

State of Referral Marketing

Reward Structure 2020

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Abstract

Referral programs are changing the way companies are growing their customer base digitally. In this report, we reveal the data and trends shaping today's top referral programs by analyzing their rewards and program structures.

Our results indicate that the simplest rewards are the most common in the referral landscape, and are used to encourage more purchases from target customers. The most advanced companies believe that referrals require purposeful motivation for both the promoter and referred friend, and that the way to get ahead is by going granular with tiered referral programs.

Terminology ▶

Promoter

A business's existing customer, who participates in a referral program to invite their friend, colleague, or family member to the product or service being promoted.

(Referred) Friend

A person who has been invited to a product or service by way of their friend's referral.

Referral Conversion

The event that defines a successful referral between a promoter and their friend.

Introduction

In a brand new analysis of the world's top referral programs, their structure, rewards, and trends, we explore opportunities in the referral marketing landscape to help your business leverage this thriving marketing channel.

As technologies advance, consumer needs shift, and competition increases in the digital economy, not just any referral program will do.

We've studied the rewards and program structures of over 100 referral programs across various industries to help you answer questions like:

- What rewards are today's top companies using to drive customer referrals?
- What is the most popular referral program reward structure?
- What referral program reward strategies can be used to get the best ROI?

Maybe you're running a referral program and looking for how to improve the results, or are new to the referral space and don't know where to start.

Whatever your situation, our data will help you make informed and successful decisions when building a referral program for any digital business unit.

What you're about to read is only a portion of the referral program data we have to share. Stay tuned as new findings are released from our research labs.

Key Insights

1 Referral programs are widely adopted as a revenue-generating strategy.

The majority of today's referral programs are used to directly increase revenue, indicating a consensus that word-of-mouth marketing is a topline revenue strategy.

With over 50% of referral programs using dollars of credit as a reward, and 90% of programs relying on a purchase to define a successful conversion, businesses are using referral programs to encourage spending from new and existing customers.

2 Referral programs are universally understood as a two-sided initiative.

Over 90% of referral programs are double-sided. Program designers believe that there is value in rewarding both the promoter and the referred friend. Whether the two rewards need to be equal is up for debate, as there's no clear stance on whether the promoter or referred friend should be favored, if at all.

The overwhelming tendency to create double-sided programs tells us that companies understand that referral incentives must play to the needs and desires of both the existing and new customers. Without motivation for both the promoter and their friend, chances of successful referrals are heavily impaired.

3 Opportunities exist for companies who don't see referrals and rewards as one-size-fits-all.

Only 13% of referral programs are created with a tiered structure to offer different rewards for different referrals. For example, these programs offer a lower reward when a lower-value prospect is referred, and a more lucrative reward when a high-value prospect is referred.

Tiers are a heavily underused component of referral programs today, even though they present the opportunity for a better return on investment (ROI) and more program engagement. When they can be implemented, there's no reason to have a static, one-size-fits-all program.

Referral Program Rewards

What are companies using as incentives to drive customer referrals?

Choosing the right reward for your referral program is a balancing act between what your customers want and what your business can afford to offer. Our data reveals that in today's referral landscape, simplicity reigns supreme.

Dollars of credit is offered more than twice as much as the second most popular reward type, Percent Discount, indicating that the simplest, most easy-to-communicate reward types remain at the forefront of the reward spectrum.

Dollar Credit is the most common referral program reward type, used in over 50% of programs for both the promoter and referred friend.

The chart shows the popularity of each reward type across all industries and business models, including both transaction and subscription-based brands. Because many programs offer different rewards to the promoter and the referred friend, totals are separated for Promoter rewards and Referred Friend rewards.

	PROMOTER	REFERRED FRIEND
DOLLAR CREDIT	50.0%	53.8%
PERCENT DISCOUNT	9.8%	23.7%
GIFT CARD	17.6%	6.4%
SUBSCRIPTION TIME	5.9%	6.4%
CASH	5.9%	3.2%
POINTS	5.9%	1.1%
PRODUCT	2.9%	3.2%
INTERNAL CURRENCY	2.0%	2.2%



Reward Distribution Insights

What does the data tell us about each reward type?

Dollar Credit

Dollars of credit is very easy to communicate to both new and existing customers, so it makes sense that it's the most popular choice. It gives the recipient a reason to make a subsequent or a first purchase, and provides an obvious benefit when shopping.

◀ **An easy-to-communicate reward** suitable for industries with regular purchases.

Percent Discount

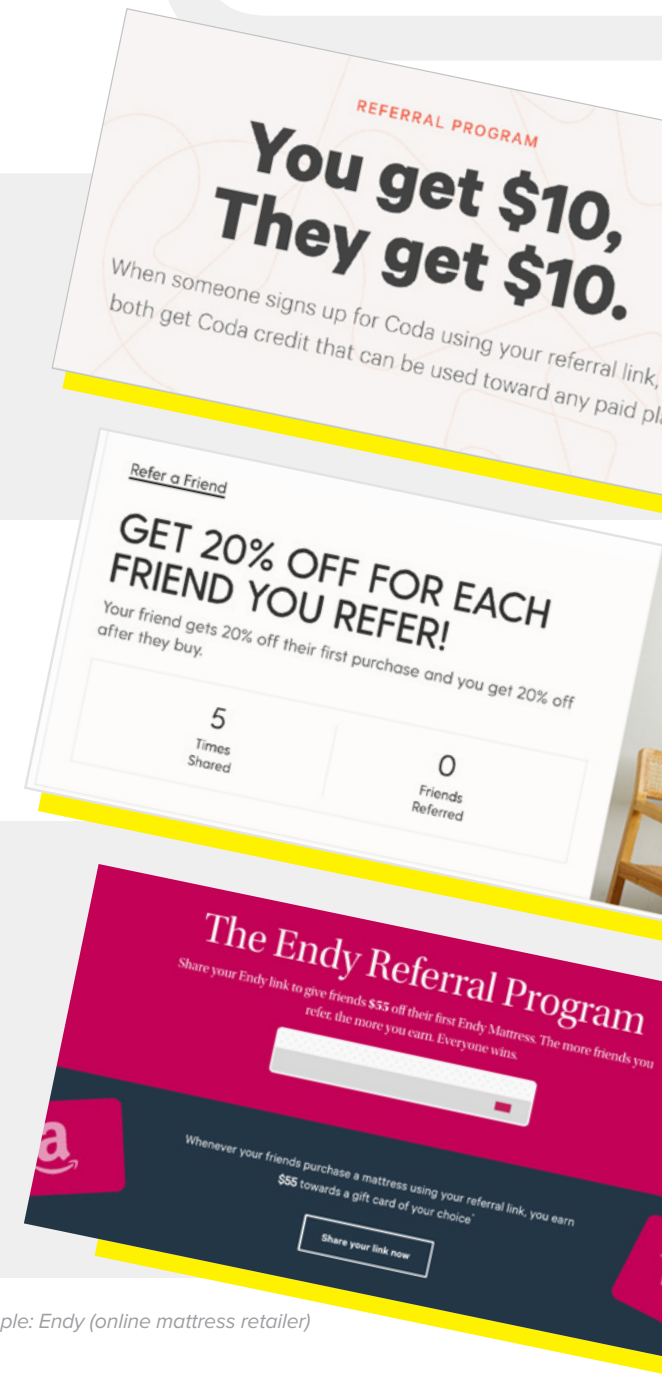
Similar to dollars of credit, percentage discounts (ie. 20% off) provide direct value to new and existing customers. Jump to Page 11 if you're trying to decide between offering dollar credit or a percentage discount.

◀ **Offer a consistent discount** on a range of products and maintain positive margins.

Gift Cards

Third-party gift cards are a reward that your customers can redeem right away after referring new friends even if they don't need to buy from you in the near future. They're also a great option when you're trying to implement rewards quickly without touching billing systems. They do have the disadvantage of not promoting increased engagement with your product.

◀ **Most common in industries with irregular purchases** (ie. mattresses, phone plans, insurance).



Subscription Time

By rewarding your promoters with exposure to paid features for a limited time, they learn the value of upgrading. It increases the likelihood that they'll pay for a premium subscription once the reward period has ended. Or, better yet, they will continue to refer new friends in order to keep receiving free premium access.

◀ Encourages upsells through exposure to premium features.

Cash

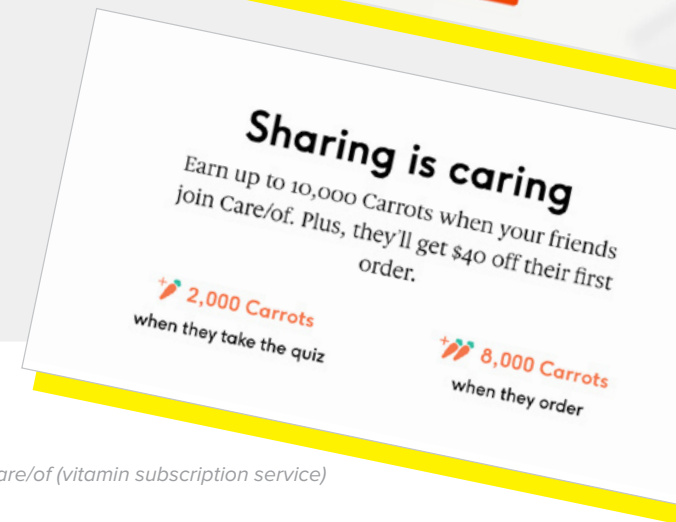
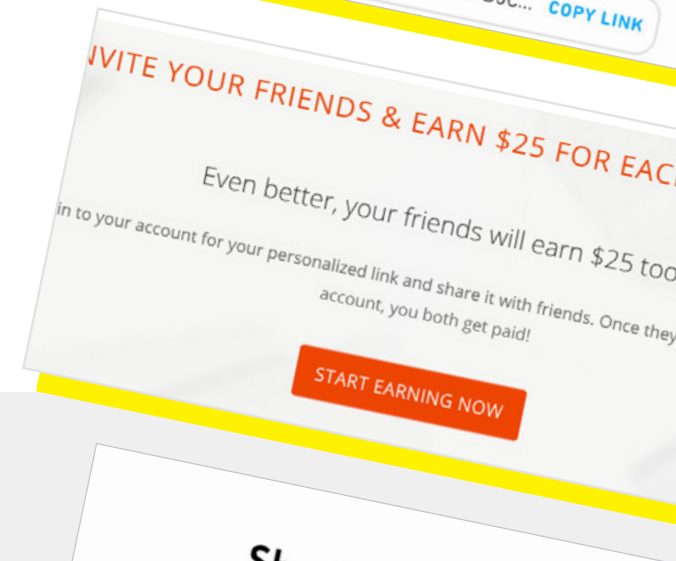
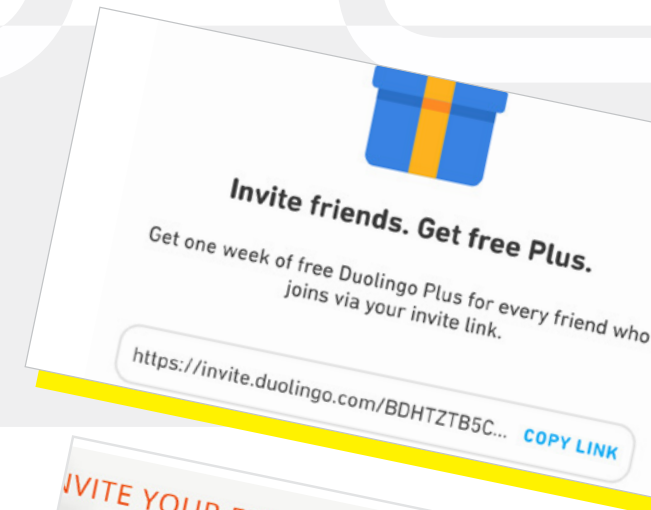
Use of cash as a reward is low, since you likely need personal user information (ie. mailing address/bank info) in order to deposit it, and it doesn't always guarantee more engagement with your product. However, this means it's a suitable reward for financial products (ie. banking apps) that already handle a user's financial information and cash balances.

◀ Works best when a cash deposit logically fits with the product.

Points

When points can be exchanged for a catalogue of rewards, users can set unique point-collection goals depending on what reward they find most desirable. It's important that customers are able to redeem points at frequent intervals so they don't lose interest in earning.

◀ Offer a diverse set of incentives and appeal to multiple segments.



Product

For example, the referred friend might receive a bonus gift in their first order, and the promoter will be able to add a special gift when they place their next shipment. Product is a lesser-used reward because of the logistical challenges and shipping costs it can involve.

Product rewards can also take the form of branded gifts or company swag. Company shirts, socks, stickers, mugs, or other items can all be repurposed as referral rewards.

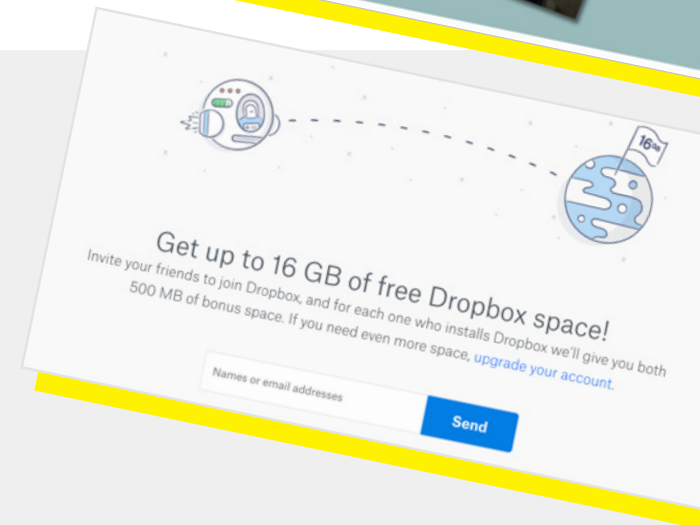
Internal Currency

Pioneered as a referral reward by Dropbox who offers megabytes of storage, internal currencies are gaining traction, but their complexity leaves them underused. It should be noted that this kind of reward simply isn't an option for all business types as is a universal reward like dollar credit or percent discounts.

◀ Works as a **bonus gift** when a physical package is being shipped already.



◀ A cost-effective way to **drive product usage** and **establish a competitive advantage**.



Product Example: Shutterfly (photography products) / Internal Currency Example: Dropbox (cloud storage app)

Reward Values: Dollar Credit & Percent Discount

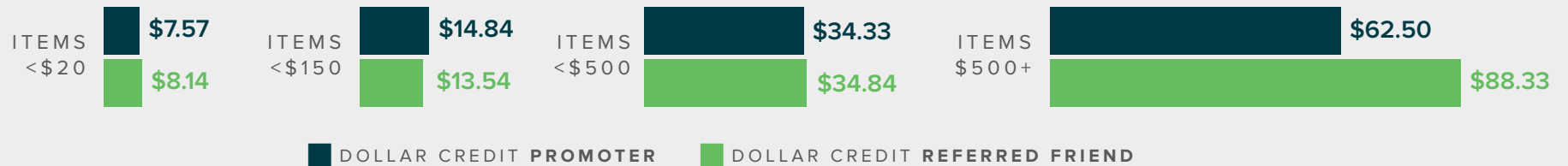
As two of the most widely-used referral reward types, dollars of credit and percentage discounts are easy to communicate and provide an obvious value to both new and existing customers. Many brands use these rewards to create a simple referral slogan such as “Give \$10, Get \$10” to make the benefit clear for both parties.

How much credit are companies offering to reward a successful customer referral?

As product value goes up, the value of the reward increases alongside it. This is logical as it provides a meaningful motivation to encourage a referral or purchase despite asking for a higher cash outlay. However, as product value increases, the value of the reward relative to the price actually decreases.

Across all industries and transaction sizes, **the most common dollar credit referral reward value is \$10.**

Average Value of Rewards - Dollar Credit ▼



▲ The chart above shows the average value of a dollar credit reward based on average transaction size.

How much of a discount are companies offering to reward a successful customer referral?

The distribution below shows that as the value of an item goes up, the percentage discount decreases in order to maintain a suitable ROI on every referral.

Our data suggests that lower-value products (<\$20 per transaction or per month) don't typically utilize Percent Discount as a reward type. Should they?

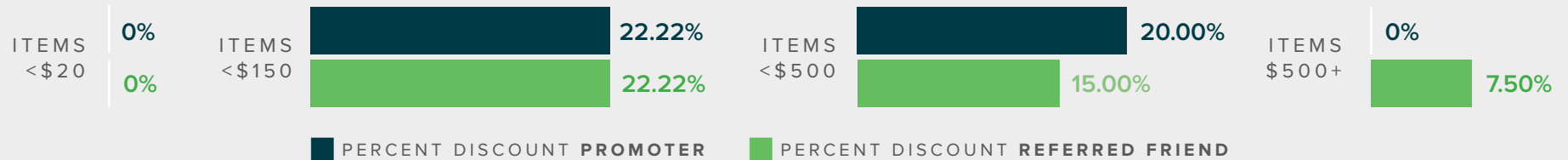
Average Value of Rewards - Percent Discount ▼

According to marketing professor Jonah Berger in his book “Contagious: Why Things Catch On”, choosing between framing your discount as a percent (ie. 15% off) or an absolute dollar value (ie. \$50 off), depends on the price of your item, which affects how customers perceive the discount’s value.

He outlines **The Rule of 100**, which says that for items priced under \$100, percentage discounts appear larger to customers than absolute ones. But over \$100, things reverse and absolute discounts seem larger than percentage ones.

Based on this insight, it’s surprising that our data reveals a low usage of percent discounts for items under \$20, in which cases a percentage would likely yield a higher “number” than a dollar credit. For example, for a \$20 item, a “25% discount” and “\$5 discount” reveal the same outcome, but a discount of 25% may be perceived as a better value simply because 25 is greater than 5.

Across all industries and transaction sizes, **the most common percentage discount referral reward value is 20%.**



▲ The data above shows the average value of a percent discount reward based on average transaction size.

Rewarding referrals with percentage discounts would therefore be an engaging tactic for low-cost items and services, but appears to be under-utilized in this segment.

Note: Small sample sizes (<5) of referral programs were used to determine average discount rewards on items over \$500, as this reward has a low presence in this segment. Percentage discounts are most widely offered for transactions over \$20 but below \$500.

Reward Types: Gift Card Selection

We found that third-party gift cards (such as prepaid Visa or Amazon gift cards) are often used to reward Promoters for referrals in industries with low-purchase frequencies. Some examples include:

- Telecom providers
- Online medical appointment booking services
- Online mattress retailers
- Travel booking websites
- Online insurance and mortgage brokers

Only 35% of companies who offer gift card rewards provide a selection of vendor choices.



- NO CHOICE
- CHOICE

Note: A small sample size (<20) was used for our analysis on Gift Card rewards.

This makes sense because things like mattresses, dentist appointments, and large-scale vacations aren't purchases that people make every week. In these cases, offering a discount coupon to the promoter for referring a friend won't excite them, as they'll need to wait months or years before redeeming it.

This is where gift cards shine as the perfect way to provide immediate gratification to the promoter for each new friend they refer, which encourages continuous referrals from your happy customers.

How are companies offering gift card rewards?

The majority of companies who offer gift cards as rewards **do not** let customers choose from a selection of gift cards.

While consumers are known to appreciate a degree of choice, the opposing trend is likely due to the technical and logistical challenges of implementing a customer-facing gift card picker.

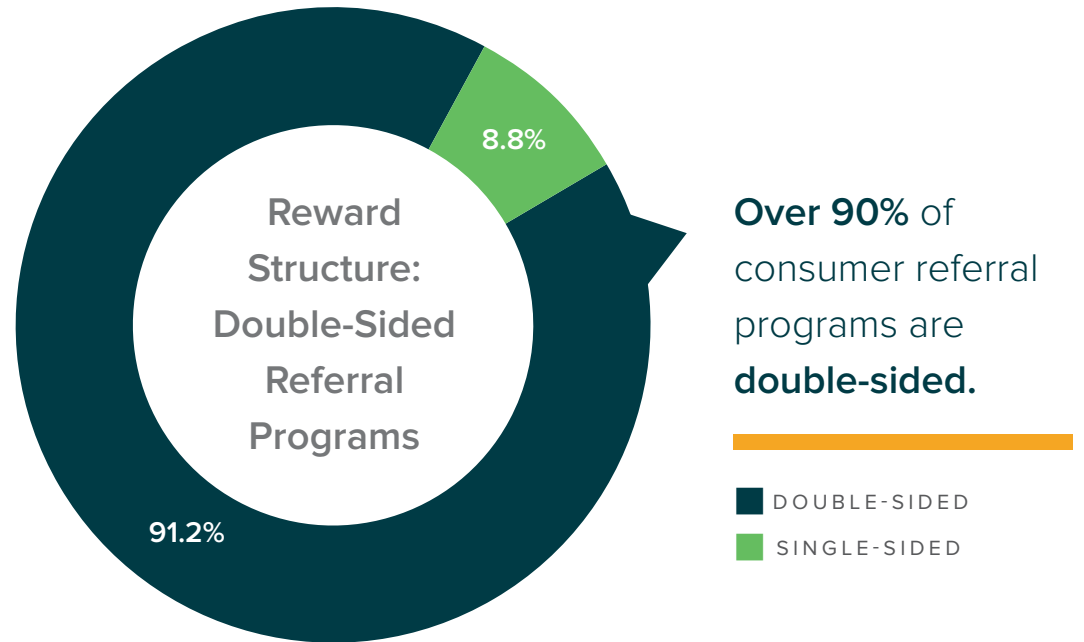
We suspect that many, if not all companies in our sample would prefer to offer a gift card selection, but they don't have the resources or time to fully implement it.

Referral Program Structure

Do companies reward the promoter, referred friend, or both parties when a referral is made?

It's not surprising to note that almost all consumer referral programs today are double-sided, meaning that both the promoter and the referred friend receive a reward.

When a company intentionally runs a single-sided referral program (ie. either only the promoter is rewarded, or only the referred friend is rewarded), it's often because it's easier and cheaper to manage.



Why run a double-sided referral program?

The main benefit of a double-sided referral program is that it gives everyone a reason to participate - there's an incentive to share, and an incentive to accept the referral.

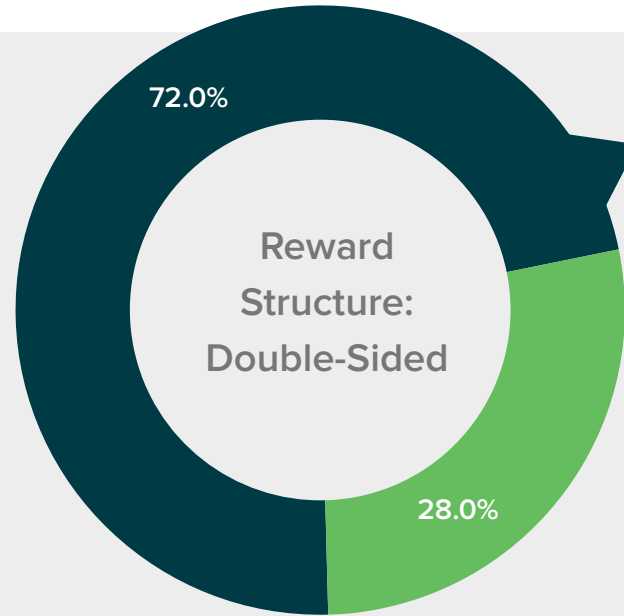
While a double-sided program requires a larger investment, many

users may dislike the idea of profiting off their own networks or feeling like a salesperson for your brand. When it's clear that both sides benefit, both the new and existing users are on a level playing field and feel better about initiating/accepting the offer.

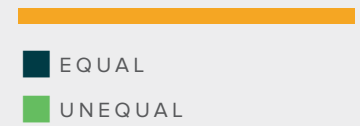
Companies like Uber, Airbnb, and Dropbox all use double-sided referral programs to grow their customer base and retain loyal users. Keep in mind that the rewards don't always have to be equal for both parties, or be of the same type.

Even though a referral program might be double-sided, the positive effects of this can be easily reversed if there is too much discrepancy between promoter and referred friend rewards where one side is clearly getting more out of the exchange.

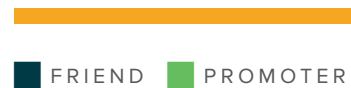
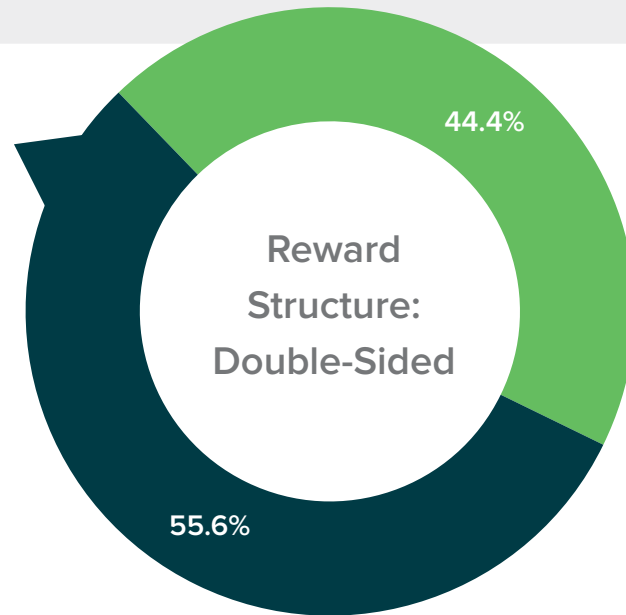
This is why most double-sided programs decide to offer the exact same reward and value to both parties. It's easy to communicate (ie. "Give \$10, Get \$10"), and it emphasizes the level playing field for everyone involved.



72% of referral programs **offer exactly the same reward** to the promoter and referred friend.



When rewards aren't even, **55%** of referral programs **offer a higher-value reward to the referred friend.**



While this sample size (<20) is too small to draw a full conclusion, our data suggests that there is not a clear trend to support whether the promoter or the referred friend is typically favored in un-equal double-sided referral programs.

Valid arguments can be made to either:

- Favor the promoter for a better chance of triggering the referral
- Favor the friend for a better chance of converting the referral

Program Structure: Tiered Referral Programs

How are companies offering different rewards based on the quality or type of referral made?

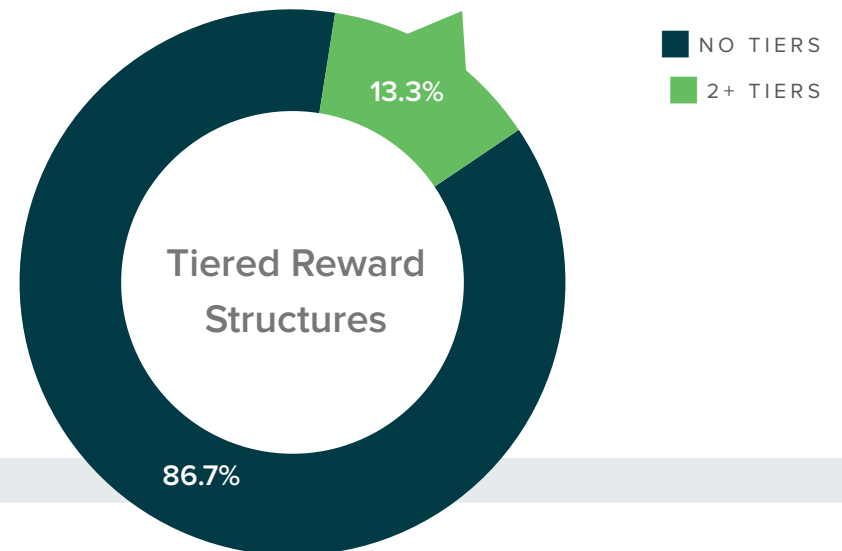
From our data, only 13% of referral programs are using a tiered referral structure, with the most common number of tiers being two (2). Common tiers are based on what kind of user is being referred, how much the referred user spends, and how many referrals the promoter makes.

This result suggests that many companies are missing out on a better referral program ROI by not using tiers. By default, most programs will specify a minimum purchase amount required by the referred friend to qualify for the reward. However, using tiers to offer rewards relative to the purchase provides opportunities for more frequent and better conversions.

What is a tiered referral program?

A tiered referral program is a structured referral program that lets you set up different rewards for different kinds of referrals. You can reward differently based on conditions like what the referred friend buys, who makes the referral, and how the referred friend interacts with your product.

Only **13%** of referral programs use a tiered reward structure.



This lets you offer better rewards for higher-value referrals, like when a referred friend buys a more expensive plan/product, and still keep your margins in check.

For example, Moo, an online printing service, separates referral rewards into tiers depending on what kind of customer you refer:

\$15

Refer a Friend

Your favourite humans and small businesses (1 - 9 employees)

Refer a friend

- ✓ Refer friends, family members or colleagues
- ✓ Get \$15 for every qualified business you refer
- ✓ Psst - your referrals also get 20% off their first order!

\$150

Refer a Business

Bigger businesses with a minimum of 10 employees

Refer a business

- ✓ Refer companies you work with or in
- ✓ Get \$150 for every qualified business you refer
- ✓ Your referrals can get an Account Manager, discounts & more

◀ Earn a \$15 Moo credit if you refer an individual.
 Earn a \$150 Moo credit for every qualified business you refer (10+ employees)

Why use a tiered referral structure?

By offering different rewards relative to the referred friends' actions, you can be confident that you will obtain the highest return on investment while providing rewards that encourage ideal customer behavior.

For example, if the promoter gets the same \$20 referral reward regardless if their friend signs up for the \$5/

month plan or the \$100/month plan, you're likely to experience a negative ROI on some of your acquisitions.

On the other side of the referral, the referred friend won't be very inclined to sign up for something like a \$200 annual plan if all they receive as a reward is a \$5 credit, but will be more motivated when offered a \$20 credit.

Instead of trying to find one reward that applies to all purchase scenarios and still benefits both your customers, their friends, and your bank account, create tiers that make the most sense for different kinds of users and their purchases.

Set up referral tiers with a solution like SaaSquatch.

Referral Conversion Events

Reward Conversion: Conversion Activity

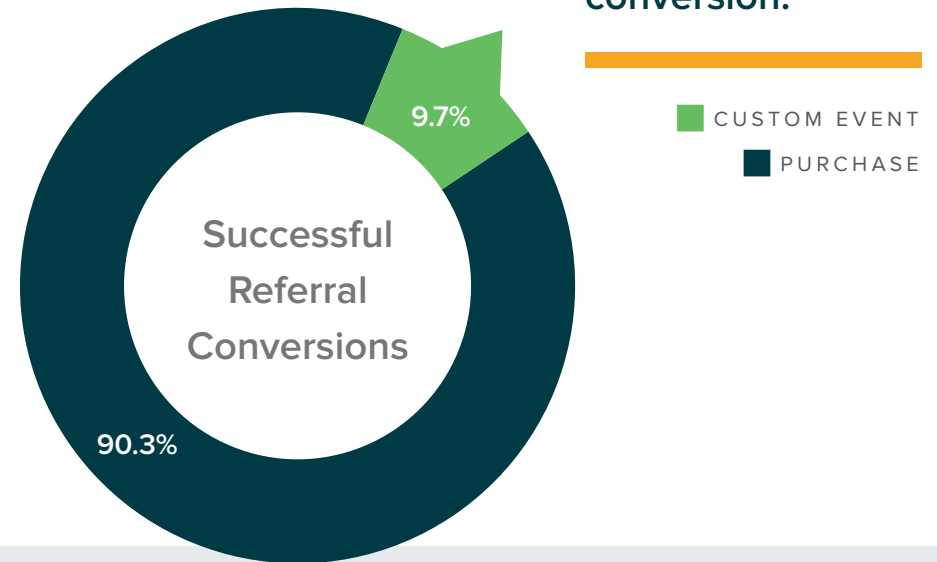
What kind of action or event defines a successful referral?

A **referral conversion** is the activity that defines a successful referral.

Depending on program goals, referral conversions can look different for every business. Generally speaking, the goal of a referral is to attract a new customer to engage with your product or service for the first time. As our data suggests, this is commonly represented by a purchase made by the referred friend.

This is a logical approach to ensure that the investment of any referral rewards is offset by resulting revenue from the purchase. In a sample of referral programs less inclusive of e-commerce referral programs, it is suspected that Custom Events would be used more frequently.

90% of referral programs use a **Purchase by the referred friend to define a successful conversion.**



For our analysis, we classified conversion events into two main categories, Purchases and Custom Events:

Purchase: The referred friend must make a purchase (likely with minimum spend requirements) to complete the referral and generate a reward for the promoter.

Usually, the friend is equipped with the promoter's referral code or invite link which offers a discount to motivate this initial purchase.

Custom Event: The referred friend must perform a specific action to complete the referral and generate a reward for the promoter. Some examples we've seen are:

- Downloading an app
- Taking a quiz or survey
- Loading money into the app
- Completing your profile

As a company, choosing your referral program's conversion activity is your chance to define what action by the referred friend is most valuable for initiating a long-term business relationship with them.

Is a purchase the most effective conversion event for all businesses?

The overwhelming use of purchase events as conversion activities suggests that referral programs are widely considered as a method of driving revenue. Whether or not this is the best approach can depend on the type of business running the referral program.

For example, in a subscription-based environment, a custom

event like an **activation event** may be more valuable for the referred friend to complete, and can help drive the necessary product adoption required for a recurring commitment.

In fact, we found that 19% of referral programs in the subscription industry use a Custom Event to define a conversion whereas for

transactional businesses, 100% used a purchase event.

Dropbox, a subscription-based cloud storage application, considers a referral successful when the referred friend has **installed the app** on their computer. Dropbox believes that this action makes the user more likely to continue engaging with the product.

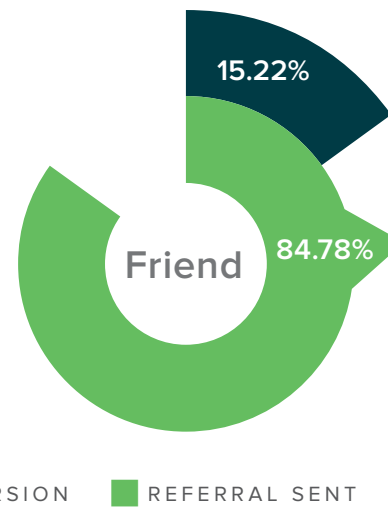
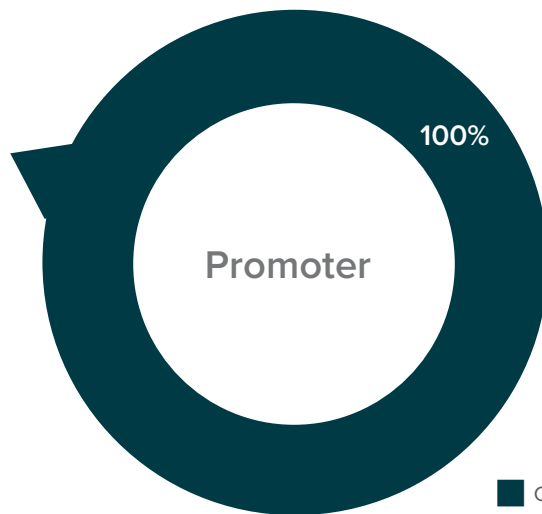
Referral Conversion: Reward Timing

At what point during the referral process are rewards offered to promoters and their friends?

Promoters are rarely (if ever) given a reward before the friend has completed the conversion activity (ie. purchased, downloaded app, etc). This makes sense in order to prevent fraud and ensure that the business reaps the benefits of each conversion before distributing rewards.

Our results confirm that the conversion often represents the moment when the Promoter receives their reward as a “thank you” for successfully referring a new customer to the business.

100% of programs reward promoters upon **successful conversion**.



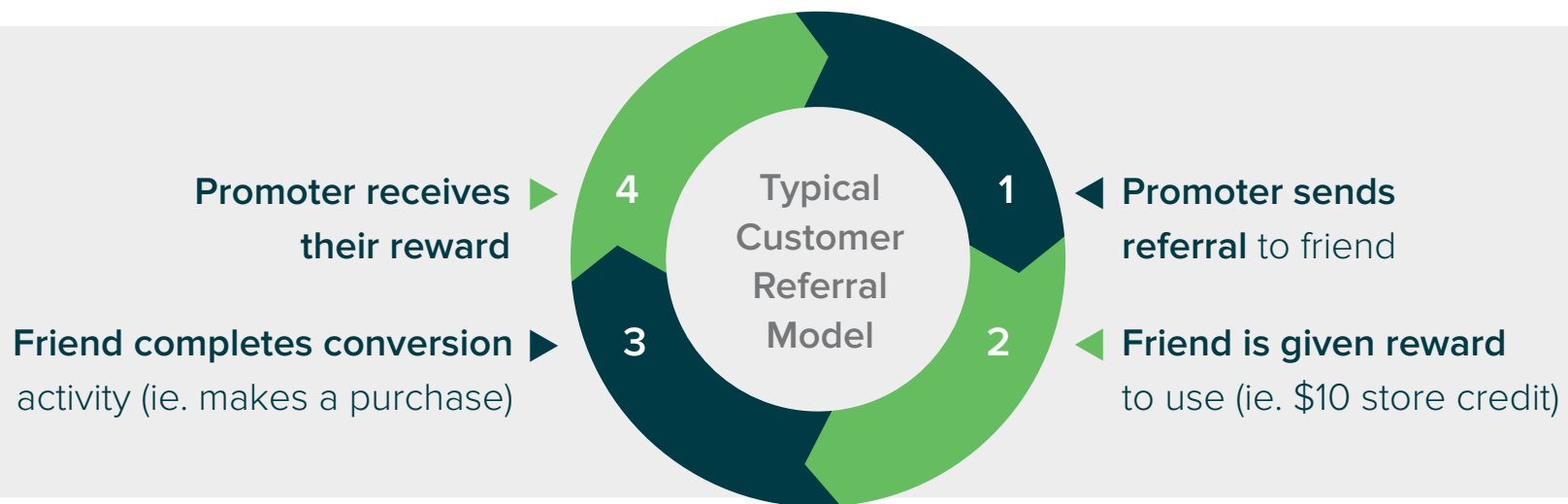
85% of programs reward the referred friend once the referral is initiated by the promoter.

Referred friends are typically given access to their reward as soon as they receive the referral invitation. Given that the majority of conversions are defined by purchases, it makes sense to provide the reward upfront to incentivize this first sale (ie. a 20% off coupon to use on their first purchase).

In only 15% of cases, the referred friend is not given their reward until the conversion activity is complete. This is found in scenarios where their reward can't be put towards a purchase, but is instead a gift card, free product sample, and also when the company wants to improve their chances of successfully activating the new user for long-term usage. Examples of this include:

- A banking app offers a cash reward once the friend deposits \$100 into their account
- A file storage app offers a GB storage reward once the friend installs the app
- A mobile phone provider offers a credit reward once the friend's plan has been activated for 3 months
- An online dentist booking system offers a gift card once the friend's appointment is completed

Our data therefore suggests the typical customer referral model to be:



Conclusion

As acquisition costs rise, competition increases, and customers change products more rapidly, marketers are looking for new ways to acquire and retain their customers.

With referred customers being 18% more loyal, spending 13.2% more and having 16% higher lifetime values than non-referred customers, many companies are turning to referral programs as a powerful growth channel.

However, the complexity of these programs and numerous other pitfalls have stopped many companies from launching a successful referral program.

If you're ready to run a successful referral and rewards program, the SaaSquatch platform and team is here to help you with everything you need to design, run, and optimize your dream program.

*Want to keep learning?
Enroll in the Digital Loyalty
Academy for free for
more guidance on how to
build a successful referral
and loyalty strategy.*



About SaaSquatch

SaaSquatch helps companies acquire and retain their best customers at substantially lower costs.

By running hundreds of rewards programs and contributing to tens of millions of dollars of lifetime value, SaaSquatch has developed the expertise needed to get the best results from your program as fast as possible.

The SaaSquatch platform is the first referral and rewards platform built for multi-step digital journeys and sales processes. Used by Finance, Subscriptions Services, Marketplaces, and digital business units, the SaaSquatch platform delivers the advanced rewards programs you're looking for without the headache.

[Click here](#) to be the first to be notified about future SaaSquatch State of Referrals reports.

Stay in the loop ▶



Data Collection Information

All referral program data used in this report has been collected and analyzed independently by SaaSquatch.

One hundred and two referral programs from a variety of business models are included, such as e-commerce, subscription,

and on-demand. Industries include, but are not limited to, telecommunications, fashion, technology,

SaaS, financial services, consumer goods, electronics, travel & tourism, education, and healthcare.