



4 Companies That Used Referral Marketing to Explode Their Growth

by Dennis Hammer

We rely on recommendations from people we trust to make purchasing decisions every day. [According to Nielsen](#), 84% of people say they trust referrals from people they know. When a customer refers a product to someone else, the referred person is [four times more likely to make a purchase](#) than if they hadn't been referred.

You can leverage this word-of-mouth power to grow your SaaS exponentially with a referral marketing program.

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What is Referral Marketing?

Referral marketing is the practice of incentivizing your users to refer your product to their friends, family, and coworkers. It's a way to stimulate word-of-mouth by leveraging existing users to capture new ones.

Here's how a referral program usually works:

You give your customer a special link to share. When their friend clicks that link, your customer gets credit for the referral. Credit might mean cash, extended features in your product, a free month of service, or some other reward that makes sense for your customer.

In many cases, SaaS organizations reward the referrer *and* the referred party. These two-sided rewards are especially powerful.

When [Influitive and Heinz Marketing studied referral programs](#), they learned that 70% of companies with referral programs are on track to meet or exceed their revenue goals. Furthermore, 59% of respondents say referral leads have a higher lifetime value than other lead sources.

Why should you start a referral marketing program?

- Lower customer acquisition cost: Referral marketing has a fixed and predictable cost.
- Better lead quality: Your customers are likely to refer people like them.
- Higher conversion rate: [Referral marketing conversion rates are 3.5X higher](#) than any other marketing channel because the referred party perceives the product as a better fit and more valuable thanks to the referrer's recommendation.
- Higher customer lifetime value: The [lifetime value of a referred customer is 16% higher](#) than non-referred customers due to lower churn and higher profit margins.

Plus, some of the biggest SaaS organizations *in the world* have used referral marketing. Let's take a look at four big startups that used referrals for explosive growth.

1. Dropbox

In September 2008, Dropbox had 100K registered users. By April of 2010, they were up to four million users.

They doubled their user base *every three months* for two years by sending 2.9 million referral invites to friends of their customers. Today, they have 500 million users and [35% of signups](#) come from the referral program.

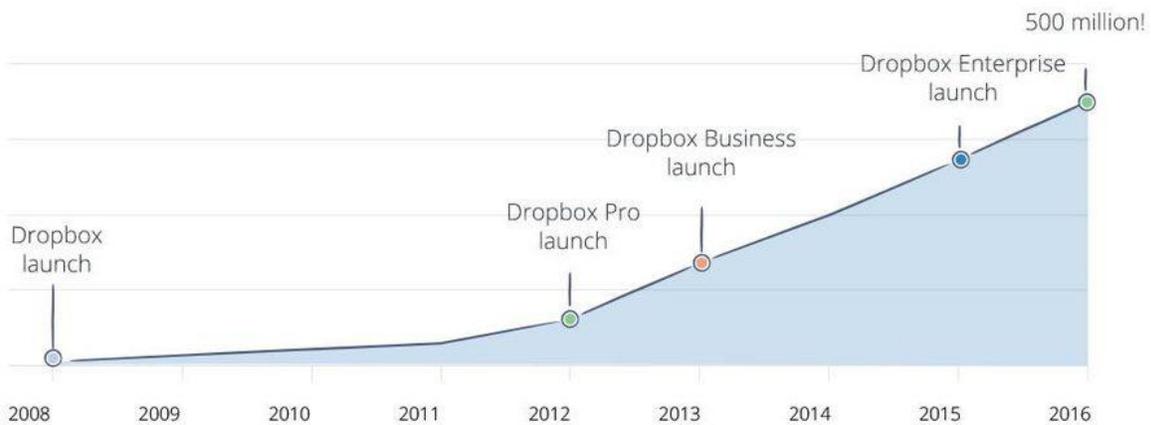


Image: forbes.com

That type of growth is downright meteoric!

Dropbox's referral program was simple and easy to understand. If you've ever used Dropbox, you know they prioritize simplicity and ease of use throughout the entire product and service. The reward is straightforward: You can earn 500 MB of extra storage space (up to 16G) for each customer you refer to Dropbox.

Dropbox's program wasn't unique, just well executed. By incentivizing users with product value, they encouraged viral word-of-mouth marketing.

This saved Dropbox *a lot* of money. Before their referral program, they were using paid ads to drive signs ups, but the ads cost \$233-\$388 per customer for a product that only cost \$99/year. At that price, they had to keep customers for *years* before they made any money.



Get up to 32 GB of free space by inviting your friends to Dropbox!

For every friend who joins and installs Dropbox on their computer, we'll give you 1 GB and your friend 500 MB of bonus space (up to a limit of 32 GB)! If you need even more space, [upgrade your account](#).

More ways to invite your friends



Invite your Gmail contacts



Copy link



Share on Facebook

Once you've invited friends, you can [view the status of your referrals](#) or visit our [Help Center](#) if you have any questions.

Why did it work so well?

- The referral program was built into the onboarding process. The final step was to invite a friend. This means *every user* was exposed to the referral offer.
- They paid users with something they *know* the user wants – storage space.
- It was easy to invite a friend. Users could share their unique referral link over social media or via email. They could also paste their link anywhere. Dropbox also smartly gave users an option to email *all* of their Gmail contacts, rather than sending invitations one-by-one.

- They added a bit of gamification by including a panel in the account settings that showed how many people accepted the user's referral with a rewarding "+500 MB" next to each name.
- They used benefits-based messaging. No one really wants to invite people, but they're happy to do it if they could "get more space."

2. PayPal

Dropbox wasn't the first to use an explosive referral marketing strategy. They were actually inspired by [PayPal's refer-a-friend program](#).

PayPal *literally paid people* to invite their friends, which is how [they acquired 100,000 users in the first month](#).

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<iframe width="560" height="315"
src="https://www.youtube.com/embed/vDwzmJpl4io?start=680" frameborder="0"
allow="autoplay; encrypted-media" allowfullscreen></iframe>
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In the beginning, PayPal offered people \$20 to refer their friends. The friend got \$20 when they opened an account too.

As the program took off, they reduced the reward to \$10 and eventually \$5 before closing the program entirely when their user base reached a critical mass and PayPal became an accepted financial transaction tool.

(It's worth noting that you don't have to run referral programs indefinitely. You can discontinue the program once cheaper methods start to drive growth.)



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Referral Bonus FAQ

What is PayPal referral bonus?

PayPal referral bonus is a bonus specifically set up for current users who successfully refer a friend to sign up with PayPal. Whenever such friend successfully signs up with PayPal through your referral link or PayPal logo and get verified, your PayPal account will be deposited with such referral bonus.

How can I refer a new user?

After you become a registered PayPal user, login to your PayPal account, go to "My PayPal" and click the link "Get a referral bonus" link under Enhance Account in the Account Overview page. It contains PayPal referral link and an URL linked to PayPal logo. If your friend successfully signs up with PayPal through such link or logo and is verified, you will be eligible to such referral bonus. However, please use your referral link and logo reasonably and please strictly comply with PayPal's [Anti-spamming Policy](#)!

What policy does PayPal have against spamming?

The purpose of PayPal's referral bonus program is to encourage users to introduce PayPal to their friends, family members and online buyers. However, PayPal does not allow users to spam. Once PayPal finds out that a user is sending out junk emails with referral link, it will forthwith restrict such user's account. For more information, please refer to PayPal's [Anti-spamming Policy](#).

As you can imagine, this was a *big* investment for PayPal. According to Elon Musk (PayPal's founder), they [spent \\$60 million on the program](#), but it paid off in only a few years. PayPal used the word-of-mouth boost to turn their brand into a trusted name.

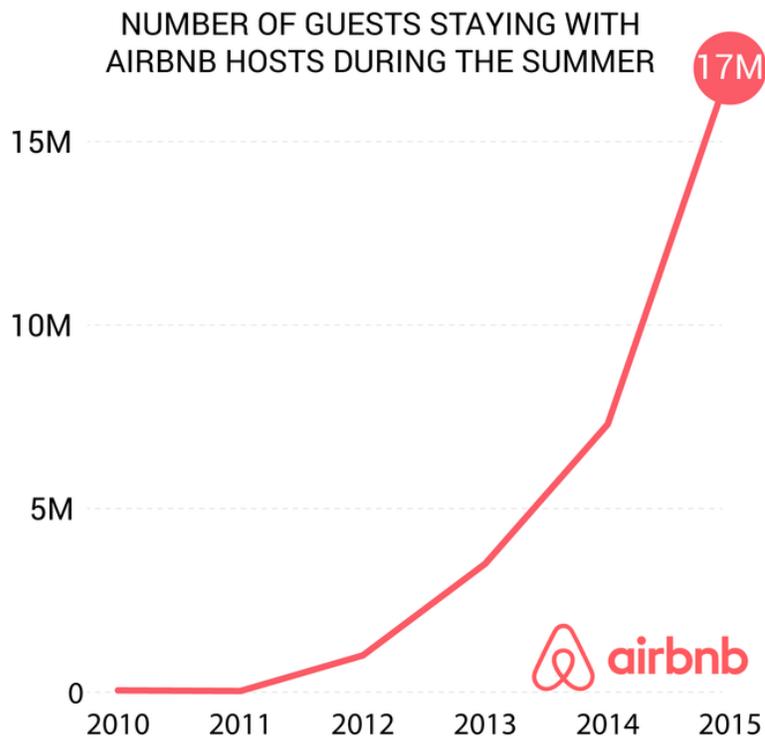
A version of the referral program [still exists today](#), but now there are more hoops to jump through. For instance, new accounts have to make an eligible purchase using PayPal within the first two weeks.

Why did it work so well?

- All people had to do was sign up to get free money.
- People like free money, but it goes deeper than that. Just like storage space is how you use Dropbox's product, cash is how you use PayPal. All the friction and unease of using a new payment platform is gone when you're playing with someone else's money.
- They reduced the reward over time as the value of the network (their word-of-mouth without the reward) increased, until they could stop rewarding entirely.
- A percentage of the reward cash would go back to PayPal in the form of various fees, reducing their customer acquisition cost.

3. Airbnb

Airbnb started in 2008 and by 2010 had acquired 47,000 users. Five years later they were up to 17 million with the help of a referral marketing program.



dadaviz.com

Image: businessinsider.com

In the beginning, Airbnb relied on word-of-mouth because not only was their brand unknown, their *entire* model was unknown. People just didn't know you could rent other people's homes all over the world.

The first iteration of their referral program paid referrers \$25 when their friend took a trip and \$75 when that friend rented out their place (they wanted new customers to travel *and* host).

Invite Your Friends



You'll get \$25 when they take a trip & \$75 when they rent out their place.

Get Started →



INVITE FRIENDS WITH FACEBOOK

or

EMAIL YOUR FRIENDS

Referrals had a positive impact on their revenue, but they thought it could do better. They wanted to promote the program heavily, but first choose to improve it. They changed the terms a bit and improved the flow of sending and receiving invites.



Share your love of travel

Introduce a friend to Airbnb. They'll get \$40 in travel credit when they sign up, and you'll get \$20 in travel credit once they complete a trip. Only for new Airbnb guests! [Read the terms](#)

Send Invites

Import contacts: Gmail | Yahoo! Mail | Outlook ?

or

Share Your Link:

Copy



Messenger



Facebook

It's easy to get started



Spread the word with your link or over email.



Get \$20 when they take their first trip of \$75 or more.



Get \$75 when they welcome their first guest.

[Director of Engineering at Airbnb Jason Bosinoff said](#), "Referrals was an exciting project to undertake because it embodies growth: It's highly measurable, scalable, and is all about identifying a growth pattern that's already happening but amplifying it at a key moment."

Why does it work so well?

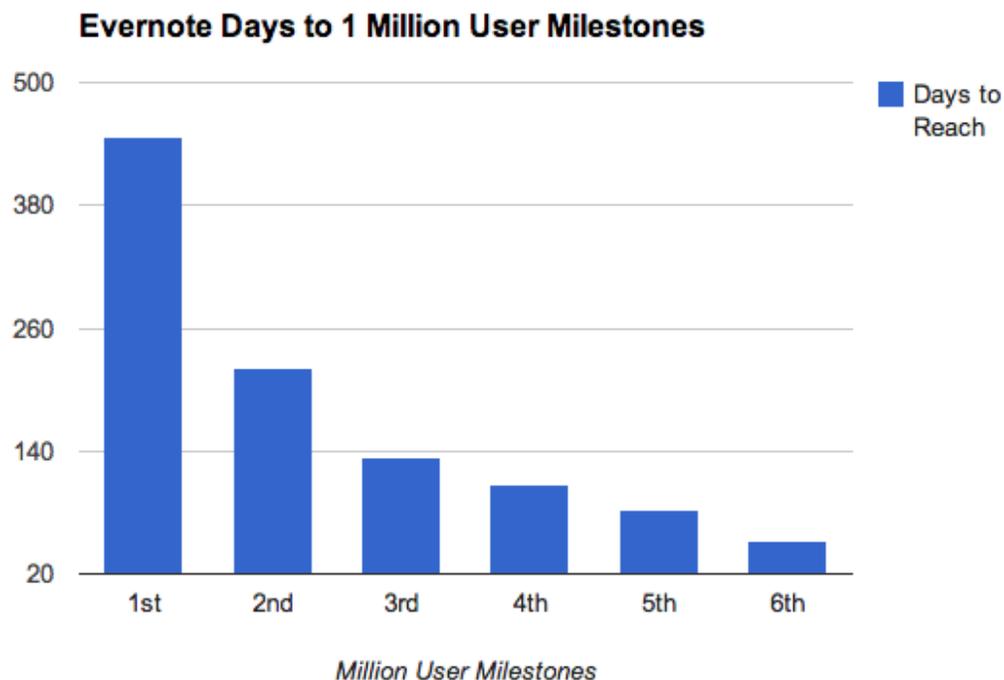
- The program helped them gain much-needed exposure.
- Soliciting invites was super easy. Users could share their unique referral link anywhere, or import their contacts to send a customized invitation email to everyone. They engineered a special check into this feature to identify which email contacts were most important, rather than sending invitations to everyone.
- The program is simple. When people use the referral link to open an account, the referrer gets paid.
- The invites were positioned as "gifts" from the referrer, not marketing promotions.
- They relentlessly tested their subject lines, calls to action, images, etc.

Watch this video if you want to learn more about how referral marketing fit into Airbnb's growth process:

<iframe width="560" height="315" src="https://www.youtube.com/embed/SS9wGKuGVt4" frameborder="0" allow="autoplay; encrypted-media" allowfullscreen></iframe>

4. Evernote

In 2008, Evernote officially launched, after running a beta with 125,000 users. As if that isn't impressive enough, they had one million users just 446 days later. The next million took half that long – just 222 days. Since then, they've hit million-user milestones faster and faster.



Evernote doesn't advertise. They don't spend money on SEO or SEM. They don't even incentivize downloads like the previous three examples in this article. "We don't pay money for users," [says CEO Phil Libin](#).

Evernote is a unique case for referral marketing because the app is inherently anti-social. It's designed for one person. There isn't much of a social element involved, so all rewards have to be focused on the user.

Evernote's referral program uses a point system. Users earn points by referring friends and can spend them on upgrades and rewards. Three referrals equals 10 points, which is enough for three months of Evernote Premium. Whenever a referred friend buys Premium, you earn an additional 5 points.

INVITE FRIENDS TO EVERNOTE

When they register, install, and sign in to Evernote, they'll get Premium. You'll also earn points to use for [Premium](#) or increased monthly uploads.

INVITE FRIENDS

Your first 3 referrals earn you **10 points each** - enough for 3 months of Premium or 3 GB of additional monthly uploads.

KEEP EARNING

Whenever a friend you referred buys Premium for the first time, you will earn **5 more points**.

Enter friends' email addresses

[Import Contacts](#) [Invite](#)

View [points and rewards](#) or [learn more](#) about referring friends

Why a points system? Because (1) Evernote knows that most users are fine with the free version of the app (people only upgrade when they need the premium features, not when they come across a discount) and (2) a high percentage of users upgrade to premium by themselves if they use Evernote heavily.

When you put these two arguments together, it means that by letting users taste the premium features, Evernote helps them decide they need a premium subscription sooner.

Why does it work so well?

- Evernote gamified referrals with their point system. Users are incentivized to keep referring in order to get the payoff.
- The program lets users try the premium features before they buy, which boosts the conversion rate.
- It costs Evernote very little to reward users with premium features. They don't lose sales because those people weren't paying for premium anyway.

Word-of-Mouth is a Powerful Tool

Consumers and businesses recommend products and services to one another every day. By incentivizing your users and leveraging their innate desire to share things they love, you'll create a self-sustaining marketing program that grows your SaaS.

Hopefully these case studies have shown you the power of referral marketing, and offered some inspiration to get started.