



Budget basics: big enough to matter

For more on this topic, go to www.dentaleconomics.com and search using the following key words: *budget, marketing, marketing plan, strategic planning.*

Two different practitioners called us recently. Let's just describe them as **SMART AND EXPERIENCED**

dentists, in different parts of the country, and on different ends of the promotional spectrum. They both were experiencing “aha moments” of personal insight and needed help pronto. They didn't know how to get started with budget planning.

Both are real situations, although we've paraphrased for editorial convenience (and to keep identities confidential).

Wimpy effort produces wimpy results ...

The first dentist bravely confessed:

“I've been spending next to nothing on marketing for my practice. I took pride in ‘saving’ that expense. It's taken me this long to realize that my results are also ‘next to nothing’ and I need to make a serious commitment to get serious results. I want a budget that makes good sense. Where do I start?”

The revelation for this practice is that marketing is not an expense; it's a performance-based revenue item. With that in mind, the return-on-investment (ROI) for “next-to-nothing” will, not surprisingly, be ... well, nothing. As a revenue item, however, the overall ROI goal for a well-considered marketing plan should be about 4-to-1. Hold that thought.

If I build it, they will come ...

The other story is about sleepless nights and a critical planning afterthought:

“We've just spent a bundle on a new office that doubles our capacity, plus more on new equipment. We've planned nothing for marketing and I'm looking at a frightfully open schedule. What was I thinking? How do I set a budget for marketing that lets me sleep at night?”

It was like buying a string of thoroughbred racehorses and not planning for their feeding. This practice had a marketing budget that sustained previous growth, but they belatedly realized that having a new place and new technology was no assurance of attracting new patients in sufficiently greater numbers.

The “how-to-budget” basics ...

Both illustrations are challenging, and strategic planning does not have a simple answer. But there is a budget approach that's fairly straightforward which works as a point of reference when there is no budget, or when the existing budget is out of touch with reality.

Here's the formula in four basic steps:

① **What's your goal?** Begin with the end in mind, and write down your incremental growth goal in dollars (actual collections, not “production”). Above and beyond your current annual revenue, how much do you plan to grow in the next 12 months? For this example, let's say \$100,000 is your growth goal.

② **Divide your goal by an ROI factor of four.** The goal for your overall marketing program should be between 3- and 5-to-1. Some strategies and tactics produce a better return, while others will produce softer results. Let's assume a middle ground of 4-to-1 ROI. \$100,000 divided by four is \$25,000 to meet the growth goal.

③ **Divide the total budget by 12 months.** For this example, the monthly budget becomes \$2,000 per month (roughly). This allowance will not likely be spent in a conveniently flat pattern, with some costs being larger in the beginning and less in later months.

④ **Keep goal, budget, and reality aligned.** Maintain this ratio between goal and budget if you need to make adjustments up or down. If you pull up on the goal, or pull down on the budget (or vice versa), you should expect that the other end of the equation will also change accordingly.

There are other planning and budget process variables to consider, and this is an excellent time of the year to be planning ahead. We'd be happy to send you a more detailed budgeting worksheet and example to help further.

The objective is to use this budget effectively, with the goal and budget linked. You can't simply increase your budget without a plan that incorporates high ROI activities, or you will just throw more money away faster (and that's no fun at all). And at the opposite end, practices with a wholly inadequate marketing budget universally produce zero results. No fun either.

This is a right-size proposition. Your marketing budget needs to be big enough to get the job done right. Too big or too small will needlessly waste precious resources. **DE**

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