

Fall 2002

Measuring ROI: Is It Worth It? Interview by Richard K Thomas

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Recommended Citation

David Marlowe, et al. "Measuring ROI: Is It Worth It? Interview by Richard K Thomas." *Marketing Health Services* 22.3 (2002): 33-38.

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Measuring ROI: Is It Worth It?

In lean times, healthcare marketing struggles to prove its value.

Interview conducted by Richard K. Thomas



Return on investment (ROI) for healthcare marketing is a hot topic among healthcare professionals. It has been discussed off and on in the past, but recent financial developments in healthcare have brought it to the forefront. Today, because of financial pressures, all operational efforts (including marketing) are under intense scrutiny, making the bottom line more important than ever.

For many in healthcare, there's a lack of understanding—or sometimes all-out confusion—concerning the concept of ROI. It's not a concept that most health professionals are comfortable with, and even those who are often don't have a clue as to how to measure marketing ROI—or even know whether they should try. The discussion presented here attempts to address the ROI concept—what it is, how it's measured, and where it applies and doesn't apply. The panel of experts we've assembled tackles this thorny issue by offering a wide range of perspectives on healthcare marketing and diverse views on the concept of measuring healthcare marketing ROI.

MHS: What are we really talking about when we say "return on investment" for healthcare marketing activities?

DM: In simple accounting terms, ROI is a financial measure that looks at the percentage return on the use of specific assets (usually, but not always, money). Two key "formulas" measure ROI at the organizational level and at the specific effort level. At the organizational level, ROI is the net income divided by owner's equity. At the specific effort level, ROI is the revenue traceable to the marketing effort divided by the investment made.

The first definition is the traditional accounting approach. This definition must be simplified because healthcare organizations (HCOs) typically don't have the systems in place for more complex measurement of ROI.

DF: What marketing ROI depends on the organization and, to a great extent, the sophistication of senior management. For some institutions, a true ROI means the dollars they're spending on marketing are generating some multiple of dollars in gross revenue. Or at the least they want to see ROI in terms of patient volume.

ST: Defining marketing ROI is tough in any industry and is particularly a challenge in healthcare. Ideally, one would like to be able to correlate marketing expenditures with the sales resulting from those expenditures. But there are too many other variables for this simple approach to work. One would also like to be able to think in terms of time-defined results but, again, this is not easy to do for a lot of healthcare marketing initiatives. Much of the use of health services is inelastic and, in many other cases, the consumer has limited choice, resulting in a need for a different concept of ROI.

CM: At Roska Direct, ROI is very important to us because we're direct marketers, and our credibility depends on our being able to measure the results of our promotions. We got involved in the pharmaceutical industry using direct-to-patient relationship marketing to increase patient compliance and persistency on long-term medications almost 12 years ago when direct-to-consumer marketing (DTC) was not yet widespread. As direct marketers we saw an opportunity to increase the lifetime value of a "customer" for the pharma companies simply by getting patients to stay on their medications longer. So we're really looking to quantify the income generated by these incremental prescriptions—measuring the number of refills a patient gets above and beyond the normal compliance period, and comparing the income from those against the cost of the communications that we did to stimulate that income. With the onset of DTC, we extended that concept into the area

A CLOSER LOOK:

David Marlowe



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of patient acquisition, conducting programs to identify prospective patients, get them to discuss our product with their physician, and provide an incentive for the first.

MHS: Are there fairly standardized methods of measuring ROI, at least in other industries if not healthcare?

DM: ROI measurement is common in other industries, but most of these lend themselves more easily to measuring the bottom-line contribution of marketing. These traditional approaches have limited application in healthcare. And actually in healthcare many CEOs are really talking about ROE (return on expenditures) when they say ROI.

DF: For most HCOs, management doesn't hold marketers to a financial bottom line in marketing, and most of the measures for ROI are softer measures like goodwill, awareness, or PR coverage. True, HCOs are beginning to look more closely at ROI measurement techniques, but they have a long way to go in adopting techniques from other industries.

ST: Because of the unique characteristics of healthcare, I would see ROI in terms of its impact on more global dimensions such as brand awareness. If marketing efforts raise brand awareness (and brand equity) by a certain number of percentage points, then you have a rough indicator of ROI.

CM: Generally, we try to apply the standard direct marketing methods of calculating return on investment—that is, comparing the cost to acquire a new customer against the value of that customer over a specific period of time. It's com-

monly used by catalogers, book and record clubs, financial service marketers, and other direct marketing organizations. We have also engaged in programs where we've held out a region as a control and kept our promotions out of that region so we could measure the incremental sales changes in the promotion regions vs. the non-promotion regions. This isn't perfect, but it allows you to see if the promotions are moving the sales needle.

MHS: Why is the measurement of marketing ROI more of a challenge in healthcare than in other industries?

DM: Other measurements (market share, brand position, preference, etc.) are likely to have more validity (and measurability) in the long run than does ROI. Among other factors is the time delay in the appearance of marketing results and the fact that the use of health services is not likely to be triggered by marketing, but will be situational. Further, many efforts toward marketing health services simply don't have a measurable return. Ultimately, a variety of factors are likely to influence the use of health services.

CM: A number of things make ROI measurement a challenge in healthcare. First, the actual sale of the product is removed from the pharmaceutical company. It takes place at the pharmacy after a physician has specified the product. That's why we developed different transaction-related incentives to track sales. Second, many of the pharmaceutical marketers don't track the average length of time a patient stays on their product. This information usually has to come from aggregate data supplied by a pharmacy chain or pharmacy benefits manager (prescription plan).

ST: A major issue is the lack of access to the necessary data—on both the expense and revenue sides. HCOs typically can't accurately isolate the costs associated with a marketing initiative from other factors. Nor can they precisely determine how much of incremental revenue can be attributed to a marketing initiative. How can the role of referrals be accounted for, and how does the organization account for revenue generated in other areas besides the targeted service line (e.g., inpatient admissions resulting from an urgent care center campaign)? Even if adequate data systems were in place, there's the ethical issue of segmenting patients based on various traits and subsequently marketing (or de-marketing) to them.

DF: There are several reasons why the ROI measurement is a challenge in healthcare. First, marketing is a fairly young discipline in healthcare (at least in provider-related healthcare services). Second, administrators and senior management don't know enough about marketing to ask the right questions. Third, many healthcare marketers don't possess the talent (or maybe the interest) for trying to measure ROI.

MHS: Are there inherent barriers in healthcare that prevent effective measurement of ROI?

DF: As with any business the purpose of marketing is to speed up the purchase decision. But healthcare isn't usually an impulse buy. So speeding up consumer decision making is difficult if not impossible (unless it's an optional service like plastic surgery). Marketing is about dominating share of mind. It's also something that takes a long time and many repeated impressions to be successful. The lead time for a healthcare decision can be months or years, so the immediate results are often hard to measure. And healthcare is a complicated purchase with lots of factors involved; rarely is marketing by itself the sole reason someone buys a health service. Healthcare also is not very consumer-driven when you factor in physicians and managed care (and much of healthcare marketing is consumer marketing). Internal tracking and accounting systems in most HCOs are terrible and don't provide the right marketing information.

DM: HCOs typically don't have financial accounting systems in place to provide accurate pricing, cost, and margin information. Further, the way overhead is allocated in healthcare makes it difficult to isolate the effect of an activity like

send you a special promotion if you haven't used your account in six months, the pharma company can't know that a specific patient hasn't had his prescription renewed. The pharmacy chains have compliance programs designed to stimulate refills from patients who are late getting their medication renewed. These programs usually aren't disease-specific, providing information like, "Here's why you need to have your cholesterol medication renewed."

MHS: What types of marketing activities in healthcare lend themselves best to tracking ROI?

DM: Most healthcare activities don't readily lend themselves to this approach but, at the same time, with proper systems in place many activities can be tracked for ROI. There are some services (e.g., LASIK eye surgery and some other elective procedures) where ROI measurement makes more sense. Also, marketing efforts that involve a single marketing activity for a specific service have a better chance of being measurable. But even with something as straightforward as childbirth, you're looking at up to nine months before you can see any results. Most healthcare marketing can't be used to drive short-term volume increases, so marketers must focus on longer-term metrics like awareness levels.

"HCOs are beginning to look more closely at ROI measurement techniques, but they have a long way to go in adopting techniques from other industries". —Daniel Fell

marketing. Even where systems are in place, healthcare marketers seldom have the knowledge of financial measurement and tracking. In addition, healthcare tracking systems aren't often geared toward measuring changes in volume or specific usage tied to marketing efforts.

ST: A major assumption of ROI measurement is that it's possible to control most of the variance in the equation. But, if you have anything in healthcare, you have unexplained variance. Thus, ROI at the service or product level is difficult to measure. Further, the "miscellaneous" item in most healthcare budgets is so large as to limit the usefulness of the financial statements in measuring ROI. Another issue has to do with adjusting for patients that would have used the service anyway. If the patient's health plan dictates the use of a facility or service, it's not appropriate to attribute that patient to the marketing initiative.

CM: The high importance of protecting patient privacy prevents you from looking at the profit from a particular patient, the way a cataloger or even a grocery store can. So, while the department store where you have a credit card can

CM: Direct-to-patient relationship marketing is really the most measurable form of marketing activity because we can tell how many patients received our product as a result of the promotion, and we can communicate with them directly to help them understand why it's important to take their medication. We can put mechanisms in place to measure how long they take the product. Sometimes we use patient surveys to find out if they're still taking the product and how frequently they take it. We have also partnered with pharmacy chains to track refills among patients who are enrolled in compliance programs vs. those who are not, and report the data to us in aggregate.

DF: A few activities are more suitable than others. These include sales efforts, direct-response campaigns (like physician referral or newcomers packets), product line marketing and advertising, and call center operations. In these situations, it's somewhat more feasible to link results to marketing expenditures.

ST: Healthcare marketers are much better off looking at things they can more easily track and measure, like the num-

ber of new enrollees brought into a managed care plan as a result of marketing. Global indicators seem much more suitable than measures of ROI for specific services.

MHS: Do some new marketing techniques lend themselves better to ROI measurement than traditional marketing approaches?

DF: Some of the new CRM programs are doing a good job of building in tracking measures. Certainly the growth of call centers and the Internet is supporting better measurement.

Where we see organizations struggle is when they are trying to find one formula or one method for accounting for their entire marketing program (which may consist of dozens or even hundreds of different strategies and tactics). The better way to begin measuring ROI is to break everything down into specific product lines or even specific activities and measure each as best as possible. Some will be financially driven, others won't. Then take the sum of everything and use it to look at the effectiveness of marketing overall. It's a more complicated and tedious process (which is why few marketers do it), but it generates much better information for the organization.

DM: Some approaches such as CRM and DTC marketing lend themselves

better to measurement than more traditional marketing techniques. Some of the Web-based marketing being implemented today may also lend itself to better measurement with its built-in tracking capabilities.

ST: CRM appears to have a lot of potential for ROI measurement. CRM is all about understanding customers, and that should lead to better ability to track behavior and link it to marketing investment. Still, we don't have adequate systems in place, and healthcare faces the segmentation issue mentioned earlier. Limitations on data sharing, which are likely to become more stringent, also are a consideration.

CM: Relationship marketing to patients and non-personal promotion to physicians are emerging as areas where you can directly quantify the effects of promotional efforts. Traditionally, pharmaceutical companies market to doctors through sales representatives. But representatives can't see every doctor. We have worked with individual physician prescribing data to segment doctors who aren't called on by representatives. We look at the volume of prescriptions that doctors are writing—say for high blood pressure—and how many of those prescriptions are for our product. We can then customize messages to the doctors who represent the

greatest potential for growing our market share—those who prescribe a lot of drugs in the class but not a lot of our product. We can customize a different message for the doctors who write a lot of drugs in the class and a lot for our product. We can then look at the prescribing behavior of those same physicians who received the promotion in subsequent periods to determine if we've increased the number of prescriptions written.

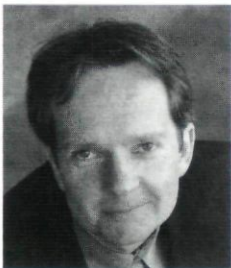
MHS: Do some types of HCOs lend themselves better to ROI measurement than others?

DF: My experience suggests that single-purpose organizations and organizations that can isolate activities are much more appropriate for such measurement. These include specialty facilities like rehab centers and drug and alcohol treatment facilities, urgent care/walk-in care centers, referral/health information services, birthing centers, and specialty services like ophthalmology, orthopedic centers, plastic surgery. Insurance and related services and products also appear to be good candidates.

DM: The best candidates appear to be HCOs with a single focus—like LASIK surgery, occupational health, psychiatric hospitals—or organizations that offer unusual services—like sleep labs. It's easier to argue that no one comes to the sleep lab because they were at the hospital for some other reason and thought they would have a sleep pattern evaluation. Ultimately, the type of service organization may be less important than its support systems. Organizations with good information systems make the best candidates regardless of the type of service provided. For this reason, doctors' offices are typically the worst candidates.

ST: At first blush, one would think smaller, less complex organizations would be better candidates for measuring ROI. But this is only true to a point (with physician offices probably being the counterexample). Perhaps it's not so

A CLOSER LOOK: Daniel Fell



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much the type of organization but its attributes that make the difference. Organizations that have adequate data systems in place clearly are better candidates. Thus, organizations associated with managed care plans are likely to have better data systems and a better chance of measuring ROI. Also, those organizations where the leadership and key clinicians buy into the notion of ROI measurement should be candidates. If this isn't considered important by key individuals, then it's not likely to happen.

CM: The ability to work with pharmacy benefit managers and managed care organization (MCO) claims databases provides a great opportunity to look at the effects of communicating directly with patients about how to manage their condition and create better outcomes. Patients who understand how to take care of themselves are healthier and end up costing the MCO less money. This is particularly true in areas like diabetes and cardiovascular disease where the cost of hospitalization can be very expensive to a health plan. Educating the patient about taking their medication and leading a healthy lifestyle creates a win-win-win situation—for the patient, the pharmaceutical company, and the health plan.

MHS: How can ROI be applied to long-term objectives such as brand building and image enhancement?

DF: Good marketing ROI not only attempts to account for direct revenue from specific marketing efforts, but also incorporates the psychology of marketing that drives consumer behavior over a period of time. In other words, we know from almost every industry that marketing—and specifically advertising—drives purchases. And that marketing starts at the point of awareness and continues through to brand differentiation, brand loyalty, etc. What's always been the most difficult to measure is how much and when that marketing is most effective. Marketing efficiency is more difficult to measure than

A CLOSER LOOK: Sheb L. True

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effectiveness. We know marketing is effective. What we really want to know is how to be more efficient with our marketing spending so we waste less and get more for our money.

DM: This is really the place where the concept can be best applied and measured. Few healthcare marketing initiatives drive short-term gains, but are more long-term in their orientation. The benefits of marketing should be measured in terms of how many consumers demonstrate top-of-mind awareness or how many legislators are willing to support the organization on important issues.

CM: We have a saying in our marketing agency that sales equals awareness. If we make someone aware of your product, that doesn't mean they're going to buy it. But if we can get someone to buy it, we can guarantee they're aware of it. Thus, marketing efforts that encourage consumers to try a product or service should be given precedence—then, the awareness building can proceed. Remember, we're looking beyond short-term gain to the lifetime value of the customer.

ST: As I noted above, these types of outcomes should be what are used to measure ROI in healthcare. There are just too few situations where micro-level measurement makes sense. But brand building, image enhancement,

and top-of-mind awareness are results that can be measured. Again, you have the challenge of linking expenditures to these results, but at least you can measure one component of the equation.

MHS: Are there reasons why ROI on marketing might not be the ultimate measure of marketing success in healthcare?

DF: It depends on how you define ROI again. If you limit it to the first definition (dollars gained for dollars spent), it may be a frustrating exercise with little to show at the end of the day. If you broaden the discussion to say ROI means a number of things (from direct revenue generation to brand building), then ROI becomes more meaningful.

DM: In healthcare, marketing should be seen as more akin to public relations than to the marketing that characterizes consumer goods and other more tangible products. It's hard to measure the benefits of PR in dollars and cents, and the same is true of much healthcare marketing. However, what may be even more important—and less measurable—is the downside of not implementing the marketing campaign.

CM: Sometimes short-term ROI is a bad measure of success. Building a database of prospects who are potential customers for your products requires

knowing who your customers and prospective customers are and then delivering the right message to the right person at the right time. Sometimes that doesn't pay out in a single quarter or even a single year. But, ultimately, marketers who know who their customers are and how to communicate with them will be the winners over time.

ST: Given that most of the ROI measurement assumptions don't hold true in healthcare, traditional methods for ROI measurement aren't particularly relevant. Health professionals need to determine what factors are meaningful to measure and then develop the support systems for measuring them. Ultimately, these are going to be more global indicators than service-specific measures.

MHS: Finally, what advice or direction would you offer healthcare marketers trying to measure ROI?

DF: First, decide what you want to know and how you plan to use the information. Measuring ROI for the sake of measuring it isn't a good enough reason. The additional knowledge should be used to improve marketing efforts, educate the organization, etc.

Engage senior management to determine their concept of ROI, marketing effectiveness, and marketing invest-

ments. Also get them to specify what the real tangible goals for marketing are in their minds and what is it they want/need to accomplish from a business perspective.

A lot of marketing plans are a laundry list of everything the organization can afford to do promotion wise—instead of a targeted list of activities matched up with specific business objectives. The more aligned these are, the easier it will be to measure marketing's impact.

Get in the habit of building tracking and measurement into every campaign or marketing activity in the planning stages before you actually implement. Ask how the activity will be tracked, what data you might need to measure, and what you'd do with the information if you had it.

Look at other healthcare facilities and note how they have measured campaigns and marketing efforts. This information is available through trade publications, associations, award programs, agencies and other consultants, and your own network of professionals.

Build ROI reviews into your calendar so a couple of times a year you carve out time specifically to discuss marketing ROI with others in the organization, thereby making it part of your priorities. Consider pay-for-performance models where you have an

incentive to achieve some measurable goals for marketing.

DM: Marketers should measure ROI for single, specific efforts and situations where the measurement systems are relatively good and are up to the challenge. We really need to think in terms of "global" ROI (for the total organization) in terms of awareness levels, preference levels, image ratings, market share, referral volumes and sources, and patient satisfaction—all important measures of the healthcare brand. All of this should be thought through in advance, and questions of how to track results, what time period is reasonable, whether to count indirect as well as direct impact, etc., should be addressed on the front end.

CM: In the pharmaceutical industry and much of healthcare, the investment is relatively easy to measure. It's the revenue that's hard to measure. It becomes imperative to build in on the front end the procedures for identifying and quantifying revenue attributable to the marketing effort. The closer one can get to the individual consumer (who's buying what and how much of it) the better the ability to measure ROI. Online marketing holds great promise for this approach.

ST: Organizations that want to try to measure marketing ROI should put systems into place to track the data needed to calculate ROI. They should also identify the market segments they want to impact and develop means of tracking them.

It's also important to develop mechanisms for isolating the results from marketing efforts, whether in terms of dollars or more subjective measures such as image. Marketers should take a longitudinal, meta-analysis approach that allows the marketer to examine results over a period of time, isolate confounding variables, examine ROI from a multidimensional perspective, and coordinate data collection efforts with other departments and organizations. **MHS**

A CLOSER LOOK: Chuck McLeester



Chuck McLeester is responsible for strategic planning and analysis for all Roska Direct pharmaceutical clients including Pfizer, Procter & Gamble Pharmaceuticals, Lilly, BMS, Novo Nordisk, Aventis, and AstraZeneca. A 20-year marketing veteran, he has developed measurement tools and ROI models for online and offline marketing initiatives. McLeester is a frequent presenter for the Direct

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