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Economic Intelligence: What's the Lifetime Value of a Patient?

Calculating the true worth of a relationship to your surgical business.

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LIFETIME VALUE Look at the worth of a customer as the value of the stream of sales or transactions over the entire lifespan of the customer relationship.

Surgical facilities track a lot of data — quality measures, patient census, service line revenue and so on. But here's something that no one regularly tracks: lifetime value. Yes, it's hard to track something that you don't have a clue exists. Look at it this way: What's a relationship worth to your business, whether your business is a hospital, an ambulatory surgery center, some other healthcare facility or a medical practice?

Originally from the marketing world (where it remains a very powerful idea), the concept of lifetime value involves looking at the worth of a customer not as the one-off revenue from a discrete sale or transaction, but as the value of the stream of sales or transactions over the entire lifespan of the customer relationship.

Let's look at an example involving a sporting goods store. From the marketing context, a customer's value in dollars to the business isn't the average individual sale, perhaps \$29.97. Instead, the true value is the total combined sales to the average customer over the lifetime of all of the sales to him.

At our mythical sporting goods store, the first sale to the average Billy Bob might be only a \$19 t-shirt resulting in \$9 of gross profit. But, measured over the years of the normal customer relationship, the balls and bikes and boxing gloves purchased by our avatar Billy Bob result in \$3,567 of sales and \$2,193 of gross profit. That new Billy Bob over in aisle 7 isn't worth \$9, he's worth \$2,193, and the smart store owner treats, and entreats, each customer in that light. And that's before we even take into account how many additional "Billy Bobs" the original Billy Bob refers.

Your many customers

The exact same thinking tool and metrics apply in health care. Let's start with a simple analogy to the sporting goods store's Billy Bob: Instead of looking at a transaction, say the value of a medical procedure performed on Suzie Smith, as \$1,200 in profit to the facility, look at it in terms of the relationship with the average "Suzie Smith." If that's 2 procedures and 3 referrals over the lifetime of the relationship with the average Suzie, returning, for example, \$6,700 in profit, then that's the lifetime value of your customer. And, then, of course, each of the referred "Suzies" continues the trend, on and on, geometrically.

But that's not where the use of the lifetime value tool ends. In fact, it's just the beginning. The next step is to ask yourself how much you can spend (in money, time, effort and so on) to bring in a \$6,700-in-profit customer and to ask yourself how you should treat a \$6,700-in-profit customer.

But wait, there's more. As it's often said, there are many "customers" in health care: the patient, the referral source and, depending on a physician's medical specialty, the facility. I suggest that it's vital to apply the same "lifetime value" concept to each of those relationships.

For example, from the perspective of your facility, apply the tool to the relationship with a potential referring surgeon. Or, from another angle, say that of the anesthesia group providing services at your facility, apply the tool to the value of an exclusive contract and, because they are actually very different things viewed through the lens of lifetime value, to the value of each of the resulting patients.

For those hypersensitized to kickback concerns, note that I'm not talking about offering any remuneration for that lifetime value. Instead, I'm telling you to use the concept as a thinking tool in nurturing relationships in order to reap their long-term value to you.

Customers of all sorts, whether you call them customers, clients or "patients," aren't transactions. They're long-term relationships with a lifetime value.

What's a great employee worth?

The concept also plays out in connection with relationships within your facility, medical group or other healthcare business. What's the lifetime value of a great employee? And, even beyond that, what turnover costs are avoided by not losing that great employee?

We all know what it's like to be placed on hold by some call center. We all know what it's like to be greeted at the reception desk with an unsmiling glance and a cold "yes?" or, even worse, a "next."

The people who run those operations have no clue of the concept of lifetime value that I've shared with you. Unfortunately, the bigger the organization, the more clueless they generally are. Why should they care if you walk, they ask themselves, when your business or mine is "worth" just a few cents to the bottom line?

But the problem is that they can't see the dollars for the cents. Have more sense. Customers of all sorts, whether you call them customers, clients or "patients," aren't transactions. They're long-term relationships with a lifetime value.

Competing for business that depends on a relationship gives smaller businesses, those without layers and layers of bureaucracy, the advantage. And, all business depends on relationships, even that of mega medical centers. Develop deep and lasting relationships with your patients.

And, if you're the leader of a larger organization, be afraid of what you don't consider to be your competition. There might be economies of scale in terms of purchasing and administration, but customer service is one at a time. **OSM**

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