


# Exploiting the Benefits of Lead Referral Programs as a Profitable Marketing Tool

## eBook

A large, 3D-rendered network of stylized human figures in red and grey, connected by a web of white lines. The figures are arranged in a circular pattern, with some standing on a white circular base. The background is a light grey gradient.

Referral Programs are an increasingly popular resource for marketers to add new sources of revenue or to streamline sales processes with existing business partners. Effective referral programs typically generate higher close ratios at a lower cost of acquisition than other marketing programs. The explosion of cloud-based technologies has spurred recent growth in referral marketing programs as an efficient way to dramatically increase sales. This ebook is provided as a primer for organizations who are considering the addition of a referral program as a lead generation marketing tool. Its contents present foundational information which identifies key components and best practices of an effective lead referral program.

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## What is a referral program?

Referral programs are an increasingly popular method for marketers to add new sources of revenue or to streamline sales processes with business partners. Effective referral programs typically generate higher close ratios at a lower cost of acquisition than other marketing programs. Why? A properly executed referral program will leverage pre-existing relationships to identify potential customers at the point in time where they can benefit from your solution most. Once these prospects are identified, sponsoring companies can focus their efforts on those activities required to close the deal and/or fulfill the solution delivery—rather than devoting time to acquiring and developing the lead, as would typically be the case with other types of marketing programs. Lastly, while there are program management and ongoing referrer engagement investments, there are no costs associated with lead generation because rewards are only issued for closed sales. As a result, referral programs can deliver higher ROI than most other types of marketing programs.

A typical referral program takes Word Of Mouth marketing (WOM) to its extreme. The referring party performs on behalf of the sponsoring company by recommending your product or solution to an eligible prospect. What's more, the referring party provides the contact name and other pertinent information for that new prospect in exchange for a reward upon completing the sale (the referring party may or may not be responsible for closing the sale). When identifying appropriate referral audiences, the sponsoring vendor typically leverages established relationships (for example, employees, customers, channel partners, and influencer partners) or creates new relationships with individuals or organizations that touch the customer at or near a decision event. For example, an electric & gas company may be a good referral partner for a sponsoring company offering other complementary services—phone, internet, etc.

This eBook is provided as a primer for organizations who are considering the addition of a referral program as a marketing tool. The content presents foundational program components and identifies many best practices to help structure a referral program to meet your unique needs.

## Is a referral program right for you?

While referral programs may be used in any industry, they are used as a foundational sales tool in service industries where the vendor must complete the transaction or initiate the service. For example, industries that commonly utilize referral programs include telecommunications services, subscription television, internet access providers, home security services, and financial products. As demonstrated with these industries, referral programs are particularly powerful in subscription services or recurring revenue models as they represent a low cost of acquisition, yet deliver a robust revenue stream with each new customer. The expansion of cloud-based solutions is spurring the growth of

*“Referral programs can deliver higher ROI than most other types of marketing programs”*

referral programs as a profitable marketing tool. For instance, within the business-to-business products and services categories are subscription-based software as a services providers (SaaS) and vendors who are utilizing managed services providers (MSPs) as channel partners. Both instances represent ideal candidates for referral programs. (Note that managed services providers often outsource all IT responsibilities for their clients as a subscription model.)

To assess if a referral program is right for you, ask yourself the following three key questions:

1. Are there WOM audiences you could tap into that would be willing to recommend your products/services to other individuals or businesses?
2. Is your value proposition well understood by those audiences? Enough to communicate it to prospects on your behalf to generate initial interest or acknowledgement of need?
3. Is the margin on your product or service sufficient enough that an investment in capturing leads and paying commissions on business won from those leads make sense?

While these are preliminary guidelines for referral program candidacy, the contents of this ebook will provide further assessment as to whether a referral program is right for you.

## Building an economic case for referral programs

The power of a well-designed referral program lies in its ability to leverage word-of-mouth affinity between the referrer and the vendor to directly translate into additional business. Plus, the power of that affinity relationship is usually applied at the point where the referred party can benefit from your product the most, and thus is most likely to be converted into a sale. That’s why referral programs are gaining in popularity as a low-cost means to significantly increase sales.

A well-executed referral program can result in the lowest cost per acquisition of all your sales and marketing programs. Consider the example in the chart on the right.

Scenario:

Subscription service offering:	\$40 per month
Expected lifetime customer value:	3 years, or \$1,440
Total profit and ROI:	1380 or 2300%

## How are referral programs different from other opportunity management programs?

Referral programs are a type of opportunity management program, as are lead management programs, deal registration programs, and affiliate programs. On the following page is a summary of all these programs in an effort to provide a better distinction for the application of referral management programs.

Program	Description
Lead Management	<p>Leads are generally considered inquiries that come to an organization as a result of marketing activities either direct to website, via phone call, or other inbound response mechanism. The interested party, or a representative of the interested party, initiates the contact. The lead must then be qualified, routed, and converted to a sale by sales personnel or channel partners. Inquiries come in various stages of "sales readiness." Each lead must be assessed through a sales process.</p>
Deal Registration	<p>Deal Registration programs are a process where channel partners notify a vendor (manufacturer) of a pending sales opportunity expected to close at some point in the future. The programs are usually initiated by the vendor's channel partner well in advance of closing the sale. Typically it is that reseller's responsibility to nurture and close the sale. Resellers are rewarded for registering through special rebates or higher margin.</p> <p>Vendors deploy deal registration programs for their channel partners to achieve one or more of the following benefits:</p> <ul style="list-style-type: none"> <li>• Improve pipeline visibility to the sales activities of their channel partners</li> <li>• Minimize channel conflict between direct and channel sales efforts or between channel partners themselves</li> <li>• Acquire greater advanced notice of deals that may require special attention to assist in closing the sale</li> </ul>
Affiliate Programs	<p>Affiliate programs are common between online merchants to generate leads for your product by promoting them on affiliate partner sites. A formal agreement is usually in place between the two sites to pay commissions on the referrals once a sale has closed. The referring sites may sell related products (and thus there may be a two-way agreement in place) or it may be an "aggregator" site that promotes goods and services for the sole benefit of receiving commissions on the back end. While affiliate programs are similar to referral programs in many respects, typically there is no human interaction involved between parties with affiliate programs, whereas, this is a key characteristic of a Referral Program.</p>
Referral Management	<p>Referrals are leads that come into a vendor from a variety of different types of people and entities that can include employees, channel partners, existing customers, and affinity groups. However, unlike lead management programs, the party registering the lead is not the benefactor of the vendor's product or service. They are registering a third party to receive the service. And, unlike deal registration programs, it is not necessarily the responsibility of the channel partner to close the sale and deliver the product—most often that is the vendor's responsibility. However, the referrer does receive some incentive when the sale is finally closed.</p>

"A well-executed referral program can result in the lowest cost per acquisition of all your sales and marketing programs"

## Components of a Referral Program

What follows are the individual components of a referral program. Each must be considered independently for its impact on the overall program design.

### Program Targets

While all marketing programs should be evaluated primarily for their impact on the end consumer, referral programs go one step further by identifying all the organizations or groups of individuals that can refer potential prospects at the point when they are ready to buy. This audience is further identified within this document as the “referring audience” or more simply as “referrers.” It is important that you evaluate the referrers across two dimensions:

- The nature of your relationship with each referral audience
- The propensity for that audience to willingly identify prospective candidates for your product

As a basis for prioritizing an individual audience for your referral program, it is important to note that the overall size of the audience is less important than the number and quality of referrals they can potentially provide. Your program should be designed to optimize the needs of each individual referral audience. If more than one referral audience is targeted for participation, any of the components presented in this document may be adapted to optimize each program. Avoid compromising program design with a one-size-fits-all approach if it will diminish the program’s success to a potentially lucrative referral audience.

## 5 Vital Components

1. *Program Targets*
2. *Reward Structure & Payment Mechanism*
3. *Referral Lead Management*
4. *Reporting*
5. *Program Communication*



## Typical Referring Audiences

Audience Type	Description
Customer	<i>Ideal candidates include those within your existing customer base who are customer advocates—promoting your product in exchange for a referral reward.</i>
Strategic Partners & Complementary Product/ Service Companies	<i>These organizations may offer products and services that are similar to yours or purchased by the same consumer under similar circumstances—such as apartment managers who may know when new tenants are moving in, hence requiring related services such as moving services, television/ phone/internet activation, etc.</i>
Channel Partners	<i>This can consist of both managed and unmanaged channel partners who for one reason or another do not directly handle the sale or fulfillment of your particular product(s).</i>
Employees	<i>This can literally consist of any employee, not just sales personnel—if he or she has the right relationship with a potential buyer, such as a friend or neighbor, who might benefit from product.</i>
Affinity Organizations	<i>Members of an organization (church group, school district, trade association, etc.) who will create a referral or purchase products to help that organization earn the reward.</i>

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## Reward Structure & Payment Mechanism

There are various combinations of reward values and payout mechanisms that can be incorporated into a referral program. In fact, they can vary between referral audiences (for example, one reward for employees and another for customers). Below are some considerations to help you select the reward structure that’s right for you. In all cases, the reward should be issued within 30 days of the closed sale to maximize positive reinforcement and encourage additional referrals in the future.

Reward Value	<p><i>The reward itself must be compelling enough to promote action on behalf of the referral audience members. The reward value should also align the effort you are asking referral members to extend. For instance, is the audience expected to “close” the sale? Or, simply provide the name of a referral candidate for your organization to contact and close?</i></p> <p><i>Also, is the reward variable and tied to the value of the final sale or is it a fixed value? Generally a fixed reward value provides predictable earnings, and thus more appealing for the referrer recipient.</i></p>
Reward Mechanism	<ul style="list-style-type: none"> <li>• <b>Credit:</b> to existing customers</li> <li>• <b>Employee bonus:</b> Offered to your employees as supplemental income which may be issued as a separate check or added to payroll. In either case, you need to decide if tax liabilities are deducted from the bonus, or if you will add to the bonus to compensate for tax liabilities incurred. Referral reward issuance to employees typically requires integration or coordination with payroll systems.</li> <li>• <b>Check:</b> Checks can be issued for each referral, or issued periodically to include multiple referrals for the period—such as supporting a commission structure with agents or channel partners. An advantage to checks is that they have the flexibility of being directed to either individuals or companies, since your referral audience can be a mix of both.</li> <li>• <b>Reloadable value card:</b> Use of these should be limited to referral audience members who are expected to submit multiple rewards over the program lifetime.</li> <li>• <b>Fixed value reward card:</b> Used when individual audience members are expected to submit a minimal amount of referrals per year. This often makes a good reward mechanism for individual employees.</li> </ul>

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## Referral Lead Management

Processes for referral lead management should be mapped for each referral audience as there may be unique aspects for each. This table presents the principal process steps that are included in all referral management programs.

When extending these processes to infrastructure design, it is important that all stakeholders benefit through:

- The ability to track the progress of any given lead
- Automated notifications and triggers to ensure efficient transition of each referral lead through the system and to keep the referrer engaged and aware of lead progress.



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Initial Referral Capture	<p><i>Initial capture is typically completed on a web form (although information can be entered into that form by call center personnel in the event of a phone referral). In addition to capturing information about the prospect, you must also capture key information about the referrer as well.</i></p> <p><i>If you expect that the referring party will likely submit multiple referrals, or if you expect total referral rewards paid to any one individual to exceed \$600, CCI recommends that all referring parties initially register for the program and receive a login/password for system access. The pre-registration process will:</i></p> <ul style="list-style-type: none"> <li>• Streamline the registration process for subsequent leads</li> <li>• Provide a foundation for ensuring the attribution of all rewards to an individual</li> <li>• Provide a mechanism to issue W9s, which will facilitate the issuance of 1099s at the end of each calendar year, in the event that reward values exceed the \$600 threshold for that referrer</li> </ul> <p><i>Also, the reward mechanism selected for your program may require information that is best provided through the initial registration process—such is the case when using a reloadable debit card for instance.</i></p>
Closing The Sale	<p><i>When the referral comes to you, are you assuming the prospect has already committed to purchase? Or does the transaction still need to be closed? Should product, language, and location impact how the referral is handled? Rules need to be finalized for lead routing to the right people or organization responsible for completing the sale. This is typically assigned to a designated sales rep or call center. Rules for referrer distribution have to be determined as part of your management process.</i></p>

## Reporting

Reporting should address the needs of all stakeholders, including the referring party and sales and/or call center personnel. The referral infrastructure should consider all the data necessary to capture information on close ratios, revenue generation, and rewards earned by individual referrers as well as by affiliate organizations. In addition, administrators require the ability to track ROI by comparing program costs against revenue earned. This revenue earned can consider either transactional value or lifetime value of the newly acquired customer.

### Typical Reports for Referral Programs

Report	Description
Program Summary	HQ level report that provides a summary on a per program basis, containing the number of leads submitted, closed, and sold as well as associated revenue, products, and partners
Referrer Activity Report	Data on referrers registered, level of activity, close rate of leads submitted, etc.
Sales Activity Report	Data on sales reps handling leads, the number of leads managed, closed, close rate, upsell activity, SLAs, etc.
Lead Status Report	Details on lead statuses for trending on typical successful and unsuccessful close reasons and in sales cycle phases

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## Program Communication

Despite the best efforts to address each program component in this document, the program will ultimately succeed or fail based on your communications strategy. Your communication plan must be thought through at every step—from the initial program announcement to ongoing reminders, every touch point is a chance to generate interest in, and remind people of, your referral program.

Often, creating a special program theme with supporting graphics provides a good foundation to ensure continuity in all messaging supporting your program. That theme should be reinforced through all touch points, including reminders and alerts.

- Unique micosites should be created for each referral audience (employees, customers, partners, affinity group, etc). Each microsite would function as the program headquarters for that referrer. In addition to promoting the benefits of the program, it presents the program terms and conditions (which should be acknowledged upon initial registration or submission), while allowing referrers to register for the program (if needed), create referrals, track past referrals, and report on YTD earnings.
- Leverage all existing touch points to promote your program, including statement stuffers (to support customer referrals), ads on your website, and promotional announcements on your newsletters.
- Consider special campaigns or promotions to announce the program targeted to each referral audience and to keep their engagement. Success stories from active referrers support the opportunity to new members. These campaigns can consist of both online and offline components.
- Always include ongoing engagement campaigns and activities to current and past referrers to keep the program top of mind. Different audiences require different levels of communication/engagement to retain mindshare and activity in the program.

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## Putting It All Together: A Referral Program Example



### Company/Industry:

B2B provider of managed print services

### Target Customers:

SMB and Enterprise, Government, Education

### Target Referral Audiences:

Current customers, IT infrastructure cloud service providers, Corporate Resellers, Commercial real estate leasing companies.

### Objective:

Gain net new SMB and Enterprise revenue by driving referrals from businesses providing services/solutions that are complementary to managed print services and typically sold (or considered) at the same time. Additionally, leverage current customer base to recommend solution.

### Referral Program Solution:

- Unique referral micro sites were created for each referral audience. Each site provided program information and required forms for registration and referral submission as it pertained to the unique offering and program needs of each audience. Form and program info was added to Customer's account login on B2B provider's own site. Leads were routed through unique processes that were pertinent to the referred company and location.
- Rewards were structured such that existing customers received a credit on their services, with the specific credit called out on their monthly invoice. Other audiences were provided with a one-time 10% commission on any services sold from the referral (the majority portion is provided to the individual sales rep who submitted referral) depending on the specific referral audience, the reward was issued as either a cash disbursement (check) or via reloadable debit card.
- Program kick-off and education provided to sales reps at complementary companies, which was reinforced through ongoing automated communications on referral status and earnings. Program announcement and reinforcement to existing customers occurred at every touch point, including: Sales Interaction, with announcements on the customer website, and through monthly invoice statement stuffers.

### Results:

In first year, drove a 35% increase in SMB, 15% in enterprise over previous, same period year's sales. A 35% higher close rate than other lead generation oriented marketing programs, and overall program ROI of 400%. Government and Education market oriented referral programs launched 6 months after due to success of initial program.

"A 35% higher close rate than other lead generation oriented marketing programs, and overall program ROI of 400%."

## Crawl, Walk, Run

Once launched with an initial target audience, it is typical for an organization to expand its referral program to optimize the potential of new referral audiences. CCI recommends that you use a phased approach that limits the initial scope of the program to a defined audience or sub group. This limited introduction will allow you to validate that all process and systems work effectively as planned before the program is expanded.

Employing referral management into your sales strategy can be revolutionary—in terms of the additional sales it can bring, but also for the potential disruption it can cause on pre-existing processes. You'll want to make sure the program is optimized for your needs before making major organizational process changes and commitments. One small aspect of the program can have a big impact on the program's results. Using the "test, evaluate, evolve" method is the pragmatic approach.



### About CCI

CCI delivers comprehensive incentive solutions to optimize sales channel performance. As an enterprise software and services solutions provider, CCI enables channel marketers to manage and measure sales and marketing incentive programs throughout their demand chain, resulting in greater spending efficiency and improved program effectiveness.

For more information, visit [www.channelmanagement.com](http://www.channelmanagement.com) or contact us at [info@channelmanagement.com](mailto:info@channelmanagement.com).