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Understanding the Importance of Accountability for Hospital Marketing Investments

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One of the greatest challenges that has historically confronted hospitals of all sizes and sponsorships is how to measure the return on investment (ROI) of their marketing efforts. The vague nature of many promotional undertakings, the numerous variables that go into defining success and the inability to adequately answer the skeptics' claim that "these patients would have come here anyway" has made measurement an exercise that for many years was conveniently swept under the rug.

But 2004 is a far cry from the early 1980s when the term "marketing" was first being introduced within the healthcare industry. Back then, it would have been unimaginable to have used the words "marketing" and "return on investment" in the same sentence. Fortunately, much has changed in the generation which has passed, not the least of which is the fact that marketing has entered what some are calling the "performance phase" of its existence. In fact, according to a recent study conducted by The Strategy Group in partnership with Emory University (Atlanta), more than 70 percent of hospital CEOs expect marketing initiatives to produce measurable results within 12 months; nearly 32 percent expect results in 6 months or less.

In this new world, measuring ROI has become an essential and expected part of the marketing discipline. There are four reasons for this:

1. Budgets are getting squeezed – paper thin in some institutions – and all indications are that they will continue to tighten for the immediate future. This makes ROI important in all hospital expenditures. Marketing is not immune from this scrutiny and is, in fact, increasingly under the microscope as are all areas that do not directly "touch patients" and are thus often, and sometimes unfairly, viewed as discretionary. As evidence, two-thirds of the hospital CEOs responding to The Strategy Group's survey said that they expect a typical service-line marketing campaign to generate revenue equal to or greater than the costs of the campaign in the first year.
2. As healthcare becomes more and more the subject of public discussion – from *access to care* to *cost of care* to *quality of care* – hospital CEOs are more than ever feeling the need to demonstrate

accountability to their boards, community and other stakeholders. This applies to both publicly held institutions that are expected to produce quarterly earnings for anxious investors as well as not-for-profit facilities who must remain responsible stewards of their community's resources.

3. Hospital CEOs have grown tired of being the referee for the historical friction that has long existed between the marketing department and CFO. The only way to get these two departments pulling on the same end of the rope is to discover a mutually agreed-upon way to measure marketing ROI. In terms that all parties can understand and give credence, this means the amount of value directly traced to a marketing tactic or initiative divided by the cost of that effort.
4. Through the years, some hospital CEOs have viewed many marketing tactics as being costly or ineffective or a downright waste of a healthcare organization's limited resources. As hospitals' margins shrink, these same CEOs are more and more understanding the need to finally and definitively determine if proactive marketing actually brings incremental profitable customers. This means measuring ROI by service line and by marketing campaign in addition to measuring total ROI. Only then can an intelligent decision be made about how many resources are needed to continue to invest in this area.

There are two very good reasons to analyze ROI. The first and foremost is that ROI analysis is a sound, practical activity that helps ensure that limited marketing resources are focused on the most productive areas. It demonstrates concern for the financial consequences of marketing decisions, which should be an integral part of executive and even board thinking. The second reason is to defend the marketing budget in the almost inevitable annual challenge. Quantifying ROI moves the debate about marketing's value and contribution out of the abstract and connects marketing initiatives to defined outcomes and performance metrics.

Measurement Tools are Now Available

Fortunately, tools are readily available so that hospital CEOs can understand what's working and what isn't, what's generating profitable revenue for the hospital and what isn't, and what makes financial sense and what doesn't. With just a small investment of effort and process, marketing dollars cannot only be justified, but can be channeled into specific, profitable activities. In many institutions in fact, the ability to measure ROI has not only justified the hospital's marketing budget but has actually led to its increase year over year. That's because CEOs and CFOs aren't inherently opposed to marketing (or to any expenditure for that matter) – they just want to know that it works and that those making financial and strategic decisions are doing so on sound footing.

The key to measurement is not found in some startling new discovery or breathtaking invention. It begins in an area which has been there all along but has, in recent years, gone through a significant change: the call center. If the emergency department is, for many hospitals, their "face" to the community, the call center is the "voice." And an important voice to be sure. On average, 20 percent of a hospital's customers will call the call center in any given year. These customers tend to be more engaged consumers than the overall patient population, spending more time making healthcare decisions, using the Internet for healthcare information more often than non-callers and asking more questions of their physicians.

Studies have shown that the average call center caller generates nearly $14,000 in hospital charges within 12 months after calling versus $5,500 for hospital patients overall. What's more, those same surveys show that each telephone call represents over $4,000 in downstream charges (inpatient or outpatient charges that occur within 12 months subsequent to the call center interaction). No wonder then that a four-year study conducted by Solucient concluded that call centers drive the most profitable patients into the hospital.

No longer considered a cost center with anonymous staff and expensive technology sitting in a backroom and doing little more than answering phones, today's well-designed call centers have accountability built into their very core. As such, these operations have become the critical compass towards revenue enhancement and market share potential as they provide the starting line to quantifiably measure the ROI of dollars spent marketing an institution's programs and services. Today's best call centers – whether in-house or outsourced – can measure income generated by targeted

HOW REVENUE RECONCILIATION WORKS

Using a physician referral program as an example, here's how the ROI measurement process works:

1. A caller into the call center requests a physician referral. This call may have been generated by a newspaper or radio ad, a phone directory listing or a personal recommendation.

2. The hospital's call advisor provides the information requested while also collecting important data such as caller's name, phone number, address and date of birth. All of this information will be critical when it comes to ROI analysis.

3. The call advisor also asks the caller how he/she heard about the hospital's physician referral program. By finding out "how heard," the marketing department can more readily determine which advertising or promotional activities are most effective. With this data in hand, decisions can be made (daily if they wish) to move dollars from print to radio advertising, for example, or to move from one radio station to another or even from one time-slot to another. This helps steer the hospital towards avenues that provide their greatest return and their most profitable/desirable customers.

4. Within a reasonable period of time – usually 12-18 months – the callers' names and other pertinent information is matched to actual hospital inpatient and outpatient data. (Studies have shown that one in four callers contacting the call center will have an inpatient discharge or outpatient visit within 12 months following their call). More sophisticated measurements also track visitors to the emergency department or separate out "new" patients from those who have utilized the hospital services in the past. They can also track and delineate emergency room, inpatient and outpatient visits.

5. Using a payor mix that matches the specific hospital's profile, the CFO and the marketing department work as partners to determine an average ROI for money spent to generate those patients.

marketing campaigns and can then provide the framework to overlay this income on related expenses to accurately and fully measure ROI.

The evolution of call centers over the past two decades – from phone answering operation into true customer interaction centers – has put them in the best position to measure ROI for three key reasons. First, today's call centers do considerably more than just answering the phone and providing information. Far beyond these essential duties, they are placing increased emphasis on refining how to gather complete and important demographics of each caller. Call advisors are trained in this area and, equipped with the right software, are able to collect such information in a manner that is helpful and supportive of the caller while critically vital to growing the hospital's database (note: gathering such information also allows savvy call centers to cross-sell hospital services – the more they know about the caller, the more apt they are to match the caller's needs to the institution's programs). Building this database has another important purpose – to build long-term relationships with the hospital's customer base. Customer Relationship Management (CRM) programs and increasingly popular and the call center database is ripe with opportunity.

Second, by increasing capabilities to a 24/7 operation and allowing consumers multiple channels (including the Web) through which to communicate, call centers are able to capture data on all callers, increasing the likelihood that the information they gather will have ROI applicability. Third, call centers have expanded to include all touch points within an organization, thereby increasing the size and scope of the database in a single, easy-accessible location. All of these elements have combined to make information gathering more complete and more accurate. And information gathering is where ROI measurement begins.

Everything Can be Tracked

Most calls into a hospital call center fall into one of three categories: requests for physician and service referrals; requests for health-related information or clinical triage; or requests to register for education classes and seminars.

Clearly, the idea of tracking calls, gathering information and then matching callers with hospital admissions can be used in conjunction with a well-designed physician referral program (see sidebar). For many hospitals, in fact, this is where the application first began and where it is being used most proficiently. Fortunately, and with increasing frequency however, the same measurement principles that apply to physician referral calls are now being effectively calibrated to track all callers into the call center regardless of the nature of information they may be seeking.

More and more, for example, hospitals are using the ROI formula to help them make intelligent marketing decisions related to service-line promotions such as those connected to heart centers, birthing centers, oncology programs, diabetes management, rehab centers and so on. What these hospitals have discovered is that any print ad, television/radio spot, direct mailer or outside advertisement that carries a phone number inviting people to "call for more information" on a given product line can be tracked and measured through this methodology. Most importantly, not only can a hospital measure "how heard" (so as to more wisely allocate its marketing dollars), it can also measure which promotional activity is attracting what insurance/payor mix – intelligence that is vitally important in helping an organization drive bottom-line performance.

DETERMINING ROI

In determining ROI, a hospital takes the average dollars per call received (income) and subtracts:

- The cost to reach a patient. This means how much was spent on the marketing/advertising effort that generated the call into the call center in the first place.
- An appropriate allocated cost for operating the call center.
- The costs of providing care to that patient once they are hospitalized. Every hospital has its own formula, but typically this can range from 35 percent to 80 percent of gross charges.
- A pre-determined percentage of new patients who most likely would have come to the hospital without any driving marketing efforts. This number is often determined by using the hospital's share of market according to the most recent marketing studies available.

Once these numbers are calculated, the hospital can determine if a specific marketing campaign attracted enough profitable business to make the campaign worthwhile. And, by factoring in the "how-heard" information, the hospital begins to get a clear picture of how and where to best spend their dollars next time.

Many hospitals today also find themselves launching marketing campaigns directed towards specific affinity groups, often defined by either age (such as a seniors' walking club) or gender (such as a new moms "cradle" club). Such affinity groups are growing in popularity because – just as banks, airlines and auto clubs learned years ago – building sustainable relationships with a defined segment of the population is vitally important to long-term success. With these groups, the same principles can be applied to measure ROI and thus determine if, in fact, these clubs are delivering the kind of quantitative results a hospital seeks. Which clubs generate callers? Which callers become members? Which members turn into patients? Which patients deliver the greatest revenue? All of this information can be gathered and quantified by putting the right ROI program in place.

Beyond responding to service-line ads or invitations to join affinity groups, many people call their local hospital to register for a class, sign up for a program, or come by for a tour (expectant parents, for example). Those captured names can be entered into the hospital's growing database for ROI calculation as well. This allows the hospital CEO to see a few things. First, he/she can measure where callers are coming from and what kind of program is attracting community members to their institution. Second, over a given period (18 months for example), the hospital can see what percent of callers turned into patients and what kind of revenue they generated. They can also turn gross charges into net revenue calculations and determine if the marketing program drew incremental new revenue into the facility. That's taking raw information and turning it into true, actionable knowledge...and that's what ROI tracking is all about.

Every Hospital Can Do This

In order for ROI measurement to work, a hospital's call center must be able to gather accurate and complete information from each caller. And they must do it in a way that is personable, friendly and unobtrusive. This takes a combination of technology, trained skill and a mindset that the caller is due the most courteous and attentive treatment possible. They are doing the hospital a favor when they call…the call advisor is not doing them a favor by serving them.

Call center software packages can make record keeping and reporting possible. The key is to have a system in place for consistent reporting and then to ensure that the system is understood and routinely used. In addition, hospital leaders should read the reports regularly and be able to interpret them correctly so they can adjust investments to enhance revenue.

A handful of call center software packages are available for those hospitals that elect to maintain this function internally. Collecting and interpreting ROI data typically is a collaborative effort between the call center and the Information Technology (IT) department. The IT department usually collects patient data which the call center matches against caller information. The call center concludes the reconciliation process and produces ROI reports. While this doesn't have to be a complicated process, it does need to be dependable in order for the report data to have integrity and to prompt appropriate changes.

Institutions that outsource the call center function should request these reports from their call center vendor. In fact, a call center's ability to provide this data in an understandable and actionable format is something an increasing number of forward-thinking organizations are demanding in selecting a call center partner (and, in fact, the ability to do this effectively is more and more differentiating one call center from another). The call center's call advisors should be well trained in how to glean the required information from callers and input it into the database. The institution will then need to share with the call center their patient database so that it can be matched against the record of callers.

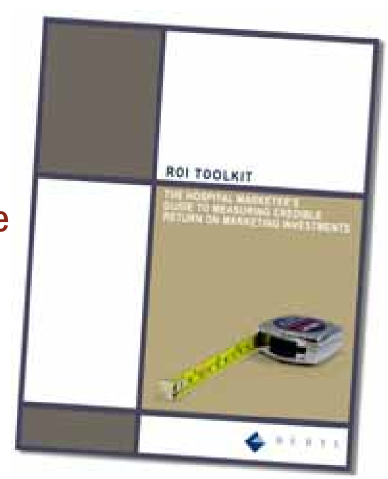
Gain A Competitive Advantage

Prudent use and evaluation of how marketing dollars are being spent puts hospitals in a great position with a decided competitive advantage in the marketplace. Taking the time to track callers, reconcile revenue and calculate ROI allows hospitals to more wisely spend their precious dollars and more intelligently execute their marketing programs in support of revenue enhancement.

There are also a number of other strategic benefits: It responds to boards and other stakeholders who seek assurances that hospital resources are being properly managed. It, perhaps for the first time, makes marketing and finance true partners in understanding each other's needs and working towards a common goal. It properly positions the call center as a vital source of information and, in doing so, demands that the call center function with a degree of maturity and sophistication that makes all of this possible, it paves the way for driving desirable patients into the hospital by assuring that marketing efforts are targeted, relevant and strategy driven.

Through proper measurement of ROI and arming themselves with the right information, hospital marketers have the ability – now more than ever – to forecast success with increased proficiency.

For a more detailed discussion of the ROI analysis process, please refer to Beryl's ROI Toolkit



Sample Calculation
(from Beryl's ROI Toolkit)

STEP 1	RECONCILED REVENUE		$ 17,512,624
STEP 2	LESS CONTRACTUALS (CFO SAYS IT IS 30%) X RECONCILED REVENUE	-	$ 5,253,787
	EQUALS NET REVENUE	=	$ 12,258,837
STEP 3	LESS MARKET SHARE (MARKET RESEARCH SAYS IT IS 15%) X NET REVENUE	-	$ 1,838,826
	EQUALS ADJUSTED REVENUE	=	$ 10,420,011
STEP 4	LESS DIRECT COST OF CARE (CFO SAYS IT IS 40%) X ADJUSTED REVENUE	-	$ 4,168,004
	EQUALS CONTRIBUTION MARGIN	=	$ 6,252,007
STEP 5	LESS INDIRECT COST ALLOCATION (CFO SAYS IT IS 25%) X ADJUSTED REVENUE	-	$ 2,605,003
	EQUALS MARGINAL PROFIT	=	$ 3,647,004
STEP 6	DETERMINING ROI: LESS CONSERVATIVE APPROACH (STEPS 1-4 AND 6)		
	CONTRIBUTION MARGIN		$ 6,252,007
	DIVIDED BY MARKETING COSTS	/	$ 827,520
	EQUALS ROI	=	$ 7.56

So, for every $1 spent on marketing, $7.56 was returned to the organization. Or ROI was 7.56:1.

	MORE CONSERVATIVE APPROACH (STEPS 1-6)		
	MARGINAL PROFIT		$ 3,647,004
	DIVIDED BY MARKETING COSTS	/	$ 827,520
	EQUALS ROI	=	$ 4.41

So, for every $1 spent on marketing, $4.41 was returned to the organization. Or, ROI was 4.41:1.