VALMAR MERCHANT SERVICES

A GUIDE FOR GROWING BUSINESSES

The Complete Guide to Building a Referral Program

Turning existing customers into a consistent source of new business.

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What's inside

Read it end to end, or jump to the section you need. Sections 11 and 12 are the fastest way to get a program running this week.

01 Your best customers can be your best marketing channel

For most small businesses, the highest-converting new customer isn't the one who found you through an ad or a search result — it's the one who was told about you by someone they already trust. Referrals convert faster, spend more comfortably, and tend to stick around longer than customers acquired through nearly any other channel, because the hardest part of marketing — earning trust — has already been done for you before they ever walk in the door.

When a prospect hears about your business from a friend, family member, or colleague, they skip the skepticism that usually comes with advertising. They arrive already believing the product or service works, which means less price resistance, fewer objections, and a shorter path from "interested" to "paying customer." A single warm recommendation can do more to close a sale than weeks of promotional spend.

Almost every small business gets referrals occasionally — a satisfied customer mentions you to a neighbor, a client tags your business in a social post. But occasional referrals are unpredictable; they happen when a customer happens to think of it, not because anything is designed to prompt it. A referral program turns that occasional, invisible behavior into something deliberate: happy customers are actively invited to refer, given a clear reason to do so, and given an easy way to make it happen.

The businesses that get the most consistent referral volume rarely have the biggest budgets or the most sophisticated software. What they have is a referral process that's easy to explain, worthwhile enough to act on, and repeatable enough that it keeps happening month after month — not just once.

02 What makes a good referral program?

Happy customer + Right incentive + Easy process + Timely ask = More referrals

Every effective referral program, regardless of industry, comes down to this same basic formula. Take away any one piece — a customer who isn't actually satisfied, an incentive that doesn't motivate anyone, a process with too much friction, or an ask that comes at the wrong moment — and the whole thing falls flat, no matter how well-designed the rest of it is.

Beyond the formula, the strongest referral programs tend to share a handful of characteristics:

- **Simple enough to explain in one sentence.** If you (or your employees) can't describe the program in a single sentence, customers won't remember it long enough to act on it.
- **Easy for customers to participate in.** The fewer steps between "I want to refer someone" and "I referred someone," the more referrals you'll actually get.
- **Valuable enough to motivate action.** The incentive has to be worth a customer's effort, or they simply won't bother, no matter how satisfied they are.
- **Profitable for the business.** A referral program that erodes your margins isn't sustainable, no matter how many referrals it generates.
- **Easy for employees to promote and track.** If your staff don't understand the program or find it awkward to mention, it won't get promoted consistently — and a program nobody mentions is a program nobody uses.

03 Choose the right referral incentive

There's no single "correct" referral incentive — the right choice depends on your margins, your typical purchase size, and what motivates your specific customers. Most small businesses choose from three basic structures.

REWARD THE REFERRER

- **$10 off their next purchase** — simple, familiar to customers, and easy to apply at checkout.
- **Store credit** — keeps the value inside your business rather than paying out cash.
- **Free product or service** — feels generous without necessarily costing you cash margin.
- **Loyalty points** — works well if you already have a points system customers are used to tracking.

REWARD THE NEW CUSTOMER

- **First-purchase discount** — lowers the barrier for someone trying you for the first time.
- **Free add-on** — lets a new customer sample more of what you offer at no added cost to them.
- **Introductory offer** — a limited-time deal that creates urgency to act on the referral quickly.

REWARD BOTH

"Give $10, Get $10" — both the referrer and the new customer receive a reward.

This structure is often particularly effective because customers feel like they're giving a friend something rather than just benefiting themselves. It removes any hesitation a referrer might feel about "cashing in" on a friend, which makes the ask feel more generous — and easier to make — than a referrer-only reward.

THE KEY POINT

The most effective reward isn't always the biggest one. A reward that's too generous can eat into your margins without actually driving more referrals than a smaller, well-timed one would. The best incentive is one sized to encourage another profitable purchase — not simply to be as large as possible.

04 Run the numbers before choosing your reward

Before settling on a reward amount, it's worth doing simple back-of-envelope math on what a referred customer is actually worth to your business. Here's a straightforward example:

METRIC	VALUE
Average new customer value (1 year)	**$300**
Reward to the referring customer	**$20**
Reward to the new customer	**$20**
Total acquisition cost	**$40**
Net value of the new customer	**$260**

In this example, a $20 credit to the existing customer and a $20 credit to the new customer together cost $40 — meaning you're potentially acquiring a customer worth $300 over the year for a fraction of that value. Compared to most paid advertising channels, that's an exceptional return.

Before setting your own reward, consider:

- **Average transaction amount** — what does a typical purchase actually bring in?
- **Gross margin** — how much of that transaction is actually profit, before you factor in a reward?
- **Repeat purchase frequency** — does this customer buy once, or come back regularly?
- **Approximate customer lifetime value** — what is a customer worth across their whole relationship with you, not just their first purchase?
- **Maximum acceptable acquisition cost** — what's the most you're comfortable spending, in total, to win one new customer?

05 Make referring someone extremely easy

The gap between a customer thinking "I should tell my friend about this place" and actually doing it is where most referrals quietly die. Your job is to close that gap as much as possible. Reduce the steps between "I know someone" and "I've referred them" to as few as you can.

- **Referral cards** — a simple physical card customers can hand off, with your offer and a way to identify the referral.
- **QR codes** — placed at checkout, on receipts, or on cards, letting a friend scan and land directly on a referral or booking page.
- **Unique referral links or codes** — easy to text, email, or post, and simple to track back to the original customer.
- **Email or text sharing** — a pre-written message customers can forward with one tap, so they don't have to compose anything themselves.
- **"Just tell them your name"** — for very small or relationship-based businesses, sometimes the simplest system is just asking new customers who referred them.
- **Built-in loyalty or CRM referral functionality** — if you already use a loyalty or CRM platform, check whether it has referral tracking built in before building a separate system.

> **Rule of thumb:** if you find yourself needing to explain how the referral process works, it's probably too complicated. A customer should be able to understand what to do within a few seconds of hearing about the program.

06 Ask at the right moment

Instead of constantly asking customers for referrals, identify the specific moments when they're most likely to say yes — right after they've had a reason to feel good about your business.

- **Immediately after a customer compliments you** — they've just told you, unprompted, that they're happy.
- **After a successful purchase or service** — the experience is fresh and positive.
- **When receiving a 5-star review** — they've already gone out of their way to publicly vouch for you.
- **When a customer makes a repeat purchase** — repeat business is a strong signal of genuine satisfaction.
- **After resolving an issue particularly well** — a well-handled problem often creates more loyalty than no problem at all.
- **When a customer says "I'll be back"** — they're telling you directly that they intend to stay a customer.

SAY IT LIKE THIS

"We're glad you had a great experience. If you know someone else who could use us, we have a referral program that gives both of you $10 off."

OR LIKE THIS

"Thanks so much for the kind words — if you know anyone else who might need [service], we'd love an introduction. We'll take care of you both."

07 Promote the program consistently

A referral program won't work if customers don't know it exists. Visibility has to be ongoing, not a one-time announcement when the program launches. Consider promoting it in:

- Receipts
- Checkout counter
- Website
- Email signature
- Post-purchase emails or texts
- Social media
- Loyalty communications
- Invoices
- Everyday employee conversations

Think of promotion less like a launch event and more like a permanent fixture of how you run the business — something new and repeat customers alike are reminded of naturally, over and over, in the normal course of doing business with you.

08 Get your employees involved

Your employees are the ones actually present for the moments described in section 06 — which makes them essential to whether the program actually gets mentioned in real life.

- Make sure every employee can explain the program in one sentence — if they have to think about it, they won't bring it up.
- Give staff specific moments when they should mention it — tie it directly to the "right moment" list above so it becomes second nature.
- Provide a standard script — a short, natural line takes the guesswork (and awkwardness) out of remembering to mention it.
- Consider recognizing employees who generate successful referrals — a small incentive or shout-out keeps the program top of mind for staff, not just customers.
- Avoid making the interaction feel overly sales-driven — the goal is a natural, friendly mention, not a pitch that makes customers uncomfortable.

09 Track whether it's actually working

You don't need sophisticated software to know whether your referral program is paying off — a simple spreadsheet is enough to start. Give the program its own structural handle, though: use a new or distinct checkout code, promo code, or landing page so you can clearly see which traffic is coming from referrals rather than guessing. Then keep the metrics approachable:

- **Referrals generated** — how many customers actually made a referral?
- **Referrals that became customers** — of those referred, how many actually purchased?
- **Revenue from referred customers** — what have those new customers actually spent?
- **Cost of referral rewards** — what have you paid out in incentives?
- **Repeat purchases from referred customers** — are referred customers sticking around, or was it a one-time transaction?

Once you have even rough numbers on each of these, the question that matters most is simple: are the customers you're gaining through referrals worth more than what you're spending to acquire them? If the answer is yes, the program is working — and it's worth doubling down on. If not, it's a signal to revisit your incentive or your process, not necessarily to abandon the idea.

10 Common referral program mistakes

A quick list of pitfalls to avoid:

- Making the program too complicated — if customers or employees need it explained twice, it's too complicated.
- Offering an unattractive incentive — a reward too small to bother with generates no action at all.
- Giving away too much and hurting margins — a generous reward that erodes profit on every sale isn't sustainable.
- Only mentioning the program once — a single launch announcement is quickly forgotten.
- Making employees responsible without training them — they can't promote what they don't understand.
- Making customers jump through too many hoops — every extra step loses participants.
- Failing to track where new customers came from — without tracking, you can't tell whether the program is actually working.
- Waiting too long to deliver referral rewards — a delayed reward feels like a broken promise and discourages future referrals.

11 Three referral programs you can steal

If you're not sure where to start, here are three ready-to-use models. Pick the one that fits your business, or use it as a starting point to adjust.

THE SIMPLE CREDIT

"Refer a friend who becomes a customer and receive $20 toward your next purchase."

Best for: businesses with a clear single reward structure and repeat purchase habits — retail, salons, restaurants, and other businesses customers visit regularly.

GIVE $10, GET $10

"Your friend receives $10 off their first purchase. You receive $10 toward your next purchase."

Best for: businesses that want to lower the barrier for a new customer's first visit while still rewarding the person who referred them — a strong fit for service businesses and subscription-style offerings.

VIP REFERRAL

"Refer three new customers and receive a premium reward, free service, or exclusive perk."

Best for: businesses with higher-value services, tighter margins on any single referral reward, or a customer base that responds well to status and exclusivity — higher-ticket services, specialty providers, or membership-based businesses.

12 The 15-minute referral program setup

You don't need expensive software or a complicated system to launch a referral program today. Answer these six questions, and you have a program ready to promote:

CHOOSE

What action qualifies as a successful referral?

REWARD

What does the existing customer receive?

WELCOME

What does the new customer receive?

SHARE

How will customers make referrals?

PROMOTE

Where will you tell customers about it?

TRACK

How will you know which referrals turn into sales?

CLOSING TAKEAWAY

A good referral program doesn't require expensive software or a complicated rewards system. Start simple, make the offer easy to understand, promote it consistently, and improve it based on the results.

VALMAR PAYMENTS, BUILT AS A PARTNERSHIP