



Understanding the Lifetime Value of a Patient

Joel Harris, CEO of ADA Intelligent Dental Marketing, compares the values in marketing to both future and existing patient bases.



The greatest asset to your practice is your patient base. It's an obvious concept that almost all dentists understand. However, I believe that most dentists never quite understand the actual "lifetime value" of a patient in dollars and cents. Without knowing the value of a patient, it is impossible to determine the appropriate budget for acquiring each new patient through a marketing campaign. In our company we refer to this knowledge as "Patient Lifetime Value", or PLV.

In past years, I've met hundreds of dentists and office managers who don't have a clue as to what their Patient Lifetime Value is, much less its importance and the impact it has on their bottom line and the appraisal of their practice. To most of them, what matters most is daily production numbers and a full schedule.

One of the basic marketing mistakes that owners of dental practices make, is not knowing what the budget should be for acquiring a new patient. Let me keep it simple: it will cost you five times more to attract a new patient than it will to bring one of your past patients back to you. Also, remember that a referral from an existing patient is much more affordable than obtaining a new patient through something like a magazine ad or yellow pages ad.

Don't get me wrong. I'm not suggesting that you

cease any external marketing efforts. Effective advertising and external marketing tactics are critical for maintaining a fresh flow of patients. Just make sure that you understand the relative cost to acquire a new patient so that an appropriate budget can be determined.

As I've already explained, Patient Lifetime Value is defined as the total value, in dollars and cents, of your average patient, spanning the entire period of time that those patients are likely to do business with you. It's the potential financial contribution of your patients to your practice over a period of time.

Here's an easy way to calculate your Patient Lifetime Value:

Let's say you have 1,000 active patients and these patients remain with you for an average of three years. (Remember that some patients will be yours for many years and that some will only visit once.) Now let's say for the past three years, your personal income was \$900,000.

The Patient Lifetime Value can be calculated as: \$900,000 divided by 1,000. The total is \$900.

What this means is that over an average patient lifespan of three years, each new patient you could acquire and keep is worth \$900 to you in profit. Don't confuse the \$900 with the total services that are provided to your patients. We're talking specifically about net profit, or for most dentists their personal income after expenses, including marketing expenses. Practice management companies and accountants do a great job of determining the value of a patient base, but I like the simplicity of this formula when determining the budget for a marketing campaign.

If you do not have the actual figures, you'll have to estimate. My advice is that you be conservative in your estimation.

When you know the lifetime value of your patients, you can determine how much time, effort and money you can afford to invest to acquire that patient in the first instance. For most dental practices this exercise will show them that the value of new patients is high and that a healthy budget should be created to sustain a consistent new patient acquisition strategy. In other words, by investing more today you'll reap much larger profits later.

Every marketing campaign that you undertake costs you money but should reap benefits such as more patients, increased profit, enhanced corporate image, etc. But how can you be sure that the benefits would outweigh the costs or investments? This is where knowing the Patient Lifetime Value is so powerful - it helps you to determine this even before you launch your marketing campaign.

When you start to see every patient as an ongoing stream of revenue and hopefully a source of referrals instead of seeing them as just an initial hygiene appointment or one crown, you'll learn to see past your short-term schedule and your short-term problems. Instead of constantly struggling to acquire more and more new patients, you can begin to focus on main-

taining your existing patient base longer and selling to them repeatedly.

You may spend more in the short run through advertising and by making more attractive offers than your competition, but those patients will be your bread and butter tomorrow, six months from now, and hopefully five years from now.

By understanding your "PLV" you'll know that your budget can only be \$50 to acquire a new patient or maybe \$350. You'll be able to plan and create a long-term strategy for success. Keep in mind that if after calculating your PLV your budget seems too low, you may have other problems in your practice such as poor case acceptance or fees that are too low.

Begin today to have a proper understanding of Patient Lifetime Value, and it will become one of the keys to the success of your practice. It will allow you to acquire more patients than your competition through better and more attractive offers; it will dramatically fill your schedule from more repeat sales and it will increase your profitability more than you can imagine.

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Joel Harris is a co-founder and President of ADA Intelligent Dental Marketing located in Salt Lake City, Utah. His company provides powerful marketing tools to help dentists grow their patient base, increase the profit and improve their image. Joel is also the author of the book, Breakthrough Dental Marketing.