



## The need for greater patient loyalty: A lesson from the hospitality industry

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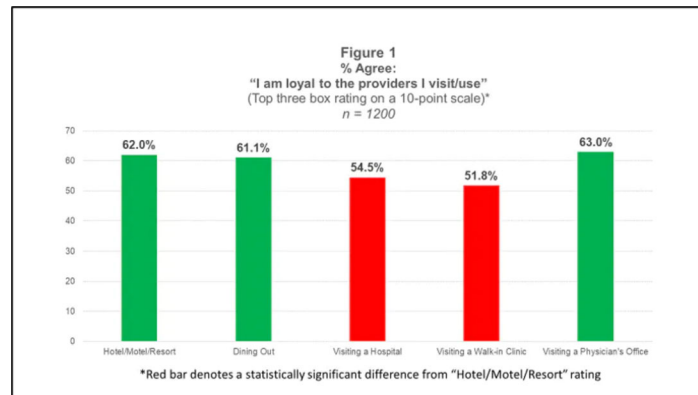
Peter C. Yesawich, PhD

Blog Article



Physicians would be wise to exam how the hospitality industry builds repeat customers before it's too late

Most hospitals and walk-in clinics have considerable room for improvement in their quest to build patient loyalty, as evidenced by the results of a recent survey we conducted with 1,200 US adults inquiring about, among other things, their loyalty to different types of healthcare service providers (hospitals, walk-in clinics, physicians' offices) versus service providers in an industry that shares many common points of customer engagement: hospitality (hotels/resorts, restaurants). Only physicians' offices enjoy a degree of loyalty comparable to that expressed for hospitality service providers, presumably because of the extra effort put forth by clinicians in private practice, and their staff, to nurture patient relationships:



How loyal are your patients?: ©Hospitable Healthcare Partners, LLC, 2022

The significance of this observation is reflected in a concerning quantification of this sentiment by Mercury Healthcare: the average "retention rate" for patients treated by US hospital systems for the five-year period following an initial visit is a modest 43% (with retention defined as repeated "service encounters" with the same patient over the five-year term). By comparison, active members of US hotel loyalty programs generated 56% of total revenue realized by participating establishments in 2019. The multi-year percentage of total revenue realized from guests enrolled in these programs was north of 60%.

### The Ascent of Loyalty

The appeal of loyalty programs to both product/service providers and their consumers today is clear:

- More than 90% of consumer-facing companies now offer some type of loyalty program.
- The ma



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Yet, such programs are conspicuously absent in health care. Among the few that exist, the benefits appear restricted to services designed to facilitate scheduling care but fail to categorize cohorts of patients defined by attributes that are essential for the effective administration of such programs including the frequency of patronage and financial value to the enterprise. There are several reasons for this. First, the belief that health care services are fundamentally different from the types of services for which most loyalty programs are designed today - "need" versus "want" services - and therefore exempt from the otherwise acquisitive motivation that drives consumers' participation in such programs.

This may be true for complex medical procedures such as coronary bypass surgery, but less so for more typical catalysts of care such as clinic visits for common ailments, minor injuries, physicals, etc. Second, understandable concerns about ensuring such programs comply with prevailing governmental and/or other regulatory requirements, especially with respect to any financial "inducements" to encourage or reward repeat patronage.

This is a reasonable concern yet fails to acknowledge the difference between "recognition" and "reward" and how each may be scripted into such programs in compliance with prevailing regulations. Third, the reticence that derives from the assumed complexity and cost associated with the introduction of such programs also looms as an obstacle. Yet, this concern should be weighed relative to the benefit of acquiring a greater share of the lifetime value of health care services required by patients.

Finally, consideration should also be given to the possible belief that such programs would denigrate the perceived quality or value of the health care services rendered. Again, this may be true for certain types of health care services, but not others. For example, programs that encourage the adoption of behaviors known to advance healthier lifestyles (exercise, good nutrition, sleep hygiene, medication compliance, screenings for serious ailments, etc.) would be both reasonable and welcomed.

The absence of loyalty programs in health care has perpetuated a very interesting and expensive present state: Care is episodic. This, in turn, has led most health care service providers to invest marketing resources primarily in programs designed to acquire new patients, generally to the exclusion of funding programs designed to encourage, and reward, loyalty and repeat patronage. This myopia fails to acknowledge two important benefits of establishing an ongoing relationship with patients. First, sustained relationships with patients are likely to enhance their long-term *well-being* through the adoption of healthier lifestyles. Second, curation of an ongoing relationship with patients will yield a favorable financial impact on the enterprise that derives from the capture of a greater share of their lifetime health care value. The latter is especially true given the increased cadence with which people consume health care services as they age.

One very important benefit service providers realize from earning the loyalty of customers is the positive impact their continuing patronage has on enterprise revenue and profitability. Hospitality service providers are keenly aware of this and actively cultivate loyalty through multiple means, and programs, as a result. This scenario in health care is one in which initial encounters for episodic care morph into an extended relationship for "lifetime" care - disparate health care services provided to the same patient over multiple years - without the provider having to incur the marketing expense to replace the "lost" revenue due to patient attrition. The related ROI may be quantified by calculating the lifetime value (LTV) of the relationship. This is the product of the expected average visits per year (AVY), by the average net billing value per visit (ANBV), and the number of years (NY) over which the visits occur:

$$LTV = (AVY) \times (ANBV) \times (NY)$$

More sophisticated analyses of lifetime value contemplate additional factors including:

- The average "net margin" per visit (versus net billing value), which varies by the type and scope of services provided.
- The lifetime value for each cohort of patients served (e.g., patients receiving cardiac versus pediatric care, etc.) to determine the weighted average of the net billing value or net margin for the population of patients served.
- A factor that reflects any expected degradation in loyalty over time because of competitive, logistic, or other reasons, such a reduction in average visits per year.
- A factor that reflects the incremental value of new patients earned on referrals from loyal patients.

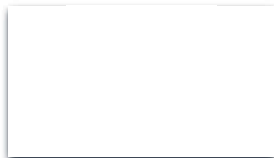
Amending the calculation of lifetime value through these adjustments will provide a much more accurate estimate of the actual ROI realized from any investment made in programs to build patient loyalty. It will also reveal an estimate of the revenue and margin *lost* by failing to cultivate greater loyalty.

Although the financial ROI that derives from patient loyalty applies to all health care service providers, it is especially significant for hospital systems and/or health care service provider networks that offer a broad array of health care services to patients in related facilities across different geographic locations over their lifetime of care.

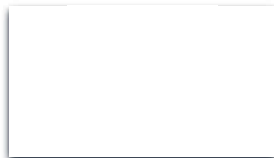
In summary, the results of our *Hospitable Healthcare* survey suggest hospitals and clinics could become the beneficiaries of enhanced revenue, profitability--and patient satisfaction--by embracing principles of hospitality to build patient loyalty. This is a lesson from the hospitality industry worthy of further consideration.

*Peter C. Yesawich is chairman of Hospitable Healthcare Partners, LLC – a marketing consultancy serving hospitality and health care industry clients – and vice chairman emeritus of MMGY Global, one of the country's leading marketing communications companies renowned for its strategic thinking, breakthrough creativity, and innovation in marketing practice.*

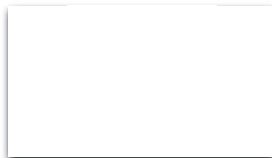
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