



Think twice before slashing
marketing budgets.

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American businesses spend an average minimum of 3 percent of revenues on marketing activities. Hospitals spend less than two-thirds of a percent. In many hospitals, cutting marketing is the first response to virtually every budget problem, real or imagined.

But cutting marketing tends to depress volume. Cutting good marketing tends to depress profitable volume. Successful enterprises (including hospitals) are almost always built on something more basic than unique acts of generosity or the vagaries of stock yields.

The Outlook for Healthcare

As this is written, unemployment in the United States has just risen dramatically again. Food stamp lists are lengthening. Storied banks have collapsed, and more are threatened. Recovery for all our industries, the pundits say, is a long, difficult road away. The pain, in fact, may have only just started.

Healthcare's outlook is no less dire. The bond market on which we all depend to finance big capital projects like buildings, information systems and medical technology has effectively seized up. Philanthropy—the other major source of funding for capital projects—historically decreases by 5 percent a year during recessions. (It falls by an average of 10 percent in the first year.) And federal and state governments, important if the least reliable sources of healthcare finance, are themselves either plunging into debt or without enough money to pay for existing services. Perhaps even more strapped, patients are losing their health insurance as they lose their jobs. They are expected to defer getting both prescribed and elective procedures or, if still insured, making visits that require copayments.

Some hospitals thus have spent the last quarter preparing to abandon construction projects already three-quarters of the way out of the ground, to whack operational and capital expenditures to minimums, to sell themselves to stronger institutions and to lay people off.

And, as you might have guessed, the marketing cutbacks already have begun.

In a quick e-mail survey of academic hospital chief marketing officers at the start of the holiday season (just as the classic definition of a recession—three consecutive quarters of economic shrinkage—was being first invoked), 13 of 21 respondents either already knew of or expected cutbacks in marketing production or research budgets, FTEs or all of the above during the first quarter of 2009.

The size of the anticipated cuts, moreover, was impressive. Although all those who were losing personnel said they were losing just one full-time-equivalent staffer, consider that the average academic hospital marketing department is 4.1 people. Non-salary reductions were 30 percent to 50 percent. One respondent was asked to make a 10 percent adjustment immediately, and another 25 percent to 40 percent adjustment for his next fiscal year.

The Soft Stuff

Of course marketing should share the pain in hard times, but there is a healthcare tradition of asking its revenue-generating functions for more than a fair share. In many hospitals, in fact, cutting marketing is the first, reflexive response to virtually every budget problem, real or imagined. Marketing is, after all, staffed by “non-essential” personnel (one project director recently called us “miscellaneous lookey loos”). It is unrelated to patient care. And it's just “the soft stuff” anyway: brochures ads, public relations, pretty pictures, communications or, in the phrase that enjoyed a brief vogue during the recent presidential campaign, putting lipstick on pigs. Eliminating “soft stuff” is doubtlessly the least painful budget adjustment a hospital can hope to make.

And who's to blame them for doing it?

Maybe it should be us. Many marketing professionals are guilty of not communicating what marketing should be doing.

We are often the ones who fail to make an organization understand marketing's purpose in the first place. We are the ones who have allowed others to equate marketing's tools—those “soft” creative word, sound and visual arts that make the signs, ads, events, reply mechanisms, key word and directory placements, customized outreach initiatives, competitive research, transactional data and sales calls efficient and effective—with the crucial business function that begins, sustains and enhances demand for hospitals' services.

Marketing itself is, or ought to be, about causing transactions. *Good* marketing is about causing “appropriate” transactions, ones that are profitable or desired. It is about income: the proper feeding and fattening of an organization's top line—the place on the profit and loss statement that tells how much money you generated. It is about exerting some control over demand for a healthcare facility's services and the volume it gets.

So when organizations cut marketing, they are also ceding any influence they may have over volume, over how many

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customers they get, over which customers might be attracted to them, and over what customers buy when they do come in.

Scaling back marketing during a downturn is even worse. Companies minimize whatever influence they have at precisely the moment demand and their volumes are wobbling, at the moment they need *more* influence over current and prospective customers.

Conversely, the organizations that redeploy their efforts to control, capture and harvest demand have a fighting chance to sustain and even enhance their businesses during bad economic times.

“The company courageous enough to stay in the fight when everyone else is playing safe,” wrote Harvard professor Nairman Dhalla of corporate advertising strategies during the recessions of the 1970s, “can bring about a dramatic change in market position.”

As noted in a recent Wharton School of Business research summary, a McGraw-Hill Research study of 600 companies from 1980 to 1985 found that businesses that maintained or increased their advertising expenditures during the 1981 and 1982 recession—the one that most resembles the current downturn—had significantly higher sales after the economy recovered. Specifically, companies that marketed aggressively during the recession had sales 256 percent higher than those that did not continue to advertise.

“The first reaction,” Wharton marketing professor Peter Fader adds, “is to cut, cut, cut, and advertising is one of the first things to go.” But, as companies slash advertising, “they leave empty space in consumers’ minds for aggressive marketers to make strong inroads. Today’s economy provides an unusual opportunity to differentiate yourself and stand out in a crowd.”

Demand LLC, a Grosse Pointe Park, Mich.-based marketing firm, compiled similar studies from the recession years of 1970, 1974-75, 1981-82 and 1990-91. The studies were all over the place—some about advertising, some about all kinds of marketing—but the results were the same: Companies that increased their transaction-generating activities during downturns increased their market share. They also achieved the same profit margins on new business they had before the recessions.

I’m honestly unsure how many healthcare leaders actually see marketing as a business generator. One reason to doubt many do is that their hospitals have always valued marketing less than other kinds of enterprises.

One series of surveys by Go To Market Strategies, a Seattle-based brand researcher, found that 30 percent of American companies spend 3 percent to 5 percent of revenue on marketing, with 45 percent spending more than 6 percent (most of those between 6 percent and 10 percent). When launching a new product, or entering a new market or territory, they tend to budget marketing at as much as 20 percent of the revenue they expect to produce during the launch.

By contrast, in 2005-2007 American hospitals spent less than one-third of 1 percent—an average 0.63 percent—of net patient revenue on marketing, according to the most recent By the Numbers study by the American Hospital Association’s Society for Healthcare Strategy & Market Development.

Maybe it’s because they are so different from similarly sized service businesses, but hospitals often seem to focus their revenue-producing efforts elsewhere. They invest in lobbying to win grants, fund projects and sustain public insurance pay rates. They court bond buyers to loan them money. They try to maximize investment income. They build up development offices to bring donors in the door.

All are obviously essential money-raising activities. But they hardly are the stuff of profitable, sustainable volume. Successful enterprises (including hospitals) are almost always built on something more basic than unique acts of generosity or the vagaries of stock yields. They are instead built on ongoing, profitable interactions with customers. In hospitals, we’re talking about customers like patients, referring physicians and payors. Without them, even bond ratings suffer.

In that light, cutting marketing is hardly cutting the soft stuff. It is threatening demand, payor mixes, referral networks and all the other underpinnings—policymakers’ perceptions, donor awareness, etc.—of hospital transactions. It is choosing to look away from the profound upheavals in their customers’ needs, tastes, capabilities and locations and hoping that they

Some Strategies for the Downturn

- Brand advertising is fantastically helpful in building transactions, but it is also the most expensive, hardest to measure and least controllable form of marketing.
- Depending on the hospital’s strategic needs, direct marketing techniques – everything from pay per click advertising to direct mail – may be a more advisable, cost-efficient refuge for advertising dollars during a recession. It can be very effective in building volume for specific service lines and increasing the odds of building volume with an advantageous payor mix.
- Promote internally. Eighty percent of most organizations’ business comes from current customers. Building internal referrals tends to let you work within a smaller, easier-to-reach market at a lower cost.
- Promote marketing internally. This is a good time to do little road shows within the organization to describe and illustrate marketing’s real *raison d’être*: to build and help control the volume of transactions for the hospital. This is a moment in the business cycle when many hospitals are worried about volume and payor mix. It’s also an opportunity to tell the organization how marketing can, and should, help.

play themselves out before too much damage is done. Cutting marketing, in other words, tends to let volume float on economic tides. Cutting *effective* marketing tends to cut profitable volume.

Change—even frightening economic change—also means opportunity. Other providers in your primary service area, for example, are subject to the same abrupt changes as you are. They mean opportunity to lose or gain share in specific service lines from hospitals or clinics that, in turn, may weaken or become relatively strong.

Seizing the opportunity may mean anything from awareness advertising to direct marketing to expanded physician outreach. But all of it starts with a hospital marketer’s understanding of what marketing really is supposed to do for the organization and the ability to communicate it to the hospital at large. **MHS**

About the Author

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