TO MARKET, TO MARKET…

Jason Borody explains how to scientifically calculate your marketing budget.

Many doctors and practice managers are unsure how much they should be spending on their marketing. *The Private Practice* Magazine asked Vividus to draw back the curtains on this somewhat secretive topic.

Private practices are made up of lots of moving parts that work together to provide a beneficial service to patients. Likewise, successful healthcare marketing involves strategically developed systems, rather than a hap-hazard collection of ideas. Any budgeting question must therefore begin with your annual review of your strategic marketing plan.

The first step is to analyse your practice, similarly to how you would diagnose/treat a patient. This is your SWOT analysis: – Look at your Strengths and Weaknesses (internal) and your Opportunities and Threats (external). Also take a short time to list out the key success stories and challenges from the last 12 months – what worked well and what didn't.

The next step is to set SMART (Specific, Measurable, Achievable, Realistic, Time) goals for the coming year, after all a marketing plan is designed as a one-year process.

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HOW TO SET SMART GOALS

Most practices fail to thrive because they've never really established clear specific SMART goals. In an effective marketing plan, particularly when you begin to shape your marketing system, you'll need to evaluate both short- and long-term goals.

Most marketing goals are not planned further than 1 year out as the market is continually changing and you'll need to make sure you have the flexibility to change with the changing needs of your target market. This also means that you can keep your goals specific and measurable.

However, you will still need to consider your long-term goals as you intend to apply and use your marketing system for years to come.

Once you've identified your business baseline and your goals, you can assign a budget to successfully go after those goals.

DEFINING YOUR BUDGET

If you want the best return on investment, you should predetermine a budget that's appropriate to the level and specific type of goals that you've established in your Marketing Plan.

There are many different ways to establish your marketing budget:

Task Budget Method

This is the most effective way of establishing your budget. During the marketing planning process, define the types of strategies and tasks that are necessary in order to achieve your goals. Then look at the associated costs that will be incurred implementing those activities.

When you tally up the total costs needed to support the strategies to reach your goal, you have your marketing budget.

In theory this is a great approach, but in reality, when you add up the costs, the number is often greater than you expected. If this happens, you can always go back and readjust some of your goals to be less aggressive and more realistic, so that the budget necessary to support those modified goals fits with what you can afford.

ROI Budget Method

If you have access to good data regarding Return on Investment (ROI) performance of different strategies in similar situations, then you can utilise what we call an ROI based budget.

Start by establishing financial goals that you would like to achieve. Determine a reasonable return on investment ratio and work backwards to get your budget.

E.g. To achieve a growth goal over a year of $300,000 of incremental revenue, and assuming a historical ROI of 4:1 based on past financial data, you would take the goal of 300,000/4 and effectively set your budget at $75,000.

The big question is how do you find good trackable data on performance? This can be difficult unless you're working with a company that has a pretty long track record in healthcare marketing and they may be able to give you that kind of perspective.

Percentage Budget Method

Many businesses outside of healthcare use a percentage method of budgeting. They identify a percentage of revenue that they will assign to their marketing budget. Be aware that this approach has some significant cons. You may be able to set a specific budget number, but the downside is that it's an arbitrary number that may not align with your goals.

Many accountants will suggest a percentage, but whether it's enough for you to use in achieving your goals is yet to be seen. We estimate Australian healthcare practices have an average marketing budget of between 0-3% of revenue per year. To some, 3% may seem like a high percentage of revenue to devote to marketing, to others it may be low.

If you look at practices actively marketing and actively generating revenue from their marketing efforts, the percentage is usually 5-10% (or higher). It all depends on your practice goals and competitive market place. The big issue with this method lies in its arbitrary setting separate to goal considerations.

Opportunistic Budget Method

No plan, no budget and as opportunities arise, you spontaneously decide whether or not to support the activity. This method often sees practices spending money on unnecessary local advertising.

'All You Can Afford' Budget Method

With this method, you'd like to do more but you can't afford it, so you pick and choose the activities that you can afford and hope for the best. In this case you either need to go back and re-evaluate your goals, or you need to consider the difference of looking at marketing as a revenue centre versus a cost centre.

Investment Approach

Regardless of which method you select to determine your marketing budget, you need to remember one important principal. Marketing is a revenue centre and not a cost centre. This is an important concept as most of the time, we focus on budgeting for and minimising cost centres. Cost centres require you to increase profitability by keeping costs down as long as it doesn't compromise the quality of your care.

For revenue centre the process works in reverse – since revenue centres drive money into your practice they need investment fuel to drive profitability. If you try to apply a cost centre rationale to your revenue centres, all you're doing is cutting off your oxygen and you're left wondering why it's hard to breath.

Marketing is an investment or a revenue centre, its purpose is to drive revenue into your business and your marketing budget needs to be supported to the level of your goals.

Also keep in mind that marketing is tax deductible, so you can generously donate those same dollars to your government as non-recoverable taxes or invest in your business and its future success, the choice is yours.

At Vividus, we find that our healthcare clients greatly benefit from professional assistance reviewing and re-assessing their marketing plans on an annual basis. We work with them to provide customised advice including marketing metrics and budget recommendations. We specialise in healthcare marketing for medical specialists, dentists, medical centers and pharmaceutical businesses. We understand the laws and codes that regulate medical marketing in Australia, and develop content and SEO strategies that are compliant, professional and effective. For more information, contact Vividus on 07 3283 2233 or info@vividus.com.au.