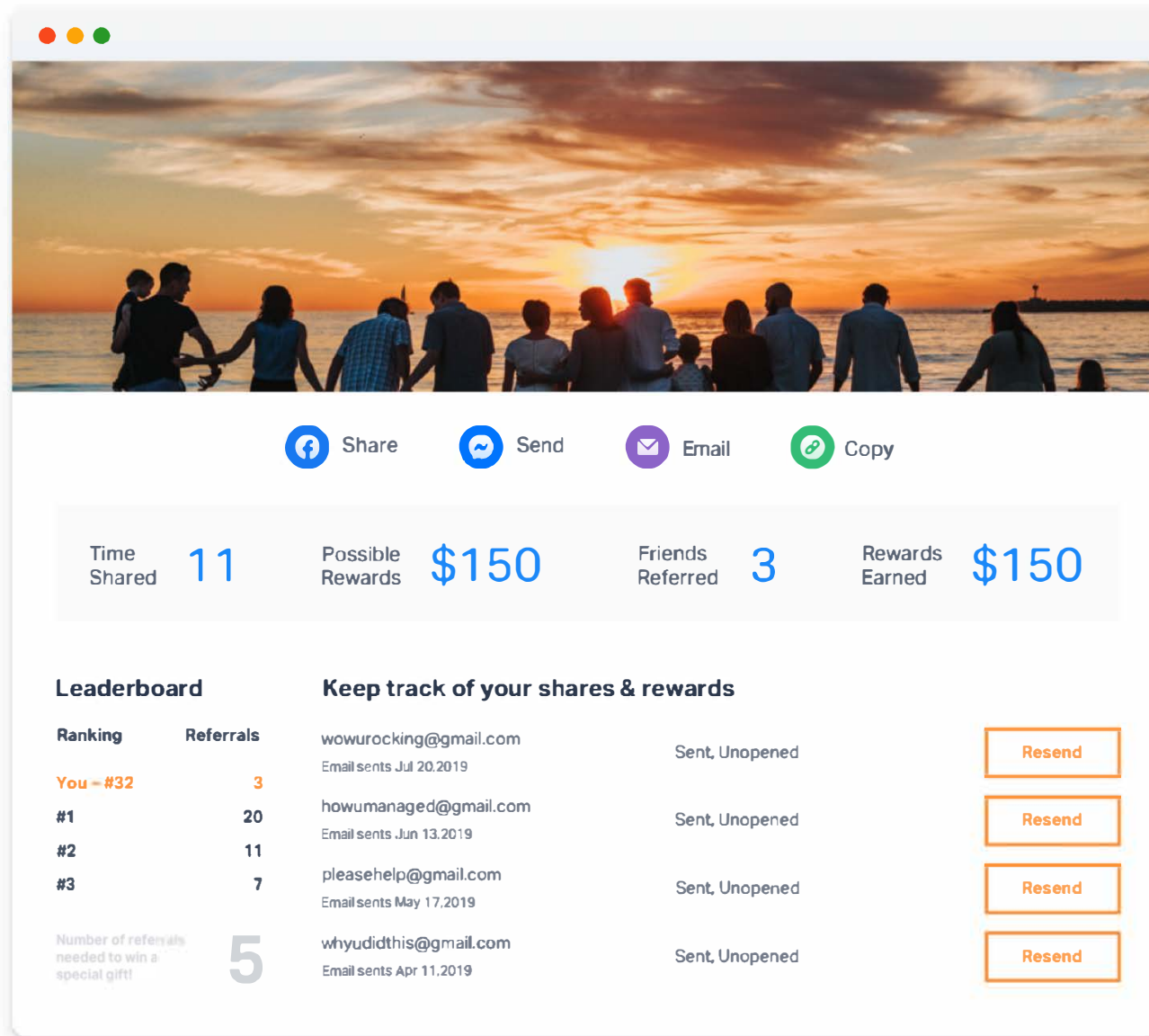
Fig. #5: Leaderboard screen

→ A/B tests

The customer acquisition cost for referral marketing is on average up to **40% lower than paid advertising CAC**.

Don't take success for granted, however. In order to reach and exceed the average benchmarks for referral campaigns, you will have to do a lot of A/B testing.

If you decide to go with any other vendor as your referral growth partner or to develop a custom in-house solution, **make sure that you will be able to launch and analyze split tests.**

To know which A/B tests to run first, it's best to compare your first campaign metrics to industry benchmarks and start improving the your outliers.

In all other cases, the rule of thumb would be **start with the KPIs at the top of the funnel.**
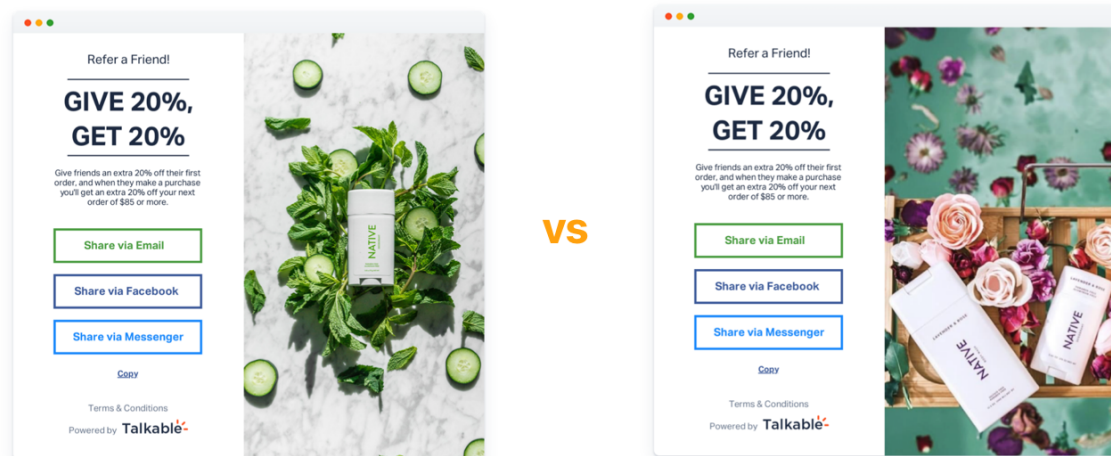
Part III: How to Launch Referral Marketing in Your Company

→ Get to Know Your Customers

When launching a referral marketing strategy, take a moment to look at your target audience. Unlike most other types of marketing, with referrals, you must define two different target audiences: one for your brand ambassadors and another for their friends. It's likely these groups will have similar buyer profiles and value, but different approaches are still required for both.

Below are the crucial steps for defining customer portraits of potential advocates:

#1 Identify and segment your most loyal customers.

#2 Learn as much as you can about their buying patterns.

#3 Try to find and break down the feedback they've given about your service.

#4 Identify how your referral program can complement their needs.

#5 Create a buyer's profile. Then, fill in their personality, values, and how they communicate with their friends, family, and network.

→ Case Study

💡 The referral strategy we designed for Outdoor Research is a perfect example of how studying your target audience can enhance your campaign results.

Story

Outdoor Research is a niche brand of award-winning technical outdoor apparel and accessories. Their most loyal customers are professional athletes and adventurers.

A while ago, Outdoor Research started a PRO program as a way to acknowledge its influencers advocating within their niches.

Challenge

Outdoor Research wanted to find a cost-effective marketing channel that would help them with customer acquisition and with growing their PRO community at the same time.

Solution

Since Talkable supports multiple campaigns for different customer segments at the same time, we designed and launched two separate referral campaigns.
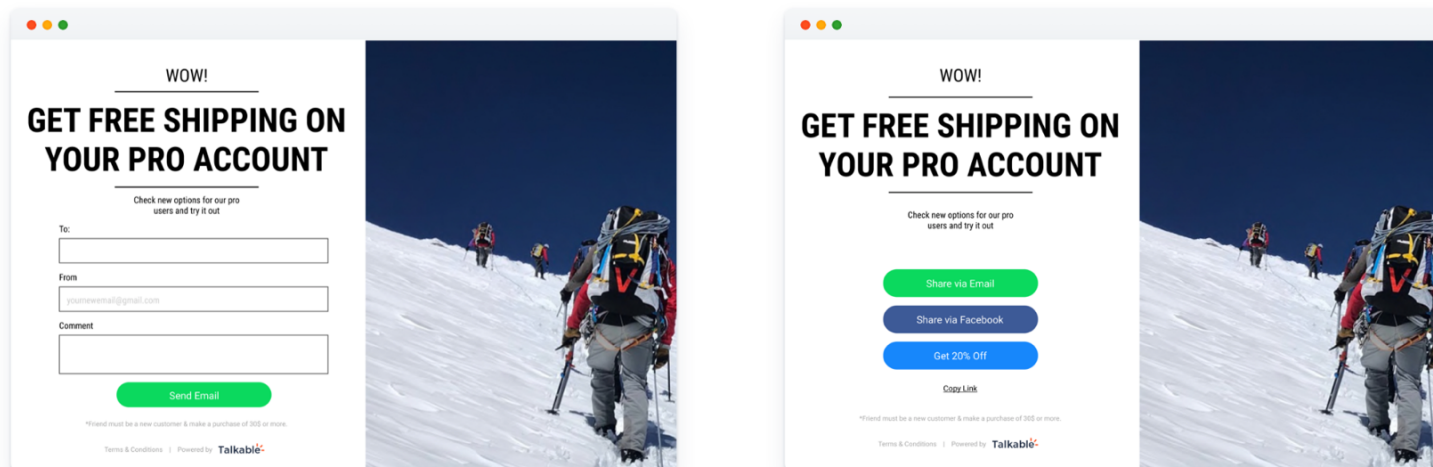

Fig. #7 Left to right: A/B test campaign screens

Results

The separate campaigns — designed specifically for each customer segment — showed an incredible increase for Outdoor Research's KPIs:

600%
Return on investment

17%
Advocacy rate
(2x higher than average)

7%
Higher LTV of referred customers

→ **Marketing Team Roles**

To launch referral marketing for your company, you'll need people in place to manage campaigns and adjust tactics if something doesn't turn out as expected.

To develop your own software solution for running a referral program, here's a list of team roles you'll need to fill:

→ **Team of developers (an architect, backend and frontend developers, iOS/ Android developers)** — This team will help develop your own solution. This requires a diverse team of developers, involved in the process for months, to develop and integrate the basic tools.

→ **Data scientist** — A data scientist will study customers behaviors, make reports on campaigns performance, and interpret the data.

→ **Marketer**

→ **Copywriter**

→ **Designer** — Needed for redesigning your layouts for A/B testing

On the other hand, with Talkable, you can accomplish these things with a single marketing hire, fully dedicated to managing referrals. Talkable's solution allows any marketer with no programming knowledge or designer skills to launch, manage, and analyze campaigns and A/B tests within an intuitive interface. You'll only need developers to help integrate Talkable with your system. Our in-house marketing experts and growth partners will do the rest.

→ **Checklist for Choosing Vendors**

If, in the end, you don't partner with Talkable as your referral software vendor, we still advise against developing your own system: It would be more expensive and less effective than going for a ready-built solution.

Here's a checklist of things you should pay attention to when choosing your referral software:

☐ Software that integrates with your system

☐ The ability to segment your customer base and adjust campaigns for different segments

☐ Capacity to support multiple campaigns at a time

☐ Ability to offer different incentive types

☐ A/B testing tools that don't require involving designers and developers for launching

☐ Dedication to data-driven approaches

☐ Advanced data analytics options

☐ Support for leaderboard campaigns and loyalty programs

☐ Efficient fraud-prevention services

Part IV: The Worksheet

Target Audience	Advocates	Friends
Personality		
Lifestyle		
Why They Love Your Product		
Wants & Needs		
Preferred Channels		
Placements	☐ Stand-alone ☐ Floating Widget	☐ Post-Purchase ☐ Reward Gleam

What's Your AOV?

Incentives	Advocates	Friends
Option A		
Option B		
Invite Message Channel 1		
Invite Message Channel 2		
Follow-Ups if a Friend Doesn't Open an Invite	Days past	Message

KPI	Benchmark	Your Result
Advocacy	10-15%	
Share Rate	1.5-3%	
Clicks	30-45%	
Visits	30-35%	
Conversion	30-50%	

Best Performing Channel

☐ Facebook ☐ Email ☐ Link Sharing ☐ Twitter ☐ WhatsApp

	Date	Campaign Name
Quarter 1		
Quarter 2		
Quarter 3		
Quarter 4		

KPI that needs to be improved

Hypothesis

A/B testing   **Variant A**   **Variant B**

KPI that needs to be improved

Hypothesis

A/B testing	Variant A	Variant B
KPI that needs to be improved		
Hypothesis		

A/B testing	Variant A	Variant B

Need Help?

If you would like help completing the workbook, feel free to contact us and we'll gladly walk you through each step

Contact us now

Bonus Reading & Tools
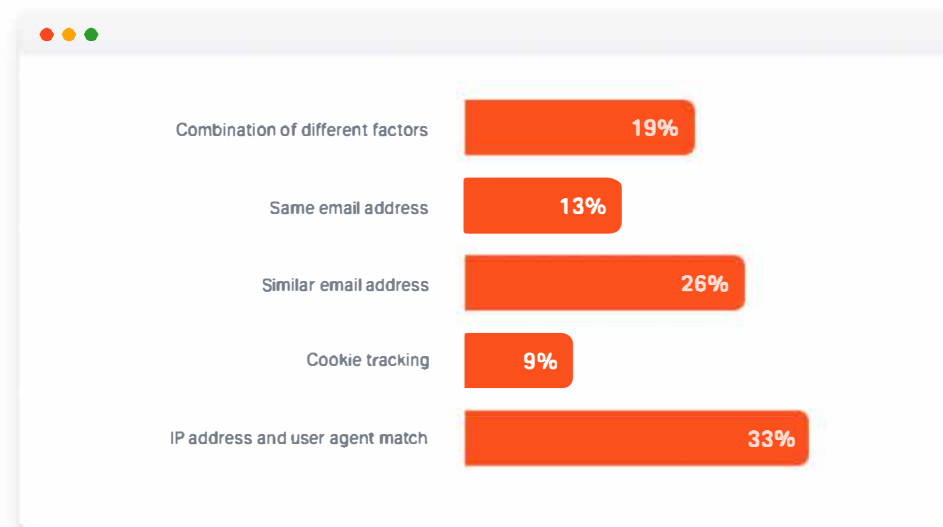
Bonus Reading & Tools

→ Why Fraud-Prevention Is Important

In referral marketing, there are two types of fraud you're likely to encounter: account cycling and self-referrals.

Account cycling — Users cancel their subscription and register new accounts as soon as their offer runs out; most common with subscription services.

Self-referrals — Users create multiple fake accounts to take advantage of your offer without actually sharing with new people.

There are many ways to detect fraud. Here are the most common fraud indicators we see with our clients' campaigns at Talkable:

Fraud indicator	Percentage
Combination of different factors	19%
Same email address	13%
Similar email address	26%
Cookie tracking	9%
IP address and user agent match	33%

Bonus Reading & Tools

An example of how significant fraud issues can be is **Pura Vida**.

Before switching to Talkable, Pura Vida had been using a different vendor's software which wasn't able to detect and prevent 100% of fraud.

After we inspected their data logs, we were shocked to find out that **40% of all transactions their prior vendor claimed were driven by referrals were actually fraudulent.**

→ Useful Links

Pura Vida Case Study

Rhinoshield Case Study

James Allen Case Study

Identify, Acquire and Retain High-Value Customers in eCommerce

Referral Marketing as the Most Cost-Effective Acquisition Strategy

> "We're very pleased with the type of traffic coming in and, from a management perspective of the program, we're very pleased with how that's being run. Personally, it's nice to see all the tests that we're doing and how we're optimizing and landing on the right formula here.

Shannon Delany,
Director of Communications

JAMES ALLEN®

Talkable is a leading referral marketing platform that helps marketers easily build, test, and analyze referral marketing campaigns.

We help you leverage the science behind referrals to generate top-performing referral programs and acquire new customers.

Talkable's Referral Marketing Platform Is Used To:

→ Acquire high-value clients at a low cost
→ Drive more sales and increase revenue
→ Increase newsletter sign-ups
→ Boost customer retention and brand loyalty
→ Identify, target, and reward your most valuable customers through in-depth data analysis

Book a demo

Talkable