

# What your customers want and how they think

Deeply understanding your customers helps you run your business well. Surveys, conversations and statistics all play a part. Together these tools help you get to know your customers, including what they need, how they decide to buy, and how much profit they bring to your business.

Gathering all this information helps you:

- create products and services your customers will want to buy
- promote effectively to the right people.

## How to gain customer insights

Small businesses often have direct contact with customers, which is a good start. You can learn a lot from informal interactions. For example, you might hear what regular customers worry about and spot any trends early. But properly planned research is the best way to build your insights — especially if your business involves little or no face-to-face customer contact.

After learning about people's preferences, pain points and behaviour, the next step is to sort customers into groups. This helps you identify a target group and serve them effectively.

### Surveys

Surveys are one way to find out about current and future customers. You can ask a wide range of questions, eg:

- what they want
- how they learned about your business
- what they like about you
- what other businesses, products or services they consider alongside yours.

Start by deciding who you'd want to participate in your survey. For example, you might research existing customers or potential customers, and focus on a particular age range, location, or set of interests. Think about how you can:

- reach survey participants, eg contact details for current customers or social media adverts
- encourage people to complete your survey
- make sure they represent the whole group you want to hear from.

Some businesses carry out short surveys at the point of sale. This data can help identify best-sellers, so you can improve the customer experience of that product. Or it might show what people look for in the market, helping you make better decisions on product selection or stock levels.

You can ask questions face-to-face at the sales desk if your business model allows. If your customers buy online, build questions into the buying process, eg a post-purchase feedback form. Keep it brief, so you don't take up a lot of your customers time.

### Observations

Beyond asking questions, observing customers can tell you even more about how they behave. You can learn about their lifestyles and buying patterns, about cultural trends, and factors that affect buying behaviour. Examples include asking how your product fits their daily routine, or checking if people use your product differently from how you intended. Try showing customers a new product or idea and see how they react.

Whichever method you use, make sure people understand what information you're collecting and how you will use it.

Another option is to observe customers in different settings:

- on-site where they buy, eg offer free supermarket tastings to observe reactions and ask questions
- in a group of friends, interviewing them informally and observing what they say and do
- online, eg asking people to complete tasks or record their opinions or behaviour over time
- home visits to observe their daily life and ask questions in a comfortable setting.

Businesses often offer a reward to encourage customers to take part in research. For example, a discount, free product or gift voucher to thank them for their time.

## Insights from existing data

Existing data on buying behaviour from trusted sources can tell you a lot about potential customers, where they buy, and market size. Reports and statistics can also show trends, eg:

- what proportion of people research and buy your type of product online
- what new product features are popular in your market
- which customers value your existing product features the most
- how regulations or economic conditions could affect your customers.

For example, a business offering a face-to-face advice to small tech businesses might seek out statistics on:

- how the IT industry is growing
- what proportion of businesses fit the target size
- where to be based to best serve potential customers.

## **“I want to understand the meaning of your experience, to walk in your shoes, to feel things as you feel them” — US anthropologist James P Spradley**

Business experts increasingly recommend ethnographic research methods traditionally used by anthropologists. Studying customers in detail helps businesses gain deep understanding of what matters to them.

## Group and target your customers

Whatever methods you use to research your customers, you'll find different ways to group people and their preferences. The next step is to set a strategy to cater to their needs.

If you want to cater to as many people as possible, you still need to identify how your customers could be segmented. You might need different strategies for each segment. For example, different social media channels for customers aged 15 to 30 vs those aged 45+.

Build up your strategy in three steps:

- Segmentation: divide customers into groups with similar preferences and needs, eg by age, location, lifestyle, or buying behaviour.
- Targeting: identify which segments bring most value to your business, and decide which segments to focus on.
- Positioning: create a product your target segment cares about. Find the price they're willing to pay. Promote the benefits they are most likely to care about.

For example, a pest control business might identify young families as a promising segment. These potential customers want to keep their children safe from pests and from harmful chemicals — and are happy to pay extra for a non-toxic but effective service. The business could promote itself using a family-safe promise and testimonials from other young families.

[Creating your own space in the market\(/business-performance/business-strategy/creating-your-own-space/\)](#)

## How customers make decisions

Understanding how customers compare products or make decisions helps you work with their behaviour instead of against it. Customers make decisions for a mix of rational and emotional reasons.

## Sensory appeal

What customers experience affects how they act. For example, good lighting and music may encourage people to buy clothes. Tasty aromas like fresh-baked bread can tempt people into a bakery.

## Memory and emotions

Offering rewards to loyal customers can help people build up pleasant memories and positive associations with your brand. For example, giving the customer their 21<sup>st</sup> coffee for free.

## Needs vs wants

What motivates customers to buy what you offer. A basic product targets people's needs. A premium product should meet needs, but may also attract people who want a respected brand, or aspire to a certain lifestyle.

# The buying process involves four steps

Understanding these steps helps you send relevant messages to customers at each step in their journey.

1. Customer explores options through research or word-of-mouth: During this step, you need customers to be aware of you and your product or service. Your advertising, promotions and social media channels can all help here.
2. Customer makes a shortlist: During this step, people seek information to help them select possible options. Examples include reviews or product features.
3. Customer chooses one shortlisted option and decides where to buy it: During this step, it's important to stand out. If you know what customers like and how they make these decisions, you can work on being more appealing than your competitors. Examples include:
  - offering delivery and pick-up options
  - selling on an online marketplace preferred by potential customers
  - improving the in-store experience or customer service.
4. Customer buys the product or service: This step needs to go smoothly, including how people book services or receive products.

Your interest in the customer doesn't end after these four basic steps. After the purchase, customers form their opinion of what they bought. So, it's important to gauge customer satisfaction. Ask for feedback. How likely are they to buy from you again or recommend you to friends and relatives? Also, look out for negative feedback, which could affect public opinion of your business.

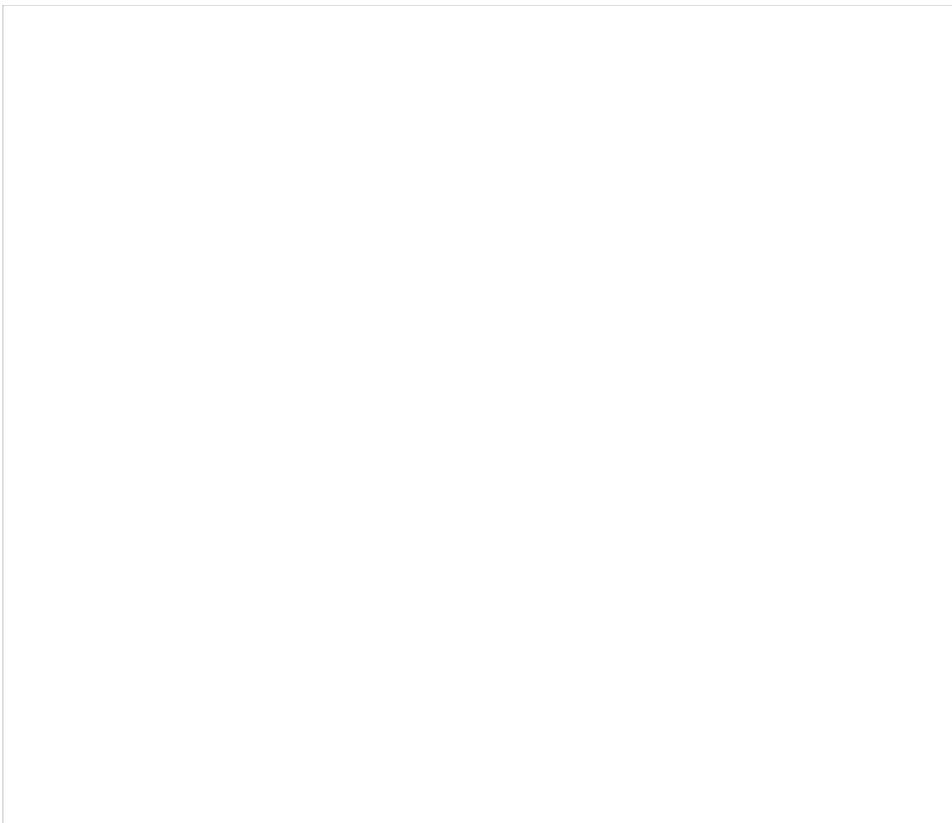
# Customer journey mapping for deeper insights

Every product or service has its own version of the buying process. Something leads customers to consider buying from you, and their situation affects how they decide.

Studying the journey your customers take helps you to optimise their experience. What you learn could help you:

- create a better product or service
- support customers with better information
- reach people with more effective promotion.

For example, customers seeking quick tyre repairs are probably under time pressure and anxious to get back on the road.



From a repair business, they need:

- easy-to-find opening hours and contact details
- a friendly, efficient purchase process to help reduce their stress.

A related service, replacing ruined tyres on the spot, could help them get moving again if repairs are impossible. This service adds value, even if it's not exactly what they searched for.

[Improve customer journeys \(/do-business-online/improving-your-online-business/#e-21757\)](#)

## Case study

### Jian uses customer insights to improve buying experience

Jian owns an art supply store. He wants to offer a better experience for regular customers. Jian starts by collecting point-of-sale information. He sees that Rosie, who runs evening classes for adults, makes a mix of large and small purchases. She buys mid-range supplies in bulk, but also high-quality paints and canvases in smaller amounts.

Jian decides to study a few customers in depth to understand their needs. He meets Rosie at the community centre and learns she buys the bulk orders for her teaching business, with smaller orders for herself.

While Rosie places the bulk orders regularly, they can change in size by about 30%. Jian discovers this is linked to the size of her classes. When she's shopping for herself, Rosie also keeps an eye out for interesting new products.

Jian uses these insights to help him cater better to customers who visit for more than one reason. He sets up his customer records so each person can have more than one account. Now he can automatically email Rosie GST invoices for her business spending so her accounting is easier. Jian makes up a range of standard kits for art classes to make repeat orders quicker and easier. To cater for Rosie's interest in new products, he adds a display stand dedicated to new arrivals.

## Analyse key marketing metrics

Using these common metrics can help you plan marketing campaigns and make effective decisions in your business.

## Customer acquisition cost

The customer acquisition cost is defined as the cost to gain each new customer. To work this out, divide the amount you spend on marketing by the number of customers you gain as a result. For example, if \$450 campaign gains 30 new customers, each new customer costs \$15. Include costs like wages and a share of office space as well as the direct costs.

You can then:

- compare the cost per customer from different campaigns to see which method gives you the best value for money
- decide how many customers you want to gain from a campaign
- work out how much to spend on this marketing campaign.

Using the example above, in which each new customer costs \$15, planning to gain 50 new customers will need a marketing budget of at least \$750 ( $\$15 \times 50 = \$750$ ).

## Customer lifetime value

The customer lifetime value is defined as the total revenue you earn from a customer over the whole period of your relationship with them.

The cost to gain a new customer doesn't tell you how much profit you make while they remain a customer. To work this out, estimate how long you will keep a customer and how much they are likely to spend during that time.

Calculating the lifetime value helps you understand which customers to focus on. For example, a one-off customer who spends \$70 vs a loyal customer who regularly spends \$50. It might cost the same to gain both customers, but their lifetime value shows the benefit in catering to the lower-spending loyal customer.

**The ideal ratio of customer lifetime value to customer acquisition cost is 3:1.**

This means your total revenue from a customer should be at least 3 times of what you spend on acquiring them.

## Customer retention

Customer retention is defined as an ability of a business to hold on to its customers.

This metric is usually calculated as a percentage. It shows if a business holds on to customers over time, which can depend on industry, market position and what they sell. For example, a business serving people who come back year after year may retain 80% of its customers. A business that gains and loses customers each month might retain 20% of its customers.

Calculating customer retention helps you manage your business. The more customers you retain, the fewer new customers you'll need to make up for the ones who leave. Gaining new customers tends to be more expensive than retaining existing customers. Also, retained customers typically buy more often and spend more than newer customers.

Loyal customers are also more likely to sing your praises and refer you to friends and family, bringing in new customers free of charge.

Another way to understand customer loyalty is to calculate a net promoter score (NPS), which shows how likely your customers are to recommend you to other people. Your NPS is based on customers' responses to a question like: "On a scale from 0-10, how likely are you to recommend our company/product/service to a friend or colleague?"

[Net promoter score \(/getting-started/business-planning-tools-and-tips/keeping-track-of-key-metrics/\)](#)

**Retaining customers 5% better can increase your revenue by up to 95%.**

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#### [Use insights to sell the right thing in the best place](#)

[When you deeply know your target customers, use these insights to identify what to sell and where best to sell it.](#)

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#### [How to set the right price](#)

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### **[Find the best way to promote your business](#)**

[Online or face to face, there are many ways to communicate with customers. Here's how to choose and plan.](#)

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