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Practice Management Information for Implant Dentists

Calculating a Patient's Lifetime Value

The main point of using direct mail, social media campaigns, or any other type of marketing is usually to make money and grow your practice. So after each campaign you need to get out your calculator and do a little figuring to determine the success of your campaign. You need two kinds of information:

1. How much did it cost you to get each patient and

2. How much money you made off each patient

Doing this math not only shows you if your campaign was a success, but it gives you the numbers you need to build bigger, better campaigns in the future.

How much did that patient cost you?

First you have to determine how much it cost you to get each patient. The amount you spend to acquire a patient is called your Cost per Patient (CPP) or Cost per Acquisition (CPA).

What's the right CPP for your practice? It depends on how much money you expect to earn from each patient, also known as the Lifetime Value (LTV). In general, the higher the lifetime value, the more you will want to spend to acquire a new patient.

For example, if your lifetime value is $1,000, you may be willing to spend $600 for each new patient. But if your lifetime value is only $300, you may only be willing to spend $70 per patient.

For ease, let's assume you see each patient twice a year and you bill $200 per visit, for a yearly value per patient of $400. Based off this (and disregarding other costs for the moments), would it would make sense to undertake a direct mail campaign with a target cost per acquisition of $175. The determining math is simple.

First, you estimate your mail cost. Let's say you want to mail 10,000 pieces and your mail cost is about $0.75 per piece. This mail cost includes: printing, postage, list rental, computer processing, and mail processing. Or $7,500 total.

You are expecting a response rate of .5% - one half of one percent. This means you'll bring in 37.5 new patients. Since a patient could come only once a year, it is possible in this case to have half a patient.

To figure out if this campaign is viable using a $175 cost per acquisition, you simply divide the total mail cost by the estimated number of new patients.

$7,500 mail cost/37.5 estimated patients = $200 Cost per Acquisition.

Since your target cost per acquisition is $175, at $200 cost per acquisition this campaign would fail even if it reached your estimated number of patients (37.5).

BUT, what if you had calculated your target cost per acquisition based on the lifetime value (LTV)? Let's say your average patient stays a patient for two years at $400 per year. That means each new patient is worth $800 and if the campaign generated 37.5 new customers, that campaign will bring in $30,000; from a campaign that cost you $7,500.

If you did **that** calculation you would have seen how SUCCESSFUL the campaign would be over a period of time and how it could help you grow your business in the long run.

Obviously, the numbers will change for each practice, but the underlying value of knowing the lifetime value of a patient, or its converse the danger of not knowing the lifetime value of patient; is essential for every practice owner.

The more you know about your patients, how much they are willing to spend, and what they are buying, the more confident you will be about what you can do to grow your business AND the more profitable you will be!

And by the way, the above lifetime value calculations do not take into account the referrals you are (or should be getting) from each new patient.