



# How small businesses attract and retain customers

A survey series by Australia Post reveals what small businesses are saying about small business – and how they can adapt and grow.



March 2016

## Introduction

This survey asks small businesses about how they attract and retain customers, and the lessons they have learnt along the way.

This topic emerged as a key theme from our earlier survey “How the keys to success vary across small business” (December 2015).

Attracting and retaining customers is at the heart of the success of a small business and this survey unpacks the different techniques small business owners use to be successful.

## About this survey

Our survey was conducted in the second half of January 2016. Participants included 445 small business owners and 55 medium business owners across Australia.

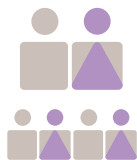
## Not all small businesses are the same

As with our previous survey, we’ve used the same definition of ‘small business’ as that adopted by the Australian Bureau of Statistics (ABS).

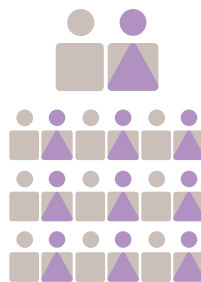
The ABS defines small businesses as those which employ less than 20 people. These are then further categorised as follows:



**Sole traders**  
sole proprietorships and partnerships without employees



**Micro businesses**  
businesses that employ less than 5 people



**Other small businesses**  
businesses that employ 5 or more people, but less than 20 people

For comparison, this survey also captured the views of medium sized businesses.

## Key findings

37% of small businesses believe they’re ‘very good’ or ‘excellent’ at attracting and retaining customers. 61% believe they’re ‘fair’ or ‘good’ at this activity.

As the size of a small business increases, so does the rating it gives itself for its ability to attract and retain customers - suggesting mastering this task is a critical key to growth.

72% of small businesses spend less than 10% of their annual turnover on attracting and retaining customers. 1 in 10 spend no money on this activity.

As a business grows, more tends to be spent on attracting and retaining customers.

The top 3 marketing tools used by small business to attract and retain customers are direct mail, its own website and digital advertising.

On average only one-third of small businesses will undertake activities associated with gaining customer insights.

The majority of small businesses (78%) believe customer service is key to keeping customers.

The number one marketing activity small business would do if cost was not an issue is digital advertising. This is followed by social media marketing.

## The challenge of attracting and retaining customers

Businesses were asked to self-rate their ability to attract and retain customers.



When we looked across the different small-business categories, those rating their ability as 'very good' increases with the size of their business. Only 19% of sole traders thought they were 'very good' at this activity compared with 28% of micro businesses, 33% of 'other' small businesses and 54% of medium-sized businesses.

This suggests 2 things. First, as businesses grow they're likely to get better at attracting and retaining customers. Second, that focusing efforts around this activity is critical to growing a business.

## Despite its importance, little is spent on attracting and retaining customers

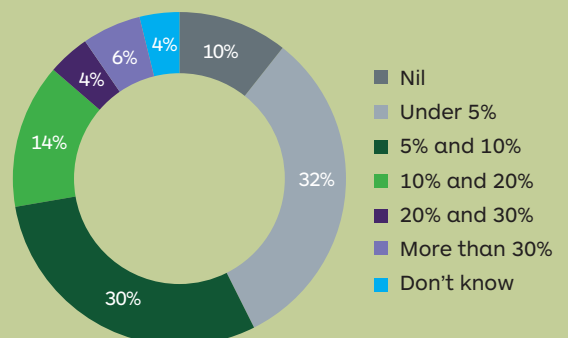
About 42% of the small businesses surveyed spent between zero and less than 5% of their annual turnover on the important task of attracting and retaining customers. A further 30% spent between 5-10% and the remaining 28% spent more than 10%.

As a general rule it appears that as a small business grows, the business will need to be prepared to spend a greater percentage of turnover to attract and retain customers. Or put another way, this is a major factor in how your business grows. Sole traders spend on average 11% of their turnover on attracting and retaining customers, micro businesses 15%, other small businesses 18% (and medium businesses 25%).

The average spend on attracting and retaining customers across all small business categories is 15% of turnover.



% of total annual running costs dedicated to attracting and retaining customers (small business only)



## Small businesses use all the tools available to market themselves

We wanted to understand what does and doesn't work for small businesses to attract and retain customers. To do this, we looked at ten different marketing activities and asked businesses to rank them in order of importance.

Sole traders put a high reliance on their own website and on direct mail. Of the businesses who ranked these as most important, sole traders represented 44% in both categories.

Micro businesses on the other hand appear to try everything almost in equal measure, although some preferences emerge (see table).

*What are the most important marketing activities in retaining customers?*

<b>Sole trader</b>	<ol style="list-style-type: none"> <li>1. Direct mail</li> <li>2. Website</li> <li>3. Discounts</li> <li>4. Signs / Billboards</li> <li>5. Electronic direct mail</li> </ol>	
<b>Micro business</b>	<ol style="list-style-type: none"> <li>1. Website</li> <li>2. Digital advertising</li> <li>3. Direct mail</li> <li>4. Discounts</li> <li>5. Signs / Billboards</li> </ol>	
<b>Other small business</b>	<ol style="list-style-type: none"> <li>1. Word of mouth</li> <li>2. Digital advertising</li> <li>3. Social media</li> <li>4. Print media</li> <li>5. Leaflet drops</li> </ol>	
<b>Medium business</b>	<ol style="list-style-type: none"> <li>1. Word of mouth</li> <li>2. Leaflet drops</li> <li>3. Signs / billboards</li> <li>4. Print media</li> <li>5. Social media</li> </ol>	

## What is on the marketing wish list?

We next asked business owners what marketing activity they'd use if cost was not a barrier to do so. The first choice (as rated by all 3 categories of small business) was digital advertising, followed by social media marketing. A customer survey or customer relationship management technology were in third equal spot.

The sole trader information is interesting here: despite rating the above 3 as being at the top of their wish list, none find their way into the top 5 activities that they currently practice (see table on page 2).

### Preferred marketing activity for small business owners



**Number one**  
Digital advertising

**Number two**  
Social media marketing

**Number three**  
Customer survey or customer relationship management technology

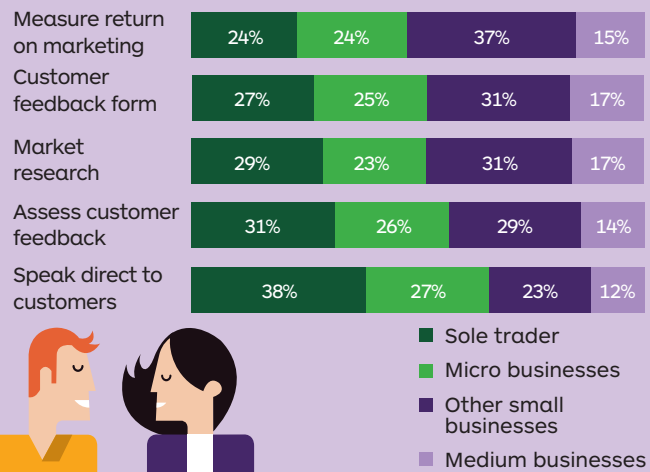
## Getting feedback from customers

Next, we explored how often small businesses undertook different activities to find out more about their customers.

Again it's the micro business category which seems to participate evenly in the different customer insight activities we surveyed. Even so, only about a quarter will 'often' or 'always' undertake the different insight activities.

Mostly it's those businesses that fall into the 'other' small-business category which actively seek customer feedback. Across each of the activities, 36% of businesses who 'often' or 'always' undertake the activity were in this category.

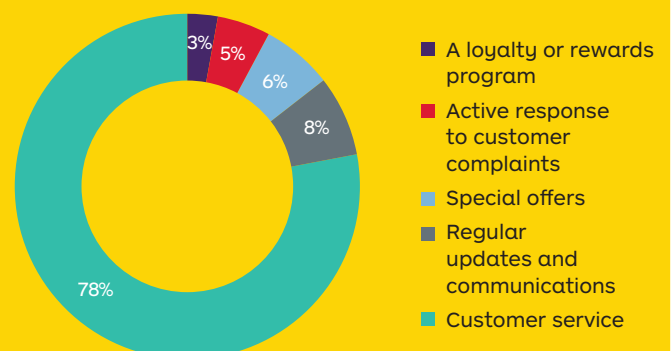
### How often do you do the following? (% respondents saying often or always)



## It's all about customer service

From our survey, the perceived most important aspect for keeping customers is clearly customer service. Almost 4 in 5 small businesses surveyed said this. This suggests that businesses that focus efforts on customer service will need to spend less time on the other tools that will help with retaining customers

### Most important feature for keeping customers (small business only)



# What the survey tells us

If you're looking to grow your small business:

- **Focus on customer service.**  
This is an overwhelmingly clear result from the survey – across all business categories.
- **Experimentation may be a key.**  
This is most clear in the results for micro businesses who appear to try a range of marketing and customer feedback activities to find the right fit for them.
- **Continually seek to improve the way you're attracting and retaining customers.**  
This is a significant key to the growth. When small businesses self-rate their ability to attract and retain customers it's the larger of those businesses who believe they're doing it well.
- **Invest money to help attract and retain customers.**  
Find the right tool or method for your business and make a financial commitment to help your business grow.

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