

# Behavioral Health Marketing Costs.

Client Lifetime  
Value is the Key



LIFETIME VALUE



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## Give Me \$1.00 and I Will Give You Back \$4.00

Understanding Client Lifetime Value is Critical to Marketing Success If you gave me \$1.00 and I gave you back \$1.50, how many one-dollar bills would you give me? If I gave you back \$2.00, how many dollars would you give me? If I gave you back \$4.00, I am sure you would do whatever it took to get me as many \$1.00 as you could possibly come up with. These questions seem almost ridiculous to ask, but the reality is that this is the business you are in when you are spending outreach and marketing dollars to generate admits.

How well do you really know what things cost you? I have now been in the Behavioral Health Industry for 4 years and in the Direct Response Industry for 25 years. I can tell you that from all of the facilities that we are working with and have worked with in the past, they have all looked at what it costs to get an admit wrong!

We know from experience and our current clients that most are very well versed as to how much an admit costs from both outreach and media. This is extremely important to know and to stay on top of, as if these costs get out of control then no matter what, you may be headed for certain trouble. Putting those costs aside for a moment, I am going to explain why using the current cost to acquire an admit is actually backward to how to acquire a client.



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## Companies That Understand Client Lifetime Value

To help you understand what we are getting at, let's look at how a company that we are all familiar with looks at their cost to acquire customers; Netflix. They charge \$9.95 per month. Yet they spend a lot to get you to join – way more than the initial \$9.95. If they looked at their numbers the way many of you do for monthly admits, they would have quit the business a long time ago, because their cost to acquire a customer is much higher than \$9.95. In fact, they go negative to get you to join. What they know is what I want you to know, and that is not the cost to acquire a client but what is the value of a client over time or the **client's lifetime value**. This is your “Holy Grail” of your marketing efforts.



## Calculating Your Client Lifetime Value

The following are some questions that you will need to have the answer to arrive at your “Holy Grail” of **client lifetime value**:

1. What is your average length of stay including detox?
2. What is your average billing rate per day?
3. Do you have a continuum of care? Residential/PHP/IOP/Transitional Living?
4. If you have a continuum of care, what is the percentage step down?
5. What is your bad debt/uncollectible percentage?
6. If full, what is your percentage of overhead costs to gross revenue?
7. What is your re-admit percentage?

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Once you have these numbers it is now time to figure out your “Holy Grail”, of **client lifetime value (LTV)**.

Here is an example using the following assumptions:

1. Average length of Stay: 30 days
2. Average daily billing rate: \$1000
3. Offer PHP/IOP/Transitional living, average daily rate: \$700
4. Percentage stepdown: 40%
5. Re-admit rate: 30%
6. Average length of stay for re-admits: 30 days
7. Bad debt percentage rate: 5%
8. Overhead to Gross Revenue: 50%

## LTV Assumptions

|                             |          |
|-----------------------------|----------|
| <b>Number of Patients</b>   | 1        |
| <b>Day Rate</b>             |          |
| Residential                 | \$1,000  |
| PHP/IOP                     | \$700    |
| Re-Admits                   | \$1,000  |
| <b>Number of Days</b>       |          |
| Residential                 | 30       |
| PHP/IOP                     | 30       |
| Re-Admits                   | 30       |
| <b>Yield</b>                |          |
| PHP/IOP                     | 40%      |
| Re-Admits                   | 30%      |
| <b>Bad Debt Rate</b>        |          |
| Residential                 | 5%       |
| PHP/IOP                     | 5%       |
| Re-Admits                   | 5%       |
| Overhead (OH) Rate          | 50%      |
| <b>Cash Collection Term</b> |          |
| Residential                 | 45 days  |
| PHP/IOP                     | 90 days  |
| Re-Admits                   | 180 days |

## Projected Revenue – Month 1

|                         |                 |
|-------------------------|-----------------|
| <b>RESIDENTIAL</b>      |                 |
| Day Rate                | \$1,000         |
| Number of Days          | 30              |
| Residential Total       | \$30,000        |
| <b>PHP/IOP</b>          |                 |
| Day Rate                | \$700           |
| Number of Days          | 30              |
| Yield                   | 40%             |
| PHP/IOP Total           | \$8,400         |
| <b>RE-ADMITS</b>        |                 |
| Day Rate                | \$1,000         |
| Number of Days          | 30              |
| Yield                   | 30%             |
| Re-Admits Total         | \$9,000         |
| <b>Total All Levels</b> | <b>\$47,400</b> |

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## Cash Receipts

|                            |                 |
|----------------------------|-----------------|
| Residential                | \$28,500        |
| PHP/IOP                    | \$7,980         |
| Re-Admits                  | \$8,550         |
| <b>Total Cash Receipts</b> | <b>\$45,030</b> |

## Cash Receipts Net of Overhead

|                        |                 |
|------------------------|-----------------|
| Month 1                | \$0.00          |
| Month 1                | \$0             |
| Month 2                | \$14,250        |
| Month 3                | \$0             |
| Month 4                | \$3,990         |
| Month 5                | \$0             |
| Month 6                | \$0             |
| Month 7                | \$4,275         |
| <b>Total Net of OH</b> | <b>\$22,515</b> |

As you can see by this example, the bottom line before any media spend is \$22,415. This number is a facility's client lifetime value or "Holy Grail". It is the value of a client. This number is your profit per client before advertising. Once you know this number, you have a much greater and more confident command of how to weather tough times and ride the wave during good times.

We have just put in assumptions and we are sure that once you understand your numbers, your value of a client will be different. The premise that we posed in the first paragraph can now be put to the test. If you knew that each client of yours was worth \$22,415 net before advertising, would you spend \$5,000 to make \$17,000? Would you spend \$10,000 to make \$12,000? The answer to these questions is, of course, you would. By understanding the value of your client will make your marketing decisions much easier during good times and tougher times.



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## Let Us Help You Calculate Your Client Lifetime Value

If you would like to know what your “Holy Grail” of numbers is please give us a call or drop us an email and we will gladly work them out with you. Your passion for helping people overcome Behavioral Health issues is also our passion.



### Navazon Behavioral Health

Gary Hewitt is the Chief Marketing Officer for Navazon Behavioral Health and has helped launch and market both national and local facilities. His partners have extensive experience in all aspects of Behavioral Health Marketing. If you would like more information on Navazon Behavioral Health please visit [navazonbh.com](http://navazonbh.com). Gary can be reached by email at [gary@navazonbh.com](mailto:gary@navazonbh.com) or by calling **818-534-2200**.

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