Customer Potential Management Marketing Group

UNDERSTANDING AND ACHIEVING ROI WITH CRM

A CPM WHITE PAPER

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SECTION 1: EXECUTIVE SUMMARY

Like it or not, today's marketplaces cannot escape the numbers game—even in health care. Most healthcare organizations are challenged to find ways to increase their bottom line and to prove the worth of their programs.

In marketing, this has been difficult to do with advertising and other activities for which there was no way to track activity and response, and thus return on investment. But the advent of database marketing and Customer Relationship Management (CRM) solutions make it easier and imperative for marketing to demonstrate the worth of customer campaigns to management, particularly the chief financial officer.

In this paper, we'll examine what constitutes "profitability" in marketing or communication programs for care delivery organizations and the comprehensive strategy needed to achieve it. Several case studies will illustrate real-world examples of measurable ROI and how the providers achieved it.

Planners, strategists and marketers can take ROI to the bank—both bottom line results and proof of the worth of CRM efforts to the organization.

SECTION 2:

THE MEANING OF PROFIT AND HOW TO CALCULATE IT

For non-profit and for-profit care delivery organizations (CDOs) alike, it's important to know what the return is on your marketing activities. The basic questions to answer to determine if your programs had value are "Did we get what we expected?" "Did we cover and/or exceed our program expenses?"

To calculate the profit or return of your efforts, we can use a general profit formula and adapt it for healthcare, which as we'll see, is different from typical businesses.

In basic accounting, a generalized profit would be:

<u>Gross Income – Cost of Goods = Gross Profit</u>

<u>Gross Profit – Expenses = Net Profit</u>

Or restated becomes:

<u>Gross Income – (Cost of Goods + Expenses) = Net Profit</u>

"Last year was a great year!! We only lost $10 million when we were planning on $15 million."
- Actual CPM client quote

What makes healthcare different from other businesses is that healthcare doesn't typically receive the amount it bills for services. Instead, CDOs receive only a *fraction* of what they invoice due to reimbursement rates, which in turn are the result of an attempt at managing health care costs. While payers may benefit from this scenario, hospitals do not.

Adjusted then for reimbursement rates, the CDO profit formula becomes:

Reimbursement Income – (Cost of Goods + Expenses) = Net Profit

Based on a compilation of our clients' experience, we have derived some basic metrics for this formula, which we've used below. Your numbers may be different, and if so, you should use your figures when using this equation.

A typical CDO has the following numbers:

- Reimbursement rates of 55% of dollars billed. For every $1 billed to a payer, only $.55 is collected.
- The cost to provide the service is approximately 50% of dollars billed. This cost is the sum of the cost of goods and total expenses. So, for every $1 billed to a payer, it costs $.50 to provide the service.
- Net profit therefore is: $.55 - $.50 = $.05 for each dollar billed to a payer or 5%.

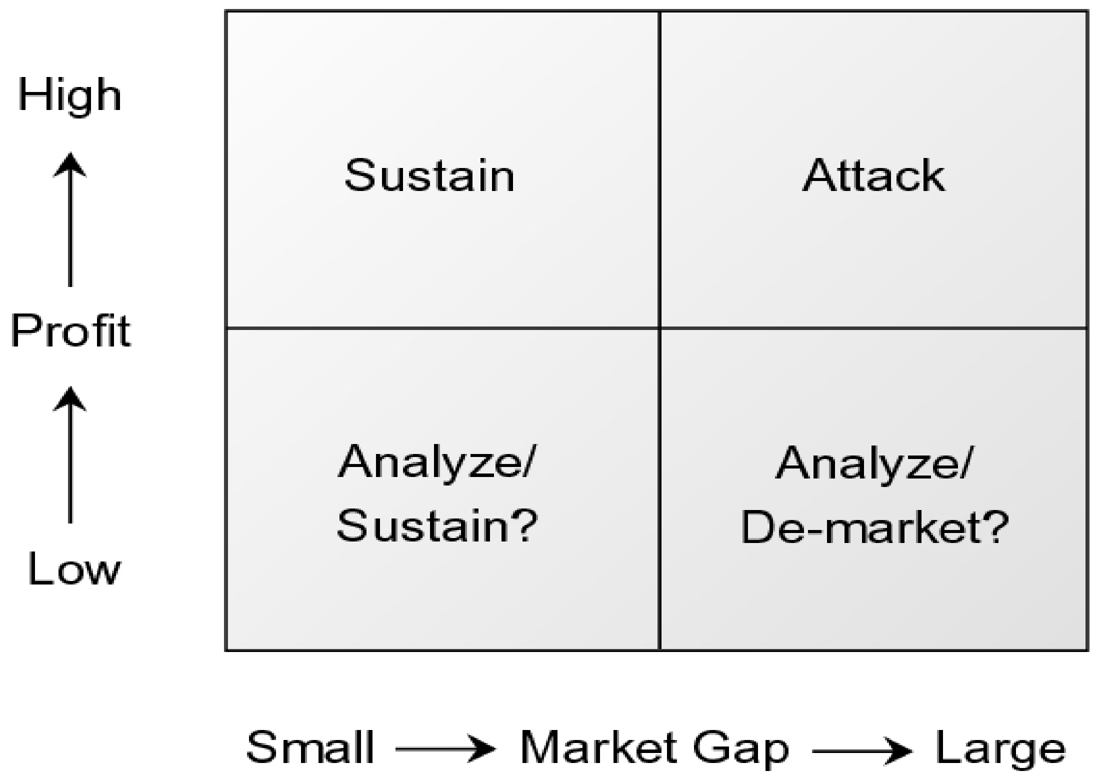
Using these figures, the CDO profit formula then becomes:

Reimbursement Income ($.55) – (Cost of Goods + Expenses) ($.50) = Net Profit ($.05)

MEDICAL SERVICE AREA PROFITABILITY:

Once you know how to calculate the net profit percentage for your organization, you can determine the profitability of each medical service area either per patient or per procedure. Work with your chief financial officer (CFO) and your financial department to determine how viable services in oncology, orthopedics, obstetrics or other areas really are for your market, or at least be knowledgeable about which services are key to the organization and which are not. No amount of promotion will make an unprofitable service more profitable.

As competition increases and demographics change, providers throughout the country are examining which services best meet the needs of their community and which are the most rewarding for them to provide. For example, a hospital in the Houston area recently decided to discontinue its obstetrics services after several decades because of changing area demographics and a consistent drop in the number of births over a period of consecutive years. Long-range planners may use an attractiveness grid such as the one below to plot various services and determine the appropriate future strategy for each.



While as a marketing leader you may not have too much say in the financial or operations strategy for each service area, your expertise in ramping up marketing efforts for top services and de-emphasizing less attractive services is key. And as you'll see, you may be able to affect the profit on the marketing programs you design and implement to further your organization's long-range plans, and your department's value. The key is to prove that encounters or visits were the result of your marketing programs.

WHY ROI IS HOT RIGHT NOW:

Today everyone is talking about "ROI" –return on investment—or "ROE"—return on expense—as number crunchers try to squeeze more out of their budgets. That's because these terms are essential to answering what is becoming a routine question from upper management—"What did you do for me this year?"

Furthermore, your CFO will want to know if the result might have been the same without the marketing program, and will ask you to prove the results of your campaigns. ROI is a universal and understandable way to measure your results and to answer these questions.

So, how do you do it? Well, first you must have the tools and a good understanding of what ROI is to measure it. Across all industries, measuring marketing ROI is not exactly a routine business. Consider:

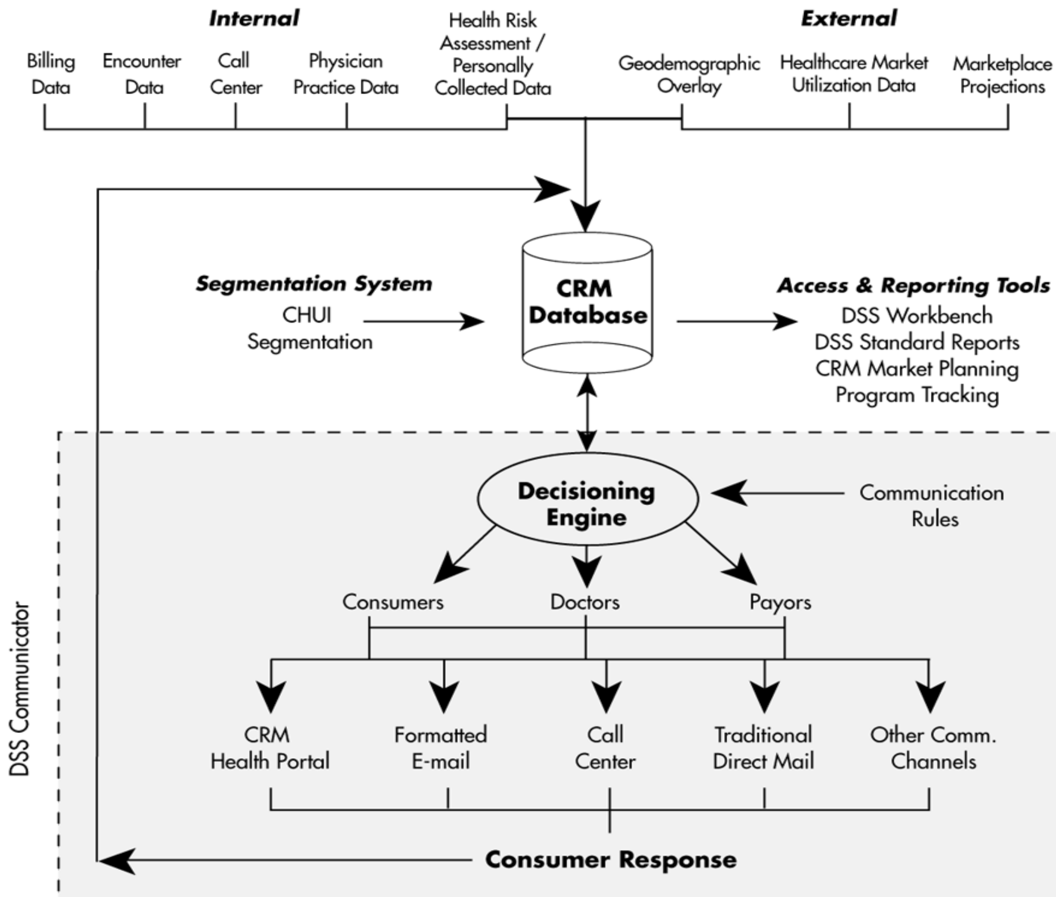
"Nearly three quarters of the marketing executives in the United States are unable to measure a marketing campaign's return on investment."

That comes from an Accenture 2001 study that also found:

"Sixty-five percent of marketing executives are struggling to integrate and share customer data across the organization and its touch points to develop a single view of the customer."

However, a good customer relationship management (CRM) solution will provide a single view of each patient and services used, which is the only way to determine ROI. Of course this includes database technology and analytical services for list generation and tracking, but CRM is more than that. A total CRM solution includes vision, strategy and segmentation, organizational collaboration, and the ability to understand the customer experience.

The graphic on the next page illustrates an automated CRM system with database information, communication channels, and how responses are tracked and returned to the database for ROI calculation.



ROI AND RESPONSE RATES:

It's important to note that ROI is NOT counting coupons or in-bound calls. Typically marketers do want to know how many people responded to an offer by returning a coupon for a health assessment, first aid kit or screening, or how many people called the call center to find a physician in response to a physician referral service promotion. But these measurements are just that—response rates—which are helpful in determining the value or draw of your creative message and/or the communication channel.

ROI however, is the return on investment that you receive for what you invest. In healthcare marketing it is the **patient encounters** you can track back to specific campaigns. It is the net profit received for your marketing expenditure.

But the difference between other industries and healthcare is that we just cannot create a demand for services in healthcare the way XYZ Corporation does for its widgets. In healthcare, it's about building and maintaining relationships.

We may promote a heart healthy screening or a physician referral service. That's the first step in building a relationship. While someone may come in for the screening or call for the names of physicians, (active response) the activity that will help us calculate ROI is the encounter that results from the screening (if the screening detects a problem) or the physician visit that results from the call for the name of the doctor. Again, the encounter is the passive response, which can be measured using a CRM database. Passive tracking using a CRM database and a control group (that is not marketed to) provides the TRUE return on your marketing investment.

Let's return to response rates for a moment to put ROI in healthcare in better perspective. In retail direct mail, the standard response of individuals who purchased something as the result of a campaign is two percent. In healthcare, inpatient services segmented by service area that can be tracked to a specific campaign generally may not result in a two percent encounter rate.

Let's look at a few examples. The first chart on the next page shows the total annual market utilization rates for ALL services, segmented by age and gender. The second chart shows an example of annual utilization in cardiology. On both charts, note the utilization does increase with age.

Example of Total Annual Market Utilization Rates

	Female			Male			Utilization*		
Age	*Visits*	*Charges*	*Patients*	*Visits*	*Charges*	*Patients*	*Male*	*Female*	*Total*
0-2	740	$5,489,508	621	907	$6,842,427	783	1.07%	0.85%	1.93%
3-5	587	$4,910,008	453	708	$6,991,873	568	0.84%	0.67%	1.51%
6-11	691	$5,553,886	582	930	$9,303,620	743	0.59%	0.46%	1.05%
12-15	785	$8,532,538	628	706	$10,362,971	563	0.72%	0.81%	1.53%
16-17	834	$6,151,727	734	432	$4,241,559	348	0.57%	1.20%	1.76%
18-24	6,428	$40,744,696	5,712	1,521	$21,577,513	1,201	0.70%	3.32%	4.02%
25-34	18,992	$113,623,444	17,436	2,930	$32,481,381	2,390	0.68%	4.94%	5.62%
35-44	11,763	$98,469,955	10,264	5,047	$64,781,096	3,951	1.23%	3.19%	4.41%
45-54	7,525	$98,051,461	5,871	6,567	$102,303,171	5,030	2.44%	2.85%	5.29%
55-64	6,268	$94,872,538	4,722	6,969	$128,181,237	5,185	4.60%	4.19%	8.80%
65-74	6,708	$113,530,427	4,782	6,378	$125,139,284	4,514	6.52%	6.91%	13.43%
75+	10,941	$170,369,230	7,651	7,462	$136,671,541	4,972	13.45%	20.70%	34.15%

** - Percentages by gender represent the proportion of the total market, the utilization within a particular gender pool is roughly 2-times that shown*

Example of Total Annual Cardiology Utilization Rates

	Female			Male			Utilization*		
Age	*Visits*	*Charges*	*Patients*	*Visits*	*Charges*	*Patients*	*Male*	*Female*	*Total*
0-2	8	$225,325	8	10	$381,448	10	0.01%	0.01%	0.02%
3-5	5	$117,397	5	10	$376,277	10	0.01%	0.01%	0.02%
6-11	12	$288,097	9	14	$430,111	12	0.01%	0.01%	0.02%
12-15	14	$230,040	11	11	$229,191	10	0.01%	0.01%	0.03%
16-17	9	$183,690	5	11	$332,088	9	0.01%	0.01%	0.02%
18-24	21	$419,581	17	28	$406,111	23	0.01%	0.01%	0.02%
25-34	94	$1,721,936	80	126	$2,378,365	109	0.03%	0.02%	0.05%
35-44	288	$4,346,611	244	505	$7,496,708	424	0.13%	0.08%	0.21%
45-54	663	$9,970,453	565	1,080	$23,621,570	910	0.44%	0.27%	0.72%
55-64	819	$15,128,462	697	1,418	$36,386,506	1,165	1.03%	0.62%	1.65%
65-74	986	$21,631,220	802	1,352	$35,642,556	1,095	1.58%	1.16%	2.74%
75+	1,820	$35,686,692	1,472	1,367	$33,277,264	1,100	2.98%	3.98%	6.96%

** - Percentages by gender represent the proportion of the total market, the utilization within a particular gender pool is roughly 2-times that shown*

These figures set the stage for determining a reasonable baseline expectation for a minimum projected consumption of your services.

The formula is:

Market penetration (or market share) percentage (times) overall market utilization = minimum projected consumption.

Here's an example:

Cardiology program to 35 to 54 year olds. Utilizations are:
- 35 to 44 is .13%
- 45 to 54 is .44%
- Weighted average is .25%
- Market penetration for cardiology for these segments is 66%
- .66 x .25 = 1.6% (your minimum expected passive response)

TRACKING:

Now that you have an idea of what a minimum encounter response could be from your campaign, you need to know how to track those encounters. The only way to know if you received an encounter from a marketing effort is to set up tracking records.

To do so you must have:

- A CRM database updated with procedures and revenue
- Random control group—to answer the question, "How do we know these individuals would not have come in anyway?"
- Selection method that automatically creates tracking records
- Flexible analytical reports that compute ROI in a standard fashion

Control groups can be static or dynamic, but the key is that those in the control group NEVER receive marketing materials. A static control group is the random selection of five percent of your database of individuals who would NEVER receive any marketing program from your hospital for ANY campaign. With the proper algorithm to most accurately select a random control group, the static group will probably give you the most accurate comparison between the control and solicited groups.

A dynamic control group is randomly selected from the database for EVERY campaign. Individuals in this control group do not receive marketing materials from a SPECIFIC campaign. The downside to this is that today's control group may have been yesterday's solicited group. It's possible there could be overlap from one campaign timeframe to another, which could skew your results.

The rules for tracking your campaign, with either a dynamic or static control group are:

- Never solicit the control group.
- Vary only one variable. If you want to test creative versions, make sure the list is the same. If you want to change selection criteria, make sure the creative is the same.
- The actual response is the solicited group's utilization rate minus the control group's utilization rate.
    - Example:
        - Solicited group has a .30% utilization rate
        - Control group has a .16% utilization rate
        - Actual response rate created by marketing: .14% utilization rate

On the downside, the control group reduces the size of the solicited group by five percent. Also remember that if you track response to an offer such as a screening or a coupon return, you're not really tracking what you solicit, which ultimately is encounters. The positive side to a good response rate to an offer is that you are getting people to interact with and build a relationship with your organization.

SECTION 3:

RESULTS FROM THOSE WHO PUT THE PIECES TOGETHER

The following organizations instituted a CRM program to build better relationships with their patients and community members, and were able to prove that their efforts made a measurable difference to their organization's bottom line.

INSTITUTING A COMPREHENSIVE CRM PROGRAM:

A large integrated health network based in the Midwest instituted a comprehensive CRM solution for six hospitals. It included targeted campaign management programs for each provider, and tracked system-wide relationship building campaigns for all facilities over a three-year period.

The healthcare provider wanted to develop dialogues with patients based on their needs, encourage more customer loyalty and retention, and generate more financial success.

For its efforts, the network announced cumulative post-marketing earnings of more than several million dollars. The average cost per year for each of the six participating medical centers and hospitals was $80,000. The ratio of revenue received to revenue spent was $5 to $1. A typical return is $3 to $7 for every $1 spent.

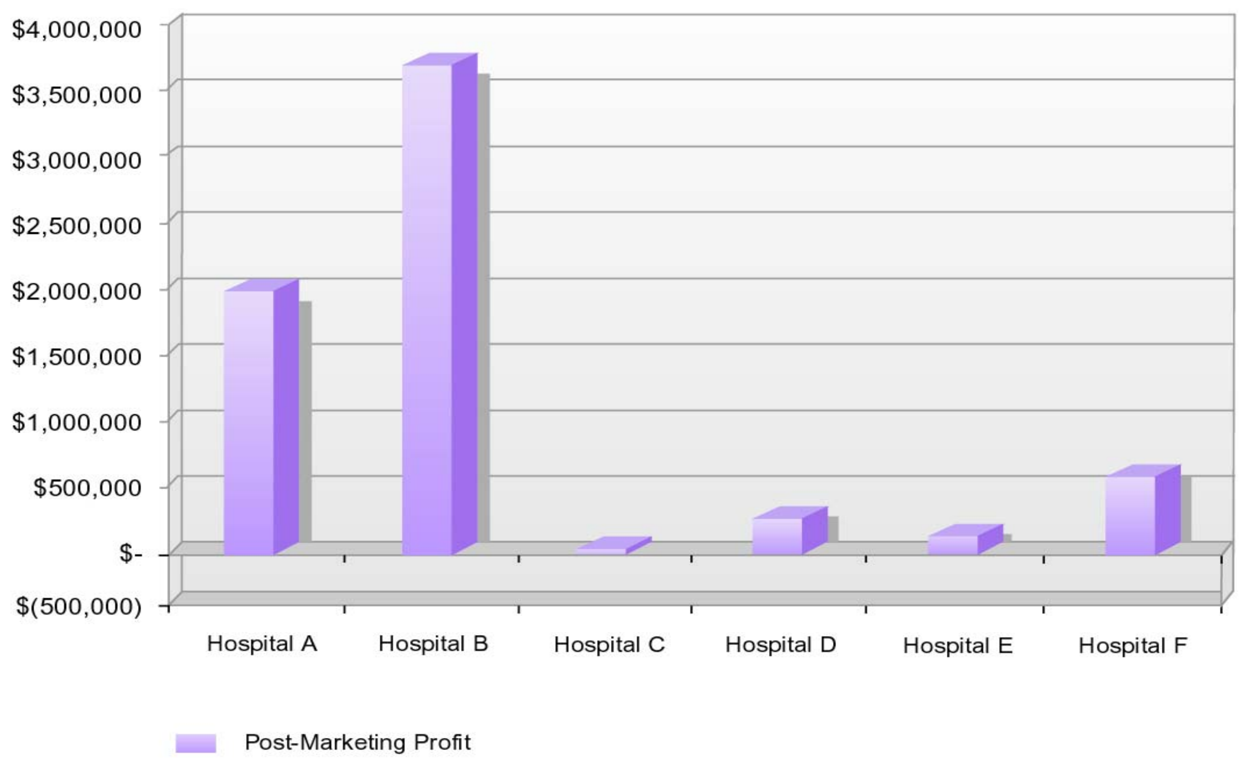
The campaigns focused on education and awareness, wellness, disease management and intervention in clinical areas such as cardiology, women's services, orthopedics, neurology, pediatrics and senior services. The health system used its CRM database and software to select and segment the audience for each campaign to ensure the right messages reached the right individuals.

The communication records in the closed-loop feedback CRM database allowed the organization to assess activities, behavior and service utilization, and to calculate ROI. The charts below illustrate the organization's cumulative three-year ROI and cumulative post-marketing profit.

Cumulative Three-Year ROI

Facility	Number of DM Initiatives	Number of Communications	Total Charges Generated	Pre-Marketing Profit	Marketing Costs	Post-Marketing Profit
Hospital A	89	855,732	$ 97,808,996.00	$ 2,445,224.90	$ 323,596.08	$ 2,121,628.82
Hospital B	70	1,017,891	$ 178,850,009.00	$ 4,471,250.23	$ 605,226.60	$ 3,866,023.63
Hospital C	13	86,440	$ 9,089,902.54	$ 227,247.56	$ 280,161.67	$ (52,914.11)
Hospital D	12	20,790	$ 15,550,549.75	$ 388,763.74	$ 74,505.54	$ 314,258.20
Hospital E	10	58,652	$ 11,677,757.41	$ 291,943.94	$ 74,817.24	$ 217,126.70
Hospital F	9	80,012	$ 35,528,130.00	$ 888,203.25	$ 79,714.84	$ 808,488.41
TOTAL	203	2,119,517	$ 348,505,344.70	$ 8,712,633.62	$ 1,438,021.97	$ 7,274,611.65

Cumulative Post-Marketing Profit



It's important to note that the tracking for each campaign occurred after the contact date, so there was no overlap in tracking among campaigns. For example, if an individual received a service in January, but was part of a campaign that began in May, and had another service as a result in June, only the June encounter was recorded for the campaign that began in May.

The six institutions involved in the campaign had different experiences and cumulative returns based on their acceptance and strategic use of the CRM solution. Based on the performance of this campaign, the organization is continuing its commitment to a consistent and evolving CRM approach to strengthen patient relationships and to provide more individualized and relevant customer care.

NEW MOVERS' PROGRAM HITS THE TARGET:

In late 1999, Johnson Memorial Hospital in Franklin, Indiana discovered an 80 percent out-migration of patients in specialty care and 75 percent in other service lines to nearby Indianapolis providers. In addition, some of the larger, big-city providers had facilities located in the Franklin area.

To acquire new volume, create new patient/provider and patient/physician relationships, and to determine the ROI of its efforts, Johnson Memorial Hospital (JMH) developed a newcomers program that included access to high quality lists, a consistent, dependable delivery system and opportunities for follow-up, dialogue and impact measurement and tracking. "Our area was experiencing long-term rapid growth, and we needed to make a more concentrated connection with consumers to make them aware of our services, help them understand what we offer, and how we serve our community," said Bill Oakes, director of business development at JMH.

Through the program, area newcomers received a packet titled, "Why healthy living is easier in Johnson County." The packet, designed to familiarize recipients with JMH services and facilities, included information about the call center and physician referral line, a map and service addresses, and a refrigerator magnet to keep the telephone number handy.

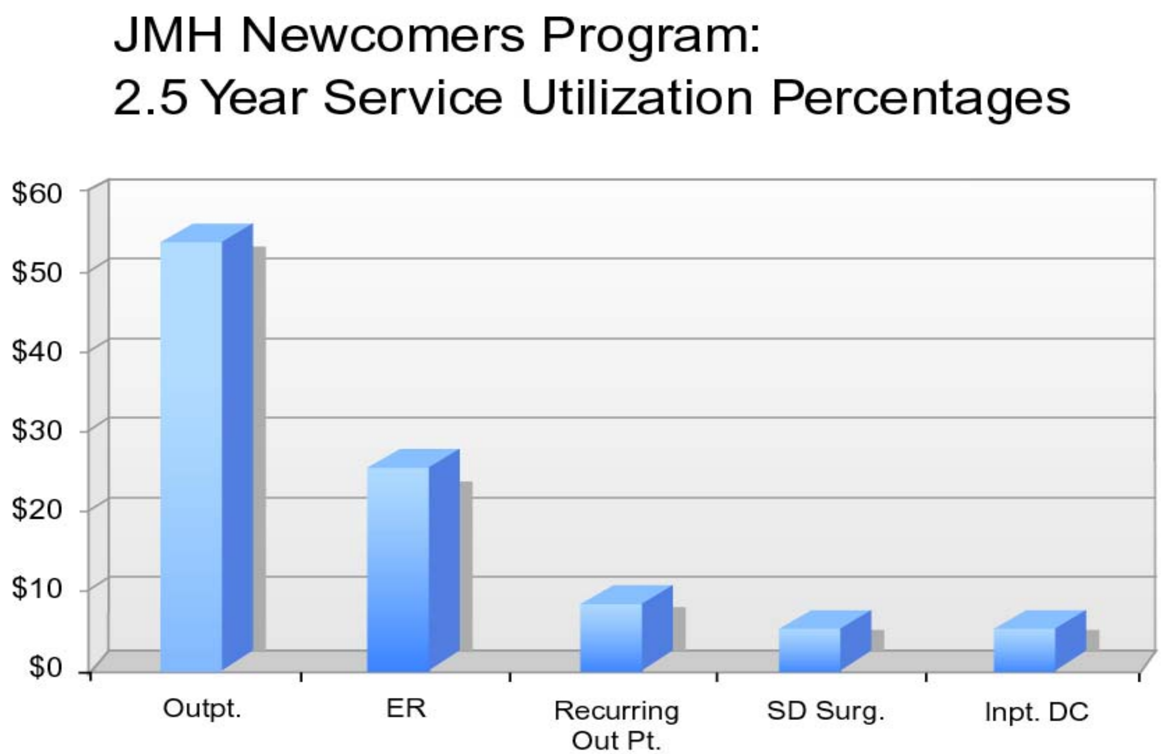
To encourage responses, the package offered a free first aid kit and a Healthy Living Quiz to recipients who returned a business reply card. To determine the results, JMH matched its monthly mailing lists with its database.

After two and one-half years of evaluation by revenue, volume (service line and zip code), payer mix and ROI, JMH obtained the following results:

Total net income:	$556,000
Program cost:	$ 75,695
ROI:	735%
Total new residents contacted:	13,567
Resulting visits:	2,184
Program response rate:	16.1%

For ROI analysis, JMH was able to track gross and net revenue by service and identify gross revenue by payer. The payer analysis was segmented into individual commercial and managed care payers. The results also could be filtered for age and gender.

In addition, JMH charted service utilization based on the campaign, as shown on the next page.



Most importantly, the ability to measure ROI and the other statistics has demonstrated that "we were able to increase our marginal revenue, cut general operating costs and put more resources into patient services." Oakes said.

These results have boosted the marketing and business development management team credibility and strategic role within the organization. Enhanced support from the Board of Trustees also has resulted in increased budget support for CRM efforts.

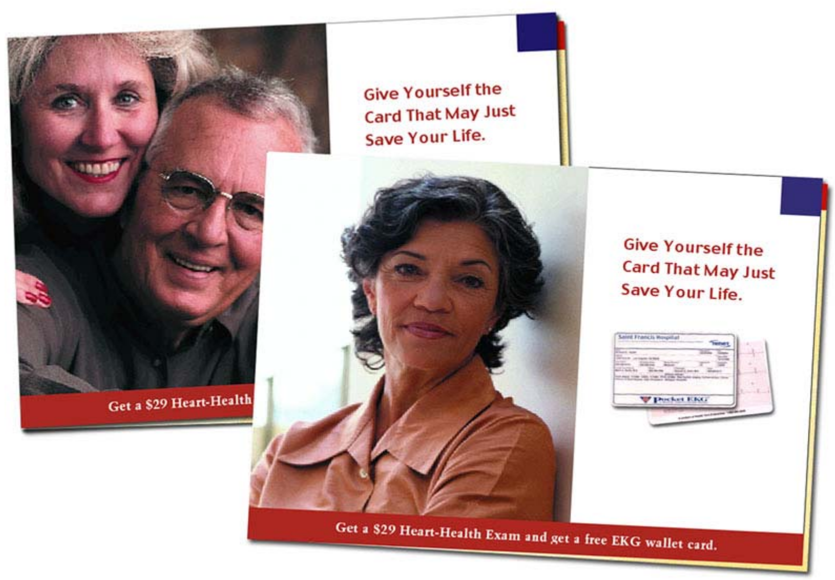
JMH is now doing an annual evaluation of its newcomer marketing program, measuring its impact on physicians, looking for broader ROI applications and of course, continuing its commitment to meeting patient needs and strengthening relationships.

DATABASE CARDIOLOGY PROGRAM PROMOTES HEART HEALTH:

To educate consumers on the early warning signs associated with heart attack and to encourage them to take a proactive role in their heart health, three providers of a larger health system used their CRM database and a healthcare segmentation system to reach the right individuals in their market.

The providers were located in the mid-South and northeastern United States. Using the Consumer Healthcare Utilization Index (CHUI)™, the providers selected the most likely individuals in their service area to benefit from a "heart health exam." Recipients were offered the exam including an EKG and a free EKG wallet card. The fee for the exam ranged from $25 to $39 depending on the provider. The secondary offer was a free take-home health assessment.

The campaign also included a control group for each provider with the same list criteria to determine the activity of similar individuals who were not contacted during the campaign.



After six months, two of the three hospitals showed significant results in reaching the right individuals at most risk of heart problems. Nearly half of individuals who came in for the heart health exam at Hospital A had abnormal EKG readings. Combined with individuals who had minor abnormal EKG readings, the percentage rose to 54 percent. More than 61 percent of individuals who came to Hospital B for the exam had abnormal EKG scans.

The aggregate results from the three participating hospitals for the first six months of the campaign were:

Net profit:	$1,868,711
Solicited group response to screenings:	5.36%
Control group response to screenings:	1.61%
Marketing response of solicited group Increase over the control group:	333%
ROI:	$44.78 for every $1 spent
Attributed to marketing when factoring out control group:	$1,684,643

BUILDING MARKET SHARE WITH PRIMARY CARE/PHYSICIAN MARKETING:

A focus on practice development and physician recruitment was beneficial in boosting market share and in generating a decent return on investment for a leading healthcare system in the south central United States. The provider's goal was to build volume in existing practices and to jump-start new practices by using a sophisticated CRM database and accompanying analytical software for research and analysis. The organization used these tools to develop targeted communications to the most appropriate individuals, and to track responses.

The campaigns positioned the practices as having highly trained physicians, convenient locations throughout the service area and unique service amenities. True to many CRM campaigns today, these efforts collectively used multiple channels—direct mail, call center and the CRM Health Portal™—and some were reinforced by mass media.

Specific campaigns included:

- The introduction of a new pediatrician.
- Promotion of the Senior Health Centers, introduction of two new physicians, and the relocation of another.
- Quick reaction to retain market share when a family practice physician abruptly left her practice.
- Introduction of a group of women's health physicians in a variety of specialties from obstetrics and pediatrics to mammography/radiology and breast surgery.
- Obtain insured individuals through the region's dominant employer by being a participating provider through the employer's insurance offerings.

The aggregate impact of these campaigns is shown in the chart below.

Services Tracking – Total Aggregate Reporting Across Multiple Campaigns

	Marketed Group	Control Group
Total Households/Individuals contacted		
Total households	45,643	558
Total individuals	49,245	559
Tracking Results		
Total Charges	$31,672,212.88	$207,296.66
Total Individuals	10,215	59
Total Visits	36,059	142
Average Total Charges per Household	$693.91	$370.83
ROI Calculations		
Marketing "lift" in dollars per household mailed*	$323.08	
Total Adjusted Marketing Revenue**	$14,746,200	
Expected Reimbursement	$7,373,100	
Operational Profit (6% margin on net)	$442,386	
Total marketing costs	$27,973	
FULLY LOADED TOTAL RETURN ON INVESTMENT	**$414,413**	

*Total charges for marketed group divided by total households mailed (observed revenue); minus total charges for control divided by total households in control (expected revenue) = "marketing lift"

**"Marketing Lift" times total Households contacted.

Notes: All numbers Household tracking; all services among marketed group; all facilities

These campaigns had a major effect on the health system's ability to not only dramatically improve its market standing (from a distant second to first), but to significantly increase revenue beyond its marketing costs. The health system is now working to broaden the scope of its commitment to and relationships with its patients, physicians, area employers and potential employees.

For more information on these case studies, visit the Press Room/Case Studies at www.cpm.com or contact us at 1-800-332-2631 or sales@cpm.com for more information.

SECTION 4:

A WORD ABOUT LIFETIME VALUE

"Lifetime value." It's another phrase heard throughout the halls of healthcare marketing. While the concept may not be difficult to grasp, measuring it can be. In simple terms, lifetime value (LTV) is the value (profit) you receive from transactions (encounters) with customers over a given amount of time.

Put another way, you can ask, "What do I need to spend to get or keep patients, and does the relationship make money over time?"

The two most important LTV concepts are customer spending over time and the profitability of cumulative sales.

Perhaps the most relevant question is, "Is LTV relevant for CDOs?" Since healthcare by its nature cannot create demand for its services, the meaning of LTV is different from banking or retail industries where customers will regularly need the services.

In healthcare, the LTV is getting the economic event or encounter at infrequent times throughout life, although the frequency of encounters may increase as patients age.

The creation of an anonymous database of patients for several actual markets over a five-year period reveals the veracity of the following observations:

- Going to the hospital is an infrequent event
- The visits per patient for one year is 1.28 compared with 1.5 over five years—most individuals have only one encounter in that time frame. See the charts on the next page.

1 to 5 Year Comparison Female Full Market

One Year Analysis

Age	25-34	35-44	45-54	55-64	65-74	75+
Visits	18,992	11,763	7,525	6,268	6,708	10,941
Patients	17,436	10,264	5,871	4,722	4,782	7,651
Visits Per Patient	1.09	1.15	1.28	1.33	1.40	1.43
Revenue	$113,623,444	$98,469,955	$98,051,461	$94,872,539	$113,530,427	$170,369,230
Revenue Per Visit	$5,983	$8,371	$13,030	$15,136	$16,925	$15,572
Revenue Per Patient	$6,517	$9,594	$16,701	$20,092	$23,741	$22,268
Market Size	352,734	321,983	206,052	112,605	69,209	36,960
Market Utilization	4.94%	3.19%	2.85%	4.19%	6.91%	20.70%

Five Year Analysis

Age	25-34	35-44	45-54	55-64	65-74	75+
Visits	51,450	39,789	27,064	23,293	27,121	65,196
Patients	39,489	29,129	18,132	13,843	14,896	34,729
Visits Per Patient	1.30	1.37	1.49	1.68	1.82	1.88
Revenue	$240,893,829	$256,661,259	$269,806,436	$291,916,860	$340,003,598	$689,504,275
Revenue Per Visit	$4,682	$6,451	$9,969	$12,532	$12,537	$10,576
Revenue Per Patient	$6,100	$8,811	$14,880	$21,088	$22,825	$19,854
Market Size	204,046	175,160	113,159	80,618	62,346	42,898
Market Utilization	19.35%	16.63%	16.02%	17.17%	23.89%	80.96%

1 to 5 Year Comparison Male Full Market

One Year Analysis

Age	25-34	35-44	45-54	55-64	65-74	75+
Visits	2,930	5,047	6,567	6,969	6,378	7,462
Patients	2,390	3,951	5,030	5,185	4,514	4,972
Visits Per Patient	1.23	1.28	1.31	1.34	1.41	1.50
Revenue	$32,481,381	$64,781,096	$102,303,171	$128,181,237	$124,139,284	$136,671,541
Revenue Per Visit	$11,086	$12,836	$15,578	$18,393	$19,464	$18,316
Revenue Per Patient	$13,591	$16,396	$20,339	$24,722	$27,501	$27,488
Market Size	352,734	321,983	206,052	112,605	69,209	36,960
Market Utilization	0.68%	1.23%	2.44%	4.60%	6.52%	13.45%

Five Year Analysis

Age	25-34	35-44	45-54	55-64	65-74	75+
Visits	6,661	12,711	17,157	20,361	24,282	43,550
Patients	4,771	8,468	10,975	12,568	13,611	22,575
Visits Per Patient	1.40	1.50	1.56	1.62	1.78	1.93
Revenue	$59,143,501	$127,443,404	$216,982,009	$303,869,295	$368,355,561	$538,822,593
Revenue Per Visit	$8,879	$10,026	$12,647	$14,924	$15,170	$12,373
Revenue Per Patient	$12,396	$15,050	$19,771	$24,178	$27,063	$23,868
Market Size	204,046	175,160	113,159	80,618	62,346	42,898
Market Utilization	2.34%	4.83%	9.70%	15.59%	21.83%	52.62%

This data shows that for males:

- The average hospital expenditure per male was approximately $21,000
- Using the 5% average profit margin, the profit per person is $1050.
- Assuming a return of $7 for every $1 spent, you could afford to spend $150 to acquire this customer ($1050/7 = $150)
- Over five years, this would be $30 per year.

There are two ways to make LTV a reasonable concept in healthcare. One is loyalty; the other, which may enhance loyalty, is screenings and early detection programs.

Well-known car manufacturer Saturn and hotel chain Ritz Carlton found that it is six times more expensive to get a new customer than to keep one. Loyalty programs—from grocery store tags that give discounts, to frequent flyer cards that offer free services—are now as common as the corner Starbucks.

There's no getting around the fact that in healthcare, people still make decisions according to what is familiar. In fact, a Kaiser Family Foundation study in 2000 found that 50 percent of individuals would chose a familiar surgeon over a top-rated surgeon, while 62 percent of respondents would choose a familiar hospital over a top-rated one.

Loyalty, no matter what the industry, can be very real and powerful. So the key is to develop long-term relationships and familiarity with your patients and community members. One way to do this is to build relationships via early screening/detection programs and immunization/check-up reminders. Your automobile dealer and vet send reminders for service and check-ups, why shouldn't you? It is a reasonable way to augment specific service campaigns and to maintain regular contact with your patients, and such reminders are HIPAA-compliant.

Remember, you may continue to build relationships with your customers for years before receiving a measurable benefit. The only way to accelerate or expand the need or demand for services in healthcare is through screenings and early detection. Building profitable relationships takes time and money, but there is a reward for those who are willing to put the proper programs and strategies in place.

SECTION 5:

CONCLUSION

As healthcare marketers and planners are held more accountable to the bottom line of their programs, a comprehensive CRM solution can lead to more strategic programs from which ROI can be derived and measured.

Several industry leaders tell it like it is:

"As the market dynamics rapidly evolve through 2005, CDOs must develop core CRM strategies or risk failure in highly competitive market environments."

- Gartner, "CRM Strategies for Care Delivery Organizations," 5/2001

"As customers become more interactive with the companies they buy from, you and your firm face a radically different competitive landscape. It was never easy to differentiate your product or service, and today it is more difficult than ever. Instead, your competitive success hinges increasingly on using customer level information and interaction to create long-term, profitable, 1 to 1 customer relationships."

- Peppers & Rogers, "The One to One Fieldbook"

Today, CRM is a "need to have", not a "nice to have." With careful strategy, directed by a multi-faceted organizational team, you can prove the worth of your customer communication investments and positively affect the course of your customer interactions for years to come.

SECTION 6:

ABOUT CPM

CPM is a pioneer in the development of Customer Relationship Management (CRM) solutions, including information warehousing technology, delivery systems, and portals. Since its inception in 1981, CPM has achieved international recognition for solving healthcare, finance, and telecommunications business problems with this technology.

CPM's CRM integrated solutions allow businesses to maximize their customer relationships through market analysis, strategic planning and targeted personal communications. The foundation is an accessible, customer-centric web warehouse that includes comprehensive individual and household data. CPM's suite of software tools provide easy and secure access to the data for individual snapshots of customers and prospects on a "segment of one" basis.

Our intelligent CRM pieces fit together seamlessly into an application framework that produces a single, top-level business strategy.

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