How to calculate the ‘lifetime value’ of your patients (LTV)

You calculate lifetime value of a patient by knowing: your average transactional sale (ATV)*, times the average number of treatments per patient, times the number of years they stay with you, times the average number of referrals you get from each customer**.

*ATV = total revenue p.a. /total number of treatments p.a.

**Referral rate is based on the number of referrals your patients refer to you. This figure is best worked out based on the number of referrals you receive on average from your patients. If you have zero referrals the number you multiply by would be 1.0. If you get 2 referrals per 10 customers (20% ratio) this figure would be 1.2. If you average 1 referral from every second patient (50% ratio) then this rate would be 1.5 and so on. If you only get 1 referral per 20 patients (5% ratio) then this figure would be 1.05.

Your average income per transaction (ATV): $ ____. ___
Average number of treatments per patient per year: _____________
Number of years a patient stays active on your database: _____________
Average number of referrals per year: _____________

LTV $ = (ATV) x (Av. visits p.a.) x (Av. No. years) x (Av. # referrals per patient)

LTV $ = ________ x ________ x ________ x ________

Knowing the lifetime value per patient, allows you to calculate how many new patients you need per campaign to break even. This makes any investment to up-skill your commercial skills and any marketing decision much easier.

As an example:
- A practice averages 12 visits per year per patient,
- ATV is $80,
- Each patient stays on average for only 3 years
- Referral rate is 1.3.
- This creates a LTV of $3,744.

Therefore running a marketing campaign which costs $2,000 and creates 12 new customers may appear to those who do not understand this concept as only bringing in 12 patients multiplied by $80 per treatment as being only $960 from a $2,000 campaign, where in fact it creates a revenue stream of 12 x $3,744 = $44,928. Then take into consideration the cost of the campaign; the overall results are a revenue stream of $42,928.

If you run this campaign 6 times a year = $257,568 over the lifetime of those patients.

It’s critical to nurture your customers

Calculate what your actual LTV is now for your practice.

LTV $ = (ATV) x (Av. visits p.a.) x (Av. No. years) x (Av. # referrals per patient)

LTV $ = ________ x ________ x ________ x ________
Now calculate what you can achieve by creating programmes and campaigns to move the key numbers. I suggest that you look at improving each component by 10% and look at the end result:

1. \[ \text{LTV} = (110\% \text{ of ATV}) \times (\text{Av. visits p.a.}) \times (\text{Av. No. years}) \times (\text{Av. # referrals per patient}) \]

\[ \text{LVC} = \text{LVC} = \text{LVC} = \text{LVC} \]

2. \[ \text{LTV} = (\text{ATV}) \times (110\% \text{ of Av. visits p.a.}) \times (\text{Av. No. years}) \times (\text{Av. # referrals per patient}) \]

\[ \text{LVC} = \text{LVC} = \text{LVC} = \text{LVC} \]

3. \[ \text{LTV} = (\text{ATV}) \times (\text{Av. visits p.a.}) \times (110\% \text{ of Av. No. years}) \times (\text{Av. # referrals per patient}) \]

\[ \text{LVC} = \text{LVC} = \text{LVC} = \text{LVC} \]

4. \[ \text{LTV} = (\text{ATV}) \times (\text{Av. visits p.a.}) \times (\text{Av. No. years}) \times (110\% \text{ of Av. # referrals per patient}) \]

\[ \text{LVC} = \text{LVC} = \text{LVC} = \text{LVC} \]

5. \[ \text{LTV} = (110\% \text{ of ATV}) \times (110\% \text{ of Av. visits p.a.}) \times (110\% \text{ of Av. No. years}) \times (110\% \text{ of Av. # referrals per patient}) \]

\[ \text{LVC} = \text{LVC} = \text{LVC} = \text{LVC} \]

It’s critical to nurture your customers

What is your current LTV: $\text{...}$

What is the potential LTV if you only increase each number by 10%:

$\text{...}$

How much are you willing to spend to get a new patient and then turn them into a raving fan of your business and your service?