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Whitepaper

CALCULATING THE VALUE OF A NEW PATIENT

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In the dental industry, you hear a lot of discussion about the value of a new patient – and with good reason. Determining how much the average new patient spends in your practice over the lifetime of the relationship is crucial to running a successful practice because it enables you to make informed, fact-based decisions about your advertising, including how much you should be willing spend to acquire a patient, which approaches are actually paying off, and whether you're getting the best return on investment (ROI).

In many areas of healthcare, the value of a new patient is relatively easy to determine. Ophthalmologists, for example, know that they will earn approximately \$5,000 in revenue for each new Lasik case. One visit, one amount. It's fairly straightforward. In dental practices, it's more difficult to measure, in part because you don't really know what treatment the patient is going to need, or what they'll spend. For this reason, many dentists have trouble projecting the true value of a patient. This whitepaper will walk you through how to calculate this number for your practice.

CALCULATING THE VALUE OF A NEW PATIENT

One of the biggest mistakes dental practices make when running their practice numbers is looking only at what a new patient spends in the first visit. Why is this wrong? You'll most likely not do any major treatment on the patient for 18-36 months. If you only consider the initial visit, you're overlooking the important, ongoing production that only comes over time, and this will significantly skew your calculations. Advertising expense has to be viewed against the long-term value of the patient.

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To begin, you need to think about the average timespan that a patient stays with your practice. For most offices, 10 years is a conservative number, so we'll use that for our sample calculation below. Feel free to write in your own number if it differs. Next, what does the average patient spend over that time period? For the purposes of our sample, we'll use a low estimate of \$500 a year (assuming some restorative work and regular prophys). Again, use whatever average number you think is accurate for your practice, but \$500 is probably on the low side – especially when you factor in whitening, cosmetic treatment and implants. Using these numbers, a single patient is worth \$5,000 over their life in the practice.

Sample Calculation #1

Avg. years in your practice:	10
Avg. amount spent per year:	$X \ \$500$
Value of one patient:	\$5,000

But this is just the first step. After you've determined the value of that one patient, there's a second, more critical part of the calculation (and it's one that most dentists miss): secondary referrals.

If your team is actively asking for referrals, and providing a good dental experience, a typical new patient is estimated to refer five new patients over the next five years. That means, if a new patient spends an average of \$5,000...and goes on to refer five additional patients (each spending an average of \$5,000), that's another \$25,000.

Sample Calculation #2

Value of one patient:	\$5,000
Avg. number of referrals:	$\times \quad 5$
Production from referrals:	\$25,000

As before, feel free to write in whatever number of referrals is true for your practice. But don't skip this step! You have to consider production from secondary referrals as part of the value of that first patient. After all; you never would have seen them without that initial advertising that attracted him or her. So add it all up. The total lifetime value of this sample patient is \$30,000.

Sample Calculation #3

Value of one patient:	\$5,000
Production from referrals:	$+ \underline{\$25,000}$
Total lifetime value:	\$30,000

It bears repeating that \$30,000 of production for your practice all stems from a single new patient – and all you have to do to achieve this is *give them a good experience* and ask for referrals – things successful dental practices do as a matter of course.

If you feel your practice is not currently doing a good job of this, consider this a wakeup call to focus on increasing patient loyalty and case acceptance. The numbers truly add up. It's also important to note here that the numbers used in this sample are conservative; the actual production figure could be significantly higher.

ALWAYS TRACK THE SOURCE OF NEW PATIENTS

In order to be able to track results accurately, your office first needs to systematically track the source of every patient in your practice management software (whether that source is yellow pages, website, word of mouth, etc.). If it is word of mouth, you want to attribute it to the original marketing that brought in the original referring patient. This helps you paint a picture of long-term value. Otherwise you may not even realize something is working until it's too late.

Notating the source of each patient also reveals which patients end up generating production years after you first acquire them. A letter we received a few years ago illustrates this point particularly well. It is from a dentist who bought a practice from a 1-800-DENTIST member, but dropped the membership before analyzing the numbers. This is what he wrote:

"This is a note to relate to you my experience with patients referred to this office through 1-800-DENTIST. Although I'm currently not a member of the service, it has impacted my practice in a most positive manner.

I purchased my practice four years ago from a retiring dentist who had been an 11-year participant in the 1-800-DENTIST service. Unfortunately, very tight finances did not allow me to continue the previous doctor's membership.

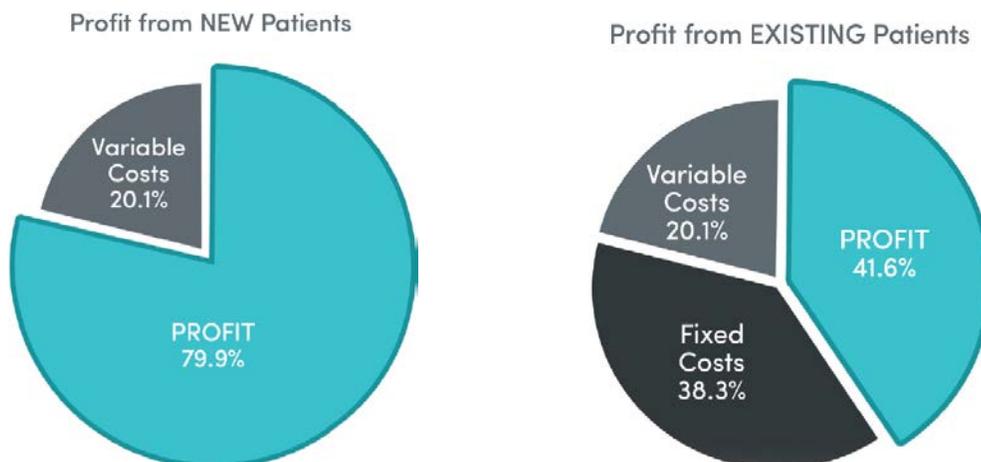
*Now, four years later, while doing a referral analysis, I noted that **my production for the past 12 months for patients referred by 1-800-DENTIST totaled \$83,770 even though I have never directly received a referral.***

Needless to say, I'm now on a waiting list for my area to become a member of 1-800-DENTIST. I only wish I had continued the service immediately after I purchased the practice."

This is a clear demonstration of how the value of a new patient compounds over time, and that something extremely valuable is lost when you fail to get a new patient in. It also shows why real data is the only way to make decisions about your long-term marketing efficacy and ROI.

PROFIT MARGINS ARE HIGHER FOR NEW PATIENTS

Another interesting factor when considering the value of new patients is overhead and profitability. According to the National Association of Healthcare Consultants, up to **80% of revenue generated by new patients goes straight to your bottom line**, compared to only 42% for existing patients.



This difference is due to your *contribution margin*. In a typical dental practice, there are certain fixed costs that are always the same (rent, salaries, equipment), and these offset the profit from your existing patient base. But once your overhead is covered, the costs for new patients are relatively few (supplies, lab fees, marketing). That means **your take home from new patients can be 80 cents on the dollar – nearly double the profit!**

So if a new patient generates \$5,000 in production, and your overhead is already accounted for, your expenses for treating that patient are usually minimal. That means you can afford to spend more to attract new patients and still see a profit in terms of production generated (Even more dramatically so when you factor in secondary referrals).

HOW MUCH SHOULD YOU SPEND TO GET A NEW PATIENT?

With this in mind, what should you be willing to spend to get a new patient? Some dentists make the mistake of using the cheapest advertising cost they ever experienced as the benchmark for what a new patient should cost. Perhaps they did a promotion that cost \$800 and brought in 20 patients. Even though it was a once-in-a-lifetime situation (and they've never been able to replicate that cost in any other advertising) they still think that finding a new patient should cost \$40. This just isn't the case and it's certainly not sustainable. But fortunately, as we've seen above, it doesn't have to be.

Even before you consider secondary referrals, a typical new patient is generating approximately \$5,000 in production over the lifetime of the practice. Keep that number in mind when evaluating your advertising and marketing costs. If you can find a marketing channel that consistently delivers new patient leads for even several hundred dollars each, that should easily be worth the investment. Ask any other business owner whether they'd be willing to pay \$500 to earn \$5,000 (or \$30,000!) and they'd take that deal every day of the week.

The bottom line: Remember what a new patient is really worth to your practice, and be realistic about what you're willing to spend to attract them.

SUMMARY

The ability to calculate the value of a new patient is crucial for dentists. First, it allows you to see the “forest for the trees” in terms of the long-term returns your practice can realize from a single patient relationship. And, it reinforces the need to provide the exceptional kind of patient experience that generates valuable word-of-mouth referrals. Most importantly, it enables you to make smarter, data-backed decisions on how much your practice should invest in attracting new patients.

Remember the following rules when you're estimating the value of new patients and you're on your way to improving your dental practice's marketing efficiency and profitability:

- 1. Don't focus on the first visit – think long-term**
- 2. Factor in word-of-mouth referrals**
- 3. Track the source**
- 4. Consider your contribution margin**
- 5. Plan your advertising accordingly**

ABOUT FUTURE DONTICS®

FutureDontics®, parent company of **1-800-DENTIST®** and **Patient Activator®**, is the nation's leading provider of dental marketing services. Since 1986, the Los Angeles-based company has dedicated itself to developing powerful products that help dental practices thrive.

Recognized as dentistry's premier new patient leads program, the company's flagship 1-800-DENTIST service has helped over 9 million dental patients nationwide connect with member dentists. Every day, thousands of patients get personally matched to dentists through their 24/7 call center or via 1800dentist.com.

PatientActivator — FutureDontics' communications, social and online reputation solution — increases production and boosts the practice's online presence with automated appointment confirmations and tools for marketing, social media, reviews and much more.

FutureDontics also offer an extensive library of dental marketing resources – including whitepapers, webinars and videos. With unlimited live customer support, dentistry's best marketing products and North America's largest dental referral website, FutureDontics is the proven way for dental practices to grow their patient base and increase production year after year.

For more information about our dental marketing services visit us at www.futuredontics.com

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