

EXERCISE 4 – Calculate a motivating incentive

For each program, determine the best reward amount for incentivizing referrals. To start, you'll need to calculate the cost per acquisition (CPA) of inbound marketing efforts using the following formula. Typically this is calculated for a year period.

$$\left[\frac{\begin{array}{l} \text{Total marketing spend} \\ \$ \text{ []} \end{array} + \begin{array}{l} \text{Total cost of marketing resources} \\ \$ \text{ []} \end{array}}{\begin{array}{l} \text{Total \# of new customers} \\ \text{generated by marketing} \\ \text{[]} \end{array}} \right] = \begin{array}{l} \text{Your CPA} \\ \$ \text{ []} \end{array}$$

Next you'll want to compare the inbound CPA with industry standards. SiriusDecisions states in the whitepaper, Keys to Engaging Referral Partners, that referral fees typically fall between 5% and 25% of first year revenue. Calculate this range using your average first year revenue of a new customer and populating the table below.

Average first year revenue	% of revenue	Incentive amount	Which is > or < (check one)	Your CPA
\$	5%	\$	> or <	\$
	10%	\$	> or <	
	15%	\$	> or <	
	20%	\$	> or <	
	25%	\$	> or <	

Now, circle the range of incentives that are less than your CPA. Consider a reward within this identified range. You'll ideally want to be significantly lower than inbound CPAs as this is your ROI for your referral program.

While many programs use percentage of revenue, for those with a more repeatable product price a simple flat-rate bounty can work as well. In those cases, you can use the final incentive amounts as your guidepost.