

Effectively Marketing/Promoting a Dental Practice - from a CPA's point of view

FAQ's from CPA's regarding the marketing/promotion of the dental practice
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What is a normal/customary annual marketing budget for a dental practice?

By “normal/customary” I will assume you mean a practice that's been in existence (and same location) for greater than 5 years. I will also assume you mean a “bread and butter family” type practice. For these practices, we encourage a marketing budget range. The range is 5% of TTM and 5% of goal revenues. As an example, a 600k (TTM) practice that has a goal of 700k should have a marketing budget range of 30k to 35k for the year.

Startups: The average general dentist will require 700 active patient charts to productively support a 30 hour per week schedule. The average acquisition cost of a “quality” (see below) new patient ranges from \$80 to \$120. If the practice is NOT going to use insurance participation (see below) as a marketing medium, the practice needs to acquire all 700 patients through external and internal marketing. 700 new patients within the first year times an average acquisition cost puts the first year marketing budget at 70k.

Transitioning Ownership: Dentists who are buying an existing practice can expect to lose a certain percentage of the existing patient base. At best, they can expect to minimize this loss at 20% of the existing patient base. In addition, existing patients who do see the new owner will almost always slow down their purchases of dental services during the first 18 months of ownership. This is the “getting to know you phase”. All of this has to be taken into account when determining the total number of new patients required to meet or exceed the new owner's revenue goals after purchase.

Insurance Participation – What's the real scoop?

Insurance participation in dentistry is nothing more than another available marketing medium. Our firm is neither for nor against using insurance participation as a marketing medium. We just look at it in a very straight forward business manner.

Insurance companies use their sales/marketing prowess to accumulate 10,000 to 20,000 local employees through the employer base. The insurance companies then “sell access” of the patient base back to the dentist for 72 cents to 88 cents on the dollar. This marketing medium represents a 12% to 18% marketing “cost” to the dental business. Since we've already established that you can successfully market/promote a dental practice for 5% of revenues (in 96% of the markets in the US), you can see the true cost of using insurance to promote the dental practice long term.

Why do dentists participate with insurance or rely so heavily on participation for their new patient flow?

The short answer is, they don't know any better. As a CPA, I'm sure you recognize the business prowess of most of your dentist clients. Dentists are patient/clinical centric people. Very few understand or even want to understand business. Most dentists are also very risk intolerant. This is an important distinction.

Insurance participation is easy to do (you just sign up!)

There is no up front commitment (other than just being a dentist)

There is no up front cost (therefore, no perceived risk)

You mention “quality” new patient. What is that?

First, let me give you the statistical definition of a “quality” new patient. A “quality” new patient is any patient that matches or exceeds the average revenue per active patient that the dental office currently enjoys. I'll give you an example.

Example Practice: 500k annual revenues, 1000 active patients, average revenue per active patient = \$500. A “Quality” new patient for this practice would be a new patient that brings in at least \$500 within the first year.

IF a dental practice focuses their marketing/promotion toward higher “quality” patients, the first year return on investment will double every two years for a maximum of 6 years. Then, it will double again every 6 years.

Dentistry is a recurring revenue business (as I'm sure most of you know). One of your clients' biggest mistakes is marketing/promoting for volumes of new patients to fill the schedule. Here's the lesson to pass on to your clients. Volumes of new patients temporarily fill your schedule. Quality new patients ALWAYS fill your wallet.

What is doc/patient ratio?

The dentist/patient ratio in a given market area is the single biggest analytical tool used when formulating an appropriate marketing plan for a given dental practice. We also refer to the dentist/patient ratio when we explain what our expectations are from whatever marketing we do for a client. The national average is 1 dentist for every 1500 people. If a dentist is in a 1:600 dentist/patient ratio – that dental practice will indeed have a VERY tough time gaining quality new patient momentum. It's just supply and demand. It's economics 101. I'm sure I don't have to explain this to this group. This does NOT mean you can't successfully promote a dental practice in this type of environment. The majority of our clients are in tough competitive areas.

The other side (the fun side) of the supply/demand analysis is also found throughout the US . If we analyze a market area for a client and find a 1:4500 dentist/patient ratio, we KNOW we've got a great story just waiting to happen.

A case study: In September of 2006, we helped open a new dental practice for a client in upstate NY. Dentist/patient ratio in their county was 1:5800. We started with a first year budget of 90,000. Female dentist, husband (with an MBA thank goodness) is the office manager. In December of 06, their production hit \$85k for the month. We have them projected at first year revenues of \$1.2m in their first year. I am not telling you this because we get this type of result with all of our clients. We DO get this type of result with other clients in 1:5800 dentist/patient ratio markets. What your clients need to understand is the power of supply/demand AND the beauty of dentistry as a business model. It truly is a recurring revenue, return on investment building business model. In competitive areas, they just have to give it the time to mature.

I hope the answer to some of these questions help you and your clients better understand how effective marketing works. If you have any other questions at all, please feel free to contact me.

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