

4 Customer Retention Strategies For Small Businesses

One of the most important things any small business can do to compete is improve their customer retention. Smart business owners understand the value of repeat business and how it affects their bottom line. Is your company focused on quick wins or steady and sustained growth? To ensure you are on the right path, follow these four customer retention strategies for small businesses to help drive your further success.

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Understand the Customer’s Lifetime Value

You have probably heard that it is easier to retain customers than get new ones, but are you actively working to keep those current customers engaged long term? It is important to factor in a customer’s lifetime value (CLV) when considering customer retention. According to [Marketing Metrics](#), there is a 60–70 percent probability of selling to an existing customer versus a 5-20 percent probability of selling to a new prospective customer. While drumming up new business is still important, putting the emphasis on your current customers is even more profitable.

To calculate a customer’s lifetime value, you will need to assess the customer lifespan, retention rate, customer churn rate, and average profile margins per customer. To first calculate their historical CLV, simply divide the sum of their total transactions by your average gross margin.

$$\text{Historical CLV} = \frac{(\text{transaction \#1} + \text{transaction \#2} + \dots \text{transaction \#N})}{\text{Average Gross Margin}}$$

Once you know their historical value, you will want to calculate their predictive value to forecast the true value each customer will generate in the future. Simply multiply the following factors together: **T** = Average monthly transactions; **AOV** = Average order value; **AGM** = Average gross margin; and **ALT** = Average customer lifespan (in months).

$$\text{Predictive CLV} = (T * AOV) * AGM * ALT$$

Not all customers are equal; some bring in more revenue than others and some offer more long-term benefits. It is crucial to know which ones you should focus on and invest in first.

Focus on Loyalty

As you can see, your current customers offer a substantial amount of value for your business. According to statistics presented by [Gartner](#), 80 percent of your company’s future revenue will come from just 20 percent of your existing customers. Are you giving your customers a reason to stick around? While your competitors are eager to take over your roster of customers, always be thinking about your unique selling point. What benefit does a customer derive from staying with your business?

Loyalty programs are a great start for building long-term relationships. Offering incentives, compounding benefits, or special rates goes a long way when customers have multiple options to weigh.

Reactivate “Lost” Customers

When putting a focus on your current customers, do not overlook the dormant ones. These lost sheep are the customers you have done business with in the past, but are no longer actively engaged in your business, brand, or product. Reactivating these previous relationships is a great way to regenerate business and increase your revenue with less effort than pulling in brand new customers. Start by reminding them your company still exists and find out why they are no longer buying from you.

Find innovative ways to overcome their objections, demonstrating the value your business can still offer them. Giving these lost customers personal attention and assessing their pain points directly shows you care about their business long term. Be prepared to be flexible when it comes to their responses. When handling feedback appropriately from a previous customer, you will ideally turn them from an uninterested bystander to a loyal ambassador for your company.

Embrace Customer Feedback

As a growing business, you should always welcome honest and open feedback from your customers. Nobody is perfect. The mistakes a business makes (and corrects) along the way pave their path to success. As you strive for excellence, the best way to get there is customer feedback. Your goal should be to exceed expectations, but how can you do that if you do not know what your customer is expecting? Consider the following factors when assessing your customer’s expectations:

- Dedication to customer satisfaction
- Immediate response rate
- Consistent and on-time service
- Delivering on what you promise
- Error-free and seamless experience

Be open to the opinions, suggestions, and complaints of your customers. While they may come across as emotionally driven, they reveal a truth behind your business that—if you are willing to accept and address—will propel you into an unprecedented level of customer satisfaction and service.

Customer Retention is Ongoing

Managing a small business is no small feat, and customer retention is an ongoing process. You must work every day to please your customers and gain their loyalty.

If you have any questions about customer retention strategies for small businesses, reach out to a PlainsCapital representative at 866.762.8392

for personal insight and support to help meet your business goals.